

Cannabis in CPG

CANNABIS IS EXPLODING IN CPG: IS YOUR ORGANIZATION READY?

Larry Levin
Jessica Lukas

August 27, 2019



IRi
Growth delivered.



BDS Analytics

Meet Today's Speakers!



Larry Levin

Executive Vice President, Market and Shopper Intelligence
IRI



Jessica Lukas

Vice President, Consumer Insights
BDS Analytics

Today's Discussion

1

Legal Cannabinoids are Growing – Are You Ready?

2

The Legal Cannabinoid – the Consumer

3

Legal Cannabinoids – Learn from Dispensary

4

Legal Cannabinoids – Impact on Alcohol

5

Legal Cannabinoids – Impact on Retail

Legal Cannabis is a Game Changer

- Legal cannabis (*hemp and marijuana*) is new, cannabis is not
- Consumption is purposeful, multi-faceted, and complex and will continue to DISRUPT every consumer industry
- In the slow growth (2-3% if lucky) world of CPG, virtually nothing is growing like this
- CBD in general retail presents huge growth; the Dispensary Channel is the largest retail channel for cannabinoid-infused products today and will remain so for the next 5+ years; it is a leading indicator of what is to come
- Constantly evolving—*keep up*

BDS Analytics Provides Essential Insights and Analytics on the Global Cannabinoid Market of Today and Tomorrow

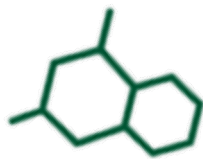
- **Retail Sales Tracking:** Know exactly which categories, brands, products, and product features are trending and selling historically and on an ongoing basis
- **Consumer Insights:** Maintain an in-depth understanding of the consumer (and non-consumer) and how they are evolving. Who is the consumer, key segments, how they think and behave, what they consume, where they buy, and much more
- **Industry Sizing:** Gain full insight into the future trends and projections for total cannabinoids globally

What are Cannabinoids? CBD is NOT Hemp

Cannabinoids are Chemical Compounds Found in the Cannabis Plant; Hundreds Believed to Exist

Marijuana and hemp are derived from the same botanical parent plant. Marijuana contains higher levels of THC, where hemp contains lower levels of THC. Regardless of where it is derived, CBD is the same compound.

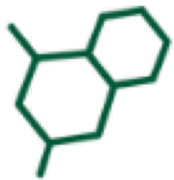
CANNABIS



HEMP

Low THC (<0.3%)

- **Not Intoxicating**
- Used to treat a variety of health, wellness, medical conditions
- Also includes “industrial” products
- Projected \$2B in CBD products 2019



MARIJUANA

High THC¹ (>0.3%)

- **Can be Psychoactive / Intoxicating**
- Medical and recreational use
- Federally illegal
- Projected \$12.8B in 2019 legal sales

1. Tetrahydrocannabinol 2. Cannabidiol



IRI



BDS Analytics

Not Surprisingly, Massive Confusion Exists; Consumer Education is Necessary

only **22%**
of U.S. 21+ population knows
what cannabinoids are and
can articulate the definition





There are no
differences in the
effects of CBD or THC

25%
incorrect

↓ *from 63% in October*

30%
don't know

Any product containing hemp
will cause effects such as feeling
high, relaxed, sleepy, etc.

39%
incorrect

↓ *from 61% in October*

20%
don't know



1

LEGAL CANNABINOIDS ARE GROWING

Are you ready?



IRi



BDS Analytics

The Majority Agree with Some Form of Marijuana Legalization



~80%

of U.S. adults agree there should be **some form of legal marijuana usage**



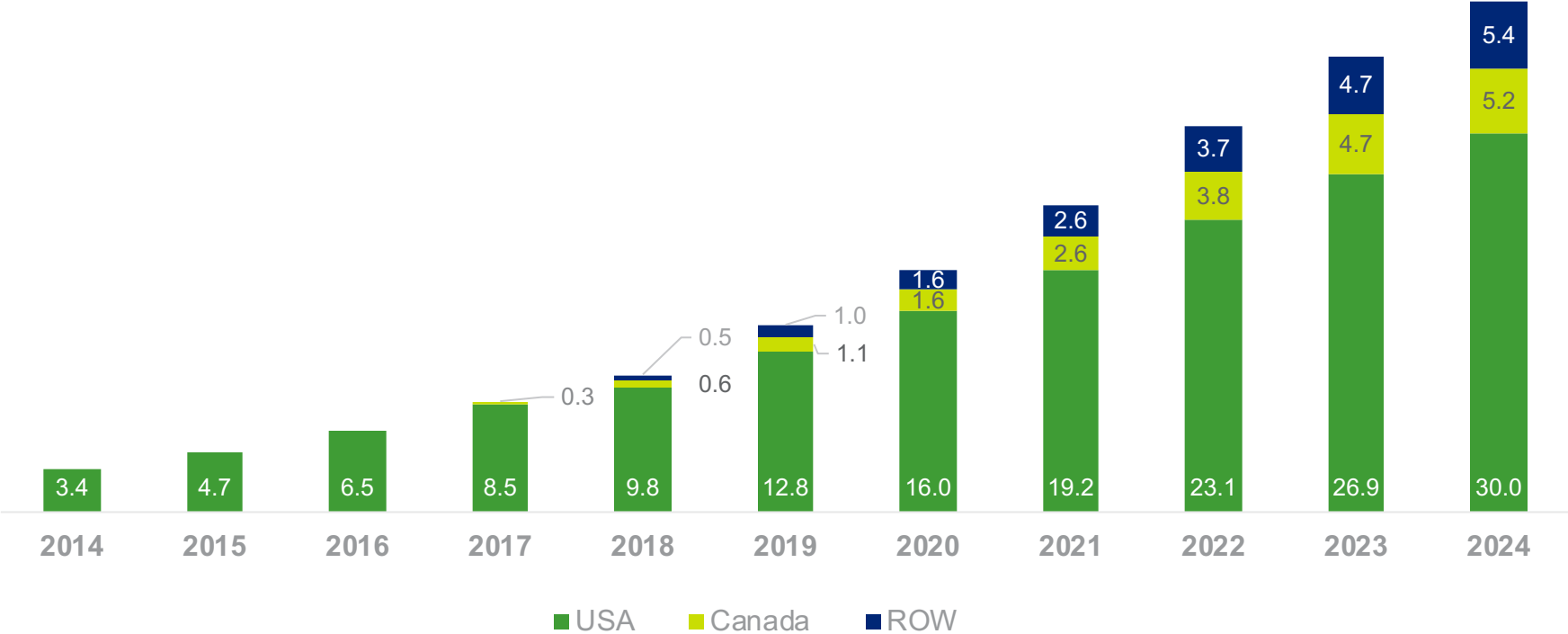
64%

of U.S. adults agree marijuana has **medical benefits**



BDS Analytics Projects a Global Market of ~\$41B In 2024; The U.S. Will Continue to be the World's Largest Market

Global Legal Regulated Marijuana Spending by Region (\$USD Billions)

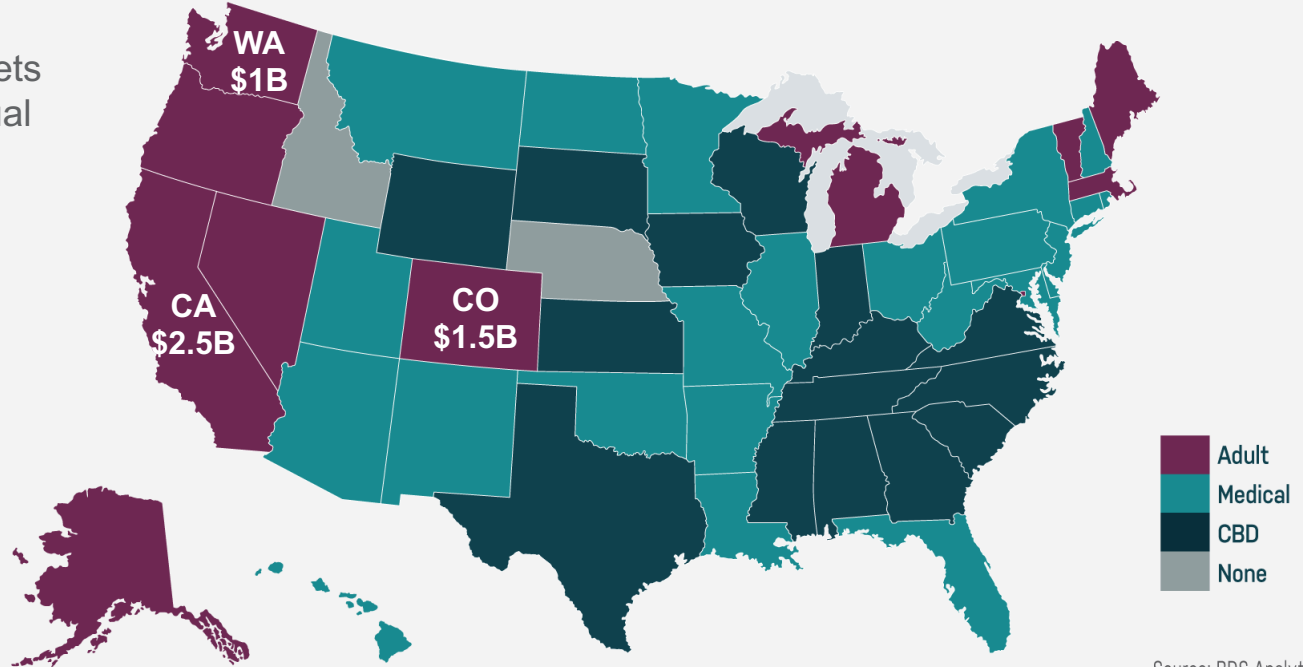


Source: Arcview & BDS Analytics Cannabis Intelligence Briefing

In the U.S., it is no Longer a Western Phenomenon

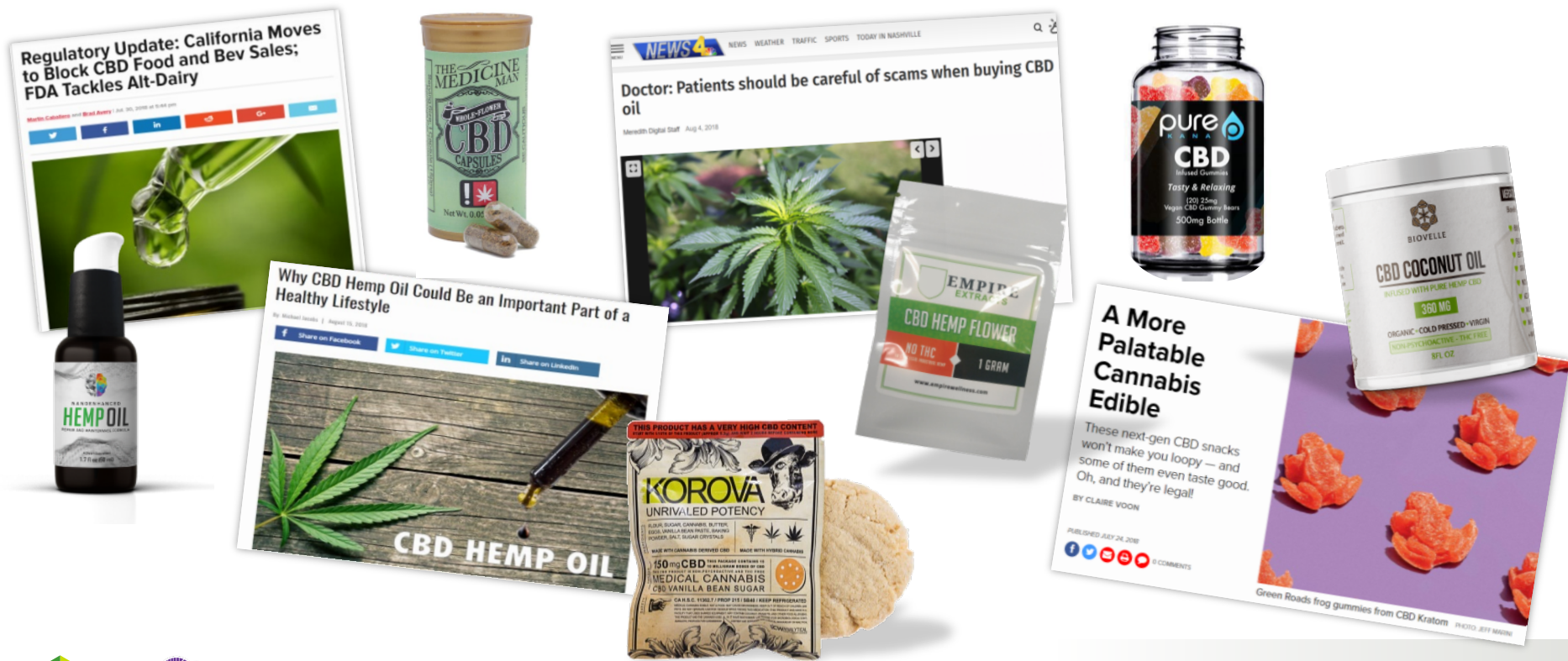
U.S. 2018 Legal Status

- Three adult legal markets surpassed \$1B in annual spending during 2018
- By 2024, 15 U.S. state markets will each surpass \$1B in annual revenue



Source: BDS Analytics

AND Cannabis is Not Just THC (Marijuana) Anymore – CBD is Exploding



Hemp-Derived (and Marijuana Derived) CBD Products are Available in Many Forms to Address Multiple Consumer Needs



Supplements Soft Gels



Supplements Gummies



External Pain



Supplements Oil



Sleep



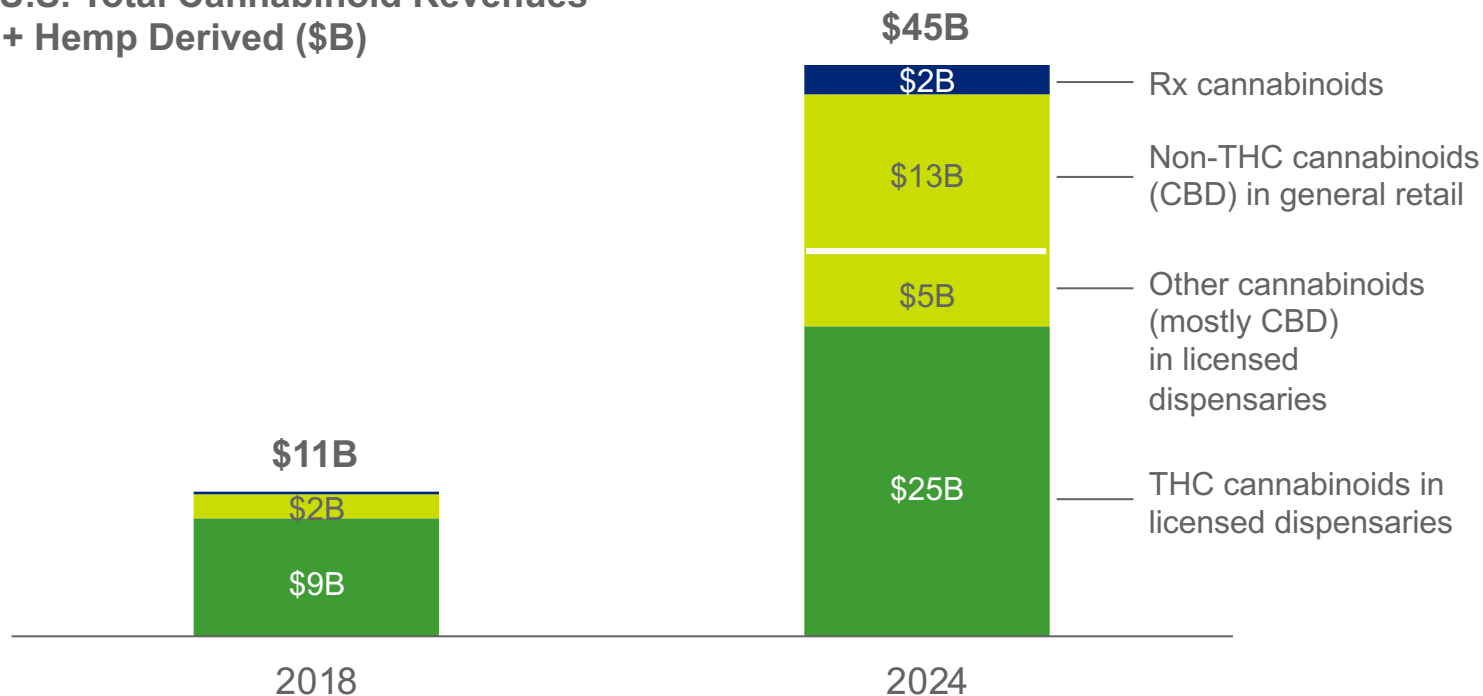
Skincare



Beverages

With Cannabinoids Like CBD Crossing into General Retail, BDS Analytics Projects a ~\$45B U.S. Total Cannabinoid Market in 2024

Projected U.S. Total Cannabinoid Revenues Marijuana + Hemp Derived (\$B)



Source: BDS Analytics CBD Market Monitor and Arcview Market Research

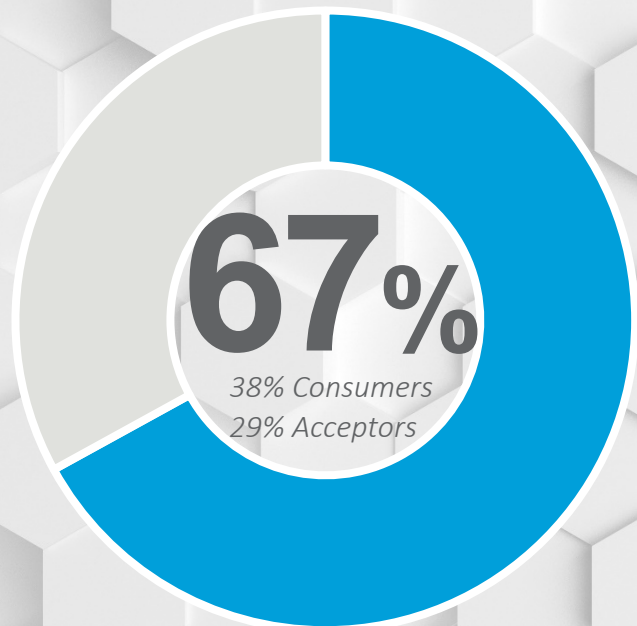


2

THE LEGAL CANNABINOID

The Consumer

There are Consumers, Acceptors and Rejecters™ of Marijuana; Marijuana Acceptance is “Mainstream”

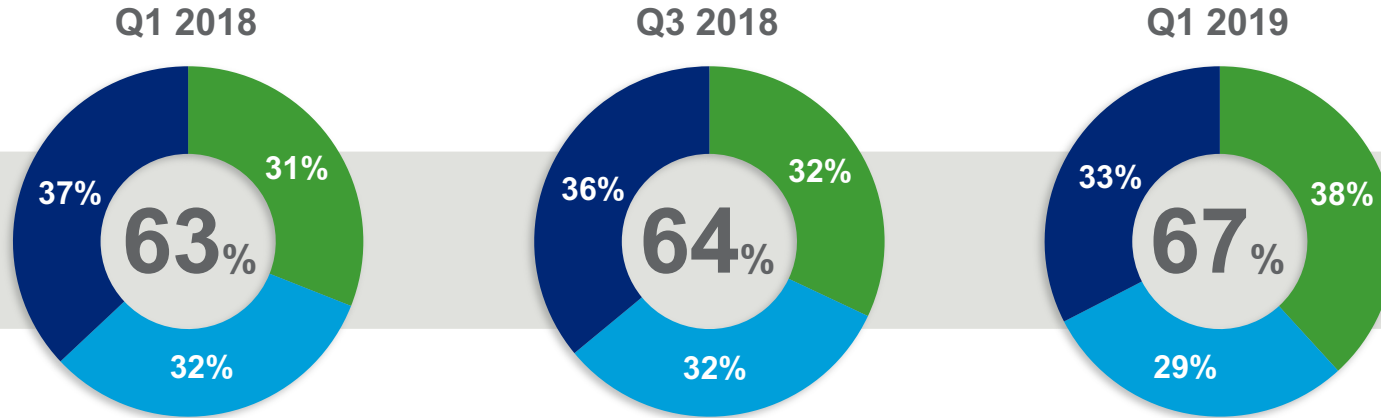


...of adults 21+ in Fully Legal U.S.
States Consume Cannabis or are
Open to Consuming Cannabis

~ 33% are Rejecters
(would not consider in the future)

There are Consumers, Acceptors, and Rejecters

Majority of Adults in Fully Legal States Consume or are Open to Consuming (a GROWING Group)



Consumers: Have consumed cannabis or cannabis products within the past six months



Acceptors: Would consider consuming cannabis or cannabis products in the **future**



Rejecters: Would not consider consuming cannabis or cannabis products in the future

BDS Analytics' Public Attitudes and Actions Toward Cannabis, Level 1 Fully Legal U.S. States Q1 2019

There is No ONE Cannabis Consumer

Cannabis Consumers Span:

- Generations
- Gender
- Socio & Economic Backgrounds
- Motivations
- Need States
- Benefits
- Premium / Luxury / Economy

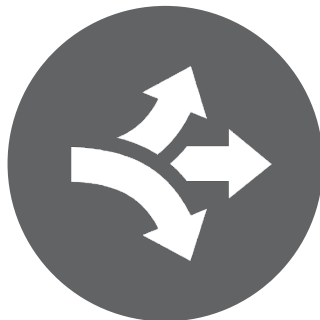
Marijuana Consumption is Multi-Purposed and Multi-Faceted; the Health and Wellness Benefits of Cannabis and CBD **are Not** a Hemp-Derived Phenomenon



71%
Recreational
& Social



56%
Health or
Medical



COMBINED
In the U.S. Market,
33%
Consume for
Recreational & Social
and Health or Medical
Reasons

BDS Analytics Consumer Research across Cannabis Consumers: U.S. adults 21+ in Legal Level 1 States

Source: Q4 2018 Level 1 States: U.S. adults 21+

Thus, the Impact of the Dispensary Channel is Relevant for Leading Manufacturers Across ALL Consumer Industries

U.S. EXAMPLE

Among Cannabis Consumers and any of the Following, the % of Consumers Who 'DECREASED' Consumption of that Category Due to Their Cannabis Consumption is Detailed Below

Rx Medications

↓ 41%



30% of U.S. adults consume cannabis to avoid Rx medications

OTC Medications

↓ 41%



24% of U.S. adults consume cannabis to avoid OTC medications

Tobacco

↓ 24%



Liquor Spirits

↓ 23%



Beer

↓ 20%



Craft Beer

↓ 19%



Wine

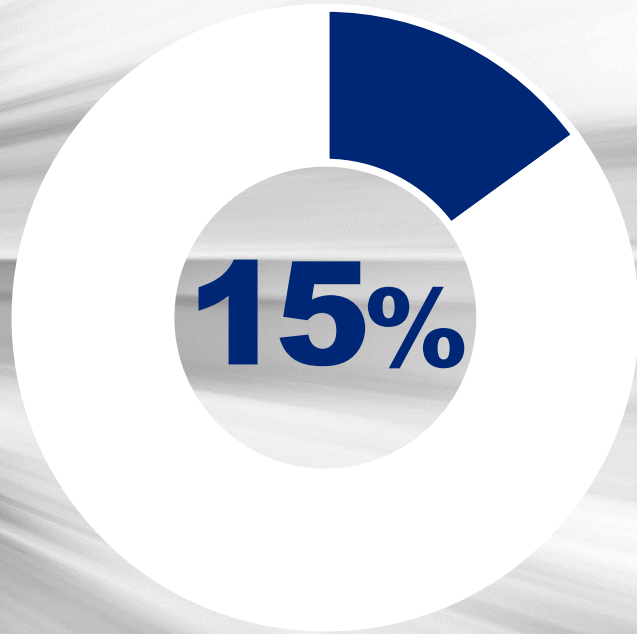
↓ 17%



BDS Analytics Consumer Research: U.S. adults 21+ and CAN adults 18+

15% of U.S. Adults Have Consumed Hemp-Derived Products

NOTE a Much Smaller Penetration than Marijuana in Fully Legal States (38% Consumers)



of Adults 21+ in the U.S. Have
**Consumed Hemp-Derived
Products Within the Past 6 Months**

U.S. General Market Hemp Consumer at a Glance

43

Average Age

40%

Married

55/45

Male / Female

39%

College+

63%

City / Suburb

Top Ailments

1. Anxiety
2. Depression
3. Back Pain
4. Stress

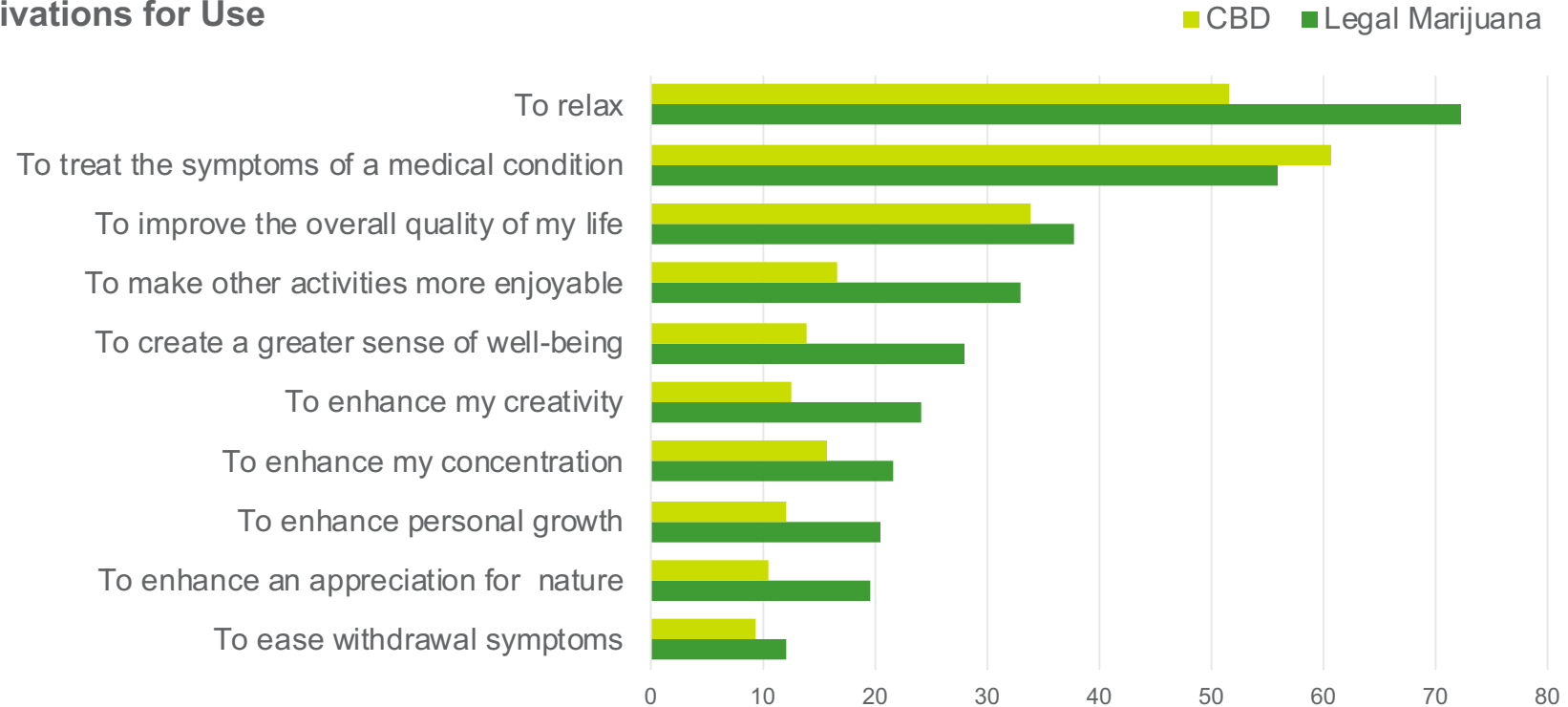
Consumption of Hemp-Derived CBD Products is Predominately Health and Wellness Related

Reasons for Hemp-Derived Product Consumption

- Improve Quality of Life
- Treat or Manage a Health Problem
- Relieve Pain
- Sleep Better
- Improve Sense of Wellness
- Avoid Rx Medications

CBD and Legal Marijuana: Same Primary Motivations, Different Priorities

Motivations for Use



IRI-MFour Cannabis Attitude and Usage Study, Feb. 2019



3

LEGAL CANNABINOIDS

Learn from Dispensary



IRi



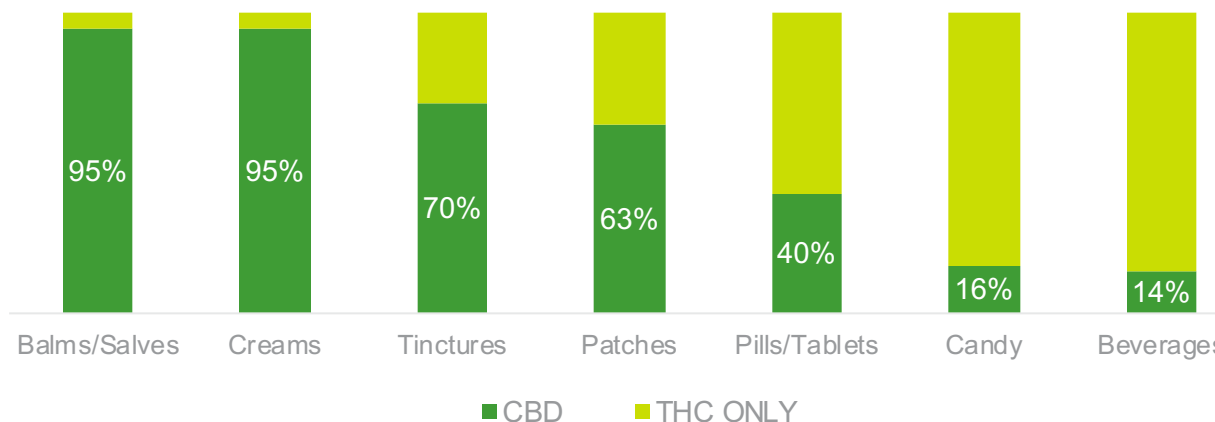
BDS Analytics

As the CBD Market Opens, the Dispensary Channel is and Will Continue to be a Leading Indicator for Success: Categories, Brands, Product, and Consumer

The Dispensary Channel is not just about high THC (intoxicating products). The most educated companies understand that legal Cannabis is NOT just about hemp CBD.

Topicals and Tinctures, the most prevalent CBD categories in the general market, have been dominant dispensary CBD forms for

years



BDS Analytics GreenEdge Retail Sales Tracking Data

Dispensary Portion Control and Dosing

44% Edibles Consumers Who Prefer Low-Dose THC (<10mg)

Micro (<2.5mg THC):	+108% (\$ sales)
Low (>2.5, <10mg THC):	+71%
Edibles:	+28%

54% Edibles Consumers Who Have Chosen Products Based on CBD Content

Of these...

24% prefer 10:1 or higher
High CBD: +67%



Thus Brands Offer “Promised” Experiences – 286 Unique “Moods” Tracked Thus Far in BDS Analytics Retail Sales Tracking Data

Mood / Effect

~5%

of 2018 and YTD 2019 \$ Sales

36% of Cannabis Consumers in fully legal states are strongly influenced by **Mood / Effect Labeling** when selecting a product



BDS Analytics Consumer Tracker, U.S. Level 1 States, Q1 2019 BDS Analytics GreenEdge Retail Sales Tracking Data

4

LEGAL CANNABINOIDS

Impact on Alcohol



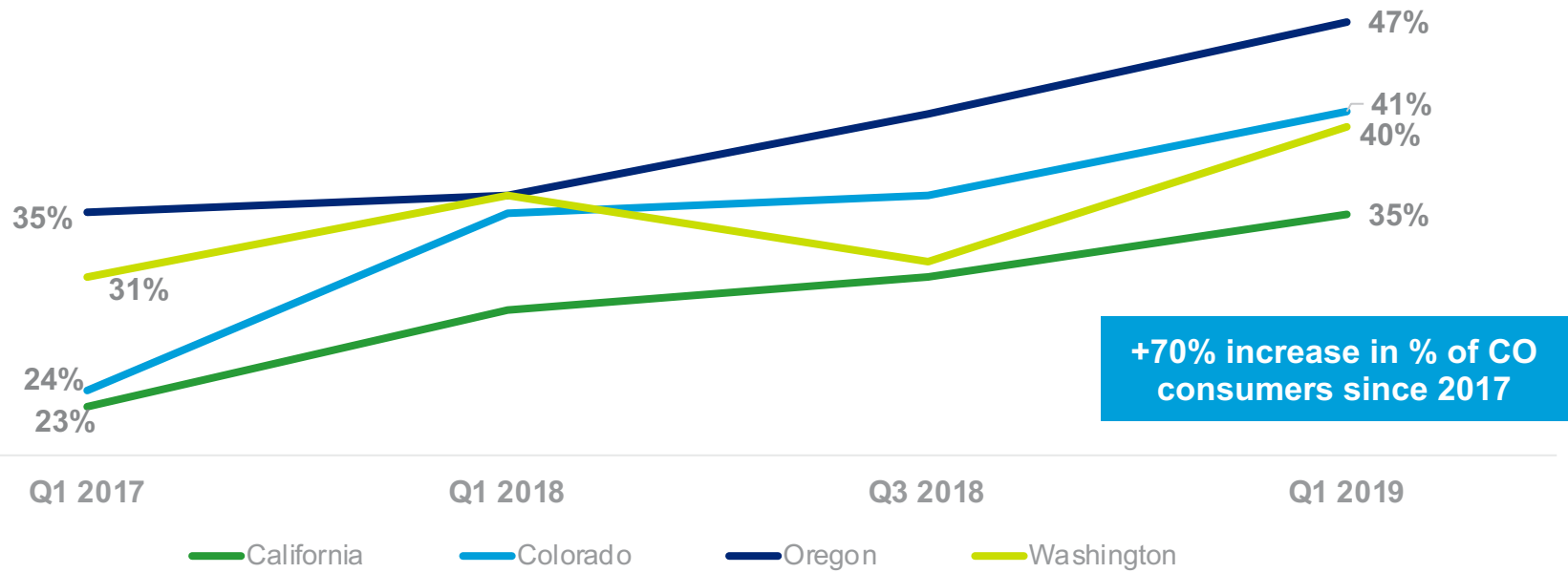
IRI



BDS Analytics

The Size of the Cannabis Consumer Market in the U.S. Continues to Grow

Percent of Adults 21+ Consuming Cannabis



BDS Analytics' Public Attitudes and Actions Toward Cannabis, United States Q1 2019

The Long-Term Impact is Inevitable; Nearly Half of Alcohol Consumers Now Consume Cannabis

Q1 2019 Alcohol & Cannabis Consumption Past 6 Months in Legal Adult-Use States



ALCOHOL CONSUMERS



45% of Alcohol consumers
also consumed Cannabis



CANNABIS CONSUMERS



65% of Cannabis consumers
also consumed Alcohol



BDS Analytics' Public Attitudes and Actions Toward Cannabis, Level 1 Fully Legal U.S. States Q1 2019

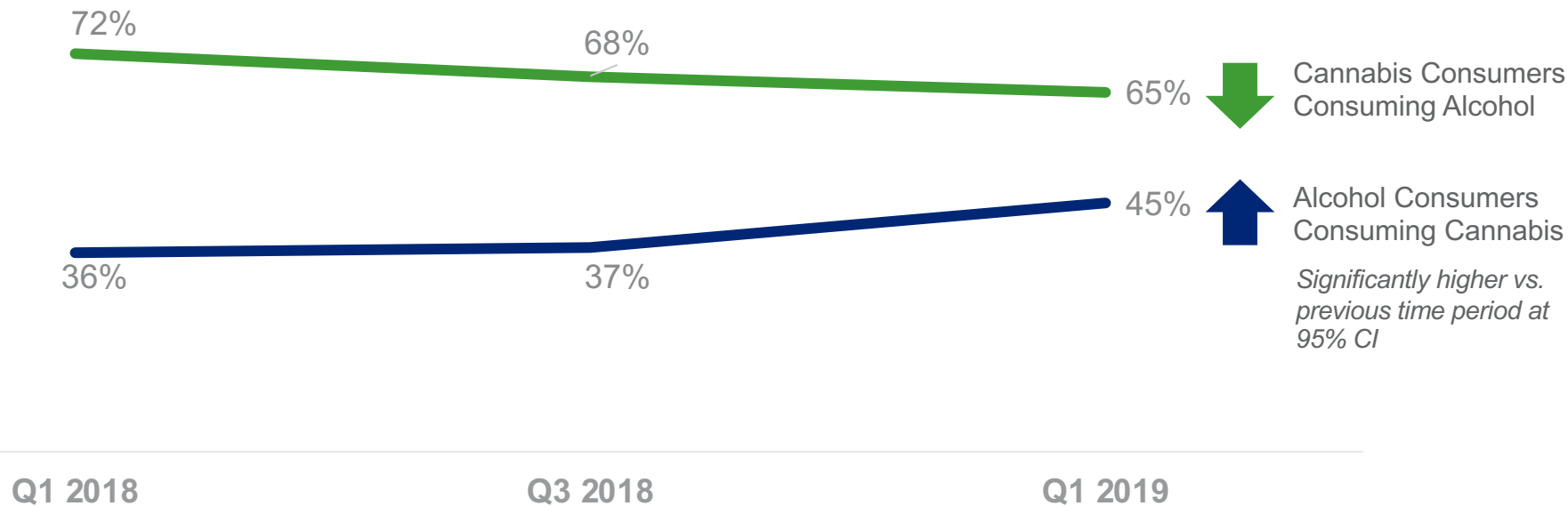


IRi

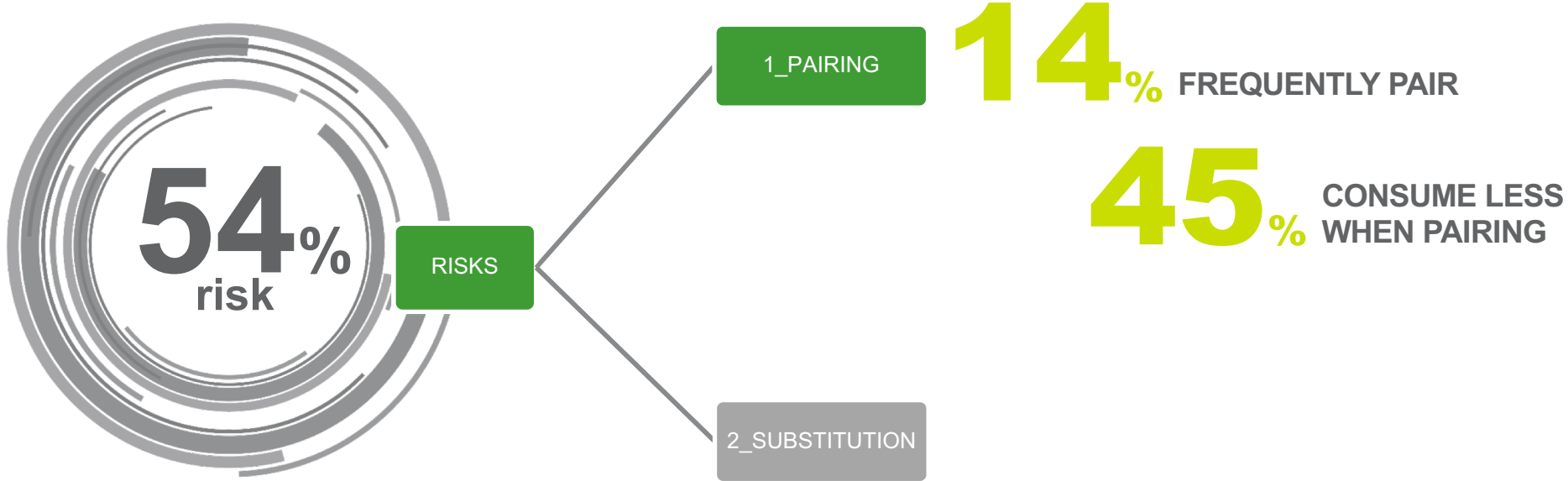


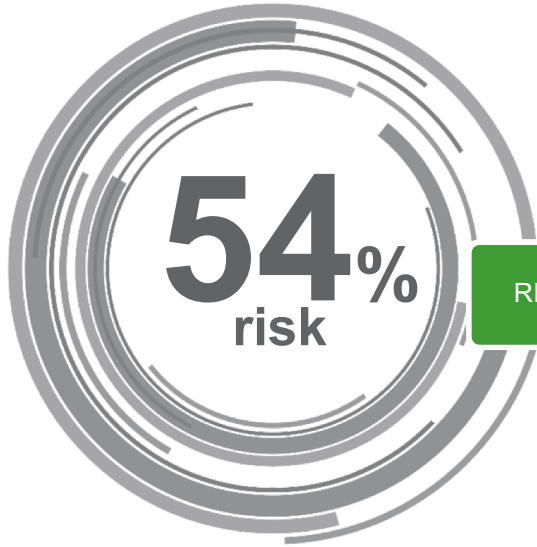
BDS Analytics

RISK – the Percent of Alcohol Consumers Consuming Cannabis is INCREASING; the Percent of Cannabis Consumers Consuming Alcohol is DECREASING



BDS Analytics' Public Attitudes and Actions Toward Cannabis, Level 1 Fully Legal U.S. States Q1 2019





RISKS

1_PAIRING



UNWIND TIME



DAYTIME FUN

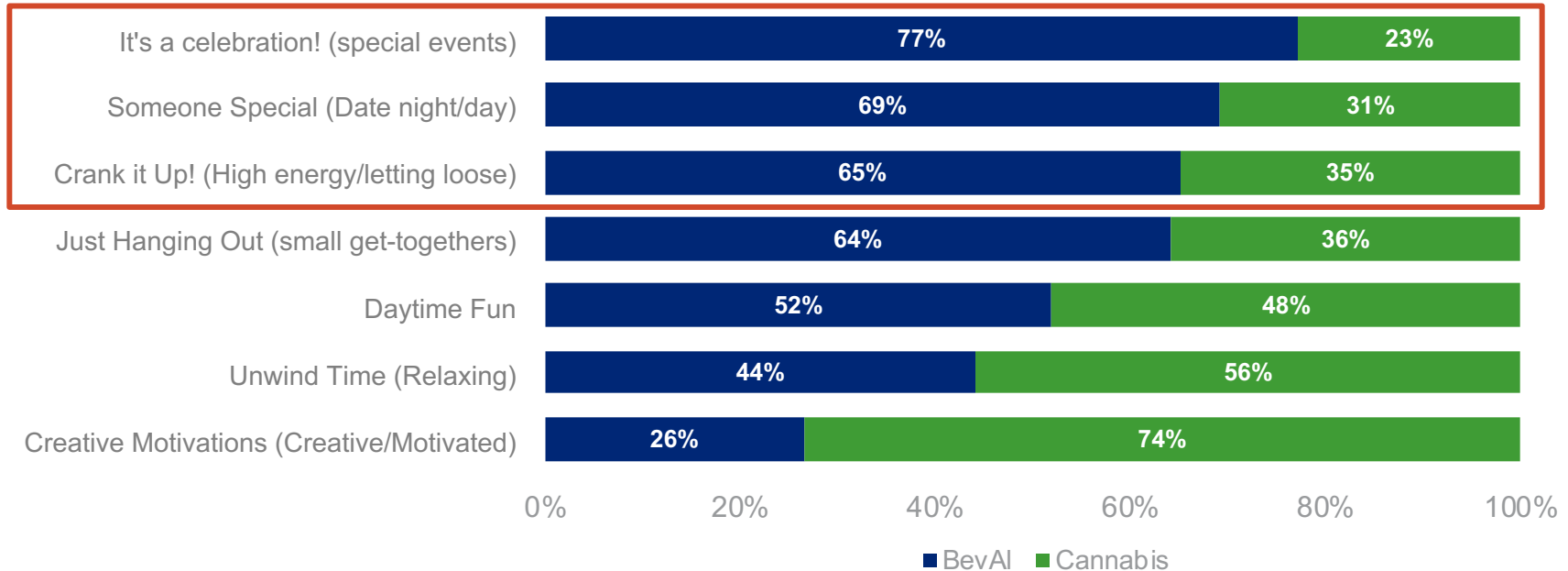
2_SUBSTITUTION



JUST HANGING OUT

For Now, Larger Group and More Social Alcohol Occasions are “Safer”

Products Consumed by Occasion – MOST OFTEN



BDS Analytics' Public Attitudes and Actions Toward Cannabis, Level 1 Fully Legal U.S. States Q1 2019

As Such, ~70% of Dualists Have Not Changed Their Alcohol Consumption Because of Their Marijuana Use

	Stopped	Decreased	Same	Increased
Spirits	2%	25%	70%	4%
Beer	3%	23%	68%	7%
Wine	1%	17%	76%	7%
Craft Beer	1%	19%	73%	6%

Risk! Among the Dualists Who Have Decreased Alcohol Consumption (~20%), Consumption of Alcohol Dropped by ~50%

	Stopped	Decreased	Average % Decrease	Same	Increased
Spirits	2%	25%	-50%	70%	4%
Beer	3%	23%	-52%	68%	7%
Wine	1%	17%	-49%	76%	7%
Craft Beer	1%	19%	-52%	73%	6%



5

LEGAL CANNABINOIDS

Impact on Retail



IRi



BDS Analytics

Expansion of CBD Products to Traditional Retail Outlets Has Begun – Food



More Kroger Co. Stores to Carry CBD Products

Supermarket News| July 29, 2019

Charlotte's Web Holdings Inc. and Veritas Farms Inc. said Monday that they're rolling out topical CBD items to 1,350 of the Cincinnati-based grocer's stores in **22 states**, including the Kroger, Dillon's, Fry's, Fred Meyer, King Soopers, Mariano's, Pick 'n Save, QFC and Smith's banners.

CBD Products are Now Being Sold in Chain Drug Stores



CVS to Sell CBD Products in 800 Stores in 8 States

NBC| March 21, 2019

CVS Pharmacy announced Wednesday that it will begin selling hemp-derived CBD products in eight states. The items will be sold in Alabama, California, Colorado, Illinois, Indiana, Kentucky, Maryland and Tennessee.

...and Walgreens



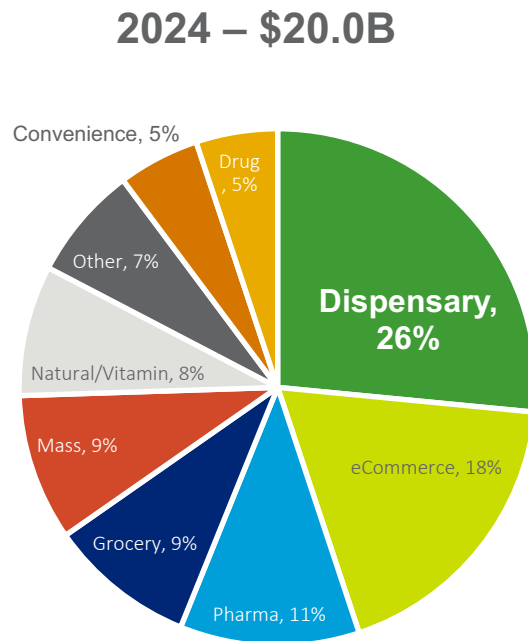
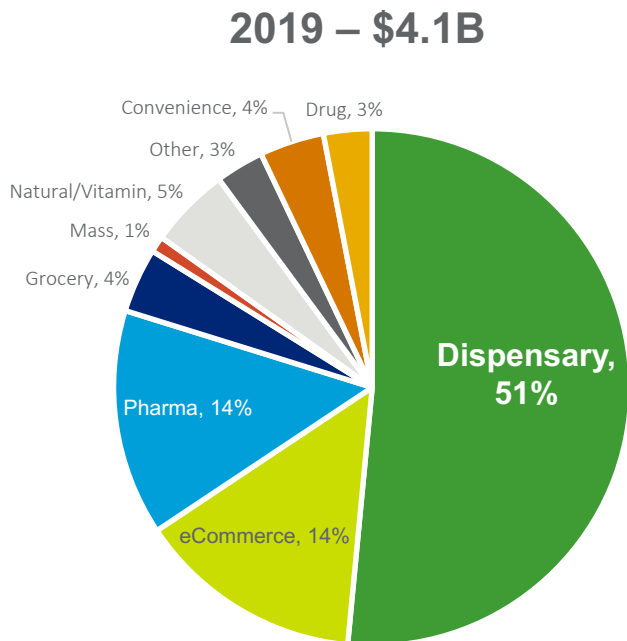
Walgreens to Sell CBD Products in 9 States

Drugstore News| March 27, 2019

Walgreens will be selling creams, sprays and patches containing CBD in roughly 1,500 stores in the following states: Oregon, Colorado, New Mexico, Kentucky, Tennessee, Vermont, South Carolina, Illinois and Indiana.

The Dispensary Channel Dominates CBD Product Sales Today and in the Foreseeable Future; the Size and Importance of Dispensaries Cannot be Ignored

BDS Analytics' Projected U.S. CBD Market



Source: BDS Analytics CBD Market Monitor and Arcview Market Research

Brands Play Across Channels

Consumers will make the decision to purchase CBD in grocery, mass, drug stores, dispensaries, at a coffee shop, at their chiropractor, etc.

Your competitors are and will play in the Dispensary Channel, and their performance must be understood.

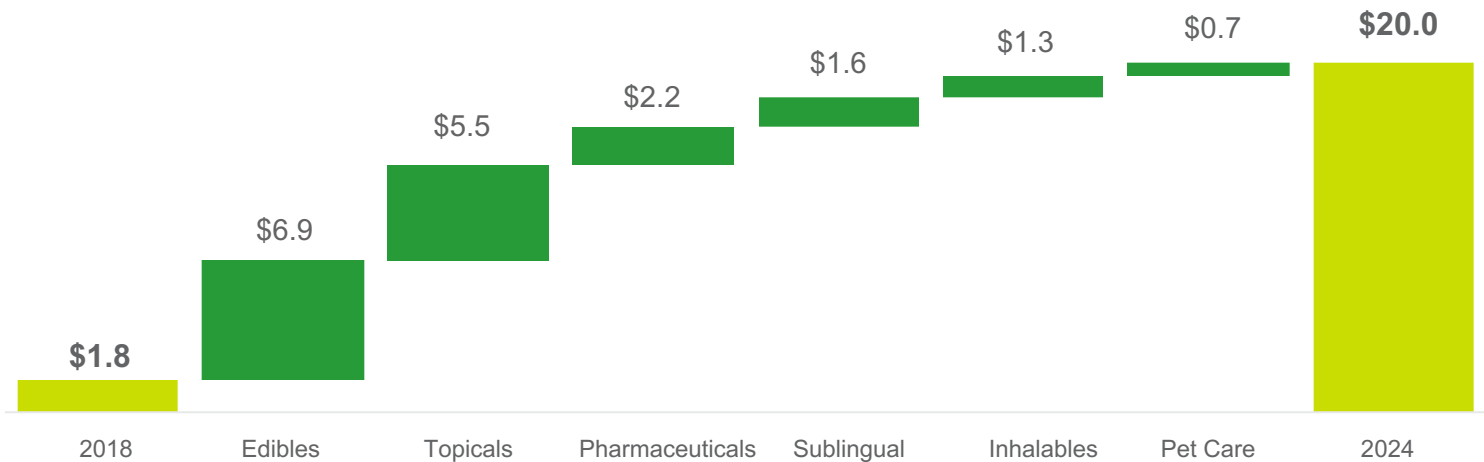


EXAMPLE: CO Walgreens CBD Shelf

TWO of 8 SKUs in CO Walgreens are Select. Select Oil is the **#1 brand** in Dispensaries in the U.S., driven by Vape products, selling ~\$210M in 2018.

CBD Growth Will Largely Come From Edibles (Food, Candy, Beverages) and Topicals (Beauty / Skin, Wellness)

Projected U.S. Category Drivers of Growth (\$B)



Source: BDS Analytics CBD Market Monitor and Arcview Market Research

Legal Cannabis is a Game Changer

- Legal cannabis (*hemp and marijuana*) is new, cannabis is not
- Consumption is purposeful, multi-faceted, and complex and will continue to DISRUPT every consumer industry
- In the slow growth (2-3% if lucky) world of CPG, virtually nothing is growing like this
- CBD in general retail presents huge growth; the Dispensary Channel is the largest retail channel for cannabinoid infused products today and will remain so for the next 5+ years; it is a leading indicator of what is to come
- Constantly evolving—*keep up*



IRI + BDSA = Comprehensive Coverage of the Cannabinoid Market

Retail Sales Tracking

A full view of cannabinoid-infused products across all channels of distribution



Consumer and Non-Consumer Insights

A comprehensive understanding of the consumer (and non-consumer) of cannabinoid products—*hemp and marijuana derived*



Total Cannabinoid Market Understanding

Retail Sales Tracking Options from IRI and BDSA

TOTAL CBD

CBD products across ALL categories and ALL channels

IRI CBD ATTRIBUTES
Upgrade to Existing Access

MONTHLY REPORT
MULO+Conv+Disp

SUBSCRIPTION
MULO+Conv+Disp

TOTAL CANNABINOID

All Cannabinoid products across ALL categories and ALL channels

MONTHLY REPORT
MULO+Conv+Disp

SUBSCRIPTION
MULO+Conv+Disp

Consumer Insights Options from IRI and BDSA

**Detailed Cannabinoid
Attitudes and Usage**

BDSA Detailed and trending
assessment (A&U) of
consumers and non-consumers
of hemp and marijuana

**Cannabis
Target Groups**

IRI Panel Coded in partnership
with BDSA for key Cannabis
Target Groups

IRI CUSTOM SURVEYS

QUESTIONS & ANSWERS



THANK YOU!

Name

Larry.levin@IRIworldwide.com
818.450.7614

Name

Jessica@bdsanalytics.com
812.371.5520