

## SynBiotic

**Consumer**
**6 December 2021**

### Further acquisitions

SynBiotic has announced it is acquiring 50.1% of the shares of several market-leading hemp companies, which are part of hemp industry pioneer Daniel Kruse's group of companies. There will be a capital increase in kind to fund these acquisitions and €2m in cash will be contributed to the capital reserves of the companies being acquired. This marks another step in SynBiotic's buy-and-build strategy, whereby management is using its experience in scaling profitable companies to accelerate SynBiotic's strategy to be a leading platform company in the cannabinoid industry.

### Building the platform

The companies being bought are Hanf Farm, Hemp Factory, Hempro International and MH medical hemp. Hanf Farm is the largest organic hemp cultivation firm in Europe, so will contribute to SynBiotic's vertical integration. Hemp Factory is the largest hemp food distributor in Central Europe and owns some brands that are profitable. Hempro International is the largest hemp food producer in Central Europe and MH medical hemp is a company with deep expertise in cannabinoid extraction, production and marketing. It also acts as a wholesaler and has tetrahydrocannabinol (THC) BtM approval (ie a licence to handle narcotics in Germany).

### Capital increase to fund the acquisitions

SynBiotic is again using an in-kind capital increase to fund these acquisitions, a method it has used in the past when it bought out the remainder of SolidMind. SynBiotic will issue 450,900 new shares (vs the current share capital of 3.674m shares), valuing its contribution of shares at €11.27m.

### Valuation: Trading at a discount to CBD peers

Due to the scale and nature of SynBiotic's continuing evolution with reliance on early-stage unlisted investments, financial forecasts cannot be made with any certainty. This is compounded by strict and volatile regulatory risk (substantial 'grey areas'). However, the market opportunity for SynBiotic appears clear. The shares are trading on c 10x management's estimated FY21 sales of €15m, which gives the company little benefit of doubt, even ignoring more established cannabidiol (CBD) peers rated at over 20x revenue. We note SynBiotic recently announced plans to list on the Canadian NEO exchange, which could potentially improve its visibility to cannabis-oriented investors.

#### Historical financials

Year end	Revenue (€m)	PBT (€m)	EPS (c)	DPS (c)	P/E (x)	Yield (%)
12/19	0	(0.013)	(5.4)	0.0	N/A	N/A
12/20	5.446	(0.859)	(56.4)	0.0	N/A	N/A

Source: Company accounts

**Price**
**€34**
**Market cap**
**€125m**

#### Share price graph



#### Share details

Code	SBX
Listing	Xetra
Shares in issue	3.674m
Net cash at 31 December 2020	€5.9m

#### Business description

SynBiotic is an investment vehicle that pursues an EU-focused buy-and-build approach. The core business of the platform company is the R&D of new cannabinoid and terpene-based solutions for the health issues of pain, sleep and anxiety.

#### Bull

- Huge worldwide market for cannabinoid products in multiple applications.
- Planned investment to cover entire value chain and legal de-risking by diversifying from hemp in terms of cannabinoids and plants.
- Experienced 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.

#### Analysts

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## Buy-and-build strategy

SynBiotic is still in its infancy but is slowly building its platform by acquiring new businesses. It successfully integrated its financial driver, SolidMind Group, a leading brand builder in the wellbeing sector. This was complemented by subsequent smaller deals and product launches, demonstrating SynBiotic's strategy to acquire companies in the cannabinoid space and build an EU platform to research, develop and distribute pharmaceutical and dietary supplements and cosmetic products. The latest acquisitions build SynBiotic's competence as a hemp grower and distributor and widen its geographic reach.

## 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 2021 revenue. We look at other cannabis companies, although we recognise SynBiotic is significantly smaller than its competitors and there is a lack of visibility regarding how the forecast revenues will be achieved, although at this late stage in the year we do not foresee material downside risk to guidance. We use management's guidance of €15m of revenues for FY21, which has been reiterated. On this measure SynBiotic appears cautiously valued, notwithstanding in particular the execution risk, as discussed. We note that SynBiotic's share price has increased substantially over the last few months, while its competitors have in some cases experienced a significant reduction in share price.

**Exhibit 1: Peer comparison of market cap/CY21e revenue**

	Share price	Market cap (m)	2021 revenue (m)	Market cap/revenue (x)
<b>SynBiotic</b>	€39.40	€148	€15.0	9.9
Cronos Group	C\$5.79	C\$2,153	C\$67.8	31.8
Canopy Growth	C\$13.72	C\$5,401	C\$556.8	9.7
Tilray	\$10.12	\$4,689	\$559.3	8.4
Sundial Growers	\$0.62	\$1,278	\$61.3	20.8
<b>Peer group average</b>				<b>17.7</b>

Source: Refinitiv. Note: Prices at 30 November 2021.

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