

CANNABIS INTELLIGENCE BRIEFING

# The Tasty Future of Cannabis Edibles



**Executive Summary**

# \$4 Billion in Five Years

Legal cannabis-derived edible products, from candy and chocolate to infused beverages, is a sector worth watching over the next few years. Legal cannabis markets in the United States and soon Canada, will be the incubators of this nascent cannabis sub-category. Edibles spending in those two markets topped \$1 billion in 2017 and is forecast to grow to more than \$4.1 billion by 2022.

It has become clear that the legal cannabis market is about much more than inhaling the smoke of smoldering cannabis flower. A survey conducted by BDS Analytics' Consumer Insights group in spring 2017 found that 64% of Colorado adult-use consumers had used cannabis edibles in the past six months, just behind inhalation at 81%. The company's California survey, also conducted in spring 2017, yielded similar results: 55% for edibles

## US and Canada Edibles Spending (In Billions)



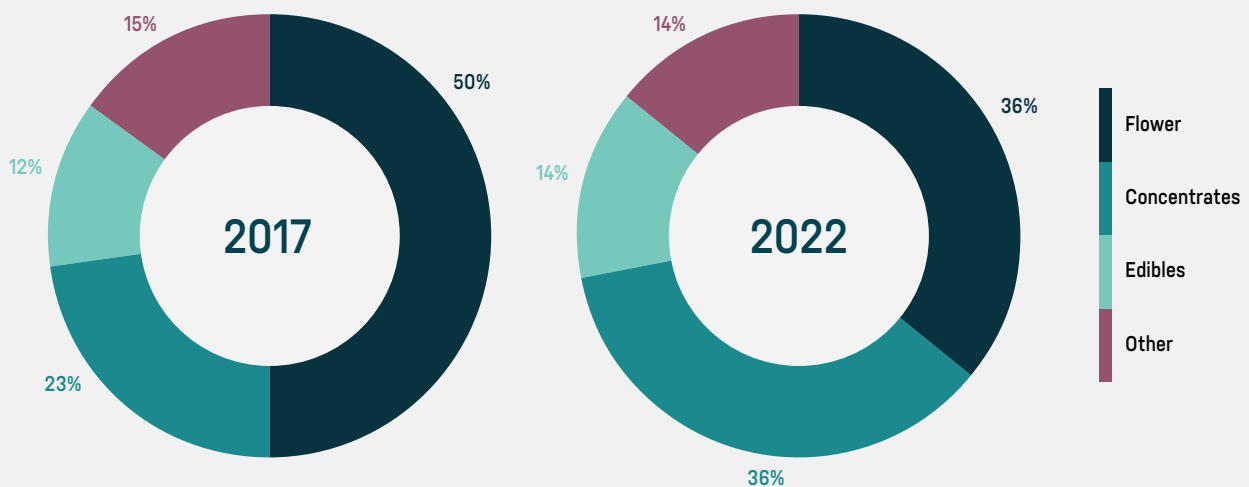
Source: Cannabis Intelligence Briefing

versus 88% for inhalation. These results are reflected in point-of-sale data in these and other markets tracked by BDS Analytics' GreenEdge service.

Consumers in front-running adult-use markets in the U.S. have significantly shifted their spending over recent years to other categories of cannabis consumables, especially concentrates and edibles. That trend will continue over the next five years, with flower's share of total spending dropping from 50% in 2017 to just 36% in 2022. Edibles will grow from 12% to 14% in that time frame, and concentrates is expected to swell from 23% to 36% (see "Concentrates: The Hottest Product Category in Cannabis").

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### Consumable Cannabis Categories in the US



Source: Cannabis Intelligence Briefing

### 3 EXECUTIVE SUMMARY

That's an important shift for investors to note. The edibles category represents an early opportunity for investment in a cannabis sector that is growing quickly, brand-focused and well-understood. The brands being built today will be the edibles powerhouses of tomorrow, and they'll be very attractive acquisition targets when the attention of the multi-billion-dollar mainstream food and beverage industry shifts to the possibilities offered by legal cannabis—and it will, especially with national legalization in Canada and continued movement in that direction in the U.S.

National-level legalization or adoption of a *laissez-faire* approach is likely on the horizon in the United States, and national adult-use sales are just around the corner in Canada, so it's a sure bet that established big-brand food and beverage companies *will* be taking notice.

Some already have: In October 2017, U.S. beverage giant Constellation Brands—producer of several well-known beer, wine, and spirits brands—purchased a 9.9% stake in Canadian Licensed Producer (LP) Canopy Growth corporation for \$191 million. In August 2018, the company upped its stake in Canopy to 38%, increasing its cannabis

industry investment by around \$4 billion. While the company said it does not plan to launch any cannabis-infused beverages in the U.S. prior to national legalization, it may do so in Canada after adult-use legalization takes effect there.

The size of that increased investment is more than three times the nearly \$1.3 billion total consumer spending on legal cannabis forecast to take place in Canada in 2018. What does it buy Constellation? The answer seems to be ground-floor access in a market that doesn't have much going in the way of edibles yet (next to nothing in beverages) and the possibility of legal national distribution.

Constellation's investment in Canopy Growth is likely just the start of a coming flood of mainstream investment in cannabis in general and the edibles sector in particular. Other beverage makers, including Heineken and Molson Coors have already chosen partners in the cannabis industry. As the edibles business grows and regulatory fears in the U.S. ease, the pace of intra-industry mergers and outside acquisitions will increase exponentially. In edibles that trend will likely be led by major public companies already dominant in their existing markets.



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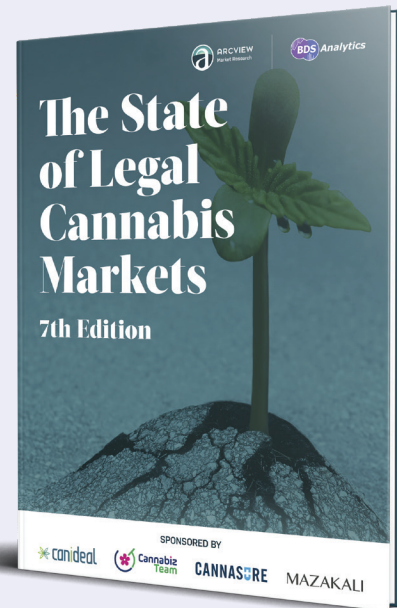
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