COLLAS CRILL

Capital markets opportunities for cannabis businesses

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A few years ago I was fortunate enough to be involved in an expedition which hiked through the jungle of the Democratic Republic of the Congo. The trip took us through some thick and murky terrain, but eventually led us to the clear views from the heights of Mount Stanley in the Virunga National Park. Having advised clients in the medicinal cannabis industry for a number of years now, it feels an odd thing to say but I can't help but see some comparisons.

Going back only a couple of years, any company looking to expand into the cannabis industry was faced with some pretty ropey terrain. While we had to wade through thick jungle, with the occasional and rather fearsome gorilla watching us from a distance, companies were faced with the rather difficult issue of navigating anti-money laundering legislation, under the gaze of a rather intimidating regulator.

Fortunately though, it is great to now say that we are approaching higher ground where the footing is far more stable and the vista is much improved. Guidance is starting to come through from regulators on their interpretation of the anti-money laundering restrictions and an industry of investors, operators and service providers has started to emerge.

September 2020 also saw the next big step in the development of this 'growing' industry, with companies now being able to access key capital markets.

On 18 September 2020, the UK Financial Conduct Authority published its long-awaited guidance on the listing of cannabis-based businesses on UK securities exchanges, after a lengthy internal review.

Under the new guidance, while companies involved in recreational cannabis are still excluded due to the proceeds of crime restrictions, companies involved in purely medicinal cannabis business will be allowed to list on The London Stock Exchange.

This position is similar to that already taken by The International Stock Exchange, based in Guernsey, which will also only allow companies involved in the medicinal cannabis industry to list their securities.

Any company looking to list on either of these markets will need to demonstrate that they or their group hold all necessary medicinal licences for their activity. However, in our experience this level of legal due diligence is commonplace for companies operating in this industry, so we would not imagine that this would pose any challenge for companies looking to access these markets.

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The European cannabis industry has been estimated to expand from £3bn in 2019 to £37bn in 2027, so the height of the mountain is now certainly in full view, and access to capital through these markets is gong to be critical to that expansion.

Collas Crill has been a pioneer in advising the medicinal cannabis industry in Guernsey. It acted for the first UK listed public company to invest in the medicinal cannabis industry, and has since acted for numerous companies, custodians, fiduciaries and service providers in helping them navigate the regulatory environment.

If you or your clients are involved in the medicinal cannabis industry and would like to know more about the opportunities of listing on LSE or TISE, or hiking in the DRC for that matter, then please don't hesitate to contact our specialist team.

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