

CANNABIS BEVERAGES: BOOM OR BUST?

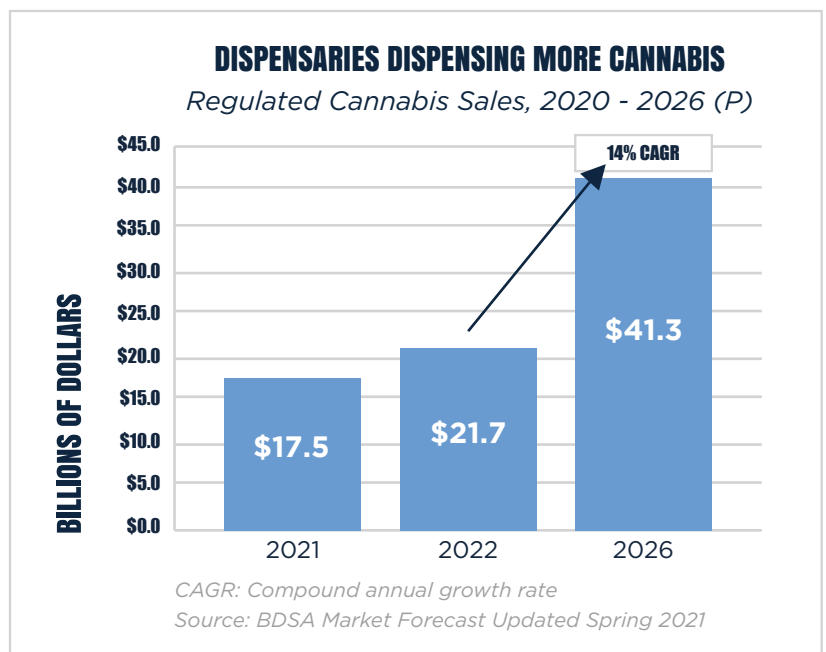
What is the long-term potential for cannabis beverages, in both dispensaries and general retail?



First, it is important to understand the foundation of the cannabis industry. Through dispensaries alone, cannabis sales in the United States passed \$17.5 billion in 2020 and are expected to top \$21.7 billion this year, according to BDSA's forecasts of legal cannabis sales. BDSA forecasts sales to reach \$41.3 billion in 2026, the result of a compound annual growth rate of 14%. Growth will come from both the opening of new markets and the expansion of existing markets.

That is all before layering in hemp-derived CBD products sold through other general retail such as e-commerce, grocery stores, drug stores and other mainstream channels. BDSA expects an additional \$4 billion in CBD sales through general retail outlets in 2021, and that figure could grow to nearly \$17 billion by 2026. While the size of the CBD market, particularly for ingestible products, has been limited by federal regulation to date, BDSA expects CBD to be allowed as a food additive in 2022.

Several markets became newly legal in 2021, with Arizona starting adult-use sales in January and approval for adult-use passing in New York, New Jersey, New Mexico, Connecticut and Virginia. Meanwhile, usage in the most mature markets is on the rise - nearly half of the adult population claims to use cannabis in states such as Colorado, Washington and Nevada.



Regulated cannabis beverages (i.e., those sold through dispensaries) have seen tremendous growth so far in 2021, with dollar sales nearly 60% higher in Q1 2021 versus Q1 2020. BDSA tracks 10% more beverage SKUs in market today than one year ago, and brands are partnering to take their beverages to new states. This is likely a contributing factor to the increase in consumers trying beverage cannabis products, up to 25% in spring 2021 versus 19% in fall 2020. BDSA expects U.S. sales of regulated cannabis beverages (CBD and THC) to top \$200 million in 2021. California and Colorado are leading the charge with greatest contribution to volume relative to their size, with beverages making up about 7% of sales of total edibles in each state.

Formats matter, and beverages have distinct advantages. In general, edibles offer the benefit of allowing consumers to control their dosage better than other cannabis formats – consumers who prefer edibles are 25% more likely than other cannabis consumers to prefer a dosage of less than 10 milligrams of THC. Beverages are able to capitalize on this overall benefit of edibles, with the added bonus that they offer an option to consume cannabis in a familiar, easily accessible format. They also have potential to tap into more social occasions or more traditional drinking occasions.

According to BDSA consumer survey data, roughly half of beverage alcohol consumers in states where cannabis is legal are also cannabis consumers (but an additional 30% are open to trying cannabis in the future). However, consumers are likely making more occasion-based decisions for cannabis and alcohol. Only about 15% of consumers think that alcohol and cannabis are good for the same times of day and days of the week, while about half think cannabis and alcohol are good for different times of day and days of the week. There are some similarities but they are not entirely substitutable. However, when consumers pair alcohol and cannabis, half of consumers say they are likely to consume less alcohol.

Despite significant recent growth, the cannabis beverage industry remains small compared to the broader regulated cannabis market. Beverages make up roughly 5% of the U.S. edibles market, or about 1% of total cannabis sales. Beverages also encounter challenges other products do not – being more expensive to produce and harder to transport. Even so, BDSA expects sales of regulated cannabis beverage (both THC and CBD in dispensaries) to exceed \$600 million and sales of CBD beverages through general retail to reach \$1.8 billion by 2026.

