

SynBiotic

Consumer

9 May 2023

Building the platform

SynBiotic’s management has created a platform that spans the value chain in the cannabis and cannabinoid space, from cultivation and labs to distribution. SynBiotic’s business creates and markets cannabis and cannabinoid products, which have both medical and consumer applications, with management constantly looking to add to its portfolio. We believe SynBiotic is well-placed to benefit from any relaxation in legislation around cannabis and cannabinoid products in Germany, as per the published government white paper ([Eckpunktepapier](#)), as it already operates across the cannabis value chain and has expertise in the field.

European leader in the cannabinoid space

SynBiotic’s buy-and-build strategy has allowed it to create a platform that encompasses all value drivers in the cannabinoid space, from research to production to distribution. Its strategy is to buy and build strong medical and direct to consumer (DTC) brands, which enable the company to distribute its innovative products to its customers.

Well-placed to take advantage of legalisation

The German government has published a white paper that paves the way for the legislation to change to allow cultivation and distribution of cannabis in Germany. In addition, there have been positive developments in terms of the legalisation of cannabis for recreational use, which formed part of the winning party’s manifesto pledge. As one of the largest players in the German cannabis space, and with its expertise across the cannabis value chain, SynBiotic is well-positioned to take advantage of any relaxation in cannabis and cannabinoid legislation.

Valuation: Trading at a discount to peers

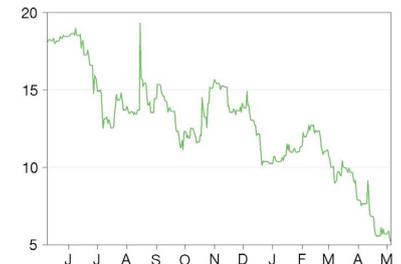
SynBiotic continues to rely on M&A to build its business platform. Due to the company being relatively new and being exposed to a market with substantial and volatile regulatory risk, management has prudently chosen to shy away from giving precise financial guidance. That said, the market opportunity for SynBiotic remains clear, particularly in Germany given recent announcements around legalisation. Despite the disappointing share price performance witnessed by a number of competitors, SynBiotic shares are trading at a discount to the peer group of cannabinoid companies, based on market cap/sales and consensus 2022 forecasts.

Key financial figures (€000s)	
Year-end 31 December	2021
Revenue	8,649
EBIT	(11,495)
PBT	(13,359)

Source: SynBiotic

Price €5.18
Market cap €19m

Share price graph



Share details

Code	SBXn.DE
Listing	Xetra
Shares in issue	4.5m
Last reported net cash at 31 Dec 2021	€3.2m

Business description

SynBiotic is an investment vehicle that pursues an EU-focused buy-and-build approach. The group of companies covers the entire supply chain, from cultivation to production to retail. 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.

Bull

- Huge worldwide market for cannabinoid products in multiple applications, with many legislators looking at relaxing rules, viz Germany.
- Planned investment to cover entire value chain and legal de-risking by diversifying from hemp in terms of cannabinoids and plants.
- Strong leadership team and portfolio managers.

Bear

- Strict and constantly changing regulatory requirements for CBDs internationally.
- Execution risk in terms of planned expansion.
- Potential competition from larger players.

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Company description: Building a cannabis platform

SynBiotic was established to take advantage of growing consumer acceptance of cannabinoids 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, so that it can span the entire value chain. This should enable it to operate more efficiently and effectively navigate any legislative restrictions. For example, current proposals in Germany would only allow producers to import cannabis for medical purposes, but not for recreational use, thus implying that the full value chain is required to be in Germany in the recreational cannabis segment. SynBiotic's approach means that the infrastructure is already mostly in place for it to take full advantage once recreational cannabis is legalised, while a number of its competitors are only focusing on discrete parts of the value chain.

SynBiotic's current operations encompass the entire value chain, though revenues are mainly in the distribution part of the business. Pro forma revenues were €15m in FY21 (€8.6m reported revenue, with pro forma figures assuming all acquisitions were owned for the full year), consensus expectations are €20m for FY22 (full year results are due in May 2023) and management's goal is to grow to €46m of revenue in FY23. Germany represents SynBiotic's biggest market, with 92% of company revenue coming from the country during 2021, but it also sells in other European markets, with Austria the next biggest country, representing 4% of revenue in 2021.

Cannabinoids, of which the two main ones are delta-9-tetrahydrocannabinol (THC) and cannabidiol (CBD), constitute the 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 between brain and body, cannabinoids regulate numerous activities, including mood, sleep, memory and appetite.

SynBiotic was known as LedgeTech until April 2020 when it was renamed in keeping with the realignment of its strategy. Its first acquisition in June 2020 was that of Solidmind Group, a nutrition wellbeing business; its managing director, Lars Müller, became managing director and then CEO of SynBiotic in November 2020. The consideration was €25m, and while initially part of the payment was agreed in cash, Solidmind shareholders received the entire consideration in SynBiotic shares. The acquisition of 72.5% of Solidmind Group 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 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 Nutrition. 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 with THC and BtM approval). This group of companies belonged to hemp industry pioneer Daniel Kruse, and the takeover was once 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 also continuing to pursue the buy-and-build strategy (see the Financials section for full details). In

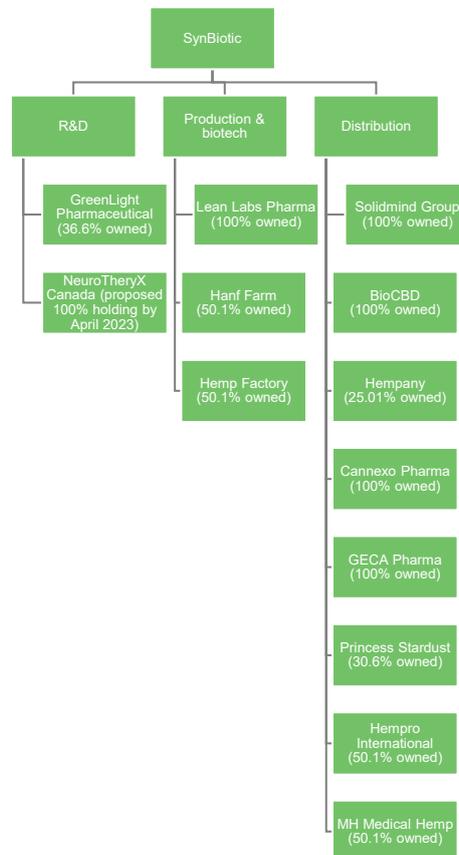
February 2023, the intention to carry out a further capital increase (expected to be in May) was announced, though in April the board decided not to carry out a rights issue but instead issued up to 158,479 shares in a private placement, at a price of €6.31. In addition, a convertible bond of up to €1.5m will be issued and offered in a private placement, with a minimum subscription amount of €100,000. Once again, the capital raised will be used to finance further growth.

Strategy

SynBiotic aims to become a leading platform company in the cannabinoids industry by acquiring majority stakes in medical and DTC companies across the value chain of the cannabis plant. This extends from research into synthetic production, to the development and distribution of innovative drugs and non-prescription wellbeing products based on cannabinoids.

We illustrate SynBiotic's current investments below.

Exhibit 1: SynBiotic's current investments



Source: Edison Investment Research, company data

- **Research and development:** SynBiotic has invested in companies with research facilities to help grow its brand recognition in the industry via published studies and to create new medical and DTC products for commercialisation through the group's production companies. Minority shares are taken in these investments to ensure preferential access to the technology.
 - **GreenLight Pharmaceutical** (36.6% owned) has eight therapeutic R&D programmes based at four universities in Ireland and the United Kingdom. Its plant-based medicines target three disease areas: cancers, including prostate, ovarian and breast; neurological conditions, including epilepsy, Alzheimer's disease and addiction; and inflammatory or immune-related conditions, including arthritis and arthritis-related depression, eye disease and diabetes.
 - **New venture (under negotiation):** a company focusing on using alternative plants with cannabinoids.

- **NeuroTheryX Canada** (proposed 100% holding by April 2023 as SynBiotic currently holds a convertible bond): a proven active ingredient research platform. It has a drug research platform and has close cooperation with academic institutions and pharmaceutical companies. It has a robust pipeline of therapeutic products, especially in the cannabinoid space.
- **Production and biotech:** research-led products. SynBiotic's aim is to take majority holdings in investments, which include:
 - **Lean Labs Pharma** (100% owned): a CBD production company based in southern Germany.
 - **Hanf Farm** (50.1% owned): organic hemp cultivation.
 - **Hemp Factory** (50.1% owned): a company specialising in hemp food production.
- **Distribution:** buy and build strong medical and DTC brands to enhance distribution to customers. For the DTC market, the focus is on the fastest-growing segments in the cannabinoid industry: supplements, cosmetics and pet health. SynBiotic targets holdings of over 50%.
 - **Solidmind Group** (100% owned from March 2021): development and distribution of nutritional supplements. The company's most important product is Hempamed, a CBD-based oil. 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 30% repeat business, and the product receives consistently good reviews (4.8 out of five stars on www.trustedshops.de, for example). Hempamed contains the full spectrum of natural hemp plant and, according to Solidmind, works better than pure CBD isolate (ie no THC), although no trial results have been published by the company to validate this claim. After extraction through a CO₂ process, Hempamed oils are gently filtered to keep as close to the original plant as possible. The company also sells 'Solidmind sleep', a high-dose mix of minerals, amino acids and vitamins.
 - **Hempamy:** SynBiotic took a stake in The Hempamy in March 2021 (25.01%, as discussed above) and now distributes The Hempamy's hemp milk under the brand 'hemi'. Hemi is organic, low-carb and naturally free of gluten, nuts, soy and lactose, and is low in CO₂ emissions, and will compete in the fast-growing alternative milk market with brands such as OATLY and Alpro.
 - **Cannexo Pharma** (100% holding): product development, sales, marketing and trading for pharmaceutical products, wellness and health products, in particular products in the categories of medicinal cannabis, cannabinoids and hemp products. Cannexo has not yet commenced its operating activities and is effectively a dormant company. In February 2022, SynBiotic took over the remaining 49.996% of Cannexo that it did not own.
 - **GECA Pharma:** in May 2021, SynBiotic took over 100% of GECA Pharma, which had FY20 turnover of c €900,000 from its trade in medicinal cannabis flowers alone. GECA Pharma has all necessary licences (wholesale licence, licence to handle narcotics and licence to trade in medicinal products) in accordance with the relevant regulation. The May 2021 acquisition provided SynBiotic with both expert knowledge in medicinal cannabis and the required licensing.
 - **Princess Stardust:** SynBiotic acquired 30.6% of Princess Stardust's shares in June 2021. The company is based in Berlin and is present in the CBD lifestyle products segment.
 - **Hempro International** (50.1% holding): a company specialising in hemp food distribution as a producer, wholesaler and retailer of raw material as well as finished products.
 - **MH medical hemp** (50.1% holding): CBD expertise and wholesaler with THC and BtM approval. It produces and sells medicinal and pharmaceutical cannabis products.
 - **Snaabt** (100% holding): an e-commerce business that focuses on pet care and animal health.

Market overview

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, with worldwide sales of only c US\$600m in 2020, according to Evaluate Pharma.

GW Pharma's Epidiolex for the treatment of certain rare epilepsies was a game-changer as the first FDA-approved cannabinoid drug in history. 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 2% or less THC should not be subject to international controls.

This led to the United Nations Commission for Narcotic Drugs, the UN's central drug policy-making body, in December 2020 voting 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, which has generally discouraged its use for medical purposes. With a vote of 27 in favour (including the United States and European nations), 25 against (including China and Russia), and one abstention, UN News states 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.

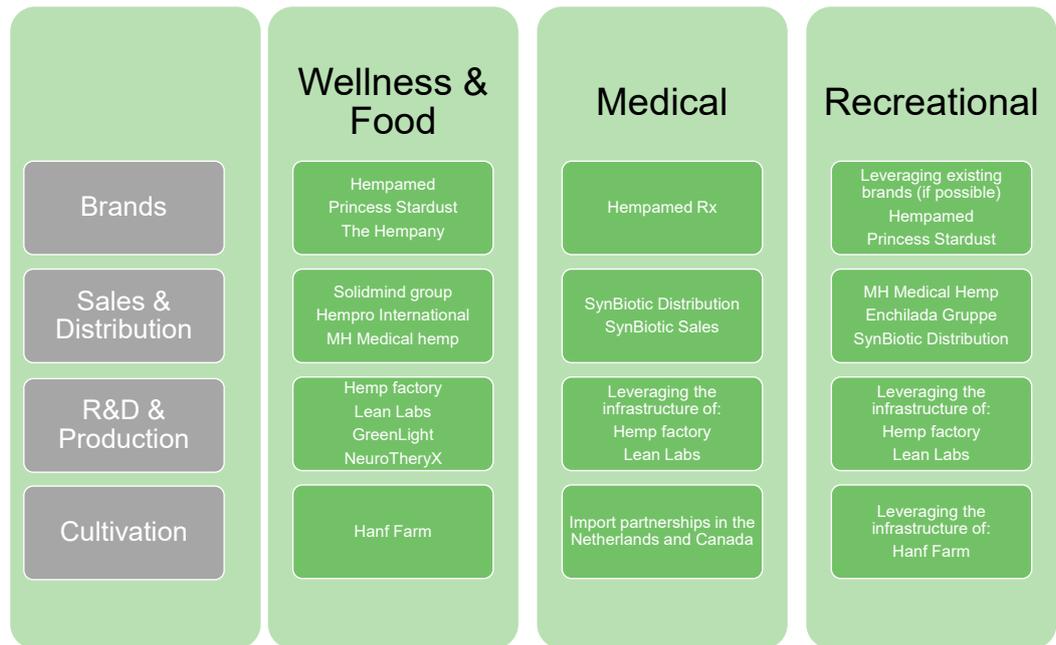
Recreational cannabis is a large and currently mostly illegal market. In Germany, the health minister, Karl Lauterbach, estimated that around four million people had tried cannabis at least once over the last 12 months, and a quarter of all 18- to 24-year olds in the country have used it. SynBiotic estimates the cannabis black market in Germany to be worth €4bn and potentially up to €7bn. In October 2022, the German government published the final draft of a white paper ('Eckpunktepapier'), setting out a path to legalise the purchase and possession of up to 30g of cannabis for recreational use, and to privately grow up to three plants. The paper outlines a plan allowing consumption by adults in public or in private. Advertising cannabis products would continue to be banned. The German government wants to ensure the proposed plan would be compatible with European Union (EU) law, and hence is seeking a review, but assuming the government receives assurances on this matter, a draft law is due to be presented in Q123. SynBiotic management believes the company is well-prepared for any relaxation in legislation surrounding cannabis, with its stake in Hanf Farm, which specialises in the industrial cultivation of hemp. In addition, the joint venture (JV) with Enchilada Group, announced in April 2022, is seeking to position itself as one of the first movers in the new area of stores that sell recreational cannabis. As a reminder, the JV combines SynBiotic's deep knowledge in the cannabis space and Enchilada Group's expertise in the food service and franchise business.

In December 2022, US President Joe Biden signed into law the 'Medical Marijuana and Cannabidiol Research Expansion Act', which is the first standalone cannabis-related bill approved by both chambers of US Congress. The act creates a mechanism for FDA approval of drugs derived from cannabis and protects doctors who may now discuss the harms and benefits of using cannabis and its derivatives.

Key current and prospective market applications for SynBiotic

The cannabis and CBD market can broadly be divided into three distinct segments: medical cannabis, recreational cannabis (currently illegal in most jurisdictions), and the wellness and food (CBD) segment. SynBiotic believes it is well-positioned for all three of these markets, as illustrated in Exhibit 2.

Exhibit 2: SynBiotic's positioning across market segments



Source: SynBiotic

Medical cannabis

SynBiotic is active in this market. Medical cannabis refers to herbal or plant-derived cannabis products that are prescribed by a doctor. Products are available as herbal materials, oils, tinctures, food or capsules.

After epilepsy, pain is probably the area with the highest quantity of evidence associated with the efficacy of cannabinoids and is an enormous market. According to the Centers for Disease Control and Prevention, 20% of adults in the United States (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). Other substantial markets are the relief of sleep-related problems and anxiety. SynBiotic believes the addressable market consists of 150 million people globally with sleep-related problems, 100 million people experiencing pain and 60 million people with anxiety.

The legalisation of medical cannabis is advanced across Europe with doctors since 2017 able to offer cannabis-containing medicines to patients with a serious illness. Doctors still tend to prescribe cannabis preparations only when other therapies are ineffective against pain, as very few cannabis products have been approved for pain; however, acceptance of medicinal cannabis is increasing steadily. Over-the-counter medicinal cannabis (containing THC) is currently only legal in a few EU countries, with Germany seen as the pioneer as it currently has over 100,000 patients and the number continues to grow rapidly. The German medical cannabis market is expected to be worth €0.84bn by 2025. (source: Prohibition Partners, *The European Cannabis Market*, vol. 06)

Recreational cannabis

SynBiotic is well-placed to enter the recreational cannabis market once legalisation takes place. Germany is seen as paving the way towards legalisation of cannabis for recreational use, and other EU countries may follow. As discussed above, SynBiotic estimates the current black market in Germany for recreational cannabis to be worth €4bn a year, and potentially up to €7bn. While initial plans were for recreational cannabis to be available for distribution in shops and pharmacies across Germany, more recent proposals have seen the scope scaled back; under current proposals, adults in Germany will be able to grow and consume recreational cannabis privately or through non-profit members' clubs by the end of the year.

Given the inherent uncertainty in how long the legalisation process will take, SynBiotic is purposefully embracing a broader and more diversified strategy as it awaits legalisation to progress. This includes its expertise in the wider CBD space:

Wellness & Food

The vast majority of European countries allow for the sale of CBD-containing food and wellness products. However, the legalisation of recreational cannabis, as is being proposed in Germany, is likely to boost the wellness and food segment.

Cosmetic products

SynBiotic intends to move into this segment via acquisitions.

Prohibition Partners, a business consultancy for the cannabis industry, estimates the global CBD skin care market at US\$710m in 2018, with projected sales of US\$959m by 2024 (ie CBD cosmetics will represent about 10% of the global skin care market in the next five to 10 years). Touted as the newest super-natural ingredient, CBD is considered to have a wide range of applications in skin, body, makeup and hair care, as well as being a potential alternative to traditional cosmetic ingredients. Starting with oil-based products focused on CBD's anti-inflammatory properties, the growth in CBD products in beauty care has extended to skin creams, lotions, serums, soaps, sun care, hair products and makeup.

According to SynBiotic, CBD can be used in cosmetics in the EU if the products are made from cannabis, cannabis resin, cannabis extracts and cannabis tinctures derived only from the seeds and leaves of the plants. The market is barely established in Germany, though CBD-containing cosmetics can be marketed in most EU countries.

Food supplements

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

Animal food supplements

SynBiotic has recently entered this market, with CBD oils for cats and dogs.

According to FEDIAF (the trade body representing the European pet food industry), Europeans spent €18.5bn in 2019 on pet-related products and services, of which the CBD market represents a very narrow segment. In 2019, less than 0.5% of non-CBD consumers reported buying CBD for a pet (representing only 3% of CBD consumers).

Although limited by comparison with the broader CBD market, according to Frontier Financial Group, the CBD pet products market has significant growth potential.

Competition

A challenging intellectual property landscape explains the lack of involvement in this area by larger biotechnology and pharmaceutical companies. While the clinical trial process in developing an FDA-approved cannabinoid product is no shorter, the period of exclusivity is especially short if the product is simply a reformulation of THC or CBD. Hatch-Waxman exclusivity is only three years for a product that is not 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.

There are a number of small cannabis players. As discussed above, SynBiotic believes it has a competitive advantage with its vertically integrated approach, which spans from cultivation of cannabis through to production and distribution. Its direct competitors tend to be smaller, privately owned companies that only operate in a particular segment of the cannabis space.

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 entrepreneur Sebastian Stietzel, SynBiotic's sole member of the management board, CEO Lars Müller, 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.

Lars Müller combines over 10 years' experience in scaling profitable companies as an entrepreneur with in-depth knowledge of the cannabinoid industry as founder and CEO of Solidmind since 2015, where he built one of the most successful CBD brands in Germany, Hempamed (hemp-based oils) and owner of Lean Labs.

Sebastian Stietzel is a serial entrepreneur. His strength lies in strategy, operations and coaching senior leadership, with particular expertise in post-merger integration and capital market fitness.

Dr Marlon Braumann is a member of the supervisory board. He is also a serial entrepreneur and one of the founding partners of the European VC fund Elevat3 Capital, an investment fund mainly focused on biotech, medtech and fintech investments.

Thomas Hanke is also a member of the supervisory board. He has extensive transaction experience (private equity, venture capital, growth capital and PIPE transactions) and has, in addition to his work as an investor, carried out various operational interim mandates within the scope of portfolio management.

Financials

Full financials for FY21 are unrepresentative of the current business given the numerous acquisitions and market developments. For FY20, there was a pre-tax loss of €859k on revenue of €5.5m, which was already significantly different to the H120 pre-tax loss of €97k on €50k revenue. Pro forma revenue for FY21 was €15m, as per management guidance at the time.

Exhibit 3: Key financial metrics (€000s)

Period to 31 December	FY20	FY21
Revenue	5,446	8,649
Pro forma revenue	9,200	14,700
EBIT	(834)	(11,495)
PBT	(859)	(13,359)
EPS (€)	(0.56)	(4.15)
Cash flow from operations	(1,263)	(5,144)
Cash flow from investing	(1,126)	(3,059)
Cash flow from financing	8,367	5,415
Change in cash and cash equivalents	5,977	(2,788)
Cash and cash equivalents at start of the year	13	5,990
Cash and cash equivalents at end of the year	5,990	3,202

Source: SynBiotic

We believe the €4m (net, combined) capital increases announced in September and October 2022 are a key driver of growth. As was the case with prior capital increases, we expect these to be targeted primarily at acquisitions, though the proceeds are also likely to be used to strengthen R&D and to continue to build the cannabis platform in Germany as the industry moves towards legalisation of recreational cannabis.

On 2 September 2022, SynBiotic announced its intention to increase its share capital by issuing up to 334,000 new shares at a price of €15. Due to market conditions, the price was reduced to €12 on 21 September. On 27 September, SynBiotic announced that it had completed the capital increase and issued 142,261 new shares at a price of €12, thus resulting in gross issue proceeds of €1.7m. On 28 October 2022, the company announced its intention to further increase its share capital by issuing up to 191,739 shares at €13. The latter was successfully completed in full by 31 October. On 28 February 2023, SynBiotic announced its intention to again increase its share capital to finance further growth, and on 21 April 2023 it announced that it would issue up to 158,479 shares in a private placement, at a price of €6.31. In addition, a convertible bond of up to €1.5m will be issued and offered in a private placement, with a minimum subscription amount of €100,000. Once again, the capital raised will be used to finance further growth.

Valuation

In the absence of a trading record for SynBiotic, as now constituted, we look at competitor valuations in terms of market capitalisation to consensus forecast 2022 revenue of €20m. We look at other cannabis companies, though we recognise that SynBiotic is significantly smaller than its competitors, and there is a lack of visibility regarding how the FY23 revenues will be achieved. On that measure, SynBiotic appears cautiously valued. We note that its competitors' share prices and valuations have fallen sharply over the last 12 months. This has been caused by a variety of factors, not least the market's reduced risk appetite in an environment with rising interest rates. In addition, US legislation aimed at decriminalising cannabis and allowing cannabis companies to access capital more easily has suffered various political delays and setbacks, thus frustrating investors.

Exhibit 4: Peer comparison of market cap/CY22e revenue

	Share price	Market cap	2022 revenue	Market cap/revenue
		(m)	(m)	(x)
SynBiotic	€ 4.50	€ 19	€ 20.0	1.0
Cronos Group (CRON.TO)	C\$2.62	C\$998	C\$92.2	10.8
Canopy Growth (WEED.TO)	C\$1.78	C\$912	C\$544.7	1.7
Tilray (TLRY.O)	\$2.78	\$1,718	\$630.1	2.7
SNDL (SNDL.O)	\$1.73	\$451	\$686.4	0.7
Peer group average				4.0

Source: Refinitiv. Note: Prices at 8 May 2023.

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, such as regarding 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 April 2023, Germany's health minister scaled back previous plans for

legalisation, which would have made recreational cannabis distributable in shops and pharmacies.

- 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.
- There is low visibility as to the rate of organic growth and profitability.
- SynBiotic is exposed to input costs, in particular energy costs as cultivation of cannabis requires heat.
- SynBiotic is exposed to intense global competition. In contrast to Germany, the entry threshold for competitors is lower in other countries where cannabinoid-containing products are freely available or subject to few restrictions. Competitors may be superior in terms of financial and human resources.
- 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 just a relatively small number of people, notably Lars Müller (CEO of SynBiotic and MD of Solidmind) and Sebastian Stietzel (chairman of SynBiotic). Growth could be curbed by a failure to retain or attract suitably qualified employees, although we note that the company has grown rapidly, with 103 employees on average in FY21 vs 29 in FY20.
- 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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