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Six things we learned about the cannabis industry this week

By Josh Rubin Business Reporter

Pot smokers may have been looking forward to Oct. 17, but Bay Street cannabis watchers were keeping an even keener eye on this past week.

It might not have had the widespread interest of the day recreational cannabis became legal in Canada, but this week was at least as crucial for the burgeoning industry.



According to estimates from Statistics Canada, Canadians spent roughly \$6 billion on marijuana last year. (RYAN REMIORZ / THE CANADIAN PRESS FILE PHOTO)

Three of the biggest Canadian legal cannabis producers released quarterly earnings this week, shedding some light on the current – and future – state of the pot industry in this country and, potentially, around the world.

From sharp criticism of distribution bottlenecks and shortages, to the continuing importance of medical marijuana, here's a look at some of the things we've learned from this week's cannabis-industry announcements, from Aurora Cannabis, Canopy Growth and Cronos Group. We've also included some numbers and thoughts to put this week's news into perspective:

There's a lot of weed: Canopy produced 2,197 kilos of marijuana in the quarter ending Sept. 30. Aurora produced 2,676, and Cronos produced 514. Yes, that's more than 5,000 kilos in just three months. And that's from just three of the licensed producers in this country.

There's a lot of money: According to estimates from Statistics Canada, Canadians spent roughly \$6 billion on marijuana last year. Of that, around \$1 billion was spent on what was then the only legal kind – medical marijuana for people with a prescription. In an interview with the Star, Aurora's chief commercial officer Cam Battley predicted the medical market alone could reach an annual value \$2 billion to \$3 billion within three years. The recreational market could be worth up to \$10 billion within the same time frame. "The economic opportunity is tremendous. ... This industry will be bigger than the brewing sector," Battley suggested.

Stuart Rolfe, an investment analyst at **Veritas Research**, said it's unclear just how big the market will be.

"Statistics Canada has done some very good estimates. It's \$6 billion a year. ... Where it goes from here is where there's some debate," **Rolfe** said. A report from BMO at the beginning of November suggested that the global market for recreational cannabis could be worth up to \$194 billion within seven years.

Well, we're waiting: The much-publicized shortages and delivery delays in the first weeks of legalized recreational cannabis came as no surprise to Canopy chairman and co-CEO Bruce Linton and Aurora CEO Terry Booth.

Ontario — with its online-only sales — came in for particularly harsh criticism. Linton said it was a poorly designed system.

"If they were successful selling on the web, they'd be unsuccessful fulfilling (the orders), because it's a very different business selling business-to-consumer than it is business-to-business. ... It took us four years to ship 1 million packages. They've had to do that in 30 days," Linton said.

Booth, at an industry conference in Las Vegas Thursday, was reportedly even more blunt.

Medicine is good for (bottom-line) health: While most observers agree that the recreational market in Canada (and anywhere else cannabis is legalized) will be much bigger than that of the medical market, all three producers who released their earnings this week stressed they're still standing by their medical customers.

There's a simple reason for that, explained **Rolfe**. Producers can ship directly to medical consumers. Recreational users have to buy through a middle-man.

"There's a wholesaler involved in every province. ... And the government wants to keep prices low enough to squeeze the black market," **Rolfe** said. The result? The profit margins are a lot better on medical marijuana than it is for the recreational kind.

Creaky old joints? Speaking of profit margins, producers are trying to boost sales of capsules, tinctures and any other number of new-fangled ways to consume cannabis, over the good old-fashioned bud and rolling paper (or vape pens, for that matter).

"As an investor, you don't want us to be only bud, and bud forever," said Canopy chairman and co-CEO Bruce Linton in his company's post-earnings conference call with industry analysts. Instead, Linton said, the future lies in "more value-added products."

Buyer beware: **Rolfe** is a relative bear on cannabis producers' stocks. Not because consumption is going to stop. But because it's simply hard to gauge the financial outlook for the industry when everything is so new.

Research analysts usually like to compare previous years' sales, and have a firmer sense of how many areas a product will be sold in. Without those standard bedrocks of valuation, cannabis stocks aren't exactly blue-chip investments, **Rolfe** said.

"You have to do a lot of speculation just to value them. ... If you're rational, you attach a great deal of risk to these companies."