

Cannabis Investors Should Bet On Science, Not On Farming Pigs

Revive Therapeutics Recently Reported Positive Preclinical Data With Cannabinoid-Based Therapies Targeting Liver Disease.

The Canadian cannabis industry is red hot. Medical marijuana has been legal in Canada since 2001, and since then public opinion has progressed to the point at which now the [vast majority](#) of Canadian citizens believe marijuana should be legal for non-medical. Importantly, Canadian Prime Minister Justin Trudeau has committed to full decriminalization of marijuana in 2018. Sweeping legislative changes in Canada over the past several years have led to a significant investment boom.

Growers - A Crowded Trade

[An article](#) by FinancialPost.com in March 2017 noted, "*Marijuana stocks on fire after report that Canada's legalization bill is in the works for 2018.*" The author (Sunny Freeman) notes several stocks benefiting from the news, including Aurora Cannabis, Canopy Growth Corp., and OrganiGram Holdings - all marijuana growers. [Another article](#) on Investopedia.com in April 2017 recommended, "*10 Canadian Marijuana Stocks For Your Portfolio*". The top five ideas were all growers and included the aforementioned three companies along with Aphria Inc. and SupremePharma. [Another article](#) from SmallCapPower.com highlighting, "*The Best Canadian Marijuana Stocks to Invest In.*" The author's ideas? The same five growers highlighted a month earlier by Investopedia!

There's not a lot of originality in these recommendations! Legalized marijuana is coming to Canada and the growers are the low-hanging fruit in terms of investment ideas. But Cannabis is a commodity and growing Cannabis plants is a capital and asset intensive process with no real intellectual property protection. As of late 2016, there were 36 authorized producers across the country in Health Canada's list, with the vast majority located in the Province of Ontario. This is becoming a crowded trade!

Scientific Invention Will Win in the End

In the 1970's, Eli Lilly & Company brought to market the first insulin products to treat diabetes. The insulin was purified from pigs, and quite comically, Eli Lilly got into pig farming as a way to vertically integrate its supply chain. After a few years of growing and harvesting pig insulin, Lilly realized they could not keep up with demand and the lot-to-lot variability of products was limiting sales. In the early 1980's, Lilly and a California biotech start-up called Genentech eventually figure out how to clone the insulin gene into bacteria and the first recombinant insulin product, Humulin®, came to market. No one farms pigs for insulin anymore!

This is how I view the current situation with marijuana growers. It's a time and capital intensive, cumbersome progress. It's getting crowded and the margins are running thin. It's scalable only to an extent and there's limited intellectual property protection. Genentech figured out a better way and the real money was made on science and treating disease.

Cannabinoids, the chemical compounds found within *Cannabis Sativa* that have the medicinal properties are where cannabis investors will make real money over the next several years. Companies that are looking at purified cannabinoid compounds to treat neurological disorders, inflammatory diseases and pain are doing real clinical studies with drug candidates that offer high-margin, scalable returns.

Solving A Problem

A [recent article](#) on BusinessVancouver.com noted that the number one concern of specialists that treat patients with medical marijuana was the consistency of dose. It's the same lot-to-lot variation you could drive a truck through that made Lilly and Genentech come up with a better way and it's happening all over again.

That is the reason why GW Pharma commands a market value of \$2.7 billion when all they do is sell synthetic CBD for epilepsy. The kicker is that GW's Epidiolex® for childhood epilepsy is a standardized chemical product with approval from Health Canada. Physicians can prescribe it and parents love that because virtually no parent was administering to their children medical marijuana. There's also negligible lot-to-lot variation, which physicians love because they know if the drug works they can rely on the dose to keep working. It's a high margin, scalable business.

Invest In Science!

One undervalued Canadian company truly doing science in the cannabis space is Revive Therapeutics (RVV.V). The company is focused on the development of cannabinoid products for inflammatory diseases that affect the liver and kidney. Management has spent the past year expanding its scientific advisory board and analyzing compounds that have a true therapeutic effect in models of disease. Revive has experience developing drugs for rare diseases and in conducting preclinical and clinical research and development.

Revive is currently deploying a multi-disciplinary drug candidate screening process that includes complex bioinformatics and research collaborations with leading academic institutions. The business model is not only real, it is also high margin and scalable because they are a biopharmaceutical company with intellectual property and scientific know-how. Just last month the company reported [positive results](#) from its research program of cannabinoid-based therapies targeting liver diseases such as fibrosis.

Final Thoughts

Commodity businesses are nice if you are the only supplier in town, but it's hard to differentiate yourself when you have no intellectual property protection, limited scalability, and the competition is heating up. Investors are likely to find better returns betting on companies with real scientific know-how and the ability to move therapeutic candidates through the clinical stages of development.

Revive Therapeutics looks vastly undervalued based on its research and development capabilities and its ability to create and protect intellectual property. Fibrotic liver disease is quickly becoming an epidemic thanks to soaring obesity rates. Cannabinoids have demonstrated real potential to improve liver and kidney function and Revive is currently investigating a number of compounds in preclinical discovery that if successful would rival the sales of drugs like GW's Epidiolex® and maybe even spark a medical breakthrough like Lilly and Genentech did 35 years ago when they got out of pig farming and into doing real science.
