

SynBiotic

Consumer
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Platform primed for growth

SynBiotic has built up a leading platform company that spans the hemp and cannabis industry to cover the full value chain, from cultivation through to sales. Management buys and builds ventures that create and market hemp, cannabis and cannabinoid products for both medical and recreational use, while continually seeking investments in exciting new verticals. Recreational cannabis use has recently been partially legalised in Germany, while the same legislative changes have benefited the medicinal market. Having built its platform prior to these changes, SynBiotic is seeing its investments bear fruit and we believe it is well-positioned for any further relaxation in cannabis legalisation in Germany.

Leading the European cannabis industry

SynBiotic's strategy is to buy and build companies so that it covers the full value chain of the cannabinoid market, from cultivation, R&D and production to distribution and sales, with a focus on Germany and the EU. Management looks for companies that fit strategically, while also exploring growing verticals. It seeks to generate synergies between its investments, which is a competitive advantage relative to peers that tend to focus on a specific area of the market.

Partial legalisation sparks up the German market

Recreational cannabis use has been partially legalised in Germany since 1 April 2024, with adults allowed to possess 25g in public or 50g in private. Limited home cultivation is also legal. Since 1 July 2024, the law allows for the formation of 'cannabis clubs', not-for-profit, regulated associations with a maximum of 500 members. Furthermore, cannabis has been removed from the German Narcotics Act, enabling medical professionals to prescribe medicinal cannabis more easily to patients. These changes have created a surge in demand within the medical and recreational cannabis markets and have benefited some of SynBiotic's businesses.

Valuation: Clear guidance laid out

Following the changes to German regulation, management has provided specific guidance, anticipating revenues of €16.7m in FY24, €26.2m in FY25 and €33.6m in FY26. SynBiotic also anticipates being EBIT positive in H224 (although still loss-making for FY24) and achieving margins of 6% in FY25 and 11% in FY26. The company currently trades at a premium to its peers on an EV/sales FY24 multiple, reflecting the 105.4% rise in the share price in the year to date.

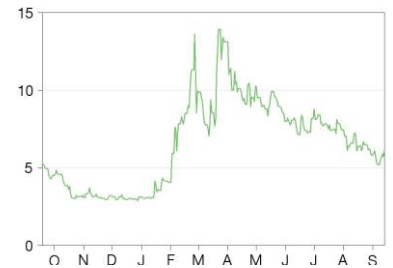
Historical financial figures

Year end	Revenue (€000s)	EBIT (€000s)	PBT (€000s)	EPS (€)	DPS (€)	P/E (x)	Yield (%)
12/20	5,446	(834)	(859)	(0.56)	0.00	N/A	N/A
12/21	8,649	(11,495)	(13,359)	(4.15)	0.00	N/A	N/A
12/22	8,166	(25,923)	(26,186)	(5.97)	0.00	N/A	N/A
12/23	3,861	(11,747)	(11,871)	(2.24)	0.00	N/A	N/A

Source: SynBiotic

Price €6.10
Market cap €31.4m

Share price graph



Share details

Code	SBX
Listing	Xetra
Shares in issue	5.6m
Last reported net debt as at 31 December 2023	€3.5m

Business description

SynBiotic is an investment holding company that pursues an EU-focused buy-and-build approach. The group of companies covers the entire supply chain, from cultivation to production to retail of hemp and cannabis products. One of the core businesses of the platform company is the research and development of new cannabinoid and terpene-based solutions for pain, sleep and anxiety. Its products serve a variety of end-markets including medicine and healthcare, nutrition and cosmetics.

Bull

- Large global market for cannabinoid products in multiple applications, with many legislators looking at relaxing rules, most recently Germany.
- Diversified businesses covering three sectors: industrial hemp, medical cannabis and recreational cannabis.
- Strong leadership team and portfolio managers.

Bear

- Strict and rapidly evolving regulatory requirements for THC and CBDs internationally.
- Execution risk in terms of integration and future investments.
- Potential competition from large players.

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SynBiotic is a research client of Edison Investment Research Limited

Company description: A synergistic and diversified cannabis platform

SynBiotic was established to take advantage of the growing consumer acceptance of cannabinoids and industrial hemp across a range of applications, including healthcare (pain, sleep and anxiety solutions), nutrition, cosmetics and animal food supplements. The company's strategy is to build a platform that encompasses the cannabinoid ecosystem, from research through to production and distribution, spanning the entire value chain. This should enable SynBiotic to operate more efficiently and to effectively navigate any legislative restrictions.

Current laws in Germany allow producers to import cannabis for medicinal purposes, but not for recreational use. On 1 April 2024, recreational cannabis was partially legalised in Germany, a significant step for SynBiotic and the broader European cannabis market. The company's approach means it is well-positioned to take advantage of this growing market, having built out the infrastructure to address the recreational as well as the medicinal cannabis markets, compared to competitors, which have focused on specific verticals within the value chain.

SynBiotic has sought to diversify its revenues in recent years through its investments, having previously been heavily reliant on the distribution segment. Revenues for FY23 were €3.9m (FY22: €8.2m), significantly lower year-on-year due to the weaker consumer backdrop in Europe. Germany is SynBiotic's largest geographic market, representing 60% of revenues, with the remaining 40% attributable to other European markets. Management is targeting total revenues of €16.7m in FY24, growing to €26.2m in FY25 and €33.6m in FY26, as it expects a surge in demand following the change in German regulation coupled with a maturing of the industry. Broadly, management expects its revenues to be split between industrial hemp, 40%; medical cannabis, 45%; and recreational cannabis, 15%.

Cannabinoids, of which the two main ones are delta-9-tetrahydrocannabinol (THC) and cannabidiol (CBD), constitute more than 120 natural active ingredients of the hemp plant (*cannabis sativa*). These chemical compounds can have a positive medical or cosmetic effect by interacting with specific receptors within the central nervous system. By influencing how cells communicate, cannabinoids regulate numerous activities, including mood, sleep, memory and appetite.

History

SynBiotic was known as LedgeTech until April 2020 when it was renamed in keeping with the realignment of its strategy. Significant events as SynBiotic has built up its platform include:

- Its first acquisition, in June 2020, was of SOLIDMIND Group, a nutrition wellbeing business. Its managing director, Lars Müller, became CEO of SynBiotic in November 2020. The consideration was €25m for 72.5% of SOLIDMIND Group.
- This was followed by the takeover of the BioCBD e-commerce activity of Umtr Group (organic CBD and hemp products) in September 2020.
- In November 2020, SynBiotic proposed the acquisition of Lean Labs Pharma (CBD production), owned by Lars Müller. The acquisition was paid for in shares (440,000 shares) and a capital increase occurred in December 2020 to facilitate the implementation of SynBiotic's strategy.
- In March 2021, SynBiotic announced a further acquisition and another capital increase: it acquired a 25.01% stake in The Hempany, a food company that markets hemp milk and other natural hemp-based beverages, for a consideration of €550,000.
- In April 2021, SynBiotic announced an in-kind capital increase for the takeover of Lean Labs and the remaining share of Solidmind Group. It also announced the investment in NeuroTherYX (an R&D-driven company), rapidly followed in May 2021 by the acquisition of GECA Pharma (which traded in pharmaceutical, cannabis-containing medicines).

- In November 2021, SynBiotic acquired 50.1% of the shares of Hanf Farm (organic hemp cultivation), Hemp Factory (hemp food production), Hempro International (a hemp food distributor) and MH medical hemp (CBD expertise and wholesaler). This group of companies belonged to hemp and cannabis industry pioneer Daniel Kruse and the takeover was again funded by a capital increase.
- Further capital increases were announced in September and October 2022, with the stated objective of further expanding the existing business and continuing to pursue the buy-and-build strategy.
- In May 2023 SynBiotic successfully raised €1.0m through the issue of 158,479 new shares in a private placement, at a price of €6.31 per share. In addition, a convertible bond of up to €1.5m was issued.
- SynBiotic made a significant management change in August 2023 and appointed Daniel Kruse as group CEO, replacing Lars Müller.
- In January 2024, SynBiotic acquired 51% of Bushdoctor, an Austrian-based wholesaler and retailer of cannabis seeds, grow equipment and hemp products. The company raised a further €2.8m through a convertible bond issue at a price of €8.40 per share, the proceeds from which are to be used to fund the purchase of property for its industrial hemp cultivation and production business.
- SynBiotic announced in April 2024 that it had acquired Ilesol Pharmaceuticals, a Croatian-based industrial manufacturer of cannabinoid extracts and CBD, paid for in shares (260k new shares), which valued the company at €2.6m.
- Most recently, SynBiotic expanded its medicinal cannabis capabilities through the acquisition of WEECO Pharma, a German importer and wholesale platform that connects medicinal cannabis producers. The transaction valued WEECO at €12.2m, with SynBiotic acquiring 100% of the shares and announcing a capital increase in kind of €1.2m to part-fund the acquisition.

Exhibit 1: SynBiotic's acquisitions

Company Name	Date of acquisition	Ownership
SOLIDMIND Group	30/06/2020	100.0%
Cannexo	24/11/2020	100.0%
Lean Labs Pharma	31/05/2021	100.0%
HANF FARM	30/11/2021	50.1%
Hemp Factory	30/11/2021	50.1%
Hempro International	30/11/2021	50.1%
MH medical hemp	30/11/2021	50.1%
SynBiotic Distribution	01/02/2022	100.0%
Canna Abgabestellen Franchise	15/06/2022	50.0%
HANF FARM Landwirtschaft	24/11/2023	100.0%
Bushdoctor	29/12/2023	51.0%
Ilesol Pharmaceuticals	19/04/2024	100.0%
WEECO Pharma	07/05/2024	100.0%

Source: SynBiotic

Strategy

Exhibit 2: SynBiotic segments and company portfolio

	Industrial hemp	Medical cannabis	Recreational cannabis
Cultivation		Import partnerships in the Netherlands, Denmark, Spain and Canada	
R&D / Production			
Sales & Distribution			

Source: SynBiotic

SynBiotic is looking to become a leading platform in the cannabinoids industry through targeted acquisitions of companies that together span the value chain of the industrial hemp and cannabis sectors. Across its three categories (industrial hemp, medical cannabis and recreational cannabis), SynBiotic has built a portfolio of companies that extends from cultivation and R&D/production to sales and distribution. Below we outline the group structure across its segments.

The aim is to build a strong European group of companies with experienced and promising businesses in order to cover the relevant growth markets and at the same time minimise risks for investors through diversification.

- **Cultivation:** SynBiotic has invested in companies that cultivate and grow cannabis and hemp, to cover the full value chain of the cannabis plant:
 - **Hanf Farm** (50.1% owned) is an agricultural company that focuses on the cultivation of hemp in the Müritz Lake District region in Germany. It produces raw materials such as organic hemp seed and leaves and hemp oil, among others. It also provides agricultural services for hemp such as harvesting, drying, cleaning and processing.
- **R&D and production:** SynBiotic has invested in companies with research facilities to grow its brand recognition in the industry and to develop research-led medical and direct to consumer (DTC) products:
 - **Lean Labs Pharma** (100% owned): operating in Düsseldorf, Germany, the company specialises in the extraction and processing of hemp for the production of high-quality, cannabinoid-rich products.
 - **Hemp Factory** (50.1% owned): a company specialising in the production of hemp food raw materials. In addition to the germ reduction, cleaning, hulling and roasting of hemp seeds, the range of services includes the production of hemp oil, hemp flour, hemp protein powder and hemp fibre. Customers include food and baked goods manufacturers. The company also produces animal feed. Due to the high production standards, Hemp Factory's products have the 'made in Germany' quality label.
 - **Ilesol Pharmaceuticals** (100% owned): based in Varaždin, Croatia, Ilesol is a manufacturer of cannabinoid extracts and isolates, as well as customised food supplements, botanical extracts and functional mushrooms. The company owns a 3,400sqm facility, which will allow SynBiotic to produce CBD isolates with a 'made in EU'

label, which is important for complying with changes in EU regulation. Ilesol also produces and distributes its own CBD cosmetics line, Skin Greens. The acquisition will enable SynBiotic to respond quickly to changes in EU law regarding CBD being considered a novel food.

- **Sales and distribution:** SynBiotic buys and builds strong medical and DTC brands to enhance distribution to customers. Within this segment, SynBiotic is focused on the medicinal cannabis market, due to it being a more regulated and fast growing segment. Other rapidly evolving areas, including hemp and recreational cannabis, are monitored so SynBiotic can capitalise as and when required.
 - **Solidmind Group** (100% owned from March 2021): development and distribution of nutritional supplements. The company's most important brand is Hempamed, a CBD-based food, cosmetic and wellness brand. Hempamed is one of the top three CBD brands in Germany with over €7m in online revenue in 2020, according to management. Hempamed's leading affiliate programme in Germany attracts around 200 new and unique customers a day with 60% repeat business in 2023, and the product receives consistently good reviews (4.9 out of five stars on www.trustedshops.de, for example). After extraction through a CO₂ process, Hempamed oils are gently filtered to keep as close to the original plant structure as possible.
 - **Hempro International** (50.1% holding): a company specialising in hemp food distribution as a producer, wholesaler and retailer of raw materials as well as finished products. In August management noted that sales in 2024 to date compared to the same period in 2023 had risen by 50% due to growing awareness among consumers about cannabis products.
 - **MH medical hemp** (50.1% holding) has CBD expertise and is a wholesaler with THC and BtM approval. It produces and sells medicinal and pharmaceutical cannabis products. Sales in 2024 to date compared to the same period in 2023 had risen by 50%.
 - **Bushdoctor** (51% holding) is a hemp and cannabis product DTC platform with both an online and in-person retail presence. Management is refocusing the business by closing some of the smaller stores in Austria and growing the online platform. The group is considering opening retail stores in Germany. Bushdoctor offers cannabis accessories and products across the spectrum, from seeds and hemp plants to CBD products and smoking accessories.
 - **WEECO Pharma** (100%) is SynBiotic's most recent acquisition, valued in May 2024 at €12.2m. The company is a platform that connects cannabis EU-GMP approved producers through its position as an importer and wholesaler in medicinal cannabis. At the time of acquisition management noted that WEECO was expected to generate sales of c €5m, bringing the total expected revenues for SynBiotic close to €17m for FY24. Management noted in August that the removal of cannabis from the German Narcotics Act helped to grow WEECO sales by over 300% year-on-year in Q224.

Market overview

In recent years there have been a number of positive developments in the recreational and medicinal cannabis markets, both globally and within SynBiotic's main market of Germany. Despite cannabis being used for various medical purposes for thousands of years (and having a safety profile that is superior to alcohol in many respects), there are surprisingly few therapeutics containing cannabis that have been approved by major regulatory authorities.

GW Pharma's Epidiolex, for the treatment of certain rare epilepsies, was a game-changer as the first FDA-approved cannabinoid drug. It was launched at the end of 2018 and soon after the World Health Organization called for the reclassification of cannabis and its derivatives to facilitate trade for medicinal and scientific purposes, suggesting that CBD with THC of 2% or less should not be subject to international controls. Within Germany, the use of medical cannabis has been legal since

2017 following the passing of the Medicinal Cannabis Act. Regulation in 2023 made the process of obtaining a prescription for medicinal cannabis more accessible for patients and health insurance providers, for which the guidance has been clarified. Germany is now one of the only countries where medical cannabis treatment is covered under a public health insurance system.

In December 2020, the United Nations Commission for Narcotic Drugs, the UN's central drug policy-making body, voted to remove cannabis for medicinal purposes from a category of the world's most dangerous drugs (Schedule IV of the 1961 Single Convention on Narcotic Drugs) to which the strictest control measures apply. This classification had generally discouraged cannabis use for medical purposes. Following a vote of 27 in favour (including the US and European nations), 25 against (including China and Russia) and one abstention, UN News stated that the commission 'has opened the door to recognising the medicinal and therapeutic potential of the drug, although its use for non-medical and non-scientific purposes will continue to remain illegal'. Although governments retain jurisdiction over the classification of cannabis, the decision signalled the intent to loosen international controls.

While the use of recreational cannabis is illegal in most countries, the German government passed partial legalisation in February 2024 permitting regional pilot projects that allow for the production and sale of cannabis in designated areas. There were 407 votes in favour, 226 rejections and four abstentions. Under the new law, from 1 April 2024 over-18s can possess 25g of cannabis in public and 50g in private, and up to three cannabis plants can be grown per person. However, the use of cannabis is restricted in designated public places, such as within sight of schools, sports centres and pedestrian zones, between 7am and 8pm. From 1 July 2024, designated cannabis clubs can be formed with up to 500 members, who are allowed to grow cannabis and distribute it to their members on a not-for-profit basis. The clubs are limited to dispense a maximum of 50g of cannabis per person per month. Members of the clubs must be residents of Germany (membership is not available to tourists) and membership is heavily regulated. Certain SynBiotic businesses, such as Bushdoctor and WEECO, are already benefiting from the new legislation, with increased demand.

While these changes represent a significant shift in legislature, the legalisation of commercial supply of cannabis is yet to be decided. Currently, as the recreational cannabis market is not-for-profit, supply can only come from home cultivation or through the cannabis clubs. The outcome of the regional trials may influence broader cannabis policies within Germany, which may pave the way for legalisation and guidance on the supply of recreational cannabis.

In the US, the largest market for cannabis use, laws on recreational use are being relaxed. Already, 24 states and the District of Columbia have legalised the use of recreational cannabis, while 38 states have legalised the use of cannabis for medicinal purposes. In May 2024, the US Department of Justice reclassified cannabis from a Schedule I controlled substance, a classification that includes addictive drugs such as heroin, to Schedule III, which classes it as a moderate or low-risk dependency drug. The move not only signals a change in attitudes towards recreational use, but could potentially enable greater clinical research and opportunities for pharmaceutical companies to submit new drug applications with cannabis-based products. Although SynBiotic does not operate in the US, it is nonetheless a key global market for cannabis and hemp products and could facilitate regulatory change in other markets.

Key current and prospective market applications for SynBiotic

The hemp and cannabis market can be divided into three distinct segments: medical cannabis, recreational cannabis (currently illegal in most jurisdictions) and industrial hemp. SynBiotic believes it is well-positioned in all three of these markets, with products illustrated in Exhibit 3.

Exhibit 3: SynBiotic products



Source: SynBiotic

Medical cannabis

Medical cannabis refers to herbal or plant-derived cannabis products that are prescribed by a medical professional. Products are available as herbal materials, oils, tinctures, food or capsules, and SynBiotic is working to expand this list.

After epilepsy, pain is probably the area with the highest quantity of evidence associated with the efficacy of cannabinoids, and is a large market. According to the Centers for Disease Control and Prevention (CDC), 20% of adults in the US (c 50 million) have chronic pain. In Europe, the prevalence of moderate to severe pain in the adult population is estimated to be similarly high at 19% (c 80 million). Research into the benefits of CBD products for the treatment of chronic pain is, however, relatively mixed. For example, a [recent study](#) in *The Journal of Pain* from researchers at the University of Bath, University of Oxford and University of Alberta, Canada, questioned the effectiveness of CBD in pain relief. Other substantial markets are sleep disorders and anxiety. The CDC estimates that between 50 million and 70 million people in the US suffer from chronic or ongoing sleep disorders, while the World Health Organization estimates nearly 301 million people suffer from anxiety.

The legalisation of medical cannabis is advanced across Europe with medical professionals being able to offer cannabis-containing medicines to patients with a serious illness since 2017. Doctors still tend to prescribe cannabis only when other therapies are ineffective, as very few cannabis products have been approved for pain; however, acceptance of medicinal cannabis is increasing steadily. Over-the-counter (OTC) medicinal cannabis (containing THC) is currently only legal in a few EU countries. Germany, however, has been relatively progressive in this field, with an estimated 200k active medical cannabis patients in April 2024. Following the partial legalisation in April, medicinal cannabis has been removed from the German Narcotics Act, resulting in less red tape to facilitate more prescriptions of medicinal cannabis. The number of medical cannabis patients in Germany is expected to grow to 311k (source: Statista) by 2027, while the total medical

cannabis market in Europe is expected to grow from US\$745m in FY23 to US\$2.25bn in FY27 (source: Statista).

The recent changes to legislation could also boost domestic German medicinal cannabis production. The previous tender process has been removed and domestic cannabis producers with a valid permit from the Bundesinstitut für Arzneimittel und Medizinprodukte (BfArM), Germany's Federal Institute for Drugs and Medical Devices, are no longer limited in the amount of cannabis they can cultivate.

Recreational cannabis

SynBiotic is poised to take advantage of the changes in the regulation of recreational cannabis in Germany, having successfully built out a portfolio of companies that operate within the recreational cannabis value chain. A recent YouGov poll showed that 7% of adults had bought cannabis seeds for private home cultivation, with a further 11% planning on doing so in the future. That said, illicit cannabis sales within Germany remain large, with Statista estimating that the market will grow to \$16.6bn by 2025 given that the commercial sale of cannabis continues to be banned. The legalisation of the commercial sale of cannabis is likely to be a slower process compared to the pilot projects that have been put in place, particularly as cities and regions decide whether they would like to participate in the pilots. Although non-profit cannabis clubs are legal nationwide, owing to bureaucracy, many clubs have reported delays in obtaining licences and have found it difficult to comply with the current regulations. There are other legal considerations at both the state and broader EU level that may slow the process to full legalisation of the sale of recreational cannabis. Consequently, SynBiotic has sought to diversify its strategy to cover the wider CBD space with industrial hemp.

Industrial hemp

SynBiotic believes the opportunity within the industrial hemp category is large, estimating global revenues will triple from \$5.5bn in 2023 to c \$17bn by 2030. Industrial hemp has a broad range of uses, including wellness and food, cosmetics, food supplements, animal foods, textiles and plastics among the many categories for finished products. Management believes that key milestones for the industry within the German context are the clarification of whether CBD and extracts are a novel food, destigmatisation and continued R&D into the segment to find new use cases. We profile a few of these industries below to show the potential opportunities for SynBiotic.

Wellness and food

Many European countries do not allow the sale of CBD-containing food, citing insufficient data on the effects of CBD products on the body. However, the UK's Food Standard Agency recently granted its first positive safety assessment to a CBD product intended for use as a novel food supplement. Within Germany, applications for the approval of CBD-containing products are ongoing, however SynBiotic expects a favourable decision to be made by mid-2025.

Food supplements

SynBiotic is active in the CBD-based dietary supplements market, which has grown steadily in recent years. SynBiotic's Hempamed brand is present in hemp oils, with products aimed at different areas such as improved sleep, stress reduction and muscle regeneration.

Animal food supplements

According to Statista, the European pet food market is expected to reach \$42.8bn in 2024, with CBD products accounting for a tiny proportion of this at an estimated \$142.4m (source: Statista). Although this clearly is limited in comparison with the broader CBD market, it represents a rapidly growing segment of the market. Another use case is for hemp protein in industrial animal feed, which would represent a significant market opportunity for SynBiotic. At present there are regulatory

concerns regarding the transfer of THC from animals to humans. However, benefits seen in trials relating to animal health, meat quality and lower methane production may encourage regulatory change.

Competition

There remains a lack of participation within the cannabis market from the large biotechnology and pharmaceutical companies due to the complex intellectual property landscape. Although the clinical trial process for developing an FDA-approved cannabinoid product is no shorter than usual, the exclusivity can be short if the product is a reformulation of THC or CBD. In the US, Hatch-Waxman exclusivity for a product that is not a new chemical entity is only three years, compared to five for a new chemical entity. Patents in this area tend to be particularly narrow owing to the high level of prior art affecting the patentability of THC and CBD formulations. Any granted patents will likely be challenged once exclusivity expires.

Within Europe there are very few cannabis competitors, with many companies focusing on a specific vertical such as medicinal cannabis or retail. SynBiotic believes it has a competitive edge due to its vertically integrated approach, which spans cultivation of cannabis through to production and distribution, bringing advantageous synergies. Direct competitors tend to be smaller-scale, privately owned companies.

Management, organisation and corporate governance

German corporation law requires all public companies to have two boards: a management board and a supervisory board. The supervisory board oversees and appoints the members of the management board and must approve major business decisions. This independent, non-executive panel has the duty to hold management accountable and protect the interests of shareholders.

In addition to the expertise of its three-person supervisory board, chaired by Oliver Conrad (managing partner at AHW Hunold & Partner), SynBiotic's sole member of the management board, CEO Daniel Kruse, is backed by the highly experienced operational management of its portfolio companies.

In November 2022, SynBiotic announced the creation of an advisory board, having secured Bruce Linton as its chairman. Linton is the founder and former chairman and CEO of Canopy Growth Corporation, and is one of the most experienced and most successful cannabis entrepreneurs and investors globally. The other member of the advisory board is Dr Thomas Haffner, who has over 25 years of experience in the pharmaceutical industry, with expertise in the conception and marketing of OTC drugs.

We profile the key members of the executive team, management board and supervisory board:

- **Daniel Kruse (CEO)** is a pioneer in the hemp and cannabis industry with nearly 30 years' experience in the space. He is the founder of Hempro International, Hemp Factory, MH medical hemp, Hanf Farm and HempConsult. He has been a board member of the European Industrial Hemp Association since 2013 and was elected its president in 2019. He also serves as the vice-chairman of the Federation of International Hemp Organisations.
- **Oliver Conrad (chairman of the supervisory board)** has been a managing partner at AHW Hunold & Partner since 2023 and is a specialist in accounting, due diligence and audit. He is a member of the Institut der Wirtschaftsprüfer, the Chamber of Auditors and the Chamber of Tax Advisors NRW.
- **Rainer Seiler (member of the supervisory board)** is a healthcare market consultant and entrepreneur with 20 years of leadership experience in a number of sectors including pharmaceuticals, e-commerce and wholesale.

- **Frank Otto** sits on the supervisory board. He is a serial entrepreneur and a major shareholder in SynBiotic through CannaCare Health. He has co-founded a number of companies in the healthcare market.

Financials

The financial figures for FY23 showed a significant decline in revenues, largely reflecting the weaker consumer environment in Europe following the war in Ukraine and subsequent squeeze on household budgets. Management believes this has led to alternative food and wellness, cosmetic and novel medicine products being pushed to the background of consumers' minds. Regarding profitability, margins improved slightly in the year to negative 304% (FY22: negative 317%), as management reduced headcount from an average of 104 in FY22 to 55 in FY23. We have used management's guidance in Exhibit 4 to indicate the expected headline figures. Management expects revenue in FY24 to show extremely strong growth to €16.7m following the changes to German cannabis laws. Consolidated EBIT is expected to improve to a negative margin of 12% in FY24, with management expecting the group to deliver its first period of EBIT profitability in H224 due to its exposure to the rapidly growing industrial hemp and medical cannabis sectors. Management anticipates delivering revenue of €26.2m in FY25 and €33.6m in FY26, at EBIT margins of 6% and 11%, respectively.

Exhibit 4: Key financial metrics (€000s)

Period to 31 December	FY22	FY23	FY24e*	FY25e*	FY26e*
Revenue	8,166	3,861	16,663	26,183	33,612
EBIT	(25,923)	(11,747)	(2,063)	1,684	3,544
PBT	(26,186)	(11,871)	(1,887)	1,751	3,526
EPS (€)	(5.97)	(2.24)	(0.36)	0.30	0.63
Cash flow from operations	(6,996)	(2,924)			
Cash flow from investing	(68)	(733)			
Cash flow from financing	4,828	2,780			
Cash and cash equivalents at start of the year	3,202	967			
Cash and cash equivalents at end of the year	967	90			

Source: SynBiotic. Note: *Company guidance.

Given the end FY23 cash position of €90k, it is within reason to expect SynBiotic to have to raise additional funds, either equity or debt, for it to continue its buy-and-build strategy. The company will also likely continue its strategy of acquiring businesses through the issuance of additional shares, which may further dilute existing shareholders. Given management's expected improvement in profitability in the outer years, it may be the case that the company will fund future acquisitions through its existing cash or equivalent resources.

Valuation

At present there are no consensus forecasts for SynBiotic on LSEG Data & Analytics (formerly Refinitiv) and as such we use management's guidance to compare the company to peers. We look at the valuation on a market capitalisation multiple of FY24 company guided sales of €16.7m, which excludes projected intercompany sales of €1.6m. The company's guidance is heavily second-half weighted, although this is to be expected following the change in regulation at the end of Q224. On an EV/sales multiple SynBiotic is trading at a substantial premium to its peers, likely reflecting the more favourable cannabis environment in Germany.

Exhibit 5: Peer comparison of market cap/CY24e revenue

	Share price	Market cap	EV	FY24e revenue	EV/sales
		(m)	(m)	(m)	(x)
Aurora Cannabis	C\$7.87	C\$429	C\$457	C\$297.1	1.5
Cronos Group	C\$2.96	C\$1,132	C\$(17)	C\$106.9	(0.2)
Canopy Growth Corp	C\$6.51	C\$726	C\$1,154	C\$297.7	3.9
Leafly Holdings	US\$1.80	US\$5	US\$21	US\$34.3	0.6
Tilray Brands	US\$1.74	US\$1,467	US\$1,573	US\$859.8	1.8
SNDL	US\$2.07	US\$549	US\$705	US\$917.4	0.8
Peer group average					1.4
SynBiotic SE	€6.10	€31	€35	€16.7	2.1
Premium/(discount)					49.6%

Source: Company guidance, LSEG Data & Analytics (priced at 16 September 2024)

SynBiotic's share price has outperformed the peer group in the year to date, with a return of 105.4%, largely due to the favourable regulatory changes in Germany. SNDL has also seen a positive return of 26.2% due to more positive trading and the well-received acquisition of Canadian cannabis company Indiva. More broadly, investors have been more positive regarding cannabis stocks, owing to the US Drug Enforcement Administration's proposed decision to reclassify cannabis to a Schedule III drug in May 2024, as well as the sentiment among investors that US interest rates have peaked.

Sensitivities

- There is a risk that regulatory requirements will not be met. Apart from a current strict framework, the constant change in the regulatory environment for CBD and the sometimes unclear boundaries between pharmaceutical products, food and prohibited narcotics can make compliance difficult. For example, if SynBiotic produces and/or distributes food from products containing hemp, it must ensure that it is not a 'new' food in the sense of novel food regulation. If SynBiotic products are classified as medicinal products, they are subject to pharmaceutical approval and distribution rules. The approval process can be lengthy and varies from country to country. In addition, the legal framework for narcotics must be observed.
- There is risk of significant changes in the legal framework, which is increased by SynBiotic's international exposure. For example, a tightening of the UK Medicines Act or of EU legislation around narcotics drugs, or its interpretation by courts, could be highly detrimental to sales of SynBiotic products, as could a tightening of the criminal code (ie driving a motor vehicle under the influence of narcotics). Similarly, the legalisation process in Germany is subject to political agreement and there is a risk the process could be affected by political interference. In Germany, the partial legalisation of cannabis is being run through pilot trials, which does not guarantee full legalisation. Furthermore, administrators within more conservative states in Germany, including Bavaria, have already said they will reject notions to legalise cannabis at the national level.
- There is execution risk in terms of expansion, which is at the heart of the SynBiotic investment case. Planned growth is dependent on the availability of and access to profitable investments at attractive prices. The integration and management of acquisitions may not be successful. Shares may be issued for acquisitions, thereby diluting existing shareholders.
- The German market is exposed to intense global competition, which are able to produce cannabis at a lower cost. Consequently, the German cannabis market is, and will remain for the foreseeable future, an import market.
- Because of its international activities, SynBiotic is affected by economic risks in numerous countries.
- Retention of key personnel is a risk, as SynBiotic's business relies on the know-how of a relatively small number of people, notably Daniel Kruse (CEO of SynBiotic) and a highly experience management team. We note, however, that management undertook cost-cutting in FY23 in response to weaker trading, reducing the headcount from 104 in FY22 to 55.

- While the proceeds from capital increases are intended to be used to expand the investment portfolios, there is always the risk of overpaying for acquisitions.

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