



Shares

## Cannabis Business Executive - Cannabis and Marijuana industry news



### Corporate Investment, Shifting Consumer Tastes, Brand-Building Drive U.S. & Canadian Cannabis Sectors

September 10, 2018 by [Jim Kohl](https://www.cannabisbusinessexecutive.com/author/jimkohl/) (<https://www.cannabisbusinessexecutive.com/author/jimkohl/>)

By Jim Kohl, Partner Howard & Howard/Las Vegas

Given polling results that show Americans continue to be more and more comfortable with legalized marijuana, the rise of publicly-traded cannabis companies seemed likely. The speed at which these companies have been accepted by investors and corporate partners looking to expand their brands has been eye-opening.

Aided by legalization at the federal level, Canadian companies have access to capital markets and are well-funded. They have raised significant sums of capital, are rapidly merging with each other and are already trading on the New York Stock Exchange, the NASDAQ and over-the-counter. These Canadian interests are positioned to acquire American cannabis companies when they eventually make their way to the capital markets.

#### Corporate Investment in Cannabis Segment on the Rise

Because of the increase in consumer acceptance for cannabis-infused products, brewing companies have stepped to the front of the line to acquire controlling interests in publicly-traded cannabis companies.

For instance, Constellation Brands (NYSE: STZ), the parent company for Corona beer, has acquired a 48 percent stake in

Canadian cannabis company, Canopy (NYSE: CGC).

While individual investors continue to mull whether to purchase cannabis stocks, beverage manufacturers are banking on the trend towards infused products. Constellation moved into the market taking a 9.9 percent stake in Canopy in October 2017. At that time, Constellation and Canopy announced their intention to develop and bring cannabis-infused beverages to market.

Shares

Constellation more than doubled down on its bet, announcing in August plans to purchase 38 percent of Canopy's outstanding stock for \$4 billion. The deal is pending shareholder approval. Apparently, Constellation is confident that legalization in the United States will occur sooner rather than later and it intends to have product ready for other foreign markets when they fully open.

Constellation Brands is not the only big alcohol player to express interest in cannabis-infused beverages. In June 2018, Bloomberg reported that Molson Coors (NYSE: TAP) and Aurora Cannabis (TSX: ACB) were discussing a collaboration on cannabis-infused beverages. Bloomberg also reported that Molson Coors is looking at the possibility of acquiring three other Canadian cannabis companies.

### **U.S. Cannabis Sector Experiencing Solid Growth**

While Canada has legalized cannabis on the federal level, the United States has a patchwork of individual states that have legalized some uses of cannabis.

Notwithstanding the patchwork legalization, 2018 sales of legal cannabis products in the United States are expected to be \$11 billion, up from \$8.5 billion in 2017.

Arcview Market Research and BDS Analytics have projected cannabis sales in the United States to grow to \$17 billion by 2020, with worldwide sales totaling \$23 billion. By 2022, sales in the U.S. are projected to total \$23 billion with worldwide sales of \$32 billion.

With the year over year growth of the domestic cannabis market and the projections for future sales, cannabis stocks have seen corresponding robust growth.

According to Fortune.com, the North American Marijuana Index was up 150 percent over the past year, while the wider U.S. stock market (as measured by the S&P 500) rose 14 percent.

### **Change in Federal Law is Likely**

Investors appear to be growing more confident that Congress will enact legislation deferring regulation of cannabis to the individual states or make possession and use of cannabis legal under federal law.

Currently nine states and Washington, D.C. have approved cannabis for adult use and 30 other states have approved cannabis for medical use.

Recent polling numbers suggest that Americans are more in favor of legalized cannabis than at any time in history – numbers that continue to trend in favor of legalization.

Shares

Results of a recent poll conducted by Mason-Dixon Polling and Strategy and released by Smart Approaches to Marijuana indicate surging public approval for legalized cannabis.

According to the poll:

- 83 percent of Americans think cannabis should be legalized in some form or decriminalized.
- 49 percent of respondents thought cannabis should be legal for any purpose.
- 29 percent of respondents were in favor of legalizing cannabis for medical purposes only.
- 16 percent of respondents wanted to keep cannabis illegal for all purposes.
- 5 percent thought it should be decriminalized.
- 1 percent were not sure what to do about the federal regulation of cannabis.

In addition to these strong pro-cannabis opinions expressed by the public, there are currently 40+ cannabis legalization-related bills floating around the U.S. House of Representatives and Senate. Taking these two factors into account, it is likely that Congress will either abdicate cannabis regulation entirely to the states or legalize cannabis in some form at the federal level.

### **Consumer Preference Shifting from Smokable Flowers to Ingested Products**

Consumer use and cannabis products are evolving. The traditional means of using cannabis was to smoke the flowers. In the new era of legalized marijuana, consumers are now seeking and embracing other means of consuming cannabis.

In a pattern seen from Colorado to California to Oregon reflecting a consumer desire for stronger, healthier or more discreet ways to consume marijuana, users are turning towards cannabis-infused edible products, including concentrates and gummy bear-type candy.

While infused foods and beverages may seem exotic, the cannabis market has already shown a dramatic shift towards ingested products. According to BDS Analytics, Oregon saw flower sales drop from 51 percent to 44 percent in a single year. In Colorado, only 44 percent of cannabis was sold as flowers and flower sales have been steadily declining in California.

A recent survey of adults in states where cannabis is legal found that approximately one-fourth of adults who did not currently use cannabis would most likely use an edible or infused product for their first try. Given the polling and the reports from states where cannabis is approved for all uses, edibles and concentrates are where the consumer cannabis market is heading.

## **Branded Products on Rise in Cannabis Market**

Shares

A prime consideration for Constellation and Molson Coors rushing into the cannabis market is because they want to establish brand names. BDS Analytics reports that between 2014 and 2017, branded cannabis flowers doubled their market share of flower sales, going from 19 percent to 38 percent.

That trend is significantly stronger in the edible market. BDS reports that the top five brands in Colorado, Washington, Oregon and California respectively own more than 40 percent of the market in those states.

In Colorado and Washington, where the markets are more developed, the top five brands are capturing more than 70 percent of the market.

Constellation and Molson Coors want to get to market in front of their competitors in the hopes that their brands will be able to dominate markets, as branded edibles currently do.

The psychology behind consumers looking to recognized, name brands makes sense. In a new market that has mostly unknown products in it, consumers are not sure what to try.

A branded, consistent product can be compared apples-to-apples to other such products. A branded product that meets a consumer's expectations is likely to be purchased again by the consumer.

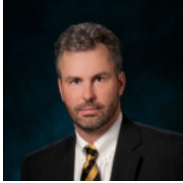
In comparison, generic flowers leave consumers to guess whether they will be the same as the last ones they purchased. Branded products also allow friends and sales representatives to confidently make recommendations based on their personal knowledge.

As it is with alcoholic beverages, consumers will want to know that the products they buy are consistent from purchase to purchase.

It is no coincidence that brewing companies are among the first big players to enter the market. Look for them to aggressively establish their brands.

## **About The Author:**

## ABOUT THE AUTHOR.



### Jim Kohl

Jim Kohl has extensive experience in commercial litigation, arbitration and mediation. In addition, he represents clients in the creation, acquisition and disposition of entities and real estate. Kohl can be reached at [jkohl@howardandhoward.com](mailto:jkohl@howardandhoward.com) or 702-307-0840.

Shares


Connect With Me :

0 Comments

Cannabis Business Executive

 Login ▾

 Recommend

 Share

Sort by Newest ▾