

30 November 2010

GW Pharmaceuticals

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
09/09	24.1	1.8	1.7	0.0	61.8	N/A
09/10	30.7	5.2	4.1	0.0	25.6	N/A
09/11e	26.0	(2.4)	(1.9)	0.0	N/A	N/A
09/12e	26.7	(4.4)	(3.4)	0.0	N/A	N/A

Note: *PBT and EPS exclude intangible amortisation and share-based payments.

Investment summary: Commercial transition

GW Pharmaceuticals' FY10 results marked an important transition with the investment case now centred on the roll-out of Sativex in Europe, the execution of Phase III studies into cancer pain, and the expansion of its R&D pipeline. Sativex's UK commercial launch appears to be going well and the launch in Spain is on track for early 2011. The first of two Phase III studies into cancer pain is now under way and GW plans to initiate four Phase II studies with new oral cannabinoids next year. These will be in ulcerative colitis, fatty liver disease, anti-psychotic-induced dyslipidaemia and a yet-to-be-determined inflammatory indication.

UK commercial launch going well

UK new patient initiations for Sativex are running at four times the prior named-patient levels just four months into the commercial launch. The c £900,000 in-market sales since launch are broadly equivalent to annual sales in the named patient basis. The commercial introduction in Spain should take place early next year with other EU launches possible during the year as approvals are obtained.

US cancer pain Phase III study underway

The first of two planned Phase III studies for Sativex in opioid-refractory cancer pain is now under way; the second should start by mid-2011. Regulatory filings are possible in late 2013-14 and US sales, assuming approval, should begin in 2014.

Financials: well funded with £25m in cash

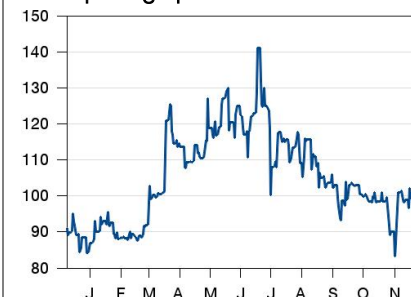
Year-end cash at £25m, which we expect to fall to £19.5m in FY11 with increasing GW-funded R&D. Milestones associated with the first EU approvals helped GW report a profit in FY10, but this is not expected to be repeated in FY11.

Valuation: DCF-based valuation of £209m

We maintain our base case DCF valuation of £209m, last revised in October. We believe this to be conservative, with significant opportunity for upside associated with new indications/geographies for Sativex and such. The valuation does not include the earlier-stage R&D projects, which should come increasingly into focus in 2011.

Price 105p
Market cap £136m

Share price graph



Share details

Code GWP
Listing AIM
Sector Pharmaceuticals & Biotechnology
Shares in issue 129.6m

Price

52 week High 141p Low 82p

Balance sheet as at 31 September 2010

Debt/equity (%) N/A
NAV per share (p) 9.7
Net cash (£m) 25.2

Business

GW Pharmaceuticals is a UK company focused on developing cannabinoids as pharmaceuticals. Its lead product, Sativex, is in development for the treatment of neuropathic pain and spasticity associated with MS, cancer pain, and peripheral neuropathic pain.

Valuation

	2009	2010e	2011e
P/E relative	N/A	N/A	N/A
P/CF	N/A	34.5	N/A
EV/sales	4.6	3.6	4.5
ROE	32%	42%	N/A

Revenues by geography

	UK	Europe	US	Other
	4.7%	5.0%	71.5%	18.8%

Analysts

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Investment summary: Commercial transition

Company description: Cannabinoid-focused biotech

GW Pharmaceuticals is a UK company focused on R&D into plant-based cannabinoids as pharmaceutical products. Its lead product, Sativex, is commercially available in the UK and due to launch in Spain in early 2011 for spasticity associated with multiple sclerosis (MS). Further launches in Europe following the EU mutual recognition procedure are expected in 2011-12. GW has just started Phase III studies designed to support US approval of Sativex for the treatment of opioid-refractory cancer pain. GW has commercial partnerships for Sativex with Bayer HealthCare (UK and Canada), Almirall (Europe, ex-UK) and Otsuka (US), which in aggregate have provided c £50m in signature and milestone fees, with £215m in future milestones (largely approval- and sales-related) and pay-effective royalties at 20-30%. The company has raised a total of £60m in equity since first listing on AIM in 2001 and has tax losses of £43.7m (FY09).

Valuation: Base case rNPV of £209m

We continue to indicate a base case valuation of £209m, last revised in October, based on a DCF model to 2020 with a 12.5% cost of capital. This is designed to be conservative and includes a typical 65% Phase III probability in the cancer pain indication (although a higher probability may be justified) and does not yet include earlier-stage cannabinoid R&D projects. However, Sativex's launch is still at an early stage and therefore the pricing and sales trajectories remain key sensitivities. Significant upside could arise if Sativex sales outperform our assumptions and from the development of new indications and geographies.

Sensitivities: Regulatory risk largely removed

With Sativex now approved, GW has become a much lower risk proposition than most biotech companies, although, it is still subject to certain risks and uncertainties typically associated with drug development. Furthermore, the entirety of its value is currently associated with Sativex. The completion of the UK and Spain's regulatory processes removes EU regulatory risk, leaving only the commercial risks associated with pricing and usage of Sativex. GW has also amassed a considerable body of clinical trial data supporting Sativex in various indications. This consists of 10 Phase III studies (including four into MS spasticity, one into central neuropathic pain and three into peripheral neuropathic pain), multiple Phase II trials (including a large Phase IIb into cancer pain) and other studies (eg randomised withdrawal). The potential of Sativex in indications outside of MS and cancer pain and the value from other early-stage R&D programmes is not included in the valuation and therefore represent upside.

Financials: cash of £25m

GW ended the year with a cash balance £25.2m, which we expect to fall to c £19.5m over FY11. It recorded FY10 revenues of £30.7m, which largely reflects the receipt of milestones (£11.2m) and R&D funding from Otsuka (£14.8m). The milestones associated with the first EU approvals helped GW report a profit in FY10 but this will not be repeated in FY11. We expect c £5.75m of milestones in FY11, including £2.5m from Almirall on the Spanish launch of Sativex and a further £250,000 on the next EU launch (likely Germany), plus a \$4m milestone from Otsuka payable at the start of Phase III cancer pain studies. Following EU Sativex approvals and further launches, we forecast Sativex sales to its partners in FY2011 of £2.9m.

Review: FY10 results mark commercial transition

With the first regulatory approvals obtained for Sativex during the financial year, GW Pharmaceuticals' FY10 results marked important transition with the investment case now centred on the commercial roll-out of Sativex for MS spasticity across Europe, the Phase III studies into cancer pain, and the expansion of its R&D pipeline.

Sativex is now approved in the UK, Canada, Spain and New Zealand, and is commercially sold (as opposed to being available on a named-patient basis) in the first two of these, where it is sold by Bayer. GW's European (ex-UK) partner, Almirall, is expected to launch Sativex in Spain in early 2011 and introduce it in other EU countries in 2011-12 as approvals are obtained under the mutual recognition procedure. GW disclosed excellent initial feedback from the UK commercial launch of Sativex and has reported good progress on its R&D pipeline, with the start of the first of two Phase III cancer pain studies for Sativex, the planned initiation of four Phase II studies next year of oral cannabinoids, and the selection by Otsuka of a first lead candidate under the R&D collaboration.

The current regulatory status of Sativex in various indications and the other R&D programmes are summarised in Exhibit 1 (below); GW's licensing arrangements are detailed in Exhibit 2 (overleaf).

Exhibit 1: GW Pharmaceuticals R&D summary

Product/indication	Trial design/notes
Sativex – spasticity in MS (approved)	Approved for this indication in UK (launched: June 2010), Spain (launch: Q111), Canada and New Zealand. Further approvals in EU to be sought under mutual recognition procedure (mid-H111). Regulatory submissions made in Israel and planned in Australia, the Middle East, Latin America and South Africa. Specific indication is symptomatic improvement in patients suffering from spasticity as a result of MS who do not have adequate relief with existing medication.
Sativex – cancer pain (Phase III)	Approved for this indication in Canada. Two Phase III studies, each to include 370 patients, plus long-term open-label extension trial sites are in Europe, North and Latin America, and Asia. Each study will have five weeks on low-to-mid dose therapy (3-10 sprays/day) with primary endpoint of continuous-response percentage change from baseline. Cancer pain is the lead indication for the US market, where submission is possible in late 2013/early 2014. EU submissions, using the same data, expected at the same time. Prior 360-patient Phase IIb trial in opioid-refractory cancer pain showed significant ($p < 0.05$) improvement for low-dose (1-4 sprays/day) and mid-dose (6-10 sprays/day) groups and both groups combined. Indication is likely to be advanced cancer patients with pain not wholly alleviated with optimised opioid therapy.
Sativex – neuropathic pain (peripheral and due to MS)	Approved for neuropathic pain in MS in Canada. 66-patient Phase III demonstrated efficacy in reducing pain ($p = 0.005$) and sleep disturbance ($p = 0.003$) in neuropathic pain in MS. A 339-pt Phase III did not show statistical significance in primary endpoint (30% or greater improvement in VAS), but significant results were seen at equal dosing and in a randomised withdrawal extension study. Two of three Phase III trials in peripheral neuropathic pain completed with statistically significant results.
GWP42003/GWP42004 THCv:CBD – metabolic syndrome, T2D/NAFLD/anti-psychotic-induced dyslipidaemia	50-pt Phase IIa study exploring activity of 1:1 and 20:1 ratios of GWP42003:GWP42004, and GWP42003 and GWP42004 as single agents in patients with Type 2 diabetes and dyslipidaemia. Primary endpoint is change from baseline in serum HDL at 13 weeks. Exploratory Phase II studies are planned in non-alcoholic fatty liver disease (NAFLD) and antipsychotic-induced dyslipidaemia (in schizophrenic pts on olanzapine), both starting in 2011. Single-dose Phase I study completed in 12 healthy volunteers with no tolerability at relevant doses. Preclinical models suggest that THCv:CBD combination reduces fasting insulin, leptin and body fat, increases energy expenditure, reduces total cholesterol and increases HDL.
Undisclosed oral cannabinoid/ inflammation	Phase IIa study planned in ulcerative colitis and second inflammatory indication (to be confirmed). Positive results in several <i>in vivo</i> models (inhibition of neutrophil chemotaxis, chemically- and immunologically-induced inflammation) and mouse DNBS induced colitis model. Pilot study with cannabinoid showed improvement on Crohn's disease activity index (36.8% vs 3.5% placebo). 58-pt study of Sativex in rheumatoid arthritis showed significant analgesic effect and reduction in disease activity (Blake et al. 2006).
GWP42006/epilepsy	Covered by R&D collaboration with Otsuka . Lead compound selected. Preclinical studies suggest similar efficacy to valproate. Could enter Phase I in 2011.
THC:CBD/glioma	Covered by R&D collaboration with Otsuka . Preclinical studies show synergistic activity with low-dose Sativex with temozolomide in U87MG model of glioma. Mechanism of action identified (interference with mTOR-mediated suppression of apoptosis). Possible development for Sativex or oral THC:CBD combination.
Cannabinoids (incl. combinations)/other CNS/anti-cancer indications	Covered by R&D collaboration with Otsuka . Evaluation of various cannabinoids (including CBD, CBDV, CBC, CBG, THCA, THCv, CBN) as single agents and in combination for other CNS (anti-psychotic, anti-depressant and anxiolytic) and anti-cancer indications. Preclinical studies in various <i>in vivo</i> cancer models (prostate, breast, lung) are under way.

Source: Edison Investment Research.

Exhibit 2: GW Pharmaceuticals licensing arrangements

Partner	Product	Financial terms
Bayer HealthCare	Sativex in UK and Canada	£32m total milestones payable, of which £19.2m has been triggered to date. Transfer price less the manufacturing cost results in a c 30%-effective royalty on sales.
Almirall	Sativex in Europe (excluding UK)	£12m signature fee plus milestones payments of £30m. £8m paid on Phase III MS data, with £2.5m payable on first EU launch (Spain, on completion of pricing negotiations, assumed Q410). Transfer price less manufacturing cost results in a c 25%-effective royalty.
Otsuka	Sativex in US	\$18m signature fee plus \$255m in milestone payments. Transfer price less manufacturing cost results in a c 20%-effective royalty. Otsuka funds all development for cancer pain, additional indications and in any future formulations. Joint oversight of all US clinical development and regulatory activities. GW responsible for clinical development in cancer pain indication, with costs reimbursed. Otsuka has responsibility for all subsequent indications.
Otsuka Pharmaceutical	Global cannabinoid R&D collaboration	Otsuka funds evaluation of cannabinoids in cancer and CNS indications. An initial three-year term to July 2010 was extended by three years to June 2013. Initial \$9m of funding to cover GW operating costs and external collaborations, and additional \$6m-plus committed to specific research activities. The 2010 extension includes a further \$12m research fund. Candidates selected for clinical development will be subject to a license from GW with terms agreed at time of selection (Otsuka will fund all global development and commercialisation with GW receiving license fees, milestones and a long-term supply price and royalty).

Source: Edison Investment Research.

Sativex – UK launch deemed a success

In the four months since its commercial launch in the UK, Sativex¹ achieved in-market sales of c £900,000, which is similar to the annual level of named-patient sales. The commercial product is priced 40% higher² than on the named-patient basis, but this still suggests that there has been a significant increase in the number of patients using Sativex. This is also borne out by the fact that the weekly rate of new patient initiations has risen fourfold since approval.

This drug is licensed as an add-on therapy for patients who do not have an adequate response to first-line anti-spasticity therapies, such as baclofen and gabapentin. It is not yet clear whether NICE will assess Sativex directly or as part of its [MS treatment guidelines](#), which are due for revision in 2011. It seems more likely that Sativex will be reviewed in the context of the guidelines.

Initiation of Sativex in the UK must initially be under supervision of a neurologist or other specialist, although GPs will be able to write repeat prescriptions. Sativex is classified as a Schedule 1 controlled drug, although it may be rescheduled to Schedule 4 in the future.

Spanish approval was obtained in Q210; however, launch requires a conclusion of pricing and reimbursement negotiations, which is expected shortly. The product has been available in Spain on a named-patient basis for some time, but will be launched commercially in early 2011. Pricing and reimbursement discussions will also be the primary determinant of launch timings in other European countries, which may yield some small milestones. While subsequent approvals are expected in H111, launches in France and Italy are unlikely until the latter part of the year, while launch in Germany – a free-price market – could occur mid-year.

Sativex is also approved in Canada for a wider range of indications than in the UK and Spain (neuropathic pain in MS, advanced cancer pain, spasticity in MS). However, Canada has a challenging reimbursement environment.

First Phase III starts in cancer pain

For regulatory and commercial reasons, GW and its partner Otsuka have targeted cancer pain as the lead indication in the US. The studies are being run by GW but are fully funded by Otsuka, and

¹ Sativex is an extract comprising two principal cannabinoids: THC (delta 9 tetrahydrocannabinol) and CBD (cannabidiol). It is administered as a metered-dose oromucosal spray; each 100µl spray contains 2.7mg of THC and 2.5mg of CBD.

² The UK price is £125 per 10ml vial (vs £44 per 5ml vial on a named-patient basis), equating to a cost of c £11 a day.

the first of two 370-patient Phase III trials has just started. The second is expected to do so in mid-2011. The two studies evaluate Sativex (3-10 sprays a day) versus placebo in a five-week treatment period in patients with advanced solid tumours who are unable to obtain adequate pain relief with optimised opioid therapy.

The studies will probably take around two years to complete enrolment and render the results. The primary endpoint is a continuous response analysis (where all responders are characterised by percentage improvement) based on the absolute change in Numerical Rating Scale (NRS) from baseline. Continuous response is now the FDA's preferred measurement for pain studies.

The UK approval allows GW to seek approvals in a number of territories where local regulators effectively recognise a UK approval as sufficient (eg Latin America and the Middle East). GW expects to seek regional distribution deals in 2011 for these markets (it could also expand its relationships with existing partners (ie Bayer and/or Otsuka) where these have a strong presence.

Beyond Sativex

Earlier this year, GW initiated an exploratory Phase IIa study of various combinations of tetrahydrocannabinol (THCV) and cannabidiol (CBD) in patients with Type 2 diabetes and metabolic syndrome. THCV is a neutral CB1 antagonist thought to decrease food intake and increase energy expenditure, while CBD is a non-psychoactive cannabinoid believed to alter circulating lipid levels and control fat distribution. The aim of this Phase IIa programme is to assess the effects of THCV/CBD combinations on a range of metabolic parameters (ie cholesterol, lipid parameters, glucose control and insulin sensitivity). Data are expected to be available in the next 12-18 months and may be the catalyst for a partnership. GW has now disclosed that it intends to expand this programme with Phase II studies in non-alcoholic fatty liver disease and antipsychotic-induced dyslipidaemia (this study will recruit patients stable on olanzapine). GW also intends to initiate exploratory Phase II studies of an undisclosed, orally delivered cannabinoid in ulcerative colitis and second inflammatory indication (yet to be determined).

Otsuka selects lead candidate

Meanwhile, Otsuka has selected a lead candidate (GWP42006) for development for epilepsy. We presume an IND may be possible in late 2011. Under the terms of the collaboration, the selection of a candidate would be followed by a separate licensing deal, with specific terms negotiated at the time of selection. These would presumably include the funding of further development and commercialisation, and payment of licence fees, milestones and royalties to GW, as well as committing to a long-term commercial supply price. We assume this has not yet been finalised.

Under its collaborative programme (which was this year extended for three years to 2013), Otsuka is examining GW's cannabinoids as single agents and in combinations in CNS conditions (as anti-psychotic, antidepressants and anxiolytics) and cancer. Promising pre-clinical results have been obtained, with Sativex in the U87MG xenograft model of glioma. This result was sufficiently strong to support development of Sativex in combination with temozolomide, the current standard treatment, in this indication. However, no decision has yet been made and commercial imperatives may dictate a different, possibly oral, THC:CBD product. Nonetheless, if this were to occur with Sativex, development could potentially be rapid, since most of the supporting data would already be available.

Valuation

We continue to indicate a base case valuation of £209m, last revised in October, based on a DCF model to 2020 with a 12.5% cost of capital. No value is ascribed to potential Sativex sales outside of the currently partnered territories (the US, Canada, the EU) or to earlier-stage R&D programmes. Our Sativex revenue model is presented in Exhibit 3 (below).

Exhibit 3: Base-case Sativex revenue model

Note: *At each expected transfer price under each licensing deal; excludes GW's manufacturing costs.

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Canada patients with MS spasticity	57,750	63,525	69,878	76,865	84,552	93,007	102,308	112,538	123,792	136,171
Sativex market share	0.6%	0.7%	0.7%	1.0%	2.0%	3.0%	5.5%	5.5%	5.5%	5.5%
Cost per patient per year (£)	2,998	2,998	2,998	2,998	2,998	2,998	2,998	2,998	2,998	2,998
Sativex sales (Canada; £'000)	1,039	1,238	1,466	2,304	5,069	8,364	16,867	18,554	20,409	22,450
GW revenue (Canada; £'000)*	415	495	587	922	2,028	3,346	6,747	7,422	8,164	8,980
Canada mod. to sev. cancer pain patients	29,546	30,137	30,740	31,354	31,982	32,621	33,274	33,939	34,618	35,310
Sativex market share	0.0%	0.0%	0.0%	2.0%	4.0%	6.0%	7.0%	8.0%	9.0%	10.0%
Cost per patient per year (£)	1,499	1,499	1,499	1,499	1,499	1,499	1,499	1,499	1,499	1,499
Sativex sales (US; £'000)	0	0	0	940	1,917	2,934	3,491	4,069	4,670	5,292
GW revenue (US; £'000)*	0	0	0	376	767	1,173	1,396	1,628	1,868	2,117
US mod. to sev. cancer pain patients	739,093	768,657	799,403	831,379	864,635	899,220	935,189	972,596	1,011,500	1,051,960
Sativex market share	0.0%	0.0%	0.0%	0.5%	1.0%	3.0%	4.0%	4.5%	5.0%	5.0%
Cost per patient per year (£)	4,496	4,496	4,496	4,496	4,496	4,496	4,496	4,496	4,496	4,496
Sativex sales (US; £'000)	0	0	0	18,691	38,877	121,298	168,199	196,793	227,405	236,502
GW revenue (US; £'000)*	0	0	0	4,860	10,108	31,537	43,732	51,166	59,125	61,490
EU patients with MS spasticity	352,800	370,440	388,962	408,410	428,831	450,272	472,786	496,425	521,246	547,309
Sativex market share	0.7%	1.8%	3.8%	4.9%	5.9%	7.0%	7.9%	8.4%	8.9%	9.1%
Cost per patient per year (£)	2,998	2,998	2,998	2,998	2,998	2,998	2,998	2,998	2,998	2,998
Sativex sales (EU; £'000)	7,243	20,536	44,306	60,294	76,164	94,313	112,138	124,999	138,866	149,296
GW revenue (EU; £'000)*	2,559	6,844	15,956	22,014	27,750	34,300	40,754	45,489	50,595	54,520
EU mod. to sev. cancer pain patients	502,860	512,917	523,176	533,639	544,312	555,198	566,302	577,628	589,181	600,964
Sativex market share	0.0%	0.0%	0.0%	1.0%	2.0%	3.0%	4.0%	5.0%	7.5%	7.5%
Cost per patient per year (£)	1,499	1,499	1,499	1,499	1,499	1,499	1,499	1,499	1,499	1,499
Sativex sales (EU; £'000)	0	0	0	7,998	16,316	24,964	33,951	43,287	66,230	67,554
GW revenue (EU; £'000)*	0	0	0	2,799	5,711	8,737	11,883	15,151	23,180	23,644
GW total Sativex revenue (£'000)*	2,974	7,339	16,543	30,970	46,363	79,094	104,512	120,855	142,933	150,751

Source: Edison Investment Research.

This is a base-case valuation which is designed to be conservative, since there are a number of uncertainties owing to the fact that Sativex's launch is still at an early stage. Clarity on the following may represent considerable upside for GW:

- **Pricing assumptions.** We assume that the UK price of Sativex provides an international benchmark, although we expect a higher price in the US. Confirmation of European, ex-UK pricing may impact upon our valuation.
- **Sales trajectories.** It is too early in the UK commercial launch to have any clear visibility on demand, and the sales trajectory and market share are similarly difficult to assess. Other factors which may impact upon sales include:
 - **Stocking.** The timing of stocking purchases by marketing partners may give rise to differences in GW revenues and in-market product sales.
 - **Patient compliance.** We assume 75% compliance (ie a daily cost of £11 in MS would imply an annual cost of £4,000, we model an annual cost of £3k).
- **Progress in other indications.** The cancer pain indication is probability-weighted at 65% (the US and Europe).

Additional upside should also arise if Sativex off-label use is significant (eg within the MS indication but not for specific spasticity symptoms) or if other indications are pursued and/or other R&D projects progress.

Sensitivities

With Sativex now approved, GW has become a much lower-risk proposition than most biotech companies, although it remains subject to certain risks and uncertainties typically associated with drug development. Furthermore, the entirety of its value is currently associated with Sativex. The completion of the regulatory process in the UK and Spain removes EU regulatory risk, leaving only the commercial risks associated with pricing and usage of Sativex. The approval has also set a precedent and defined the regulatory pathway for approval of other plant-derived cannabinoid therapeutics in Europe. Various assumptions have been made in our valuation model, which could vary on both the up- and the downside, including the pricing of Sativex (and potentially other cannabinoid products), its market penetration, its use (both approved and off-label) for additional indications, and its future value from the early stage R&D portfolio, which is currently excluded from the valuation.

Financials

GW ended the year with a cash balance £25.2m, which we expect to fall to c £19.5m at the end of FY11. It recorded FY10 revenues of £30.7m, which largely reflects the receipt of milestones (£11.2m) and R&D funding from Otsuka (£14.8m). The milestones associated with the first EU approvals helped GW report a profit in FY10, but this is not expected to be repeated in FY11.

We expect a lower level of milestones in FY11, c £5.75m, including £2.5m from Almirall on Spanish launch of Sativex and a further £250k on the next EU launch (likely Germany), plus a \$4m milestone from Otsuka payable at the start of Phase III cancer pain studies. With further Sativex approvals and launches, we expect revenue from Sativex to be £2.9m in FY11 and £7.3m in FY12 (in-market sales will be 3-5x higher). Revenue sources are shown in Exhibit 4 (below).

Exhibit4: Revenue analysis (£m)

Note:* includes £900,000 launch order.

Revenue contributor	FY2009	FY2010	FY2011	FY12
Signature fees (deferred revenue)	1.9	1.9	1.9	1.1
Milestones	8.0	11.2	5.8	0.3
Partner funded R&D	12.5	14.8	16.0	18.0
Sativex Canada	0.4	0.4	0.4	0.5
Sativex Spain	0.3	0.5	0.5	0.8
Sativex UK	1.0	1.8*	1.4	2.1
Sativex Germany	0	0	0.2	1.2
Sativex France	0	0	0	0.6
Sativex Italy	0	0	0	0.6
Sativex Other EU	0	0	0.4	1.5
Total Sativex sales	1.7	2.8	2.9	7.3
Total reported revenues	24.1	30.7	26.6	26.7

Source: Edison Investment Research.

The largest single contributor to GW's revenue is partner-funded R&D, which was £14.8m in FY10. We expect this to rise in FY11 and FY12 to reflect the costs of conducting the cancer pain Phase III studies. GW's own funded R&D was £7m in FY10 and we expect this to rise in FY11.

GW does not expect to receive tax credits, but due to significant unutilised tax losses (£43.7m as of 30 September 2009), is not likely to have to pay corporation tax until around 2015.

Edison's financial model for GW is shown in Exhibit 5 (overleaf).

Exhibit 5: GW Pharmaceuticals financial model

Year end 30 September	£'000s	2009	2010	2011e	2012e
		IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS					
Revenue		24,121	30,676	26,034	26,669
Cost of sales		(433)	(752)	(744)	(1,835)
Gross profit		23,688	29,924	25,290	24,834
EBITDA		2,114	5,868	(1,817)	(3,704)
Operating profit (before goodwill and except.)		1,658	5,142	(2,517)	(4,504)
Intangible amortisation		0	0	0	0
Exceptionals		0	0	0	0
Share-based payment		(634)	(630)	(630)	(630)
Operating profit		1,024	4,512	(3,147)	(5,134)
Net Interest		128	92	75	100
Profit before tax (excl. intangible amortisation and SBP)		1,786	5,234	(2,442)	(4,404)
Profit before tax (FRS 3)		1,152	4,604	(3,072)	(5,034)
Tax		353	37	0	0
Profit after tax (FRS 3)		1,505	4,641	(3,072)	(5,034)
Average number of shares outstanding (m)		125.0	129.5	129.6	129.6
EPS – excl. intangible amortisation and SBP (p)		1.7	4.1	(1.9)	(3.4)
EPS – FRS 3 (p)		1.2	3.6	(2.4)	(3.9)
Dividend per share (p)		0.0	0.0	0.0	0.0
BALANCE SHEET					
Fixed assets		7,068	6,776	8,576	10,276
Intangible assets		5,210	5,210	5,210	5,210
Tangible assets		1,858	1,566	3,366	5,066
Investments		0	0	0	0
Current assets		22,323	27,216	21,571	14,892
Stocks		551	780	838	2,068
Debtors		1,171	1,217	1,339	1,540
Cash		20,601	25,219	19,394	11,285
Current liabilities		(9,125)	(9,714)	(6,133)	(6,639)
Creditors		(4,531)	(4,594)	(5,053)	(5,559)
Short-term borrowings		0	0	0	0
Deferred revenue & advance payments		(4,594)	(5,120)	(1,080)	(1,080)
Long-term liabilities		(13,544)	(11,644)	(9,744)	(8,664)
Long-term borrowings		0	0	0	0
Deferred revenue		(13,499)	(11,599)	(9,699)	(8,619)
Other long-term liabilities		(45)	(45)	(45)	(45)
Net assets		6,722	12,634	14,269	9,866
CASH FLOW					
Operating cash flow		(571)	3,935	(3,437)	(5,709)
Net interest		127	92	75	100
Tax		1,791	397	37	0
Capex		(1,061)	(434)	(2,500)	(2,500)
Expenditure on intangibles		0	0	0	0
Acquisitions/disposals		0	0	0	0
Financing		6,261	628	0	0
Dividends		0	0	0	0
Net cash flow		6,547	4,618	(5,825)	(8,109)
Opening net debt/(cash)		(14,054)	(20,601)	(25,219)	(19,394)
HP finance leases initiated		0	0	0	0
Other		0	0	0	0
Closing net debt/(cash)		(20,601)	(25,219)	(19,394)	(11,285)

Source: Edison Investment Research

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