

HEALTHCARE

Elixinol Global (EXL)

Strong Revenue Growth Continues

- Elixinol remains on its encouraging growth path recording 21.2% quarter on quarter revenue growth for the June quarter. Revenues of \$8.0m were approximately 8% ahead of our forecast and 111% higher than the pcp. Revenue growth was primarily driven by demand for hemp derived CBD dietary supplements and skin care products in the US.
- Revenues for 1H18 were \$14.6m relative to cash operating expenses of \$6.8m. Based on these observations and assuming the average gross profit margin established in FY17 is carried forward to the current fiscal year, it is likely the company made a small operating profit for the first half.
- Elixinol has established a long term trend of demand driven revenue increases which we expect will continue in the short to medium term. Accordingly our revenue forecast for FY18 is upgraded by 5%. The most important industry catalyst in the US continues to be the pending legalisation of industrial hemp. The legalisation of hemp growing would see it become reclassified as an agricultural commodity entitled to all commercial services and Federal benefits for agriculture sector.
- Elixinol's plan to develop a medicinal cannabis franchise in Australia remain frustrated by the absence of requisite licences (importing, cultivation and manufacturing). The Office of Drug Control has now had the applications for many months and there is no timeline for a completion of the review process. If there is a silver lining in this delay, then at least the company has conserved capital which would have otherwise been spent on development. Notwithstanding, competitors both in Australia and abroad continue to make progress in this field.

Maintain Buy Recommendation

- The valuation is increased to \$2.31 (from \$2.15) as a result of the stronger than expected revenue growth in 2Q18 as well as upgrades to earnings forecasts.

Disclosure: Bell Potter Securities acted as lead manager of the company's 2017 IPO and received fees for that service.

Recommendation: Buy (Spec) **Previous Close:** \$1.42 **Valuation:** \$2.31

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