

# European Cannabis

April 2020 Report



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# Executive Summary

European cannabis sales are projected to decline in 2020, reflecting a pattern of decreasing new patient registrations, supply chain disruptions, and economic troubles which have been plaguing the continent as a result of the ongoing COVID-19 pandemic. Despite these setbacks, the overall market is likely to bounce back stronger than ever in 2021, breaking the US \$1 billion mark for the first time.

Adult-use is still very small in Europe, and progress on this front is likely to remain slow for years to come. Most European countries are still building up and lifting limitations within their medical markets, and though adult-use pilot programs are rolling out in the Netherlands and Switzerland, these will be limited in scope. Adult-use programs will evolve much more incrementally and slowly than medical markets and are backed by less support among legislators overall, making them longer-term plays.

Many European cannabis markets are beginning to look more inward to increase their domestic supply of medical cannabis, which will ultimately benefit local players with local access, infrastructure and knowledge, who can prepare and pivot more nimbly and at a lesser cost in order to comply with regulatory requirements.

# Executive Summary

While several Canadian LPs have established significant operations in Europe, there are already signs of these players shrinking their international footprint or pausing expansion to focus on their home market. Aurora has paused construction on a one million square foot cultivation site in Denmark, and Canopy has just pulled operations out of South Africa and Colombia. Ultimately, financial struggles and budget tightening may lead to the halting or slowing of further European operations among Canadian players.

However, promising or exclusive opportunities in Europe's markets, such as the below, are likely to keep the LPs in the mix for now. These operations are likely to continue, but with less focus on further expansion in the region. Aurora and Aphria recently became two of only three companies licensed to grow cannabis domestically in Germany. Canopy (via Spectrum Therapeutics) is the exclusive medical cannabis supplier to Luxembourg through 2021. Tilray has an agreement to ship medical cannabis to Germany from its Portuguese cultivation location.

# Market Sizes & Current Drivers

European cannabis remains a patchwork of mostly medical markets, but liberalization continues to move forward, if slowly. In 2019, medical cannabis sales reached \$396 million USD, growing 183% over 2018, and is expected to reach \$386 million in 2020. Medical cannabis programs are still restrictive in many markets when it comes to patient access and product availability. However, growth continues to be driven by slowly loosening restrictions and new patients looking to cannabis as an alternative treatment as attitudes toward the plant continue to evolve.

## MEDICAL CANNABIS POLICIES BY COUNTRY

### MORE OPEN



Spain



Netherlands



Greece



Germany

### MORE RESTRICTIVE



Austria



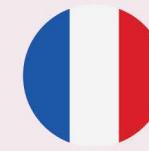
Italy



United Kingdom



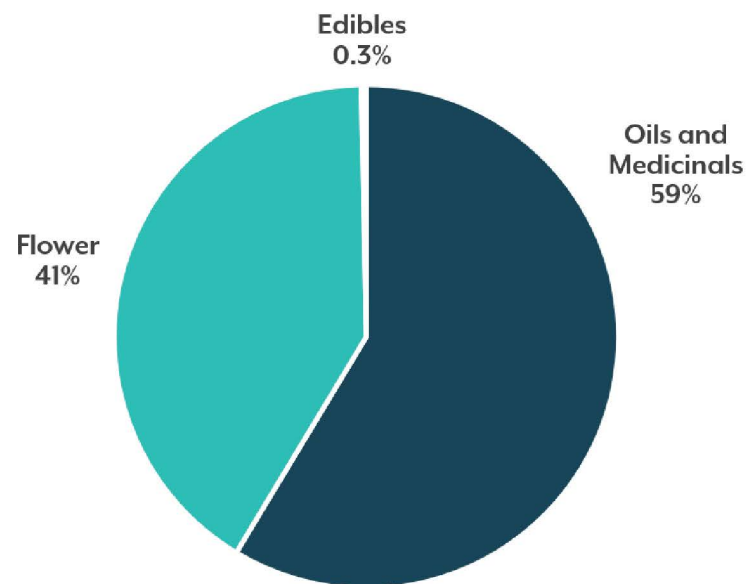
Switzerland



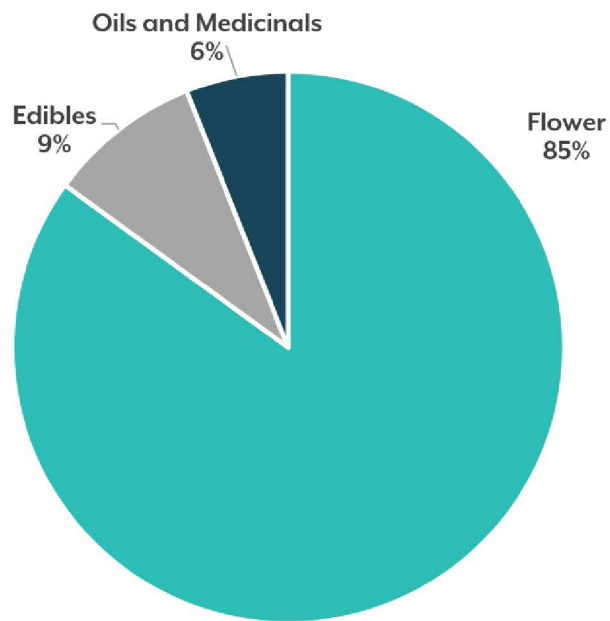
France

Oils and medicinals outpace flower in the medical market, which is not surprising given the restrictions on product types in many markets, as well as insurance coverage limitations, which are likely to favor branded medicinals and are an important consideration for many patients. Flower is available as a medical option only in Germany, Spain, Netherlands, and Italy. On the other hand, oils and medicinals, which includes cannabis tinctures, capsules and prescription medications like Sativex and generic dronabinol, are available in all markets covered here.

### MEDICAL: 2019 BREAKDOWN BY PRODUCT TYPE



### ADULT-USE: 2019 BREAKDOWN BY PRODUCT TYPE

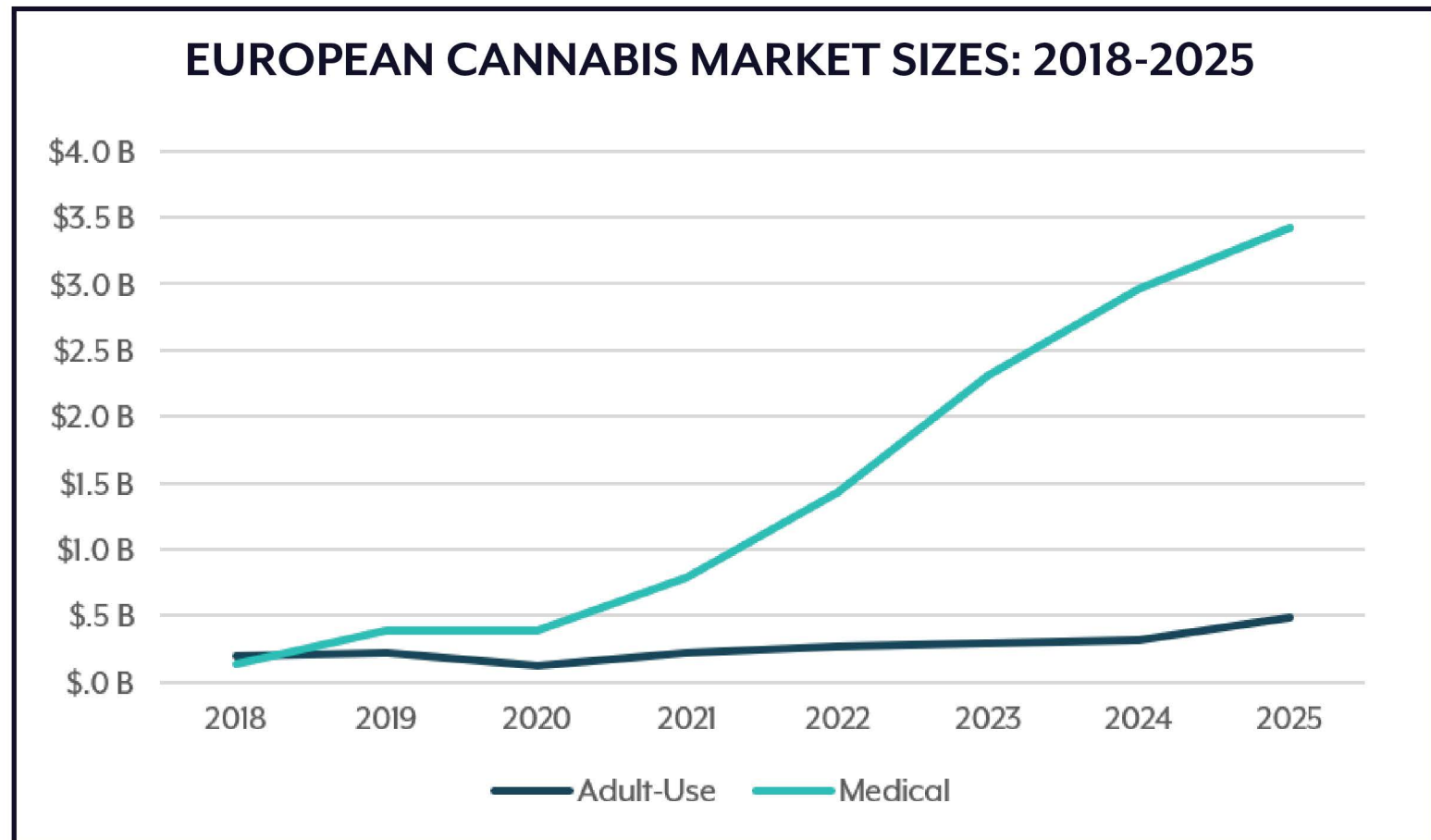


In 2019, adult-use cannabis sales reached \$217 million USD, growing 9% over 2018. Spain continues to lead the way in the adult-use market with its unique system of Cannabis Social Clubs, which are private, non-profit organizations where cannabis is cultivated on-premise for the consumption of paid members. Other countries have yet to implement legal adult-use programs, but more market openings are likely on the horizon with the Netherlands and Switzerland kicking off adult-use pilot programs in the near- to medium-term.

# Forecasts & Growth Drivers

Growing numbers of medical cannabis patients will drive growth of cannabis in Europe, though the restrictive nature of patient access will continue to be a barrier. The COVID-19 crisis will also challenge growth in 2020, dampening new patient registrations and prescriptions as specialized physicians will be hard to access for new prescriptions, and patients may be hesitant to enter physicians' offices at all.

Beyond 2020, there are positive signs for growth in Europe, thanks to factors such as increasing product supply, clinical trials, and pilot programs that signal potential market liberalization.



# ADVANCEMENTS BY COUNTRY

## Germany

In Europe's largest medical cannabis market, domestic cultivation will truly begin supplanting imports in 2021. With the continuous increase of domestic supply (which will lower prices and increase formal use), relatively generous insurance coverage, and the government's formal recognition of cannabis as medicine, the market is expected to experience significant growth from 2021 on.



## United Kingdom

Clinical trials are ongoing and expected to conclude in late-2020. The findings of these studies should encourage legislators to broaden the range of circumstances qualifying patients for cannabis use and allow NHS to cover more conditions and medications, thus driving growing numbers



# ADVANCEMENTS BY COUNTRY

## Switzerland

The Federal Office of Public Health is considering relaxing restrictions on medical cannabis, making it easier for doctors to prescribe it like they would any other medication.



## France

There is potential for more open regulation following the conclusion of the country's two-year medical cannabis pilot program, set to begin in late-2020.



## Italy

The Military Institute of Pharmaceuticals, which holds the exclusive right to cultivate medical cannabis in the country, is expanding its production capacity with new greenhouses to close the gap between domestic supply and rapidly growing patient demand.



## Forecasts & Growth Drivers

Legal adult-use sales are also likely to see a bump in the medium-term as more countries take steps toward market openings. A trial in the Netherlands starting in 2021 signals the potential opening of a legalized adult-use market, which is known to have been operating in a gray market for several years. The country's pilot program is expected to ramp relatively quickly given already-existing infrastructure.

Switzerland has also approved a pilot program for adult-use cannabis and will monitor the effects of non-medical use of cannabis on areas such as public safety and illicit drug markets.



# Competitive Landscape

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Cannabis regulators in Europe are beginning to turn their sights inward, encouraging domestic or European operations. For example, several of the region's countries are undertaking efforts to increase their domestic supply of medical cannabis to meet growing patient demand and decrease reliance on imports:



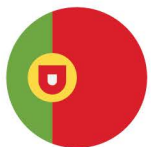
Germany recently granted licenses to three companies (Aphria, Aurora, and Demecan) to cultivate inside the country, and domestic products are likely to start overtaking imports by 2021



The Italian government is increasing production, working toward a medical cannabis market that is supplied almost exclusively by domestic producers



In Switzerland, the upcoming adult-use pilot program will be supplied exclusively with Swiss-grown organic cannabis



Portugal is ramping up cultivation and production to not only supply its new market, but also become an export hub for other European countries

In many cases, preparation of final products must be conducted by local pharmacies or approved (typically European) pharmaceutical companies rather than larger cannabis manufacturing operations as is typically seen in the US and Canada. Thus, the landscape does not offer as many opportunities to non-pharmaceutical competitors as might be seen elsewhere.

Despite that, several large international cannabis players – including a number of top Canadian Licensed Producers (LPs) – have already established operations and partnerships in Europe, and many aim to continue conducting business there within the new frameworks established.

Some examples include:

UK-based GW Pharmaceuticals, whose cannabis-derived prescription medication Sativex (Nabiximols) has been the first - or only - product permitted on a number of European markets, and continues to have wide reach in the region.



Dutch company Bedrocan, Europe's largest producer of medical cannabis, which has had a monopoly on producing medical cannabis in the Netherlands and is a major exporter to the rest of the region.

Canada's Aurora Cannabis supplies medical cannabis to a number of key European markets (eg Germany, recently Italy) and is working to increase the number of EU-GMP certified locations which it operates in order to scale its export capabilities to the continent.



Canadian Canopy Growth Corporation, whose subsidiary Spectrum Therapeutics has been a first-mover in markets such as Germany and Luxembourg, has made solid in-roads across the region, including in the UK.

Canadian companies Cronos Group and Tilray have both established distribution agreements in Germany, and Tilray has set up manufacturing operations in Portugal.



Aphria, another major Canadian licensed cannabis producer, is using its operations and relationships in Germany as a launching pad for access to the European market.

Notably, Europe's new inward focus will ultimately be advantageous for local players (with local access, knowledge, compliance testing) and may start deterring larger international competitors in a way it has not done in the past. This will be compounded by the COVID-19 phenomenon, which may force budget-stretched international players to trim and refocus their spending in the coming months, with burgeoning foreign operations perhaps first on the chopping block. These phenomena are expected to shift the competitive landscape further toward local competitors over the medium-term.





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