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Cronos Australia (CAU)

It's high time

Recommendation

Buy (Initiation)

Price

\$0.48

Target (12 months)

\$0.60 (unchanged)

GICS Sector

Healthcare Equipment and Services

Expected Return

Capital growth	25.0%
Dividend yield	2.1%
Total expected return	27.1%

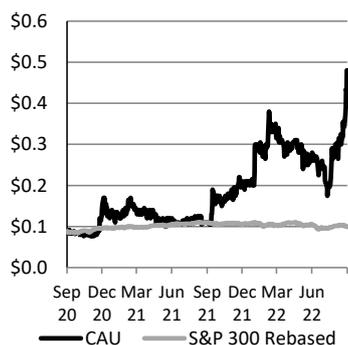
Company Data & Ratios

Enterprise value	\$249.1
Market cap	\$265.2m
Issued capital	552.5m
Free float	26.5%
Avg. daily val. (52wk)	\$49,062
12 month price range	\$0.11 - \$0.50

Price Performance

	(1m)	(3m)	(12m)
Price (A\$)	0.28	0.26	0.11
Absolute (%)	74.55	84.62	336.36
Rel market (%)	76.94	90.97	345.64

Absolute Price



SOURCE: IRESS

Medicinal cannabis distribution

Cronos Australia is a medicinal cannabis company that is the market leader in distribution to pharmacies and provides patient consulting services through its clinic business. The key driver for the impressive growth in the past 24 months has been the CanView platform which provides the widest range of medicinal cannabis products compared to competitors (Anspec, Health House).

CanView 2.0 launch

The current system provides access to patients, doctors and pharmacists. The transition to CanView 2.0 streamlines the consultation and prescription process. Additional features include a consultation platform, connecting patients directly with doctors, integration with clinic software allowing to optimise prescribing, status updates for patients regarding pending orders and a treatment tracker which facilitates pharmacist & clinician monitoring. Phased roll-out of this new ecosystem is targeted from September to December 2022.

Prescribing trends in medicinal cannabis

From a broader industry perspective there has been increasing prescribing of medicinal cannabis products. Authorised Prescribers have increased from 194 in January 2021 to 1,307 in August 2022, SAS-B prescribers has increased from 493 in CY18 to 2,272 in CY22 to date. The key to further clinical adoption will be stronger evidence with a number of studies currently underway.

Investment view: Initiate with Buy, Price Target \$0.60

We initiate coverage on Cronos with a Buy recommendation. We expect the momentum observed in FY22 to continue into FY23 and translate into strong revenue and earnings growth. Cronos is currently the only profitable dividend paying medicinal cannabis company on the ASX and the valuation does not appear demanding relative to the expected growth.

Earnings Forecast

June Year End US\$m	FY22a	FY23e	FY24e	FY25e
Revenues	67.0	104.2	145.5	195.9
EBIT \$m	9.7	16.4	23.5	31.3
NPAT \$m	6.0	11.5	16.5	21.9
EPS (cps)	1.1	2.1	3.0	4.0
EPS growth %	324%	91%	43%	33%
PER (x)	44.0	23.0	16.1	12.1
Price/FCF (x)	20.1	33.4	17.8	13.3
EV/EBITDA (x)	23.9	14.5	10.2	7.7
Dividend (cps)	0.0	1.0	1.0	1.0
Franking	NM	100%	100%	100%
Yield %	0.0%	2.1%	2.1%	2.1%
ROE %	23%	36%	38%	37%

SOURCE: BELL POTTER SECURITIES ESTIMATES

Contents

Investment Thesis.....	3
Key Risks.....	5
Company Overview.....	6
Industry Overview.....	10
Financials	16
Valuation.....	18
Board, Management & Registry.....	20

Investment Thesis

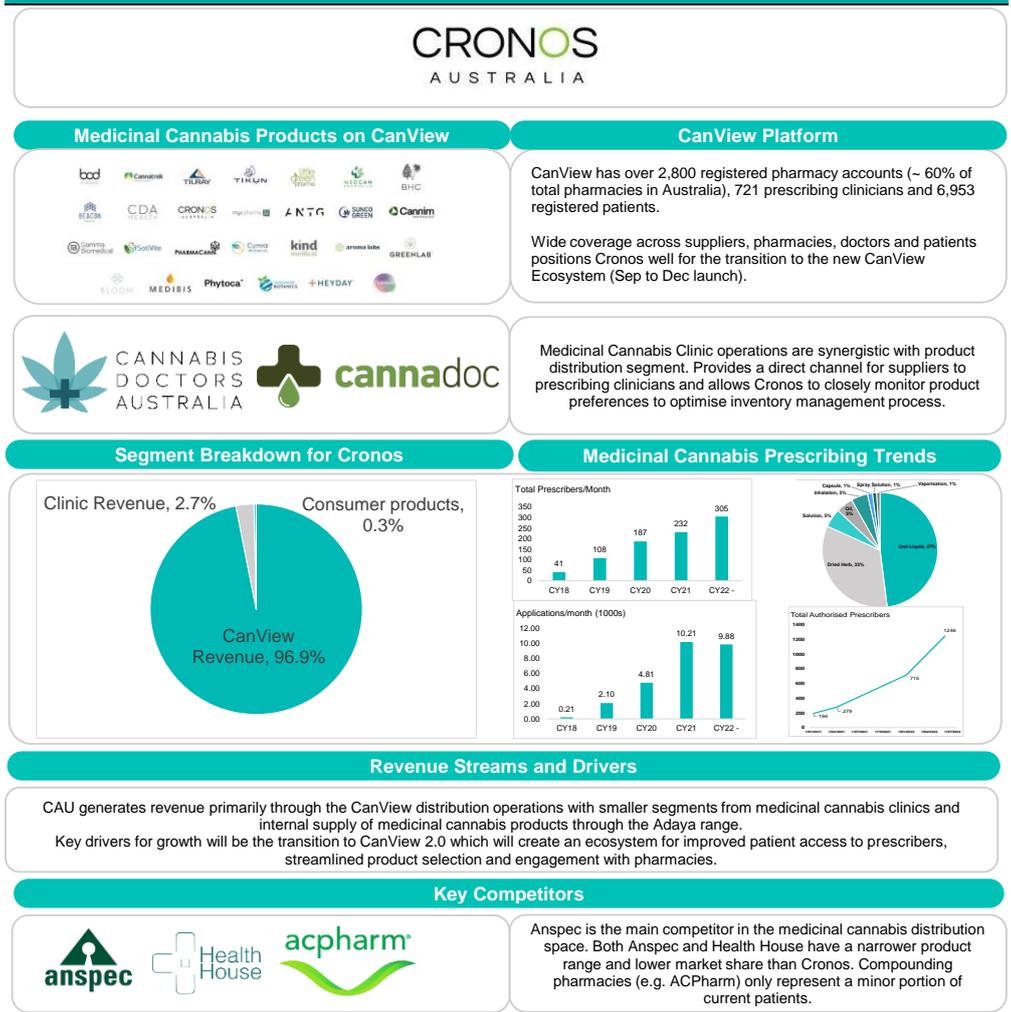
Cronos Australia Limited (CAU) is the market leader in the distribution of medicinal cannabis products in Australia with CanView and also operates medicinal cannabis clinics (Cannadoc & CDA Clinics). The principal driver of the significant growth has been through the distribution network of medicinal cannabis products to pharmacies across Australia. The clinics provide critical information regarding patient demand and prescribing trends amongst clinicians. Cronos has been ideally positioned in the last 24 months as patient demand for alternative therapies such as medicinal cannabis has significantly increased. By simplifying the prescribing process and providing the widest range of medicinal cannabis products, Cronos has established itself as the only profitable medicinal cannabis company on the ASX and the first to pay dividends (August 2022).

Key Catalysts

We initiate coverage of Cronos with a Buy recommendation. The key drivers for the valuation are:

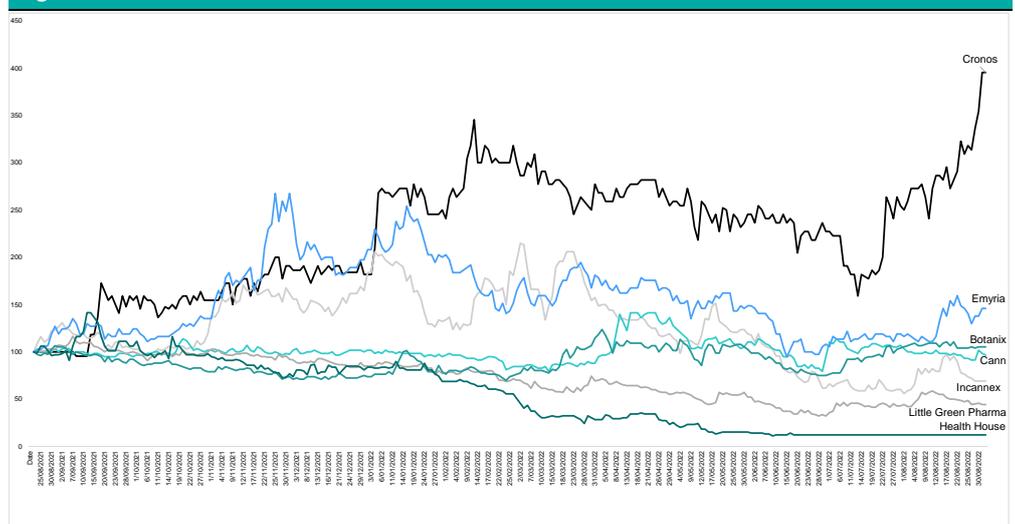
- **Broad portfolio of medicinal cannabis products:** Cronos supplies the broadest portfolio of high-quality medicinal cannabis products and has established itself as the market leader in distribution. CanView platform currently provides doctors with a comprehensive overview of available products to improve the selection process with weekly updates regarding availability.
- **Increasing pharmacy access and unit sales:** Currently have ~ 60% of pharmacies across Australia with active accounts on CanView. Important metrics include medicinal cannabis unit sales, pharmacy accounts and prescriber accounts.
- **CanView 2.0 platform:** Integrated platform bringing patients, doctors, pharmacists & suppliers onto one ecosystem. Simplifies the consultation process, streamlines production selection and allows patients to order medicinal cannabis products conveniently using the mobile application. Doctors will also have the ability to complete the special access scheme applications and generate scripts which will run alongside their practice software. This new platform will be integral in improving clinical outcomes as doctors & pharmacies can use the treatment tracker function to monitor efficacy.
- **Clinical research:** There is a drive to strengthen the existing evidence to support the use of medicinal cannabis across different indications. Existing CanView data can provide important information regarding prescribing practices, patient indications and preferences for formulation. CanView 2.0 will also provide a treatment tracker function and this data can be collated to provide efficacy outcomes with different product types.
- **Cannabis clinic model is synergistic with distributor operations:** One of the key differentiating factors for Cronos is the Cannabis Clinic segment that run in parallel with the pharmacy distribution. The two clinic operations target different sections of the market with the nurse-driven Cannabis Doctors Australia and the doctor-led Cannadoc. Together there is a physical presence in Queensland with potential to combine processes and resources moving forward. The transition to nationwide telehealth during the COVID-19 pandemic has also provided the opportunity to minimise operating expenses and streamline the consultation process.
- **Increasing clinical adoption within Australia:** From a macro perspective there has been significant increase in clinicians prescribing medicinal cannabis. Authorised Prescribers have increased from 194 in January 2021 to 1,307 in August 2022 whilst there are currently 721 prescribers registered to CanView reflecting the degree of market penetration. Cronos is ideally positioned to capture this organic growth in the industry.

Figure 1 - Cronos Overview



SOURCE: BELL POTTER SECURITIES

Figure 2 - Relative Stock Price Chart in ASX Medicinal Cannabis sector



SOURCE: IRESS

Key Risks

Regulatory risks

Changes in Australian regulatory framework for harvesting, cultivating & manufacturing or prescribing medicinal cannabis may have a material impact upon revenues for Cronos. Such stark regulatory changes would only be expected following reports of harm, adverse effects or failure of clinical research to demonstrate non-inferiority over clinical indications.

Manufacturing and production risks

Whilst currently there are initiatives in Victoria promoting this industry, failure to develop economies of scale and improve production capabilities may lead to reduced investment in this industry thereby impacting domestic suppliers. Currently approximately half of the existing suppliers for Cronos are from overseas (Canada/Europe/Israel/South America).

Product and technology risks

The CanView platform has been validated and used by pharmacists and prescribers. However, technology failures could impact the performance of Cronos and clinical utilisation moving forward. An important component of the strategy is the ecosystem connecting prescribers, pharmacies and patients which will be rolled out from September to December in 2022. Failure in adoption of this ecosystem may impact our revenue forecasts.

Clinical research and clinical adoption risks

The large drive for clinical research is to demonstrate the advantage of using medicinal cannabis products over a range of indications. Failure to demonstrate non-inferiority or superiority will adversely impact prescribing trends and medical support. Already the Faculty of Pain Medicine (Australian & New Zealand College of Anaesthetists) and Royal Australian College of Physicians have published their position that currently there is no strong evidence to support medicinal cannabis use outside of clinical trial setting.

Commercial strategy risks – direct pharmacy engagement

Ongoing revenue growth will be based upon the ability of Cronos to continue demonstrating the value in the distributor model amongst its active pharmacy accounts. At one point where pharmacies are dispensing significant volumes of medicinal cannabis products, there may be a drive to consolidate its processes and attempt to source products independently.

Competitor risks

The key competitors within the medicinal cannabis distribution sector are Anspec and Health House International. Cronos is currently the market leader both in terms of total units and active accounts. However, if these competitors are able to price more aggressively, broaden their portfolio range and improve processes this may impact the Cronos market share.

Intellectual property protection

There is no current patent protection for the CanView platform. Whilst it is possible for another company to design a similar platform, the maturity in this application, established relationship with medicinal cannabis producers, regulatory barriers and streamlined processes with doctors & pharmacies will be difficult to replicate.

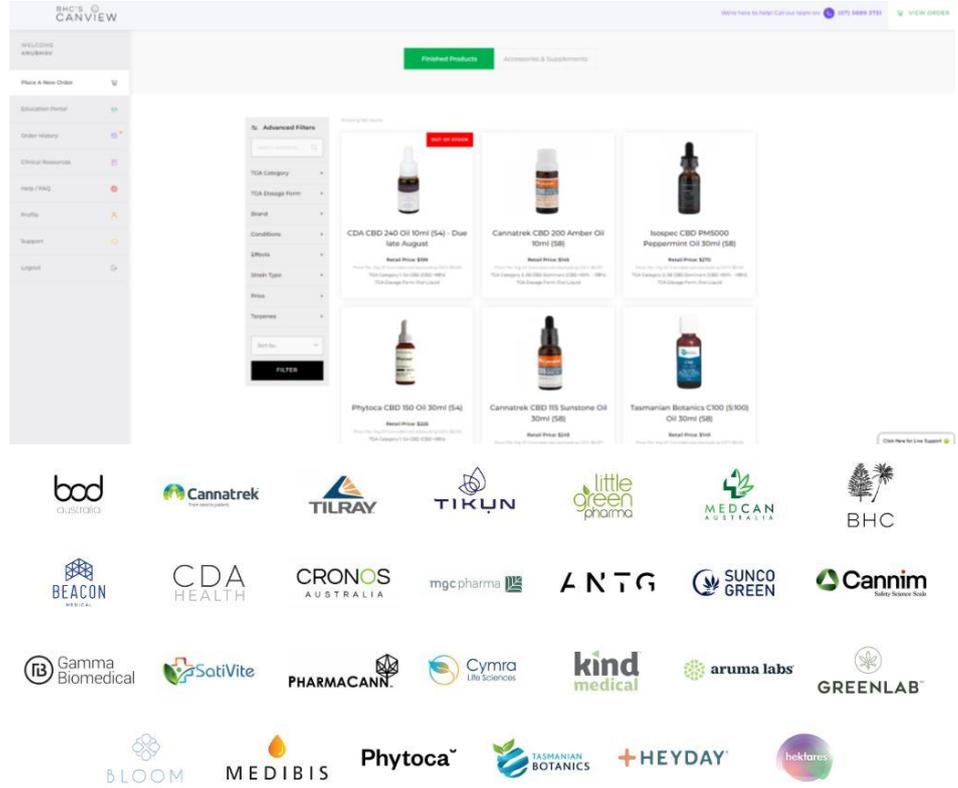
Company Overview

Cronos Australia Limited (CAU) is the market leader in the medicinal cannabis sector that operates both as a wholesale distributor and through its cannabis clinics model (Cannadoc & CDA Clinics). The principal driver of the significant growth has been through the distribution network of medicinal cannabis products to pharmacies across Australia whilst the clinics provide critical information regarding patient demand and prescribing trends amongst clinicians. The unique distribution platform, CanView, has been integral in streamlining the cannabis prescription process and has improved patient access to a class of therapies which has previously been extremely difficult to obtain. The backend of CanView also includes two high security distribution centres in Melbourne and the Gold Coast.

CanView Platform

The CanView platform is an ecosystem for patients, doctors, pharmacies and suppliers to access, prescribe, dispense and sell medicinal cannabis. From a clinician perspective it provides a prescribing tool with the ability to filter by indication (e.g. pain, epilepsy, nausea/vomiting, insomnia), therapeutic effect (anti-spasmodic, anti-nausea, muscle relaxant, sedative, analgesia), dosage form (capsule, herb, liquid, topical) and price. For prescribers and pharmacies, compliance is a key issue for AHPRA and other regulators which is built into the platform. Real time inventory information is available to prescribers. Prescribing trends and patient demand can be closely monitored with this platform to ensure appropriate inventory. Figure 3 illustrates the basic platform features. In addition, there is an education portal and clinical resources with instructional videos for doctors, pharmacists and patients.

Figure 3 - CanView Platform overview

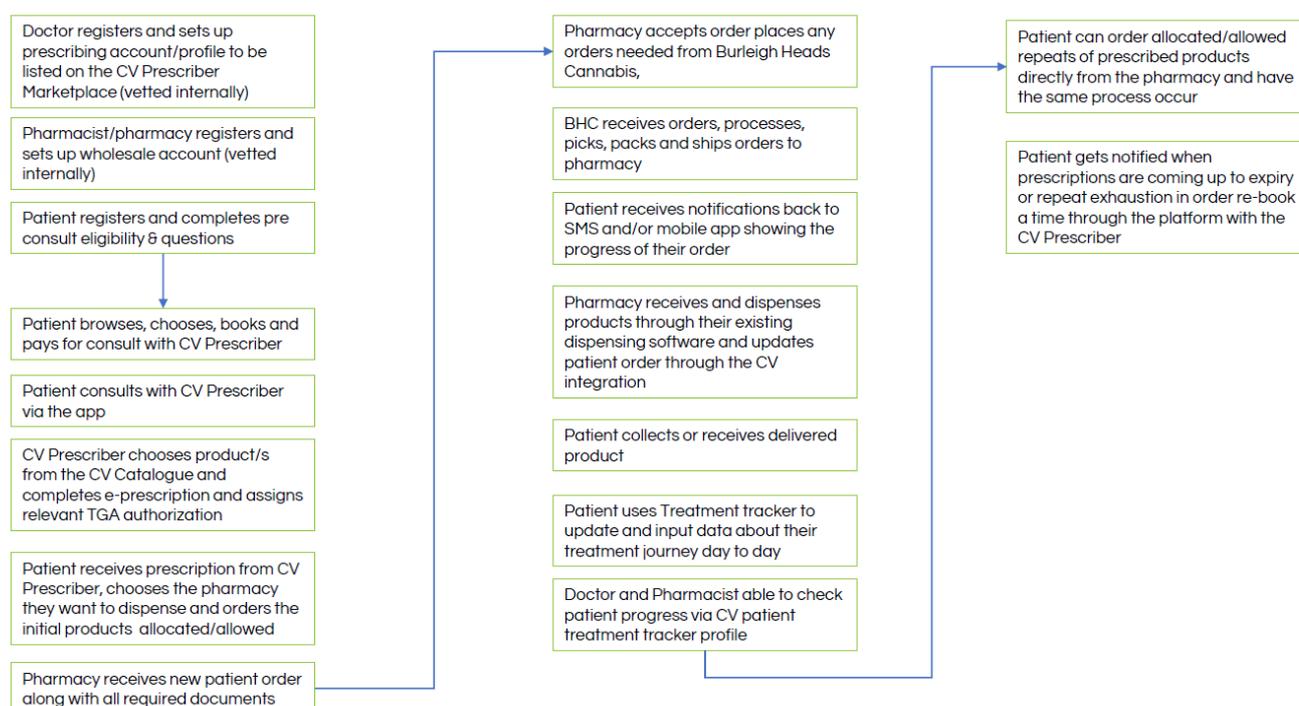


SOURCE: COMPANY DATA

Pharmacies will manage the majority of medications through their own inventory. However, with medicinal cannabis additional licensing is required as the majority of products are not included in the Australian Register of Therapeutic Goods (ARTG). This creates a significant entry barrier for pharmacies as they only dispense limited volume of medicinal cannabis, require additional space for restricted access storage and are subject to additional regulatory/compliance measures.

The Cronos portfolio includes more than 160 discrete medicinal cannabis products and is the market leader in distribution across Australia. Currently there are more than 2,800 pharmacy accounts on CanView which represents ~ 60% of total pharmacies in Australia. With the shift to telehealth and e-scripts the location of the pharmacies is not as important as it was traditionally. Patients are able to send scripts to pharmacies who can then upload these onto the CanView platform with Cronos providing included delivery service to pharmacies.

Figure 4 – CanView 2.0 Overview



SOURCE: BELL POTTER SECURITIES

CanView 2.0

The CanView platform is currently undergoing significant upgrades with the launch and phased roll-out of CanView 2.0 targeted from September to December 2022. The aim is to onboard all patients to facilitate access to prescribing clinicians, improve the ordering process for patients and introduce a treatment tracker that can allow both clinicians and pharmacists to monitor treatment response and simplify dosing instructions for patients.

- **Patient/doctor onboarding:** Patient and clinician details input into the CanView platform. Will create a 'matching system' to allow direct video/telehealth consultations through the mobile app.
- **Streamlined ordering process:** Patients will have access to the catalogue of medicinal cannabis products, see their current scripts and place/track new orders within the app by selecting the pharmacy of choice.
- **Treatment monitoring function:** Will be available to the clinician and pharmacist who will be notified once the patient has received the product. Patients can track the dosage

schedule through this function and will complete specific questions regarding treatment effect. This dataset will be available for the doctor/pharmacist to monitor efficacy and assist in optimising dose adjustments.

These integrated processes are highlighted in Figure 4 and significantly add to the competitive advantage for Cronos. There will be a phased roll-out of CanView 2.0 from September to December 2022 and this integrated ecosystem will further differentiate Cronos from its competition. Key competitors such as Anspec and Health House primarily provide distributor services with basic online portals and a narrower range of products.

Key Competitors

- **Health House (ASX:HHI):** Range of products available including Little Green Pharma, Cann, Satipharm and Zelira. More basic online ordering platform for pharmacies with limited resources for doctors. Considerably smaller market share to Cronos. 1H22 Australian sales were \$2.9m vs. CAU \$27.4m. Currently in voluntary suspension on ASX.
- **Anspec:** Company website states registered accounts with 93% of pharmacies across Australia and shipping of 700 to 1000 daily units. In comparison with CanView, Anspec has a more archaic online ordering platform mainly to connect suppliers and pharmacies with no provision for patient access. Pricing strategy is also more complex with additional charges for onboarding, script receipt, product storage and minimum monthly distribution. In contrast Cronos has a flat service fee with high supplier retention rates.

In addition to a wider portfolio of medicinal cannabis products and a more sophisticated platform, Cronos also has the distinct advantage of the synergistic Cannabis Clinic division (Cannadoc and Cannabis Doctors Australia).

Medicinal Cannabis Clinics

The medical consultation arm of Cronos is an integral component of current operations. Insights into patient demand for specific cannabis products allow optimisation of inventory management. This creates an opportunity to monitor medical conditions, preferences for formulation (oil, dried flower, capsules) and prescribing practices of various healthcare practitioners. Being brand agnostic, it differentiates Cronos from other distributors as suppliers gain direct access to clinicians through the clinic operations. Practitioners can be directly educated & engaged about the up-to-date range of products available on the CanView platform.

There are two separate clinic models within Cronos: Cannabis Doctors Australia and Cannadoc. Figure 5 displays the consultation pricing relative to Australian competitors.

Cannabis Doctors Australia

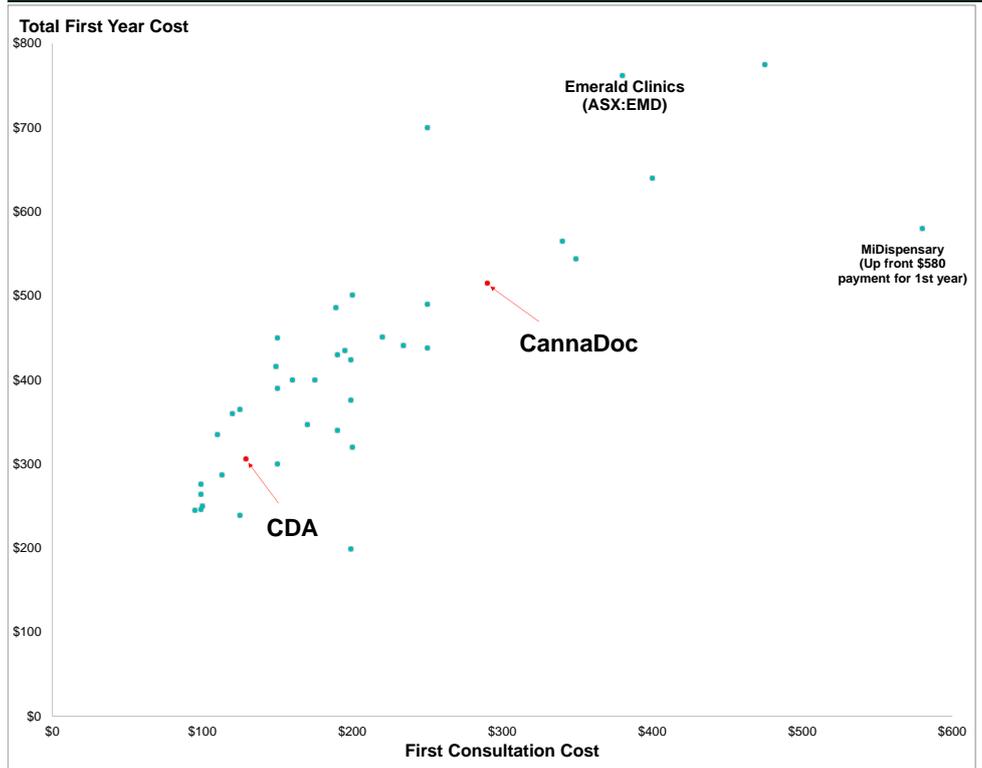
CDA has developed a comprehensive nurse-driven model with doctors overseeing consultations and involved in developing tailored treatment plans based on specific patient indications. Primary footprint in Queensland with three clinics and provides telehealth services across the majority of Australia. The pricing strategy at CDA is \$129 for initial consultations and \$59 for follow-up consultations. Additional features include an online referral service where external clinicians can upload relevant patient details to facilitate consultations. Online resources are also available including a research database with recommendations for medicinal cannabis products based on indications and links to supporting clinical studies.

Cannadoc

Cannadoc is marketed as a high-end comprehensive service with a doctor-driven model. There majority of consultations are now conducted via telehealth services. We note higher pricing points with initial consultation at \$289 and \$75 for follow-up appointments. Figure 5

represents how this pricing compares with other medicinal cannabis clinics across Australia.

Figure 5 - Cannabis Clinic pricing comparison



SOURCE: BELL POTTER SECURITIES

Industry Overview

Medicinal Cannabis

Medicinal cannabis products are derived from cannabis plants and contain multiple cannabinoids which activate the CB1 and CB2 receptors in the endocannabinoid system. CB1 receptors are present in specific brain regions whilst CB2 receptors are more widely distributed within immune cells and modulate inflammatory and immune responses. Most current medicinal cannabis products contain cannabidiol (CBD) and tetrahydrocannabinol (THC) in varying combinations.

Due to the recreational use of cannabis, there are significant regulatory restrictions with its medicinal application. However, legislation to cultivate medicinal cannabis in Australia came into effect in February 2016 and by October 2019 78 licenses had been issued for cultivation, production and manufacture of medicinal cannabis.

Medications will conventionally undergo comprehensive assessment to be included in the *Australian Registry of Therapeutic Goods* (ARTG). Currently there are only two medicinal cannabis products listed: Epidiolex and Sativex. All other available products are unregistered, however, the government approved a legalised framework in November 2016 for accessing medicinal cannabis providing the 'green light'. State based policies were also in place whereby general practitioners would require additional specialist endorsement along with state Health Department approval. These policies have since been amended easing the prescribing process to include all healthcare practitioners (including nurse practitioners).

There are currently three distinct pathways for clinicians to prescribe medicinal cannabis:

- **Special Access Scheme:** Category A is the notification pathway used by clinicians for seriously ill patients. This is the least commonly used route with only 254 applications in 2022 and 1629 applications to date. Category B is the application pathway accessed by clinicians for patients not included in Category A. TGA approval is required before the medicinal cannabis product can be obtained by the patient. There have been 78.5k applications in 2022 thus far and 286.7k applications in total since introduction.
- **Authorised Prescriber Scheme:** Allows approved medical practitioners to supply medicinal cannabis products that are not listed on the ARTG without seeking TGA approval. However, Authorised Prescribers must individually report the total number of patients treated every 6 months.
- **Clinical Trials:** Medicinal cannabis products can also be used in clinical trial settings for HREC approved research projects.

The Therapeutics Goods Administration (TGA) has also published guidance documents for use of medicinal cannabis in palliative care, multiple sclerosis, epilepsy, chronic non-cancer pain and management of nausea & vomiting. However, under the Special Access Scheme medicinal cannabis has been approved in over 180 indications to date.

SPECIAL ACCESS & AUTHORISED PRESCRIBER SCHEMES

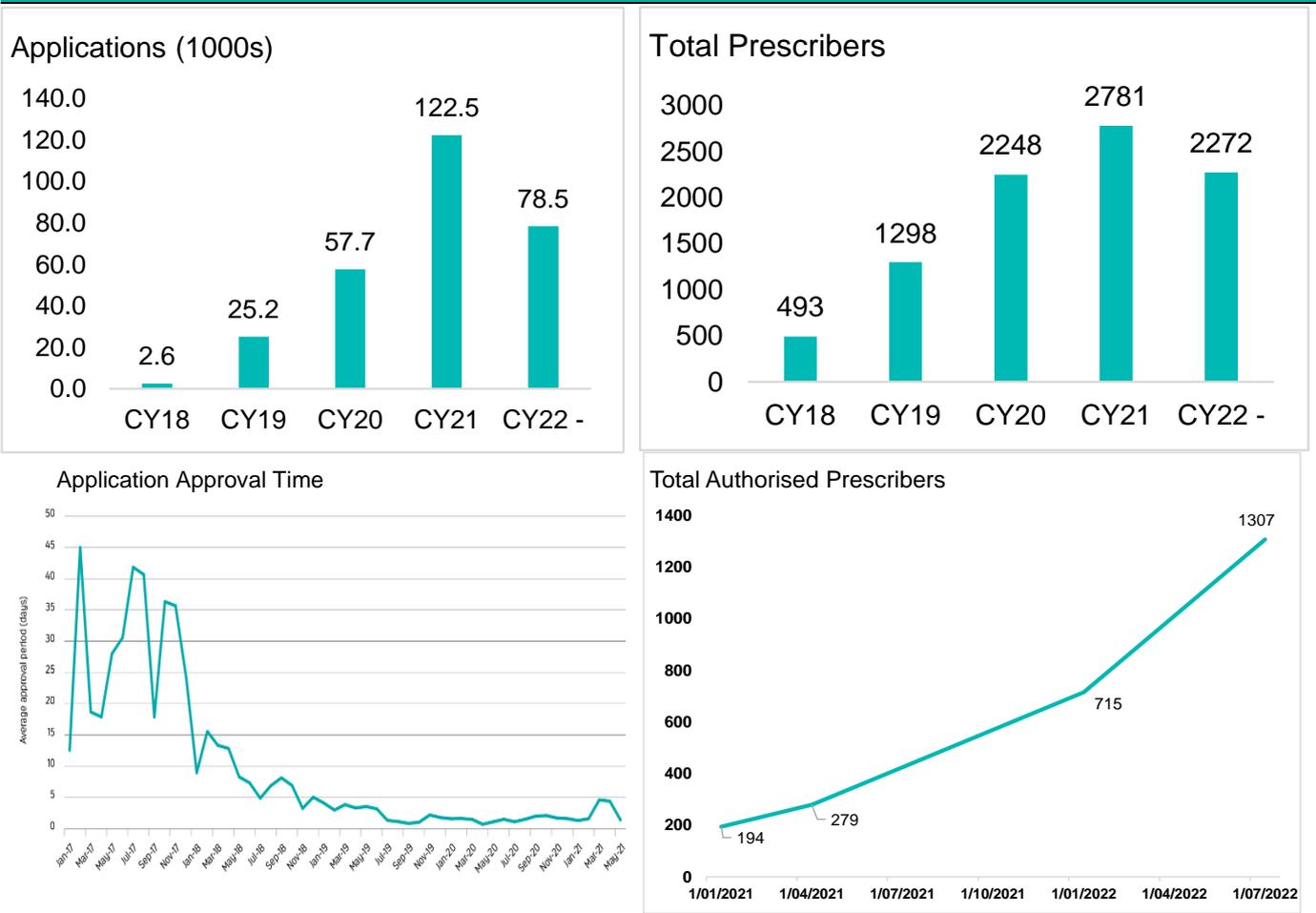
The TGA provides access to SAS-A and SAS-B data regarding all applications, indications for approval, patient demographics, prescriber locations by state and dosage forms for medicinal cannabis. Analysis of SAS-B data indicates prescribing trends, evolving patient characteristics and the direction that the medicinal cannabis industry is moving towards. However, it must be noted that clinicians that are prescribing greater volumes of medicinal cannabis products are most likely to opt for the Authorised Prescriber scheme as they do not have to seek TGA approval for every patient and can simply collate data every 6 months and report this to the TGA. Therefore, the SAS-B data only provides a partial

understanding of the demand for medicinal cannabis and must be considered alongside Authorised Prescriber information.

The data in Figure 6 and 7 highlights these trends in SAS-B applications for medicinal cannabis. Note that CY22 data is up to August 2022 (8 months data) resulting in decreased magnitude in comparison with CY21. The significant growth in total prescribers and total applications since CY18 is evident which reflects the increasing adoption and familiarity amongst clinicians.

- Assuming a constant run rate, the 78.5k applications to August 2022 translates to ~ 117.8k for the full year (CY22). Whilst this is lower than the 122.5k applications in CY21, the primary reason for this is that clinicians are also registering as Authorised Prescribers resulting in decelerating utilisation of the SAS-B scheme.
- Average SAS-B application approval time was 30 days in 2017 (Figure 6). The introduction of the online SAS-B portal has streamlined this process and reduced the average approval period to < 24 hours improving accessibility for patients.
- Total Authorised Prescribers have increased from 194 in January 2021 to 1307 as of 31 July 2022. Note there are ~ 30k general practitioners and ~ 100k doctors in Australia.

Figure 6 - SAS-B Total Prescribers, Total SAS-B Applications, Average SAS-B Approval Time, Total Authorised Prescribers



SOURCE: TGA, BELL POTTER SECURITIES, MTP CONNECT

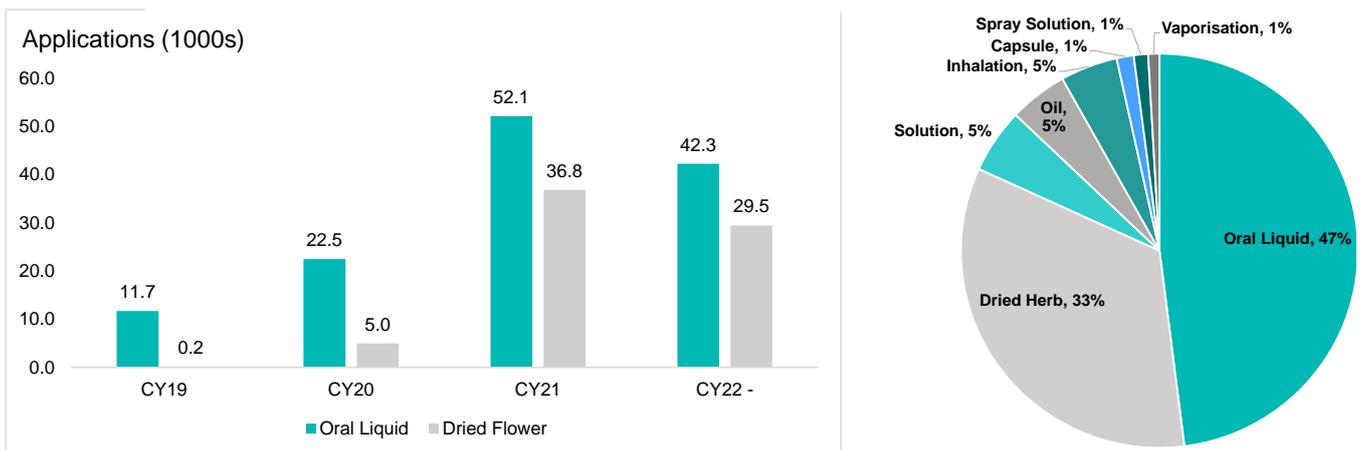
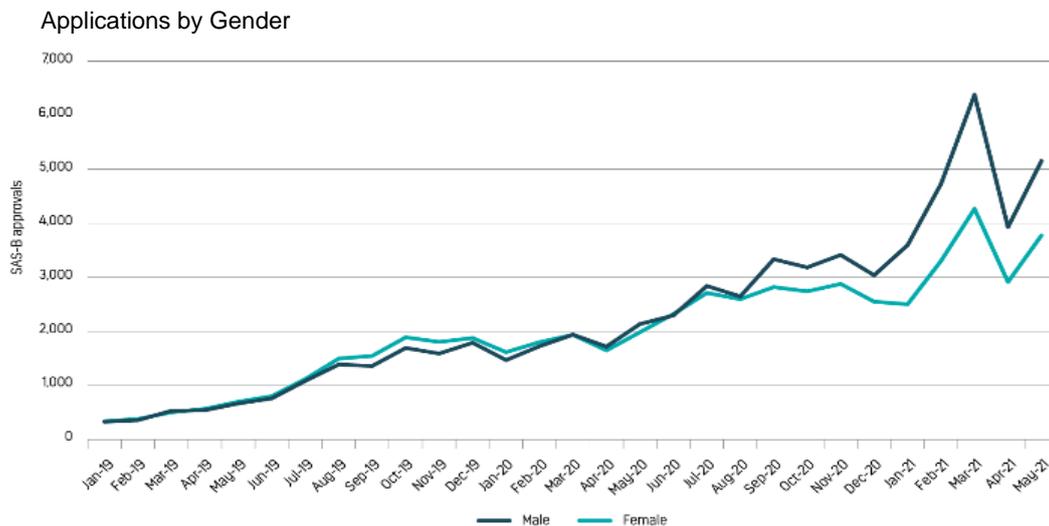
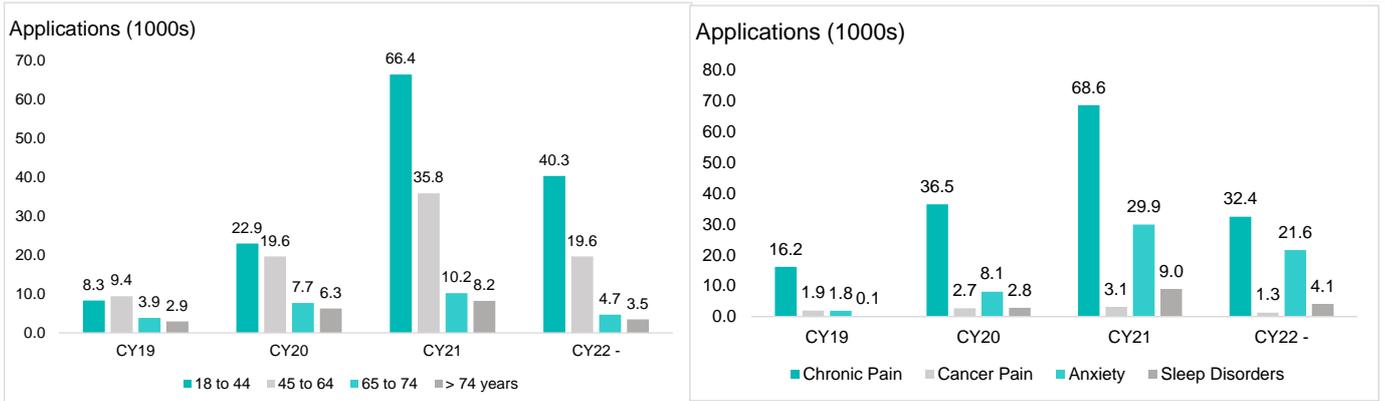
Analysis of patient demographics also depicts the shifting demand for medicinal cannabis. Figure 7 displays SAS-B applications across different age groups, the most common indications for prescription and demand for different product formulations.

- Whilst applications in the 45 to 64 and 65 to 74 age groups increased steadily from CY19 to CY21, the largest patient group has shifted to the 18 to 44 age bracket. From

January 2017 to August 2022, 50% of patients were 18 to 44 years and 31% were 45 to 64 years.

- Chronic pain remains as the most common indication for SAS-B application (59%) followed by anxiety (23%), sleep disorders (4%) and cancer symptoms & pain (4%).
- The two main formulations of prescribed medicinal cannabis are currently oil/liquid preparations and dried flower. Figure 7 illustrates the increased prescription of dried flower preparation since CY19.
- The breakdown between different formulations is also represented in Figure 7 with oral liquid (47%) and dried flower (33%) the most common followed by solution (5%), oil (5%) and inhalation (5%).

Figure 7 - SAS-B Applications by Age, Indication, Gender, Formulation. Different formulations from Jan-21 to Jul-22.



SOURCE: TGA, BELL POTTER SECURITIES, MTP CONNECT

CLINICAL TRIAL ACCESS

Outside of the prescribing schemes (SAS-B, Authorised Prescriber), medicinal cannabis can also be used in the clinical trial setting within Australia. Whilst there has been significant growth in this industry, one of the major constraints to wider clinical adoption has been the limited high-quality evidence supporting the use of medicinal cannabis in specific indications. Currently there are a number of important studies underway across Australia to strengthen the clinical validation for the use of medicinal cannabis. This has been supported by government funding (A\$9m) within NSW for investigations in treatment-resistant epilepsy, nausea & vomiting management in chemotherapy patients and impact on appetite in palliative care patients with advanced cancer. Searching the Australia & New Zealand Clinical Trials Registry reveals 68 active & recruiting studies in medicinal cannabis. Important trials underway include:

- **Chemotherapy-induced nausea & vomiting:** Pilot Phase II and definitive Phase III study, total of 250 patients. Phase II data published in August 2020.¹ Phase III underway and will recruit 170 patients.
- **Advanced cancer:** CARE NSW will provide legal access to medicinal cannabis for 600 patients with advanced cancer experiencing uncontrolled pain, nausea or anorexia. Other investigations include Phase I/II trial evaluating vaporised THC (Bedrobinol) and the impact on appetite & mood and Phase IIb trial assessing use of Namisol for management of anorexia in advanced cancer.
- **Impact on driving:** Recent investigation by University of Sydney has found that the highest daily dose of CBD does not impair cognitive function or driving performance.²

GOVERNMENT & MEDICAL SUPPORT

The maturation of the medicinal cannabis industry has been supported by important developments from various medical organisations as well as government initiatives.

- **Australian Centre for Cannabinoid Clinical & Research Excellence (ACRE):** Funded by the National Health & Medical Research Council (NHMRC) in 2017. Goal is to generate high quality evidence in medicinal cannabis and ensure balanced implementation of medicinal cannabis in specialist & primary care settings. Have developed *NSW Cannabis Medicines Prescribing Guidance* in Anorexia/Cachexia in Advanced Cancer, Chemotherapy-Induced Nausea & Vomiting, Nausea in Palliative Care, Dementia, Non-Cancer Pain and Spasticity.
- **Therapeutic Goods Administration:** Published Guidance Documents for use of medicinal cannabis in multiple sclerosis, palliative care patients, paediatric/young adult epilepsy, prevention/management of nausea & vomiting and treatment of chronic non-cancer pain. Documents have been endorsed by Australian Advisory Council on the Medicinal Use of Cannabis.
- **National Prescribing Service MedicineWise:** Key documents include “*Medicinal Cannabis: what you need to know*” and “*Prescribing medicinal cannabis*”. Includes an overview of access schemes, important adverse effects, state-based regulations and challenges with medicinal cannabis products.
- **University of Sydney Lambert Initiative for Cannabinoid Therapeutics:** Collection of online resources regarding ongoing clinical trials, published research and important information for medical doctors about the prescribing pathways.

Clinicians will also regularly refer to their specialist colleges and review college positions on topical treatments such as medicinal cannabis. Here there is a degree of divergence.

¹ Grimison, P et al. “Oral THC:CBD cannabis extract for refractory chemotherapy-induced nausea and vomiting: a randomised, placebo-controlled, phase II crossover trial.” *Annals of oncology : official journal of the European Society for Medical Oncology* vol. 31,11 (2020): 1553-1560. doi:10.1016/j.annonc.2020.07.020

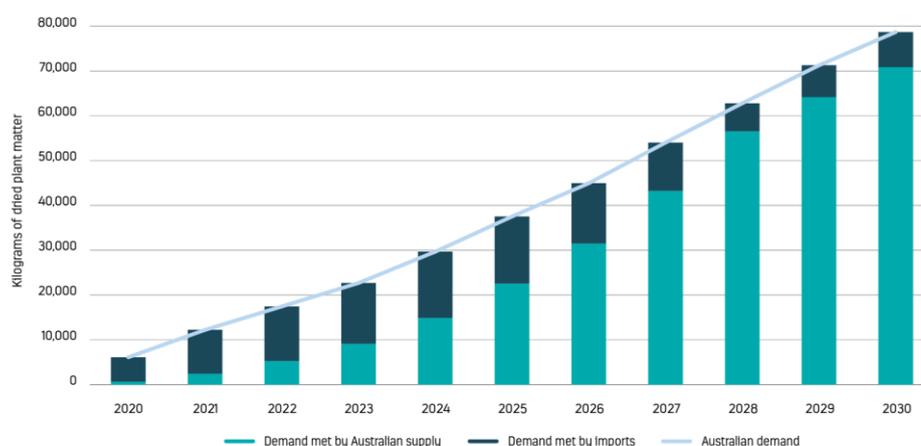
² McCartney, Danielle et al. “Effects of cannabidiol on simulated driving and cognitive performance: A dose-ranging randomised controlled trial.” *Journal of psychopharmacology (Oxford, England)*, 2698811221095356. 30 May. 2022. doi:10.1177/02698811221095356

- **Royal Australian College of General Practitioners (RACGP):** Whilst it “*highlights the need for further high-quality research*” it also states there is “*a possible role for medicinal cannabis products in a number of areas...after conventional, evidence-based treatments have failed*”. The RACGP has also provided its members a series of webinars reviewing current evidence, an update on the current landscape of prescribing and an outline of support services for further guidance. Note, the majority of current prescribing is performed within general practice.
- **Faculty of Pain Medicine (FPM), Australian & New Zealand College of Anaesthetists (ANZCA):** In contrast the FPM published a media release on 23 March 2021 stating, “*Doctors urged not to prescribe medicinal cannabis unless the treatment is part of a registered clinical trial*”. However, channel checks with pain specialists reveal that medicinal cannabis products are being trialled increasingly by clinicians managing chronic pain due to the reduced opioid requirement and absence of withdrawal complications.

KEY DRIVERS FOR MEDICINAL CANNABIS MARKET

The demand for medicinal cannabis has increased significantly in the past 24 months. Key catalysts for ongoing growth must be considered such as patient factors, prescribing practices, clinical evidence and the regulatory framework.

Figure 8 - Projected Australian demand for medicinal cannabis



SOURCE: DELOITTE ACCESS ECONOMICS

- **Patient factors:** The main indications for use include chronic pain, anxiety and sleep disorders. We do not expect the prevalence or incidence of these conditions to increase significantly, however, with the over-prescription of opioids and anti-depressant therapies there has been a push amongst patients for alternatives. Utilisation in advanced cancer and the palliative care setting is also gaining traction and we expect this to continue to drive clinical adoption.
- **Costs of accessing clinicians:** Whilst ‘cannabis clinics’ have been responsible for a large portion of prescribing to date, as other clinicians become more familiar with medicinal cannabis it is expected patients will be increasingly able to access these therapies within the primary care setting. Reduced costs will be critical in increasing patient access and subsequent demand for medicinal cannabis products.
- **Clinical research:** As described above, multiple investigations are underway to strengthen the available evidence for medicinal cannabis products. Positive findings will be critical to further clinical adoption and changing college positions on medicinal cannabis use (Faculty of Pain Medicine, Royal Australian College of Physicians).
- **Increased domestic supply of medicinal cannabis:** Increasing the domestic supply will also be important in improving accessibility and costs. Initiatives such as the Victorian Medicinal Cannabis Industry Development Plan are addressing this market

need and will be critical in strengthening the domestic market for medicinal cannabis products. Figure 8 highlights projections for medicinal cannabis demand through to 2030 with the majority of demand expected to be met by Australian supply.

Financials

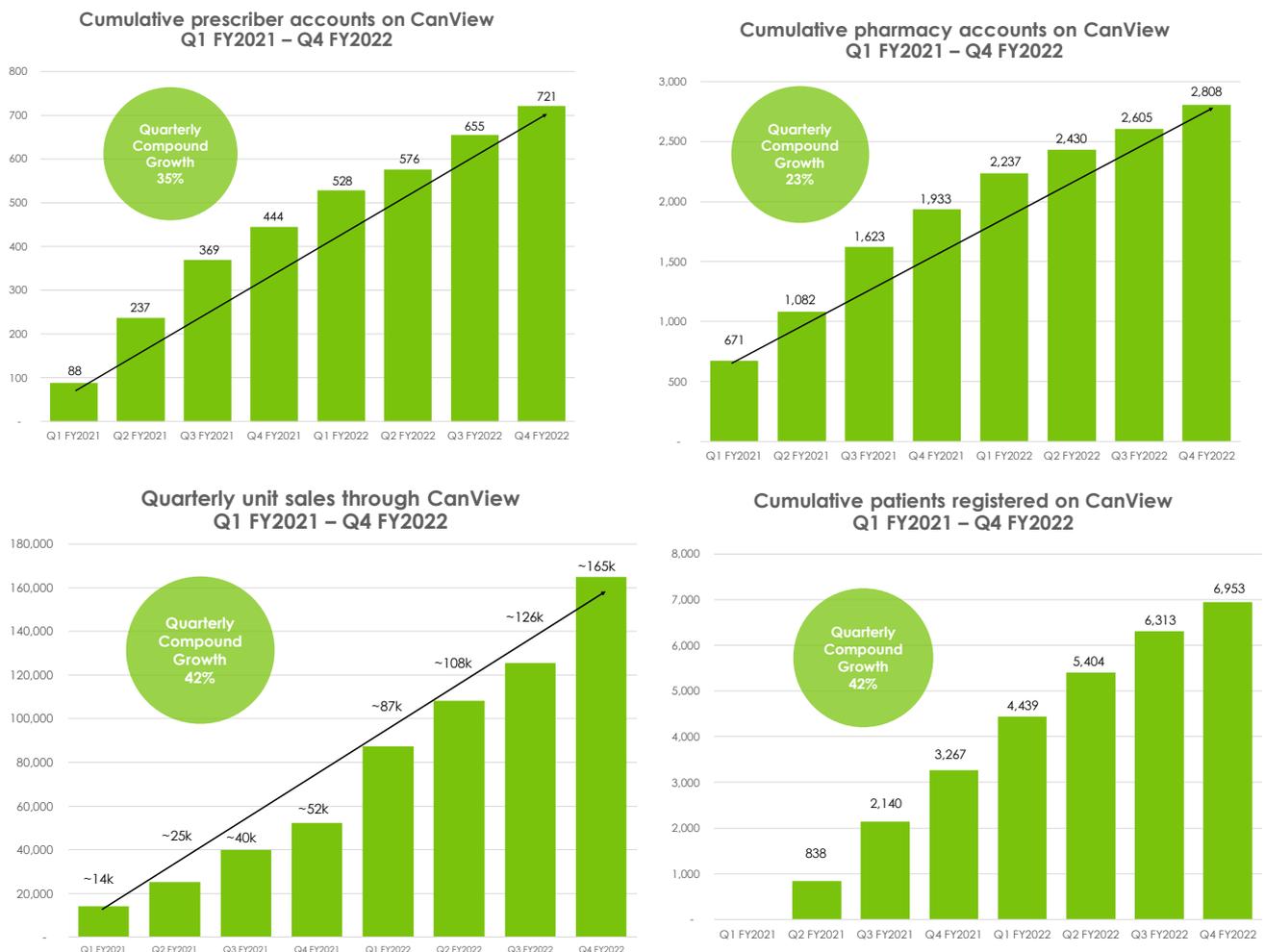
Key Metrics

Key metrics that are reported by Cronos include the total pharmacy purchasing accounts, doctor accounts and medicinal cannabis unit sales all of which have seen significant growth in the past 24 months (Figure 9).

- **Cumulative prescribers:** At the end of FY22 there were 721 unique prescriber accounts on the CanView platform. This compares with a total of 3,348 prescribers using SAS-B and 1,307 Authorised Prescribers.
- **Cumulative patients:** Significant increase in patients since 2Q21 from 838 to 6,953 by the end of FY22.
- **Cumulative pharmacy accounts:** 2,808 at end of FY22 which represents ~ 60% of total pharmacies across Australia.

Combining this data, it will be critical to monitor unit sales per pharmacy account and per prescriber to assess rates of clinical adoption and prescription flow per pharmacy.

Figure 9 - Key metrics for Cronos



SOURCE: COMPANY DATA

P&L**Table 1 - P&L Historical & Forecast**

P&L (\$m)	FY21	FY22	FY23e	FY24e	FY25e
CanView Revenue	20.2	64.9	101.3	141.8	191.4
Cost of sales (CanView)	-15.1	-41.6	-65.8	-92.2	-124.4
Gross Profit (CanView)	5.2	23.4	35.5	49.6	67.0
Gross Margin (CanView)	26%	36%	35%	35%	35%
Total Revenue	21.7	67.0	104.2	145.5	195.9
Total Expenses	-5.0	-15.9	-21.9	-29.8	-40.2
<i>Expenses as % of Revenue</i>	<i>23%</i>	<i>24%</i>	<i>21%</i>	<i>21%</i>	<i>21%</i>
EBITDA	2.1	10.4	17.2	24.4	32.3
Total D&A	-0.2	-0.7	-0.8	-0.9	-0.9
EBIT	1.9	9.7	16.4	23.5	31.3
Net interest (expense)/benefit	0.0	0.0	0.0	0.0	0.0
Profit before tax	1.9	9.7	16.4	23.5	31.3
Income Tax Benefit/Expense	0.5	3.7	4.9	7.1	9.4
NPAT	1.4	6.0	11.5	16.5	21.9

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

The key points are:

- **Sustained revenue growth:** Significant growth in FY22 with revenues of \$67.0m vs. FY21 \$21.7m. Has been driven by improved access to medicinal cannabis and competitive advantage with wider portfolio of products and streamlined access using the CanView platform.
- **High gross margins in distribution:** Cronos has been able to maintain relatively high margins with its distribution operations. The popularity of the platform is related to active & increasing pharmacy accounts as well as its parallel clinic operations which provide suppliers with a direct access channel to patients unlike competitors.
- **Increasing profitability moving forward:** We expect increased earnings with NPAT \$11.5m in FY23, \$16.5m in FY24 and \$21.9m in FY25.

Balance Sheet and Cash Flow

The key points are:

- **Strong cash position:** Cash of \$16.1m as at 30 June 2022 with cash inflows of \$14.0m during FY22. We expect Cronos to remain cashflow positive and do not anticipate any requirement for capital raising.
- **Dividend payment:** Cronos has announced dividend payment of 1c per share. This will translate to \$5.5m payment in FY23. This makes Cronos the only cashflow positive and dividend paying medicinal cannabis company listed on the ASX.

Valuation

We apply a blend of three valuation methodologies to Cronos:

- DCF
- EV/EBITDA
- PER

DCF

DCF is an absolute valuation approach. Our DCF valuation is shown below with WACC 10.4% and TGR 3.0%. Valuation by DCF is \$0.63.

Table 2 - DCF valuation for Cronos

WACC calculation		Key assumptions	
Risk free rate	4.2%	Valuation as at	29-Aug-23
Market risk premium	4.8%	Terminal growth rate	3.0%
Beta	1.3		
Borrowing rate	4.0%		
Tax rate	30.0%		
Target gearing	0.0%		
Cost of equity	10.4%		
Cost of debt (after tax)	5.0%		
WACC	10.4%		

	2023e	2024e	2025e	2026e	2027e	2028e	...	Beyond
Operating cash flow (US\$m)	8.3	15.3	20.3	24.9	26.0	30.8		
Capex	-0.4	-0.4	-0.4	-0.4	-0.4	-0.4		
Free cash flow	7.9	14.9	19.9	24.5	25.6	30.4		420.9
Present value of cash flows	8.0	13.7	16.6	18.5	17.5	18.8		235.7
Sum of present values	328.8							
Market value of investments	0.0							
Net debt/(cash)	-16.1							
Equity value	344.87							
Equity value per share (A\$)	0.63							

SOURCE: BELL POTTER SECURITIES ESTIMATES

Relative Valuation

We apply two relative methodologies in the valuation of Cronos: EV/EBITDA and PER. There are no clear comps within the listed space for medicinal cannabis distribution. Table 3 displays ASX and international comps within the software/biotechnology and drug distribution space. However, we apply a 30% premium to EV/EBITDA and PER multiples as we believe Cronos is a high growth company and medicinal cannabis distribution has greater barriers to entry than comps within the wider drug distribution sector.

Table 3 - ASX and International Comps for Cronos

Company	Last Price	Currency	Market Cap (\$m)	FY24 EV/EBITDA	FY24 PE Ratio
International Peers					
Cardinal Health	69.84	USD	19032	7.70	11.68
McKesson Corp	364.01	USD	52319	11.19	14.08
Nu Skin Enterprises	41.90	USD	2111	6.33	10.84
ASX Peers					
Cogstate	1.55	USD	268	7.75	19.07
Paragon Care	0.39	AUD	250	8.20	12.42
Sigma Healthcare	0.68	AUD	718	12.89	26.06
Average				9.0	15.7

SOURCE: BLOOMBERG

Table 4 - EV/EBITDA and PER methodologies for Cronos

	FY24 EBITDA	EV/EBITDA	Value	(Cash)	Equity Value	Equit Value/Share
EV/EBITDA	\$24.4	11.7x	\$285.5	-16.1	\$301.6	\$0.55
	FY24 EPS	Average PER	Share Price			
PER	0.03	20.4x	\$0.61			

SOURCE: BELL POTTER SECURITIES ESTIMATES

Table 4 outlines our valuation using EV/EBITDA and PER from comps. We use multiples of 11.7x for EV/EBITDA and 20.4x for PER.

Price Target

We use a blend of the valuations generated by DCF, EV/EBITDA and PER to determine the price target which is shown below. We apply 50% weighting to DCF and 25% to EV/EBITDA and PER.

Table 5 - Price target for Cronos

Methodology	Valuation	% Weighting	Weighted Valuation
DCF	\$0.63	50%	\$0.31
EV/EBITDA	\$0.55	25%	\$0.14
PER	\$0.61	25%	\$0.15
Total			\$0.60

SOURCE: BELL POTTER SECURITIES ESTIMATES

Table 5 shows our price target for Cronos is \$0.60. The PT is a 39.5% premium to the current share price and the total expected return is 41.8% including the dividend yield.

Board, Management & Registry

Board & Management

Table 6 - Board of Directors & Key Management

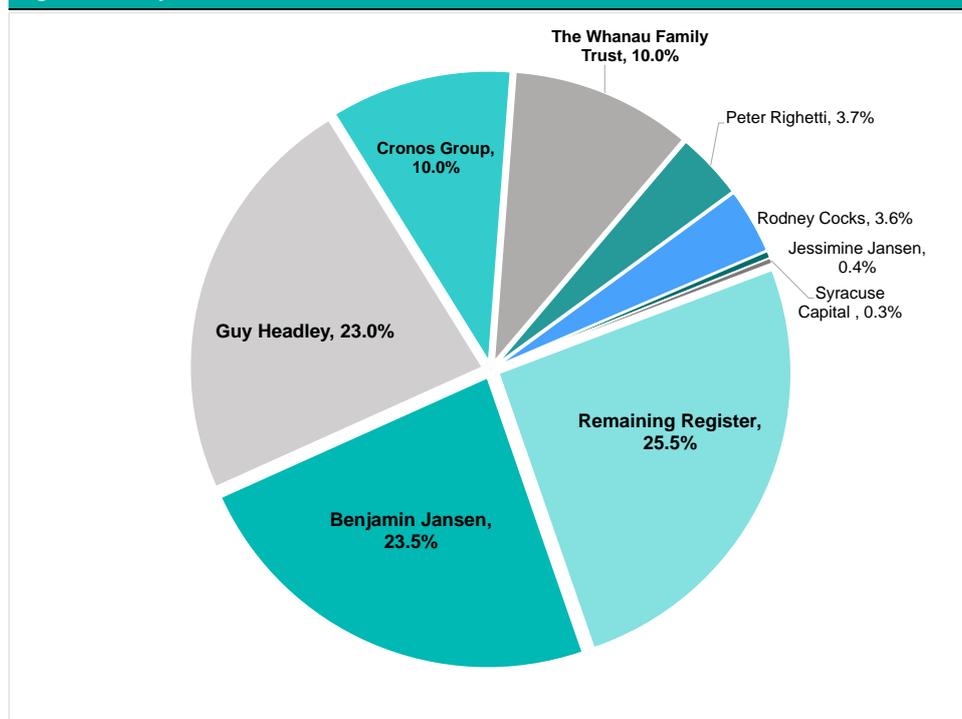
Rodney Cocks - Chief Executive Officer, Executive Director	Dr. Marcia Walker - Independent Non-Executive Acting Chair
Guy Headley - Chief Commercial Officer, Executive Director	Thomas Howitt - Chief Financial Officer, Company Secretary
Dr. Benjamin Jansen - Chief Medical Officer, Executive Director	

SOURCE: COMPANY DATA

The Board currently has one Independent Director, Dr Marcia Walker. Replacement members to join the Board as independent Directors are actively being sought. We note Dr. Benjamin Jansen will cease his position as Chief Medical Officer on 22 September 2022 and become a Non-Independent Non-Executive Director.

Key Shareholders

Figure 10 - Key Shareholders



SOURCE: IRESS

Key take-outs are:

- Cronos Australia listed on the ASX in November 2019. The merger with CDA Health was completed in December 2021.
- The Top 20 Registered Shareholders hold 87.8% of total number of shares on issue. The free float is 26.5%.

Cronos Australia

as at 2 September 2022

Recommendation

Buy

Price

\$0.48

Target (12 months)

\$0.60

Table 7 - Financial summary

Cronos (ASX:CAU)

Share price: \$0.48
No. of issued shares: 552.5m
Target price: \$0.60
Market cap: \$265.2m

Profit & Loss (\$m)

Year end 30 Jun	2021	2022	2023e	2024e	2025e
CanView Revenue	20.2	64.9	101.3	141.8	191.4
Cost of sales (CanView)	-15.1	-41.6	-65.8	-92.2	-124.4
Gross Profit (CanView)	5.2	23.4	35.5	49.6	67.0
Gross Margin (CanView)	26%	36%	35%	35%	35%
Total Revenue	21.7	67.0	104.2	145.5	195.9
<i>Growth</i>	N/A	209%	55%	40%	35%
Total expenses	-5.0	-15.9	-21.9	-29.8	-40.2
EBITDA	2.1	10.4	17.2	24.4	32.3
Total D&A	-0.2	-0.7	-0.8	-0.9	-0.9
EBIT	1.9	9.7	16.4	23.5	31.3
Net finance income/(expenses)	0.0	0.0	0.0	0.0	0.0
Pre-tax profit	1.9	9.7	16.4	23.5	31.3
Income tax expense	0.5	3.7	4.9	7.1	9.4
NPAT	1.4	6.0	11.5	16.5	21.9
<i>Change</i>		324%	91%	43%	33%

Cash Flow (\$m)

Year end 30 Jun	2021	2022	2023e	2024e	2025e
EBITDA	2.1	10.4	17.2	24.4	32.3
Change in working capital		-0.7	4.0	2.1	2.5
Gross cash flow	1.0	14.1	13.2	22.3	29.7
Operating cash flow	1.1	13.5	8.3	15.3	20.3
Purchase of PPE	-0.2	-0.4	-0.4	-0.4	-0.4
Investing cash flow	-0.5	2.0	-0.4	-0.4	-0.4
Payment of dividends	0.0	0.0	-5.5	-5.5	-5.5
Financing cash flow	0.0	-1.5	-5.5	-5.5	-5.5
Net change in cash	0.5	14.0	2.4	9.3	14.4
Cash at start of period	1.5	2.1	16.1	18.5	27.8
Effect of exchange rate changes	0.0	0.0	0.0	0.0	0.0
Cash at end of period	2.1	16.1	18.5	27.8	42.3

Balance Sheet (\$m)

Year end 30 Jun	2021	2022	2023e	2024e	2025e
Cash and cash equivalents	2.1	16.1	18.5	27.8	42.3
Trade and other receivables	2.2	5.8	10.4	14.6	19.6
Inventories	3.1	5.0	10.4	14.6	19.6
Other assets	0.2	0.7	0.7	0.7	0.7
Property, Plant and equipment	0.2	0.6	1.0	1.2	1.5
ROU assets	0.7	5.0	5.0	5.0	5.0
Intangibles	0.2	7.2	6.4	5.7	4.9
Deferred tax assets	0.1	1.9	1.9	1.9	1.9
Other assets	0.1	0.6	0.6	0.6	0.6
Total assets	1.3	15.3	14.9	14.4	13.9
Trade and other payables	3.4	9.6	15.6	21.8	29.4
Interest bearing liabilities	0.2	0.5	0.5	0.5	0.5
Employee benefit provisions	0.2	0.5	0.5	0.5	0.5
Current tax liabilities	0.5	1.7	1.7	1.7	1.7
Interest bearing liabilities	0.5	4.6	4.6	4.6	4.6
Employee benefit provisions	0.0	0.1	0.1	0.1	0.1
Total liabilities	4.8	16.8	22.9	29.1	36.6
Net Assets	4.0	26.1	32.1	43.0	59.5
Share capital	3.7	22.8	22.8	22.8	22.8
Other reserves	-0.1	-3.1	-3.1	-3.1	-3.1
Retained Earnings	0.4	6.5	12.5	23.4	39.9
Total shareholder's equity	4.0	26.1	32.1	43.0	59.5

SOURCE: BELL POTTER SECURITIES ESTIMATES

Valuation data

Year end 30 Jun	2021	2022	2023e	2024e	2025e
NPAT	1.4	6.0	11.5	16.5	21.9
Diluted EPS	0.26	1.09	2.09	2.99	3.98
<i>Change</i>		324.2%	91%	43%	33%
P/E ratio (x)	1.9	44.0	23.0	16.1	12.1
Free cashflow (cps)	0.1	2.4	1.4	2.7	3.6
Price/FCF*	326.9	20.1	33.4	17.8	13.3
DPS (cps)	0.0	0.0	1.0	1.0	1.0
Yield	0.0%	0%	2.1%	2.1%	2.1%
Franking	NM	NM	100%	100%	100%
EV/EBITDA (x)	119.0	23.9	14.5	10.2	7.7
NTA per share	0.7	3.1	4.3	6.4	9.5
Price/NTA (x)	70.9	15.6	11.2	7.5	5.0

Performance ratios

Year end 30 Jun	2021	2022	2023e	2024e	2025e
EBITDA margin	10%	16%	17%	17%	16%
EBIT margin	9%	15%	16%	16%	16%
Return on assets	16%	14%	21%	23%	23%
Return on equity	36%	23%	36%	38%	37%
Payout ratio	0%	0%	48%	33%	25%
Effective tax rate	25%	38%	30%	30%	30%

Segmentals (\$m)

Year end 30 Jun	2021	2022	2023e	2024e	2025e
CanView Revenue	20.2	64.9	101.3	141.8	191.4
Clinic Revenue	1.3	1.8	2.6	3.3	4.0
Consumer products	0.2	0.2	0.3	0.4	0.5
Total revenue	21.7	67.0	104.2	145.5	195.9

Interims (\$m)

Year end 30 Jun	1H22a	2H22a	1H23e	2H23e
Revenue	27.4	39.6	47.9	56.2
<i>Change</i>		45%	21%	17%
Expenses	-5.9	-10.1	-10.9	-10.9
<i>Change</i>		71%	9%	0%
EBITDA	4.9	5.5	7.2	10.1
<i>EBITDA Margin</i>	18%	14%	15%	18%

Recommendation structure

Buy: Expect >15% total return on a 12 month view. For stocks regarded as 'Speculative' a return of >30% is expected.

Hold: Expect total return between -5% and 15% on a 12 month view

Sell: Expect <-5% total return on a 12 month view

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Such investments may carry an exceptionally high level of capital risk and volatility of returns.

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