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Cannabis Products: Research to Innovation Roundtable

September 2020

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Cannabis 2.0 headlines… start low, go slow

Vape pens outdistance other ‘Cannabis 2.0’ products in Canada, data shows

MjBiz Daily | August 12, 2020

Cannabis 2.0 finally on its way to B.C. shelves

Cannabis Life Network | December 2019

Sales of cannabis edibles get off to a slow start

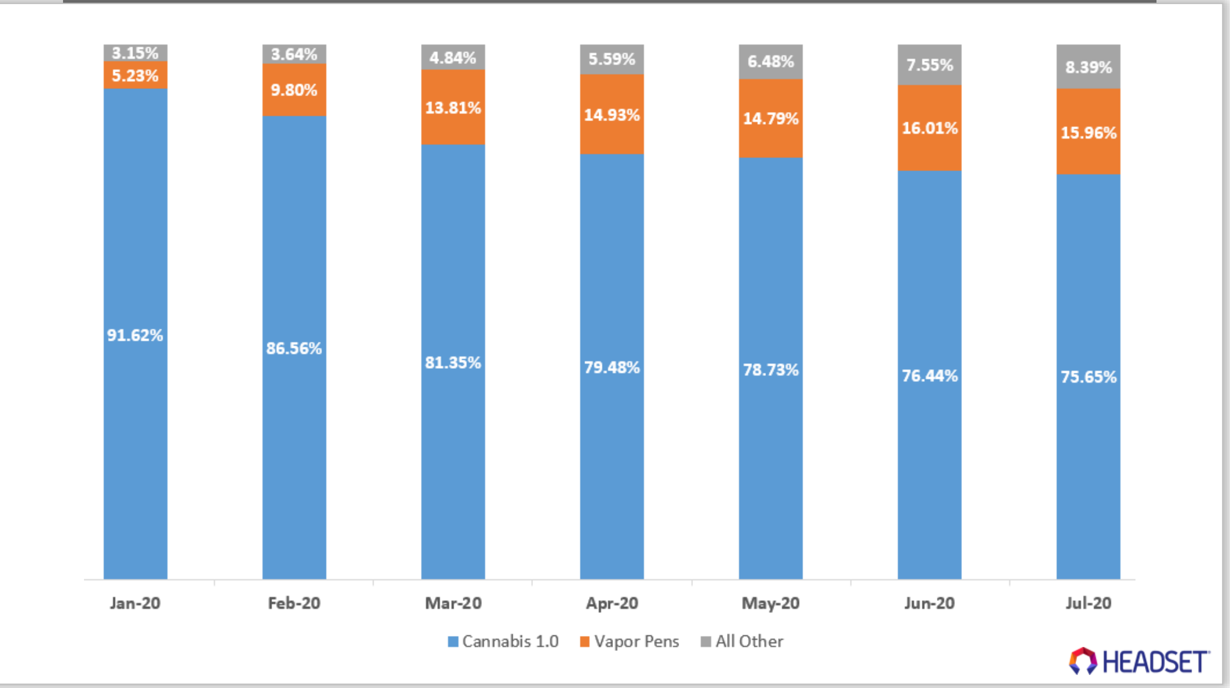
BNN Bloomberg | December 2019

'To be expected': Patience urged over limited supply of cannabis edibles

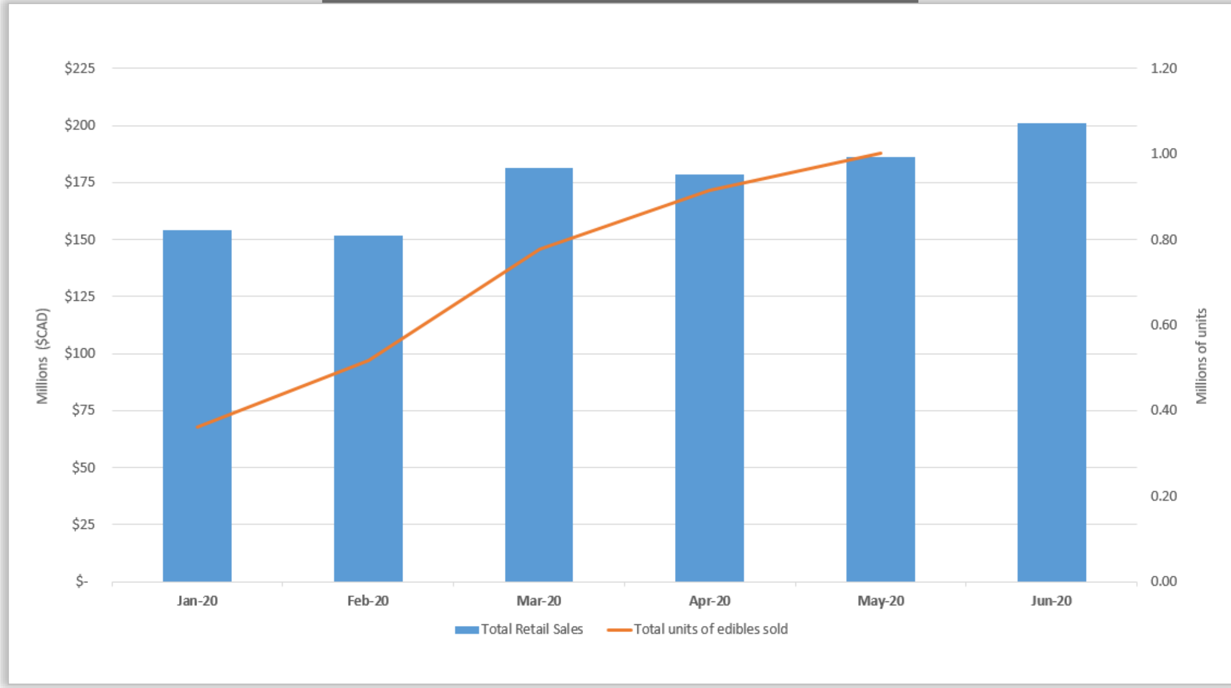
Calgary Herald | Jan 2020

What has the launch of 2.0 products in Canada looked like so far?

Edibles, Beverages, and Topicals Makes Up <10% of Sales…



…But the Category is Growing



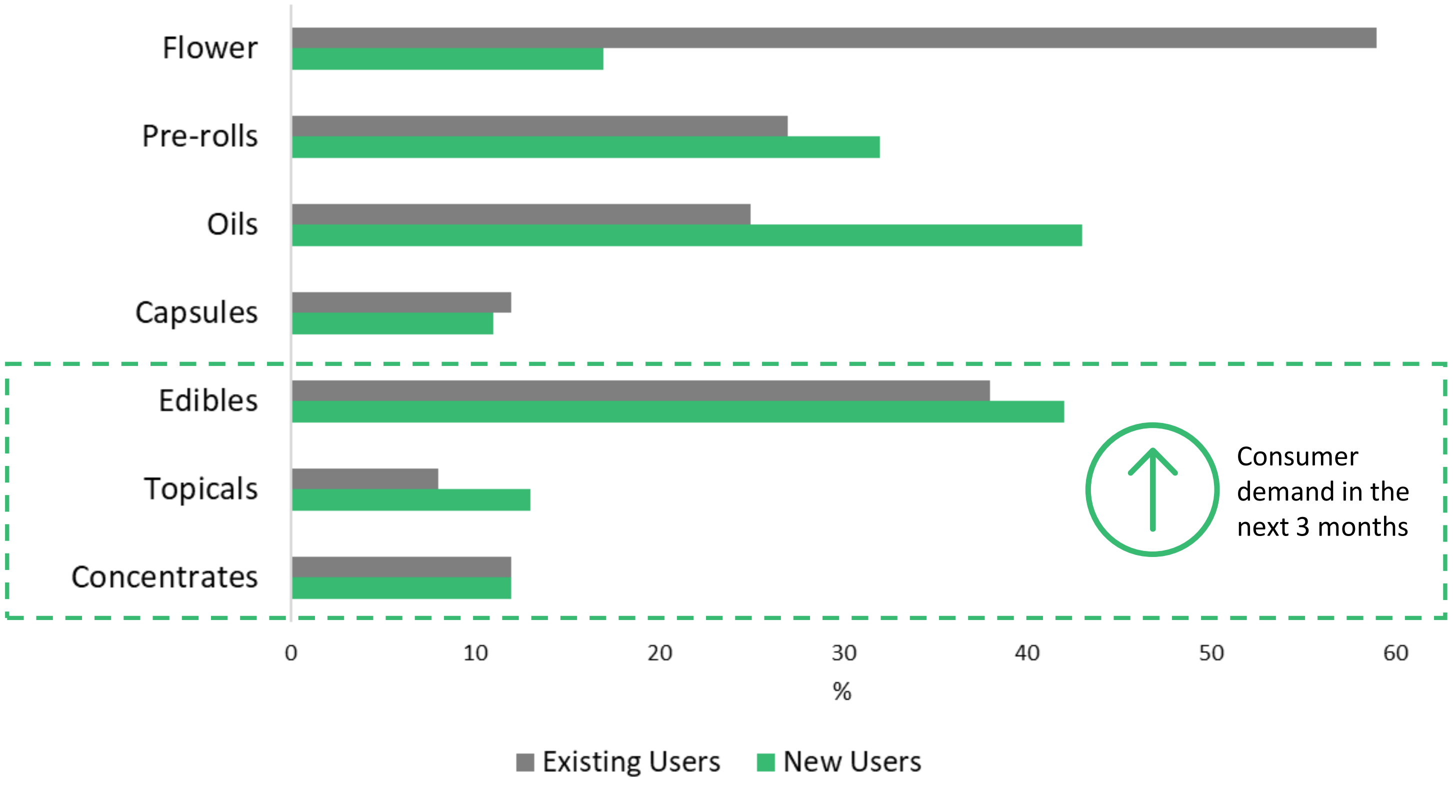
- Total cannabis retail sales have grown 33% since Jan 2020 to Jul 2020 ($300 mm annualized), which roughly correlates with the size of “2.0” product market share
- Vape pens were quick to be introduced to the market; edibles, beverages, and topicals have been introduced more slowly
- Unit sales of edibles (including beverages) rose by 2.75x from Jan 2020 to Jun 2020, but still make up <10% of the total market

Top performing edibles / beverage SKUs in first half of 2020

HEADSET

Flower remains the favourite but alternative formats have made big gains, especially with new users

Product Purchases Since March



88% of respondents expect purchases of edibles and topicals to increase or remain the same (consistent across age groups and gender)

What kinds of products would consumers be interested in, if available?

Flower *(39%)*

Non-alcoholic Beverages *(21%)*

Alcoholic beverages *(22%)*

Candies *(36%)*

Chocolate *(37%)*

Baked goods *(42%)*

Ice cream *(18%)*

Crackers/biscuits *(10%)*

Beef jerky *(11%)*

Potato chips *(16%)*

Granola products *(9%)*

Oatmeal *(7%)*

Nut mixes *(10%)*

Soup broths *(7%)*

Olive oil *(11%)*

Honey *(18%)*

Bath bombs or salts *(10%)*

Herbal elixir sprays *(8%)*

Body lotions *(14%)*

Oils *(30%)*

Capsules *(19%)*

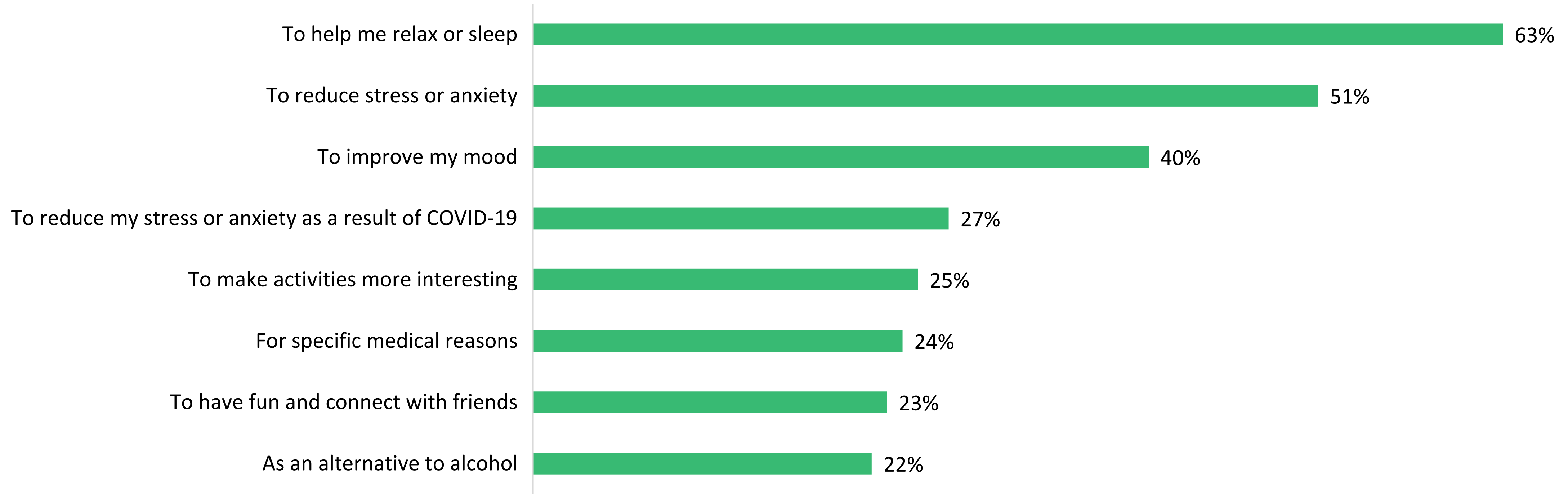
Other *(2%)*

– While interest for flower remains high, respondents indicated a higher interest in edible products (especially baked goods, chocolate and candies) than other types of cannabis products (including oils and capsules).

– Existing users expect to buy more flower, baked goods, chocolate and candies compared to new users.

– While the combination of alcohol and cannabis in a single product is prohibited, respondents expressed interest in the combination.

Why are consumers using cannabis?



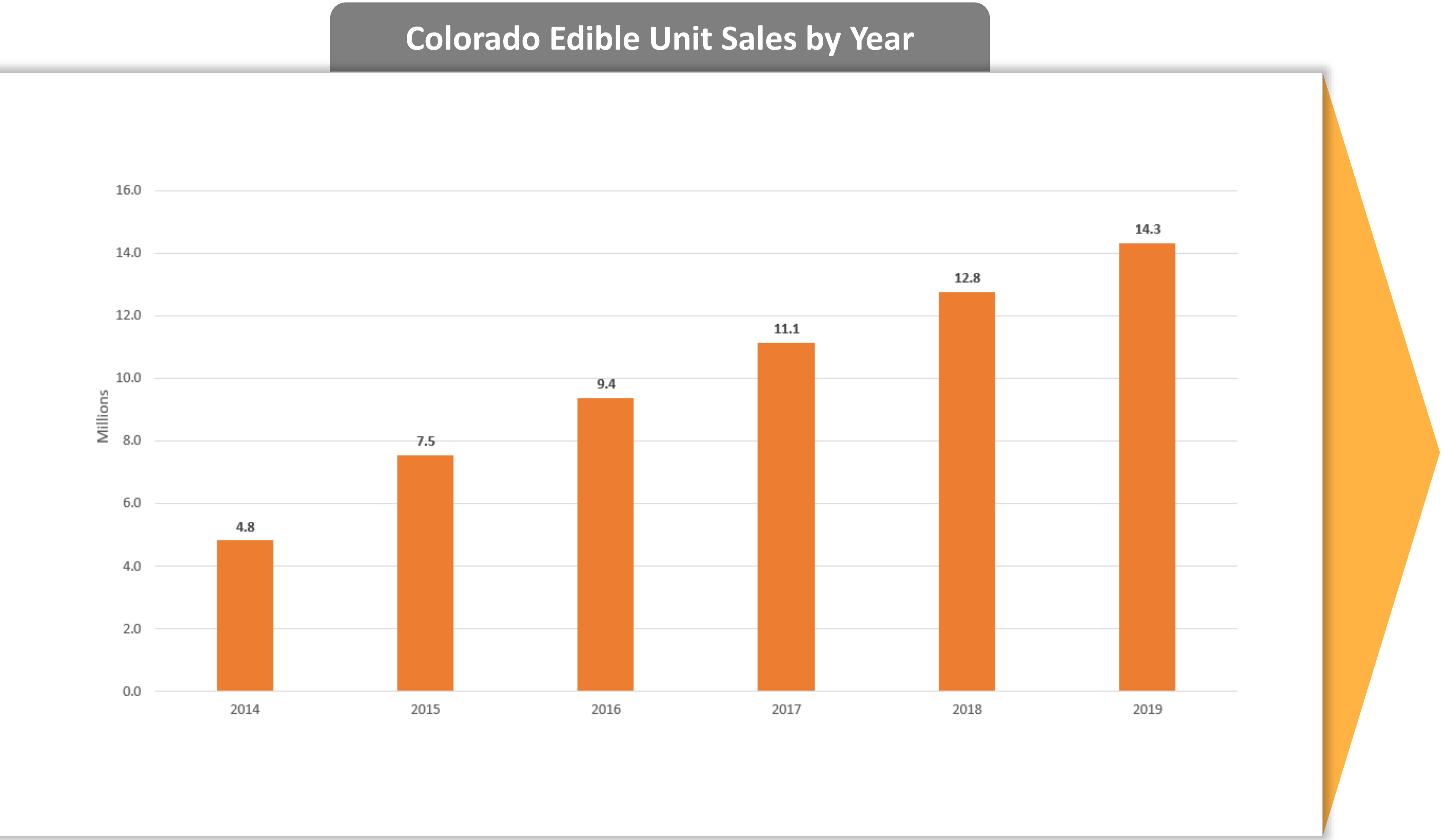
How does this data influence product development, marketing, and potential usage occasions?

Next wave of companies will be customer-centric and specialized

Consumer Centric Brands – it's not just about getting "High"

- More "experience enhancement" focused usage occasions (social settings, alternative to alcohol, to improve mood, relaxation)
- Users who lean towards 2.0 products may also do so because to avoid smoking/inhalation
- Additional product features that companies need to consider (taste/flavour, texture, onset/offset times, consistency, etc.)
- More specialized, focused companies will arise to meet these varying consumer needs

What has growth been like in more mature U.S. state markets?



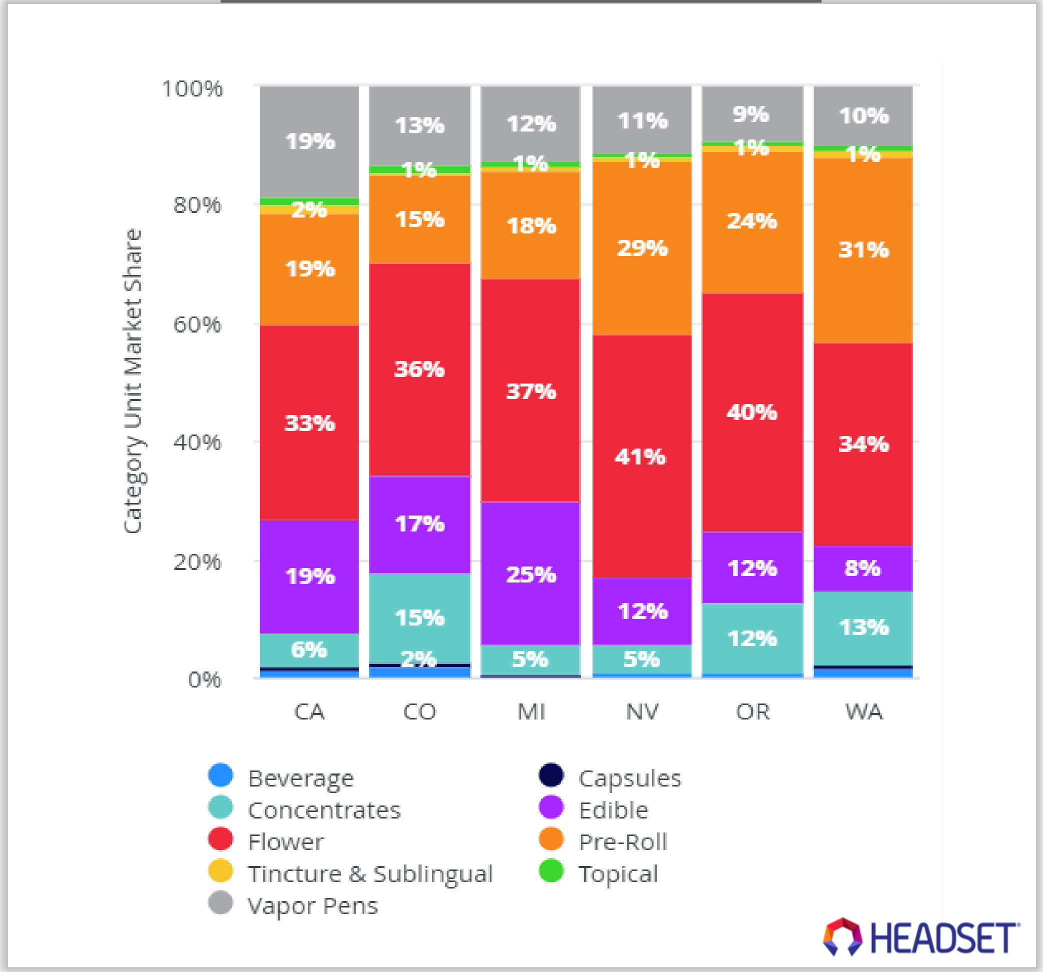
– Colorado has increased continued growth of edibles in each year since adult-use legalization, with a CAGR of 24.34%

– California has nearly 75x the number of unique SKUs within 2.0 products, compared to the Canadian marketplace

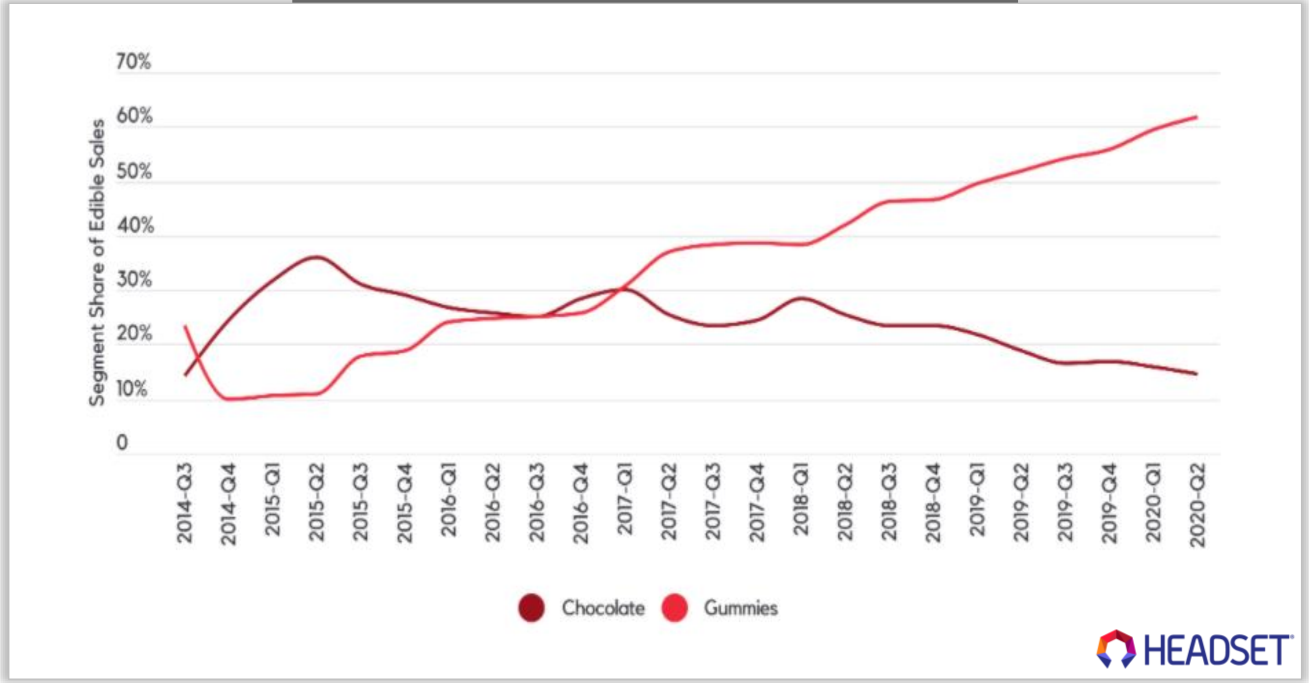
– Canadian market has higher barriers to entry due to regulatory framework, but illustrates that more competition and continued market growth is expected

What can we learn from US markets?

Category Unit Share by Market



Chocolate & Gummies Segment Share



- Chocolates and gummies make up > 70% of edible sales in US markets
- Hemp-derived CBD products sold through other distribution channels (outside of cannabis retail) may understate the market for beverages and topicals

What's different from US states?

The Regulations

- Product Potency
  - Canadian regulations prevent edibles and beverages from containing more than 10mg THC per package
  - This limit may limit consumer spend and fail to effectively compete with an illicit market, but may appeal to different consumers and usage occasions
- Marketing and Packaging restrictions in Canada makes it more challenging to reach consumers
- Products derived from hemp-derived CBD still sold through the cannabis regulatory regime, limiting exposure to mainstream consumers

Do U.S. Brands Matter in Canada?

- There have been a wave of licensing arrangements to "export" U.S. brands to Canada
- Need to ensure formulations are compatible with Canadian regulations
- Remains to be seen whether U.S. brands will resonate with consumers and be more effective than marketing a homegrown brand

PANTRY

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Where do we go from here?

Long runway for growth in Canada based on what we have seen in the U.S.; being first isn't a sustainable strategy

Consumer centric brands and focused companies will succeed

Need to attract new consumers to the category that are seeking alternative ways to consume outside of inhalation

Will there be a separate pathway for CBD in the future?

How Can We Help You?

Contact us

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