



# **CBD-Intel**

*Regulatory and Market Intelligence for the CBD Sector*

# The next big thing – or are investors in psychedelics are playing the long game?

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While legal cannabis is still a relatively new industry, investors are already looking for the next sector to boom – and many think that will be psychedelics.

There has been a flurry of recent activity capping a period of increasing interest in their potential to eventually deliver returns through the provision of products for conditions including post-traumatic stress disorder (PTSD) and chronic depression.

A private placement of nearly CAD 16.1m (\$10m USD) from Canadian life sciences company Wesana Health closely followed on the heels of a \$50m public stock offering from botanical psychedelics research firm Emotional Intelligence Ventures. These were preceded by Canadian psychedelic company MindCure raising CAD 23m (\$18.4m USD) and biopharma and life sciences company Mydecine Innovations raising CAD 17.25m (\$13.8m) earlier this year.

Funds from these rounds will mostly be used to conduct clinical trials and research on treatments for conditions such as PTSD and depression – indicating that these are investors taking long-term risky punts to get in early with more favourable terms that could pay off better down the road.

But it's not just a few niche investors who are interested in this space. Others such as PayPal co-founder [Peter Thiel](#) and [David Bronner](#), CEO of Dr Bronner's Magic Soaps, are also betting on hallucinogenic drugs to combat the growing mental health crisis.

## Regulatory hurdles

But any work still faces massive regulatory hurdles – with any potentially successful product theoretically currently stymied in most jurisdictions by laws listing psychedelics in some of the highest schedules for narcotics.

Research is still some way from fruition. In the meantime early successes in that research, coupled with continued pressure from activists leading to victories such as Oregon becoming the first US state to legalise psilocybin last November, are helping legitimise the industry and lend an aura of optimism.

This is why investors are suddenly interested in a still illegal industry, according to Nikolay Tretyakov, co-founder of London-based venture capital firm Leafy Tunnel. "What we see now is a trend of reversing," he told CBD-Intel. Psychedelics, and the idea of using them for mental wellness, are becoming normalised.

Tretyakov started Leafy Tunnel with partner Bek Muslimov to invest in alternative medicines like cannabis and psychedelics. The company only invests in seed and Series A rounds, with the view of investing over the long term. Some of its current investments in this sector include Atai Life Sciences, which is also backed by Thiel, and a psychedelic retreat centre in the Netherlands called Synthesis.

"We believe that in ten to 15 years, the alternative therapies we're talking about are going to be common normality in our day-to-day life," said Muslimov.

Psychedelics were first researched as a possible treatment for mental health issues in the 1950s. Instead, the drugs became recreational and were quickly banned as Schedule I drugs under former US president Richard Nixon.

## Fighting depression

Now, however, the US Food and Drug Administration (FDA) seems to be taking note of their possible benefits. In 2019 the regulator approved the use of a medical ketamine spray called Ketanest, created by Johnson & Johnson to fight treatment-resistant depression.

Research from [Johns Hopkins University](#) also suggests that psychedelics have the potential to treat mental health problems.

This help is needed, as depression is one of the leading causes of disabilities, according to the [World Health Organization](#) (WHO).

“Depression affects 264m people worldwide,” said David Kugleman, president of Atlanta Capital Partners, a private equity and investor relations consulting firm. “It is really tough to shake, and especially now, with Covid-19 and people being at home more by themselves and not being able to go out to different places.”

Kugleman also sees an investment opportunity, as more psychedelic companies go public in a bid to raise money for research. And while there might be some indications of a bubble, as there was when cannabis companies first went public, there is also still room for achievable growth, he said.

“With psychedelics, if something should all of a sudden get approved by the FDA, there would be tremendous potential for revenues,” he said.

### **Treading carefully**

But the fact that psychedelics remain a Schedule I drug in the US has created a disconnect between regulators and researchers, according to Josh Hardman, an associate at Toronto-based Noetic Fund. The venture firm is hoping to raise around CAD 200m (\$160m USD) in a second funding round to invest in early-stage psychedelic companies.

“A big thing hanging over this emergent sector is a real sense of responsibility and carefulness and treading very carefully because it would really be a disaster for the billions of people with mental health issues if this got shut down the same way that it did in the 1950s and 60s,” Hardman said.

But for now, investing in psychedelics remains speculative, especially as the use of consciousness-alerting drugs is still illegal in many parts of the world. And while there are investors who believe in the potential of the sector, many might not understand the length of the time horizon of investing in a biotech company, added Hardman.

“Biotech is very binary; you lose money for many years, and then you either make money, or you never make any.”

There is a deal of hype in the sector right now, he added, but he believes that when prices come down, people will start thinking more about the long term.

“We’re still in the early innings,” he said. “Really, I mean, the national anthem is still playing and we haven’t been on the pitch yet.”

– Moriah Costa *CBD-Intel contributing writer*

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