



# The “Green Rush”

Market exposure to the growing  
cannabis industry

5 minute read - from V.E

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# INTRODUCTION

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In December 2020, the UN Commission on Narcotic Drugs reclassified cannabis out of the most dangerous category of drugs, thus recognising its medicinal potential.<sup>1</sup> In the same month, the United States House of Representatives voted to effectively legalise recreational cannabis at the federal level.<sup>2</sup> These actions consolidated the progressive deliberations reached at state level in terms of legislation, beginning with Washington, which legalised recreational cannabis in December 2012.<sup>3</sup> Many other states and several countries have since followed suit. This legislative and regulatory evolution has led to an explosion of investment in the cannabis sector.<sup>4</sup> In this quick read, Vigeo Eiris (V.E) summarises why cannabis production and use remain controversial and assesses how investors may be exposed to reputational risks.

## CONTEXT

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According to the World Health Organisation (WHO), cannabis is the most cultivated, trafficked, and abused illegal drug in the world; around 2.5% of the global population consume cannabis.<sup>5</sup> Cannabis use can have negative health impacts, especially when smoked with tobacco, as this can increase the likelihood of tobacco-related diseases, such as cancer. Regular cannabis users also risk developing psychotic illnesses, such as schizophrenia, as well as cardiovascular disease and increasing the likelihood of having a stroke.<sup>6</sup> However, research suggests the latter conditions are caused by the cannabis smoke, rather than the plant's active ingredients.<sup>7</sup>

Cannabis contains active ingredients called cannabinoids. Two of these – tetrahydrocannabinol (THC) and cannabidiol (CBD) – are found in a range of prescription drugs, including Sativex, which is used to relieve the pain of muscle spasms in multiple sclerosis sufferers. Trials are under way to test cannabis-based drugs for a range of other health conditions, including cancer pain

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<sup>1</sup> "UN commission reclassifies cannabis, yet still considered harmful" – UN News – 02/12/2020 [↗](#)

<sup>2</sup> "Pot Legalization Bill Passes House, But Senate Vote Unlikely" – Bloomberg – 04/12/2020 [↗](#)

<sup>3</sup> "Marijuana goes legal in Washington state amid mixed messages" – Reuters – 06/12/2012 [↗](#)

<sup>4</sup> "Key Insights from the Global Cannabis Report" – Prohibition Partners – 07/11/2019 [↗](#)

<sup>5</sup> "Cannabis" – World Health Organization, Alcohol, Drugs and Addictive Behaviours Unit – accessed 09/12/2020 [↗](#)

<sup>6</sup> "Cannabis: the facts" – UK NHS – accessed 09/12/2020 [↗](#)

<sup>7</sup> "Marijuana and heart health: What you need to know" – Harvard Health publishing – 24/06/2019 [↗](#)

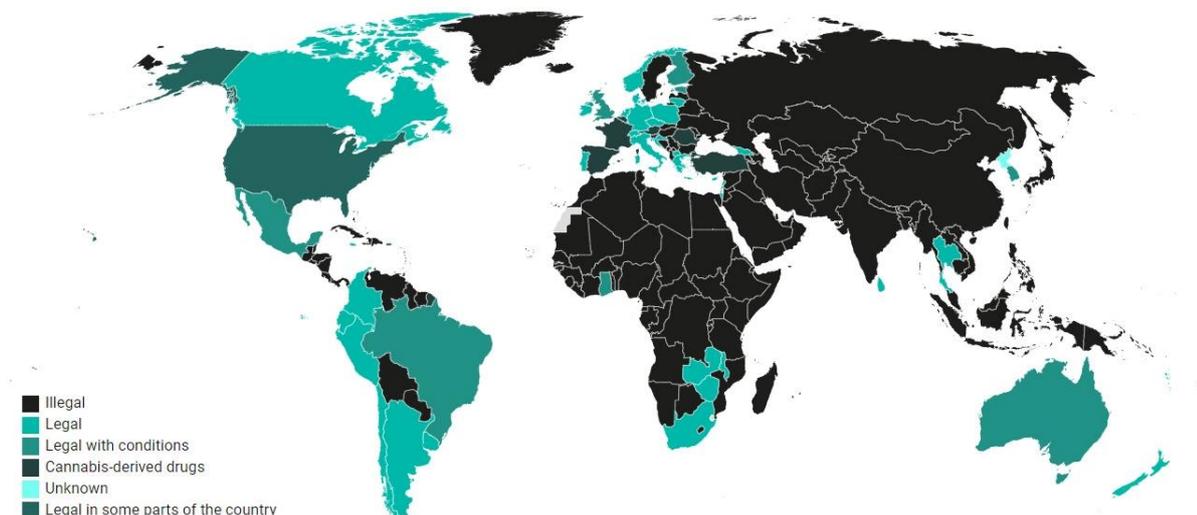
and appetite loss in people with HIV or AIDS.<sup>8</sup> That said, THC-containing products remain more tightly controlled in many areas due to their psychoactive effects.<sup>9</sup>

## EVOLVING LEGAL LANDSCAPE

The legalisation of cannabis is supported by many economically developed countries and aims to tackle the illicit market by creating a commercial, regulated market where competitive forces drive down prices and costs, undercutting the illegal market.

In 2013, Uruguay became the first country to legalise recreational cannabis, whilst Canada became the first G7 country to do so in 2018.<sup>10</sup> In the U.S., 15 states and Washington DC have legalised marijuana for adults over the age of 21, whilst 36 states have legalised medical marijuana.<sup>11</sup> However, cannabis remains illegal under federal law, a situation that might change following the recent vote to effectively legalise recreational cannabis at the federal level by the House of Representatives.<sup>12</sup>

### Legality of medical cannabis <sup>13</sup>



<sup>8</sup> "Cannabis: the facts" – UK NHS – accessed 09/12/2020 [↗](#)

<sup>9</sup> The Global Cannabis Report – Prohibition Partners – November 2019 – p23 [↗](#)

<sup>10</sup> "Countries Where Cannabis Is Legal" – WorldAtlas – 27/05/2020 [↗](#)

<sup>11</sup> "All the states where marijuana is legal — and 5 more that voted to legalize it in November" – Business Insider – 06/01/2021 [↗](#)

<sup>12</sup> Pot Legalization Bill Passes House, But Senate Vote Unlikely" – Bloomberg – 04/12/2020 [↗](#)

<sup>13</sup> "Cannabis Legalisation: Where is Medicinal Cannabis Legal in the World?" – Canex – 19/08/2020 [↗](#)

In Europe, activism by families of children with severe forms of epilepsy prompted the UK government to define new ways for doctors to prescribe cannabis-based medicinal products (CBMPs) from November 2018.<sup>14</sup> Meanwhile, Luxembourg is set to become the first European country to legalise recreational cannabis (medical cannabis was legalised in June 2018).<sup>15</sup>

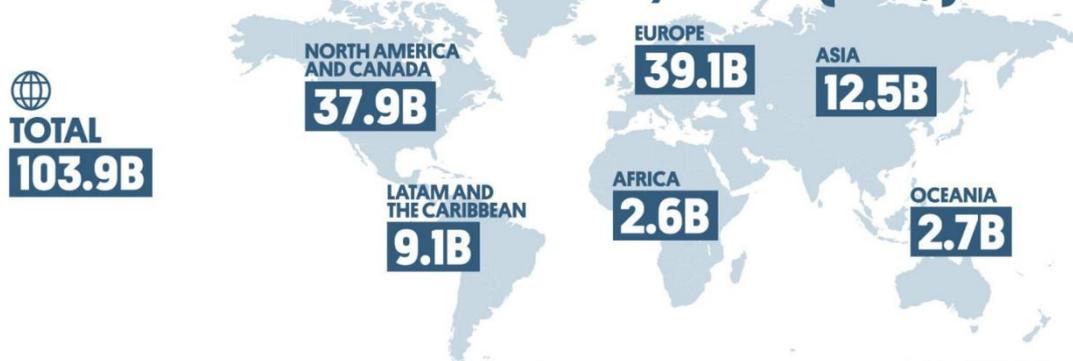
Additionally, in December 2018, Thailand became the first country to approve medical cannabis in Southeast Asia. Support for similar reforms has subsequently increased in neighbouring countries.<sup>16</sup>

## A BOOMING SECTOR

Due to the aforementioned changes, the cannabis industry is booming. In 2019, the global legal cannabis market was valued at USD 17.7 billion.<sup>17</sup> According to Prohibition Partners, it is set to be worth almost USD 104 billion by 2024, driven primarily by the medicinal cannabis market.<sup>18</sup> The UK is the world's largest producer and exporter of medicinal cannabis.<sup>19</sup> Predictably, therefore, over half of Europe's cannabis market will be derived from medical cannabis.<sup>20</sup>

Forecasted Global Legal Cannabis Market Size, 2024 (US\$)<sup>21</sup>

### FORECASTED GLOBAL LEGAL CANNABIS MARKET SIZE, 2024 (US\$)



<sup>14</sup> "United Kingdom Medical Cannabis Regulations Enter into Force" – Hanway Associates – 01/11/2018 [↗](#)

<sup>15</sup> "Luxembourg to be first European country to legalise cannabis" – The Guardian – 07/08/2019 [↗](#)

<sup>16</sup> "Key Insights from the Global Cannabis Report" – Prohibition Partners – 07/11/2019 [↗](#)

<sup>17</sup> "The Future of the Cannabis Industry in US" – TFG Crowd – 25/11/2020 [↗](#)

<sup>18</sup> "Key Insights from the Global Cannabis Report" – Prohibition Partners – 07/11/2019 [↗](#)

<sup>19</sup> "UK world's largest producer of legal cannabis, finds UN body" – Independent – 07/03/2018 [↗](#)

<sup>20</sup> "Key Insights from the Global Cannabis Report" – Prohibition Partners – 07/11/2019 [↗](#)

<sup>21</sup> Ibid

Despite the industry's growth, the lack of legal and regulatory uniformity within and between countries can make it difficult for investors to assess their exposure to the burgeoning market.

## V.E RESEARCH FINDINGS

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V.E has screened over 7,700 issuers for their involvement in the cannabis industry. Of these, 37 (0.5% of the screened universe) appear to be involved, as of December 2020. The most exposed sector is the Pharmaceutical and Biotechnology sector (24% of involved issuers), followed by the Beverage sector (16% of involved issuers), and the Tobacco, Chemicals, and Software and IT Services sectors, which are all equally represented (11% of involved issuers in each).

Geographically, North American issuers dominate, with 43% of the companies involved based in the U.S. and 19% based in Canada. This is unsurprising considering the relatively recent legal changes in the two countries. Meanwhile, a further 32% of involved issuers are European.

To measure involvement, V.E differentiates between production (namely the ownership of cannabis plantations and the manufacturing of recreational cannabis products), distribution (those involved in the wholesaling and retail of cannabis products manufactured by other companies), and the provision of essential equipment or services to the recreational cannabis industry. V.E has found that 32% of the issuers involved are producers, whilst 8% are distributors, and 46% supply equipment/services. V.E can also identify those issuers involved in medicinal cannabis (19% of those issuers involved).

## CONCLUSIONS

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The legislative evolution of both medicinal and recreational cannabis around the world has led to a surge in growth within the sector. However, cannabis production and use remain a subject of controversy and public debate, primarily due to the associated negative health implications. Given the varying views and perceptions around cannabis use across geographies and the developing regulatory and commercial landscape, it is important investors understand their potential exposure. Our analysis demonstrates the risk exposure is limited to a small subset of companies, primarily concentrated in the Pharmaceutical and Biotechnology and Beverage sectors. The issuers involved are overwhelmingly located in North America and Western Europe.

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V.E is a global leader in ESG assessments, data, research, benchmarks and analytics. Leveraging our extensive proprietary database, we equip market players with the ESG insight they need to manage risks and better understand and address their social and environmental impact. With a team of nearly 300 experts of 30 different nationalities, V.E is present in Paris, London, Brussels, Casablanca, Hong Kong, Milan, New York, Rabat and Santiago. Since 2019, V.E has been an Affiliate of Moody's Corporation.

**For more information:** [vigeo-eiris.com](http://vigeo-eiris.com)

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