

# Preliminary Case

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## Case Study:

Evaluating the opportunity to  
develop and launch a medical  
cannabis product in Canada



# Overview

Elodie Dedet (CEO), Lisa Chan (VP Marketing and Growth), and Anuj Sharma (VP Finance, Operations, and Legal) are partners in a packaging and labeling company called LBL that services the cosmetics, food, beverage, retail, and pharmaceutical sectors. In the last two years since the Cannabis Act came into force on October 17, 2018, LBL has gained some new clients from the cannabis sector looking for secure child-resistant packaging and a turnkey solution that adheres to Health Canada packaging and labeling regulations (e.g. THC logo, brand logo, health warnings statements, list of ingredients and allergens, nutrition facts table, and usage directions). Some of LBL's current clients were also diversifying into the cannabis sector.

With LBL already producing a variety of glass bottles, plastic containers, paperboard cartons, pouches, and tin cans, the trio became interested in identifying opportunities to participate in the cannabis sector. Specifically, Elodie, Lisa, and Anuj wanted to assess the feasibility of creating their own medical cannabis product, since a variety of form factors are allowed in Canada. Formats include dried cannabis, edibles, cannabis oil, soft gels, concentrates, and topicals.

The trio agreed that they did not want to cultivate and extract cannabis themselves. Instead, LBL would work with third parties to develop product formulations that would resonate with potential patients and purchase, extract, and manufacture the raw materials into a desired format. Afterwards, LBL will complete the manufacturing process by applying its packaging and labeling expertise and prepare the product for shipment with one of its distribution partners.

Elodie, Lisa, and Anuj want to be well informed and need to develop a business case for their Board of Directors meeting in 2 weeks' time.



## Patient Overview

Medical cannabis may be used by patients encountering the following symptoms across various conditions: anxiety, pain, appetite, mood, nausea and vomiting, seizures, and spasticity (involuntary, continuous contractions of certain muscles).

To access medical cannabis treatment in Canada, a patient needs to consult with and receive authorization from a registered health practitioner in the form of a medical document. While medical cannabis is being incorporated into the treatment plans of some patients, determining the appropriate format or dose may take time. Any treatment modifications should be adjusted under the guidance of a registered healthcare practitioner.

Refer to the following link to access the guidance on access to medical use for cannabis:  
[https://www.canada.ca/en/health-canada/services/drugs-medication/cannabis/medical-use-cannabis.html#\\_For\\_those\\_accessing](https://www.canada.ca/en/health-canada/services/drugs-medication/cannabis/medical-use-cannabis.html#_For_those_accessing)

Patients can pay for cannabis out of pocket or it may be reimbursed by their health insurance provider (from employer or self-funded).

## Operating Model and Licensing Options

LBL is evaluating the following operating model and licensing options as part of their business case to discuss with the Board.

Third Party (TP) – refers to activities to be completed by a third party, not LBL in-house.

Otherwise, all other activities are to be performed by LBL in house.



	LBL Manufactures cannabis products	White Label (Third Party) Manufactures Cannabis Products according to LBL Specifications	LBL is the Exclusive Brand Owner
<b>Regulatory Oversight</b>	High	High	Moderate
<b>Business Activity</b>	<ul style="list-style-type: none"> <li>– Purchase raw cannabis materials</li> <li>– Manufacture, package, label, and release medical cannabis products</li> <li>– Excise Stamp medical cannabis products</li> <li>– Sells medical cannabis products</li> </ul>	<ul style="list-style-type: none"> <li>– Identify white label manufacturers</li> <li>– Establish Quality and Purchase Agreements</li> <li>– Provides raw cannabis materials</li> <li>– Provides finished product specifications</li> <li>– <u>TP</u> Manufacturers, packages, labels, excise stamps and releases cannabis products</li> <li>– Remote releases cannabis products</li> <li>– <u>TP</u> sells medical cannabis products on behalf of LBL</li> </ul>	<ul style="list-style-type: none"> <li>– Establish supply chain of trusted partners (e.g. cultivators, processors, provincial authorities, brand houses, marketing firms, advertising agencies)</li> <li>– Establish and manage Quality, Purchase, Marketing, Advertising and other Agreements</li> <li>– <u>TP</u> – Applicable license holders cultivate and manufacture cannabis products for LBL to purchase from</li> <li>– Manages the brand</li> <li>– Owns and promotes the brand</li> </ul>
<b>Who can sell?</b>	<ul style="list-style-type: none"> <li>– <u>LBL</u> if they have a Processing License, an FMSL and an Excise Stamp Program Registration</li> </ul>	<ul style="list-style-type: none"> <li>– <u>TP</u> can sell to its own registered clients or to LBL clients (if <u>LBL</u> has an FMSL without possession)</li> </ul>	<ul style="list-style-type: none"> <li>– Manufacturing license holder</li> <li>– <u>LBL</u></li> </ul>
<b>Sales Channels</b>	<ul style="list-style-type: none"> <li>– Direct to Consumer (registered client for medical use)</li> <li>– B2B (another license holder)</li> </ul>		
<b>Required Licenses</b>	<ul style="list-style-type: none"> <li>– Processor</li> <li>– FMSL</li> <li>– Requisite license amendments for specific cannabis classes</li> <li>– CRA Cannabis License</li> <li>– Excise Stamp Program Registration</li> </ul>	<ul style="list-style-type: none"> <li>– Processor</li> <li>– Federal Medical Sales License</li> <li>– Requisite license amendments for specific classes of cannabis</li> <li>– CRA Cannabis License</li> <li>– Excise Stamp Program Registration</li> </ul>	



<b>Who needs the License?</b>	<u>LBL</u> requires all licenses and requisite amendments	<u>LBL</u> FMSL without possession  <u>White Label (Third Party)</u> Processor FMSL B2B Sales License Amendments CRA Cannabis License	<u>LBL</u> None  <u>White Label (Third Party)</u> Processor B2B Sales License Amendments CRA Cannabis License
<b>MFR on Label</b>	<u>LBL</u> Name, Licensed Site Address, Contact Info and Branding	<u>LBL</u> Branding  <u>WL</u> Name, Licensed Site, and Contact Info	<u>LBL</u> Branding  <u>WL</u> Name, Licensed Site, and Contact Info

## Your Task

You are a team of consultants commissioned by LBL to assist them in developing a business case to present to their Board. Your team has been assembled by LBL management team to undertake an assessment of whether LBL should enter into the medical cannabis market.

Please provide an overview related to market opportunity, key risks, operating model and supply chain considerations, as well as financials.

Depending on your analysis and recommendation, the LBL team will go ahead and explore potential product development and brand opportunities. Make sure to address all the questions outlined below, and that your answers and recommendations are well supported and articulated.



## Round 1

Please organize your responses according to the following themes:

- Market Opportunity
- Financials – Revenue Stream and Cost Structure – high level overview
- Operating Model and License
- Value Proposition (what products/services will be offered)
- Innovation and Formulation
- Production and Distribution - prioritize geographies and channel relationships with which our customer segments can be reached
- Decision

## Key Questions

Please organization your responses according to the following themes:

1. What is the estimated market opportunity for LBL?
2. What is the value proposition that LBL can bring?
3. What can be the project revenues and associated costs?
4. Which categories of medical cannabis products are patients seeking? What consumption trends have been observed?
5. Who are the key customers segments and relationships (e.g. partners and suppliers) that LBL needs to consider?
6. What type of cannabis-related licenses would LBL need if they were to pursue the development of a medical cannabis product?
7. What formats and flavor profiles should LBL consider? What is medical cannabis products are proposed?
8. Map out the value chain to develop and launch a medical cannabis product in Canada for LBL including key partners/channels.



# Appendix

Chart 1 – Weighted Average Retail Price Per Gram

Category	Price per gram
Beverages	1.95/gram (DFE)
Capsules	\$20.90/gram (DFE)
Cartridges	\$26.40/gram (DFE)
Chocolates	\$7.15/gram (DFE)
Confectionary	\$7.85/gram (DFE)
Creams and Lotions	\$35.00/gram (DFE)
Dried Flower	\$7.05/gram (DFE)
Hash	\$6.40/gram (DFE)
Kief and Sift	\$4.40/gram (DFE)
Oils	\$11.30/gram (DFE)
Pre-Rolls	\$9.70/gram (DFE)
Resin and Rosin	\$24.90/gram (DFE)
Seeds (per seed)	\$13.35/seed

DFE (dried flower equivalent)

Chart 2 – Class of Cannabis and Dried Flower Equivalent (in grams)

Class of Cannabis	Quantity that is equivalent to 1 g of dried cannabis
dried cannabis	1 g
fresh cannabis	5 g
solids containing cannabis	15 g
non-solids containing cannabis	70 g
cannabis concentrates	0.25 g
cannabis plant seeds	1 seed

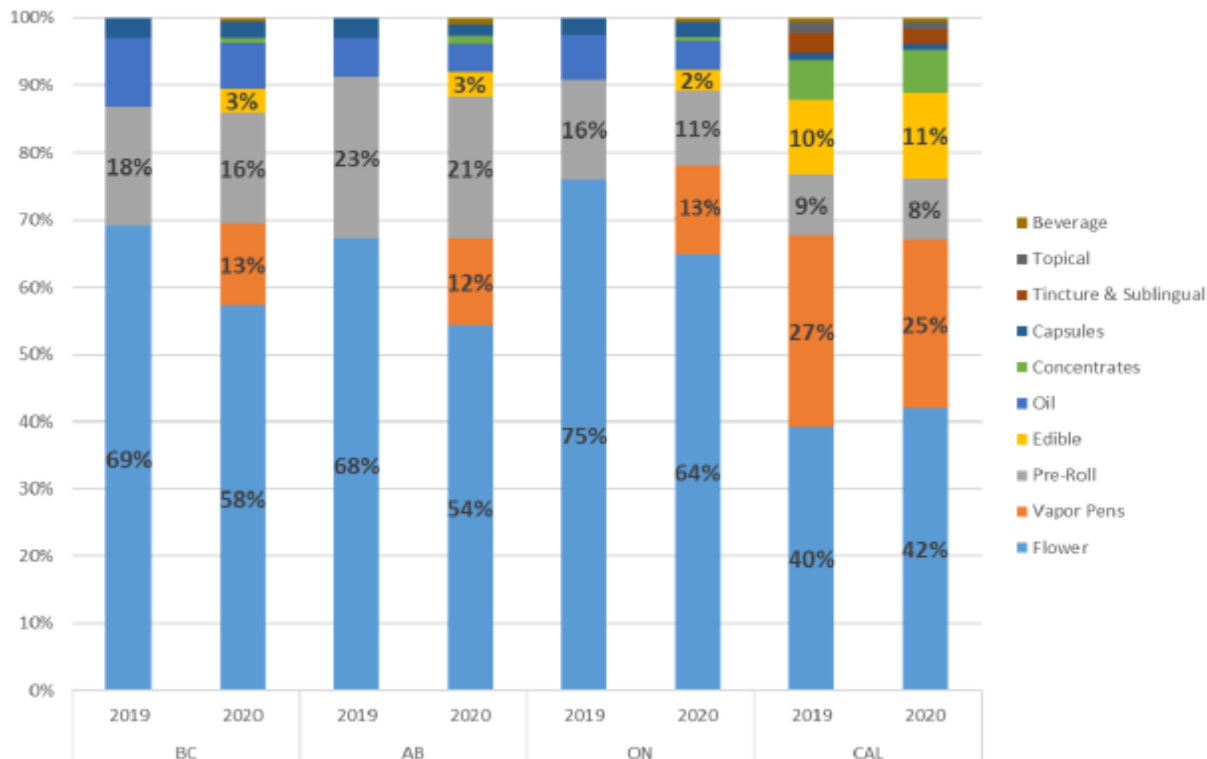


## Appendix Continued

Chart 3 – Wholesale Pricing

Wholesale Pricing				
Product	Characteristics	Units	Current Price	2021 Forecasted
Flower	THC 0-10%	\$/Gram	\$1.33	\$1.20
Flower	THC 10-15%	\$/Gram	\$1.50	\$1.60
Flower	THC 15-20%	\$/Gram	\$2.75	\$2.75
Flower	THC 20 - 25%	\$/Gram	\$3.63	\$3.15
Distillate - THC	80%+	\$/kg	\$12,650	\$12,850
Distillate - CBD	80%+	\$/kg	\$9,250	\$8,750
Isolate - CBD	99%+	\$/kg	\$13,750	\$15,00

Chart 2 – Class of Cannabis and Dried Flower Equivalent (in grams)







## Appendix Continued

Chart 5 – Category Sales Forecast (2020 and 2025)

	Today	Potential	Incremental Potential Volume
Total Cannabis Market - \$MM	\$ 5,700	\$ 8,000	
Legal Share %	46%	50%	
Total Legal Cannabis Market - \$MM	\$ 2,650	\$ 4,000	\$ 1,350
Vape Share of Legal Market - %	13%	25%	
Total Vape Retail - \$MM	\$ 331	\$ 1,000	\$ 669
Edibles Share of Legal Market - %	4%	10%	
Total Edibles Retail - \$MM	\$ 93	\$ 400	\$ 307
Topicals Share of Legal Market - %	1%	1%	
Total Topicals Retail - \$MM	\$ 13	\$ 40	
Tincture Share of Legal Market - %	0%	3%	
Total Tincture Retail - \$MM	\$ -	\$ 120	\$ 120

Chart 6 – Government of Canada – Dried Cannabis Market Data

Table 1: Dried cannabis (packaged units)

Year-Month	Packaged production	Packaged inventory		Sales	
		Federal licence holders	Provincial distributors and retailers	Medical	Non-Medical
2019-10	6,661,673	10,887,928	11,973,079	343,840	5,204,955
2019-11	7,073,490	11,696,239	11,784,498	332,750	5,327,990
2019-12	6,196,582	10,777,371	11,875,242	327,640	5,736,725
2020-01	8,144,584	13,952,588	11,195,359	338,493	5,513,535
2020-02	7,635,589	14,802,076	11,769,070	299,754	5,229,083
2020-03	8,964,731	16,093,436	13,714,839	386,877	5,729,118
2020-04	7,792,866	15,529,655	14,370,269	378,829	5,199,858
2020-05	5,403,681	14,348,026	13,206,710	343,126	5,368,421
2020-06	5,839,035	15,134,838	12,177,789	377,373	5,895,382

Source:

<https://www.canada.ca/en/health-canada/services/drugs-medication/cannabis/researchdata/market/dried.html#tbl-2>



# Appendix Continued

## Chart 7 – Registered Medical Cannabis Users by Province

	Registered Medical Cannabis Users													
	CAN	AB	BC	MB	NB	NL	NS	NT	NU	ON	PEI	QC	SK	YK
Jun. 2019	363,917	94,296	18,326	15,924	8,724	5,034	15,072	156	72	180,794	1,602	14,836	8,925	156
Jul. 2019	368,164	93,724	18,538	15,771	8,888	5,088	13,205	1,931	71	185,260	1,574	15,135	8,831	148
Aug. 2019	366,332	91,666	18,663	15,780	8,865	5,003	13,092	2,008	83	185,303	1,580	15,424	8,725	140
Sep. 2019	369,614	91,210	18,836	15,987	9,104	5,196	13,443	1,978	89	187,444	1,565	15,987	8,635	140
Oct. 2019	363,555	88,159	19,042	15,961	9,440	4,578	14,974	340	52	183,784	1,589	16,888	8,786	142
Nov. 2019	362,595	86,737	18,792	15,855	9,604	4,988	14,872	185	51	184,068	1,571	17,158	8,574	140
Dec. 2019	358,864	85,888	18,664	15,423	9,695	4,993	14,438	190	58	181,562	1,559	17,731	8,738	285
Jan. 2020	342,112	79,324	17,457	14,757	9,405	4,829	14,079	176	52	174,931	1,493	17,620	7,867	122
Feb. 2020	335,363	77,053	17,362	14,236	9,203	4,747	13,757	161	111	172,625	1,488	16,952	7,549	119
Mar. 2020	329,038	73,629	17,053	13,855	9,019	4,652	13,611	148	121	171,107	1,439	16,904	7,385	115
Apr. 2020	320,340	70,057	17,021	13,323	9,075	4,818	13,380	165	61	166,396	1,445	17,149	7,321	129
May. 2020	307,298	65,766	15,624	12,413	8,515	4,651	12,561	155	134	162,918	1,366	16,342	6,744	109
Jun. 2020	303,221	63,359	16,397	12,225	8,790	4,786	12,692	180	60	159,652	1,390	16,846	6,730	114

Source: StatsCan User Data:

<https://www.canada.ca/en/health-canada/services/drugs-medication/cannabis/research-data/medical-purpose.html#a1>



# Appendix Continued

Chart 8 – Registered Patients Authorized for Self-Production

Registered patients authorized for self-production														
	CAN	AB	BC	MB	NB	NL	NS	NT	NU	ON	PEI	QC	SK	YK
Jun. 2019	28,869	3,418	5,891	1,312	861	223	1,241	2	0	9,822	51	5,572	457	19
Jul. 2019	28,829	3,390	5,837	1,360	848	225	1,219	3	0	9,777	52	5,646	453	19
Aug. 2019	28,985	3,401	5,843	1,368	850	227	1,195	3	0	9,801	50	5,776	452	19
Sep. 2019	29,193	3,400	5,849	1,405	866	229	1,185	5	0	9,873	51	5,881	429	20
Oct. 2019	30,188	3,480	6,067	1,456	873	232	1,207	4	0	10,151	53	6,206	438	21
Nov. 2019	31,050	3,542	6,227	1,513	893	241	1,210	4	0	10,387	54	6,505	454	20
Dec. 2019	32,390	3,724	6,524	1,572	939	257	1,234	4	0	10,699	59	6,899	460	19
Jan. 2020	33,551	3,822	6,826	1,616	973	265	1,264	4	0	11,051	65	7,171	475	19
Feb. 2020	34,772	3,880	7,062	1,672	984	264	1,276	4	0	11,503	70	7,553	485	19
Mar. 2020	35,227	3,884	7,195	1,693	987	269	1,275	4	0	11,644	71	7,700	486	19
Apr. 2020	33,503	3,572	6,887	1,614	906	257	1,207	5	0	11,050	66	7,474	446	19
May. 2020	33,769	3,594	6,915	1,645	921	254	1,204	5	0	11,147	68	7,537	460	19
Jun. 2020	33,614	3,519	6,861	1,635	912	249	1,208	5	0	11,052	72	7,633	451	17

Source: StatsCan User Data:

<https://www.canada.ca/en/health-canada/services/drugs-medication/cannabis/research-data/medical-purpose.html#a1>



## Other Sources of Information

Government of Canada – Cannabis Market Data:

<https://www.canada.ca/en/health-canada/services/drugs-medication/cannabis/research-data/market.html>

StatsCan User Data – Data on Cannabis for Medical Use:

<https://www.canada.ca/en/health-canada/services/drugs-medication/cannabis/research-data/medical-purpose.html#a1>

Medical Cannabis by Shoppers Drug Mart:

[https://cannabis.shoppersdrugmart.ca/en\\_CA](https://cannabis.shoppersdrugmart.ca/en_CA)



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