

Michael Gorenstein, CEO, The Cronos Group, Canada



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"If you are trying to be everything to everybody, you end up being nothing to no one"—Michael Gorenstein, CEO of The Cronos Group talks to PharmaBoardroom about his unusual career path, the company's dual focus on medicinal and recreational cannabis, and how Canada will always remain the core center of IP development for the company.

You just became the first medical cannabis company to be listed on the NASDAQ! This is a huge step for Cronos but also for the industry as a whole. What does it mean for you?

One of the things we are really focused on at Cronos is changing the perception of Cannabis. Every time anyone in the industry, whether that is us or any of our peers, is able to move the next level of getting buy in and acceptance from other institutions, especially with a global platform like NASDAQ, it means a lot. For us it was making people understand that there is a huge industry opportunity and that there are a lot of benefits to cannabis. We also need to look at the companies that are considered the representatives of the cannabis industry, their transparency, communication and accuracy of reporting.

We wanted to push the industry forward not just by increasing capacity and establishing iconic brands, but by also emphasizing good corporate governance. The NASDAQ listing demonstrates that the industry has matured and it is important for us that institutional investors and the pharmaceutical community recognize how far the industry has come.

We always strive to improve our company and make sure that we are in the strongest possible position in five to ten years to accomplish our mission and deliver value to our shareholders. For us, the listing accomplished our mission of continuing to erode the stigma that has been associated with cannabis. We received strong feedback in the US and in Canada from our peers and we were pleased Cronos was able to help advance the industry.

Personally, why did you decide to take the leap from a very stable career in finance to a more volatile industry that is Cannabis?

Passion. I started off as a corporate lawyer, and then became a hedge fund manager before I ventured into the cannabis industry. I saw the global opportunity, and that there are people who either need help medically or want to consume the product recreationally. In addition, there is a raging opioid crisis not just in North America but globally. When we first looked at the Cannabis industry (even before Cronos), we just wanted to invest. In fact, we were one of the earliest institutional investors in cannabis, but we did not find strategies or execution that we were comfortable putting our capital behind, as we were adamant about being in it for the long run.

In this industry, people usually take one of two viewpoints. On the one side, people ask the question how the industry evolved so fast. The other side is contemplating about how it took so long! When you look at the benefits of the plant from a practical standpoint, the harm and cost reduction, the impact you have in terms of tax benefits, how it decreases crime and opioid overdoses—I always ask why it took so long in Canada and why is it still taking so long in other places. It may have seemed like a big risk to everyone else when I made the leap. But to me, it was a no brainer and the proliferation of legal cannabis was inevitable.

Can you briefly talk us through the structure of The Cronos Group?

In Canada, part of our business is dedicated to medicinal cannabis with Peace Naturals and another part is focused on the recreational consumption of cannabis with Original BC. While we share resources and combine our knowledge, the medicinal side will always stay medicinal with an emphasis on research and education and advancing people's understanding of the science.

In addition, we have a 21 percent stake in Whistler. While this young industry is already starting to consolidate, we have to consider where there is room for smaller players like Whistler, a craft producer that is focused on providing premium quality medical marijuana. They are not as

concerned with scale, and always produce organic. For us at Cronos, it is important to support this part of the industry, as there will always be people that resonate with this kind of approach to cannabis.

Globally, we have a footprint in Australia, Israel and Germany. We are scaling but it is a mountainous task to vertically integrate all aspects of a company. Therefore, we operate in partnerships in order to be able to expand geographically and create operating leverage. In Germany for example, we partner with Pohl Boskamp, a company with nearly 200 years of experience.

They have a distribution network in place, and we can leverage their knowledge and expertise: we co-develop and share resources. Instead of building up a German sales force, our focus remains product innovation, quality and always making sure that we are advancing. In Israel on the other hand, we partner with a large kibbutz with one thousand on-site members, who already have the skill set we seek, and Cronos brings the IP. It is fantastic because if you are thinking about the company culture you would like to create in your company, we aspire to have a family-like culture and a kibbutz is essentially like a family. Today, our structure focuses on finding the best people, and elevating what each of us does best.

What is your footprint in Canada?

The largest footprint of our organization is in Canada. Actually, we are just finalizing the largest purpose built indoor facility in the world, covering 286,000 square feet. Combined with our other facilities we cover 350,000 square feet, most of which is indoor, but we have 28,000 square feet dedicated to a pilot greenhouse where we test different growing mechanisms.

Peace Naturals is our center of excellence, we will export the IP generated there to different productions sites across Canada and around the world.

How do you go about demonstrating the therapeutic value of cannabis?

There are multiple elements, including education, research and transparency. Unfortunately, there are a lot of questions and misunderstandings about cannabis. It is a complex plant and there is a wide spectrum of cannabinoids. Education of the cannabinoid profiles and their impact is crucial and people need to understand that cannabis is not a magic pill. Like any pharmaceutical, results

will vary by patient, as neurochemistry is quite complex. Responsible use and responsible distribution are important and we want to make sure that we do not have any mishaps.

Can you speak about Cronos' R&D efforts?

On the API side, it is important to us to focus on the secondary metabolite, moving beyond CBD and THC. People tend to be very focused on the ratio between CBD and THC but you also need to think about THCV, CBN, CBC and others to really focus on the science behind the plant. For us, it is very important to find out what these secondary metabolites do.

Secondly, we are actively exploring different formulations. Currently, the preferred method of consumption is inhalation, where you are able to consume the full spectrum of the plant. At Cronos, we are going to be offering different methods and are currently working on different formulations: micro- and nano-motion technologies, soft gels, emulsions, tinctures, and patches – the full spectrum. We will not reinvent the wheel but we aim to tailor and explore which APIs work well together with different delivery systems.

We are fortunate that we have a dealer's license, which means we can conduct the R&D on a global basis and can identify the paths of least resistance when it comes to product development. The biggest concern of the Canadian government at the moment is that of capacity, because there is significantly more demand for the product than there is supply.

A lot of our R&D focus has shifted to Israel where we are working on the different delivery systems, while in Canada we are putting more efforts in the characterization and cultivation of the plant.

How will you continue producing high-quality products at scale?

We always produce at GMP quality, whether that is for the medicinal or recreational market. At Cronos, our production always meets the highest quality standards. To achieve this, we use a fair amount of automation, whereas other licensed producers may still rely on master growers we employ scientists. However, we want to eliminate human error as much as possible.

We did not have standards of manufacturing for the cannabis industry previously, so we drew knowledge from pharmaceutical manufacturing practices and commercial agricultural production techniques.

Looking at the future, which geographies will you be targeting next?

The question is how many, not which ones! The EU provides a good framework as well as consistency and has a vast array of pharmaceutical experience. That being said, we also look towards South America, where there is a lot of agricultural expertise. We intend to collect best practices from every part of the world, and always evaluate which regulatory frames are favorable and whether we can identify potential partners to work with.

Your strategy has always been to position Canada as a launchpad for international markets. How should Canada as a country position itself within the cannabis space?

I think Canada already has positioned itself as a leader to this end. The US has taken itself out of the competition by making it federally illegal. The US will always be an important distribution market but the IP is and will continue to be developed in Canada.

There is a large pipeline of opportunities and we have to focus on the best long-term opportunities. We always have to make sure that we are able to scale our capacity without sacrificing our quality. We will use existing distribution infrastructure and continue to develop IP in-house through more research collaborations to bring more proprietary R&D to Canada.

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