

Macro Monday: Snapshot Of The Cannabis Industry...

Macro Monday: [Your Weekly Cross-Asset](#) Call – There are Always Profitable Opportunities...

Big Picture: Lets Lay Down Some Context...

- Structural paradigm shift in Oct 2018 with Canada becoming the first G7 country to have legalized Cannabis for both medicinal (MC) & recreational (RC) purposes
- The estimated global opportunity in Cannabis is anything from \$150bn to \$200bn, which to KVP sounds conservative given size of Tobacco & Alcohol markets globally
 - For instance Americans by themselves spend c. \$80bn on cigarettes per year. Its estimated that c. \$60bn could be cannibalized from traditional Tobacco/Alcohol from the RC space
 - ArcView Market Research thinks that legal cannabis sales will more than double from \$10.5bn in 2018 in the US, to over \$22.2 bn in 2022, & \$31.6bn worldwide.
 - Its estimated that the black market for Cannabis in the US by itself is a \$40bn market (US gov. should be licking their chops at those potential taxes + lower policing/enforcement costs)
- There has easily been over +\$10bn of investment into the space by corporate from traditional sectors: Corona maker Constellation Brands has invested over \$4bn to buy a big stake in Canopy Growth Corp (CGC, WEED). Altria (Phillip Morris) recently invested \$2bn in the Cronos group, a cannabis producer. AB InBev & Tilray have a \$100m JV for creating CBD infused drinks – Tilray has also partnered with Novartis (Sandoz) & as well as powerhouse Authentic Brands
- At the start of 2018 there were 30 countries with legalized MC, today there is 41... that c. +40% growth in a year
- In the US nine state allow RC, while 32 allow for MC. Polls suggest 51% of Reps think RC should be legal
- +9/10 polled Americans think that MC should be legal...
- South Korea just recently shocked many with passing legalization on MC in Nov 2018
- Gross margins in the space can range from +60% to +80% in the MC to +30% to +60% in the RC.
- Recently passed farmers bill in the US opens up a whole new industry for industrial hemp, much higher yielding than say corn on an acreage basis (+55% CAGR growth expected in hemp-derived CBD products) from 2016 – 2021, a growth from c. \$175m to \$1.6bn. [Note that legally Hemp is treated different than normal cannabis, TCH level is under 0.3]
- Some of the medicinal & wellness uses for Marijuana include: Epilepsy, Cancer, Autism, Post-Traumatic Stress Disorder, Anti-Anxiety, Anti-Inflammatory, Hunger Stimulant, Relaxer



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Thesis:

- Long-term Cannabis market has very compelling supply/demand dynamics –despite social stigma & institutions not yet in. Will one day be part of wellness, medicinal & recreational space, treated like Tobacco & Alcohol (recreational wise). Space early inception with the usual risks, yet looks like +3x to +5x in 3-5yr time frame (barring an outright global equities bear market).

Key Dates & Things To Look Out For:

- Oct 2019 – Canada’s next round legalization, with recreational use being extended to drinks & foods with CBDs (est. that drinks could be c. 30% of the RC market, think coffee, beer)
- US 2020 Elections – Legislation around Cannabis on the Federal level for recreational use, likely a key issue in the elections. Both sides keen, big plus for polls/voters
- NZ 2021 – referendum in Nov, has been set by the new government to vote on legality of recreational use
- Cascade of countries globally accepting the use of Cannabis, in the near-term Mexico, Portugal, Thailand & Malaysia (Note South Korea’s approval in Nov 2018 was a big shocker for many)
- Expect a lot more investments into the space from traditional players in the beverage (especially alcohol & wellness players), tobacco, pharma & wellness/health space. i.e. Coca cola buying something like natural healthy drinks maker New Age Beverages [NBEV] which has a CBD infused line & is one of the fastest growing beverage companies over the last few years

Key Risks:

- Obviously regulation & rule of law, not to mention geographical jurisdictions
- Extreme volatility in the space given combination of it being new, a lot of hype, many companies will fail spectacularly
 - Would not be allocating 97% of your equity portfolio to this theme – KVP would diversify across broad range of names & Cannabis-ecosystem and/or look for exposure through etfs
- Outright broader equity bear market – global recession - would likely take down any bullish themes
- Oct 2019 Canadian approval of RC for drinks & food being delayed
- Lack of progress on US side from a legalization perspective from a federal scale

■ HMMJ CN Equity - Last Price 18.06 ↓ Low on 12/24/18 13.1486 ■ SMAVG (200) on Close 17.9408
⌈ High on 10/16/18 26.4539 ○ SMAVG (20) on Close 15.9606
+ Average 17.937 ■ SMAVG (100) on Close 19.2814

Horizons Marijuana Life Sciences [HMMJ] etf as proxy to the Cannabis space...



■ MJ US Equity - Last Price 31.02 ↓ Low on 12/24/18 23.01 ■ SMAVG (200) on Close 30.3182
 ↑ High on 09/19/18 44.61 □ SMAVG (20) on Close 27.4771
 + Average 30.6293 ■ SMAVG (100) on Close 32.207

ETFMG Alternative Harvest [MJ] etf as proxy to the Cannabis space...

A few other etfs are SEED, HMJR, HMLSF, MEDA & MJ.



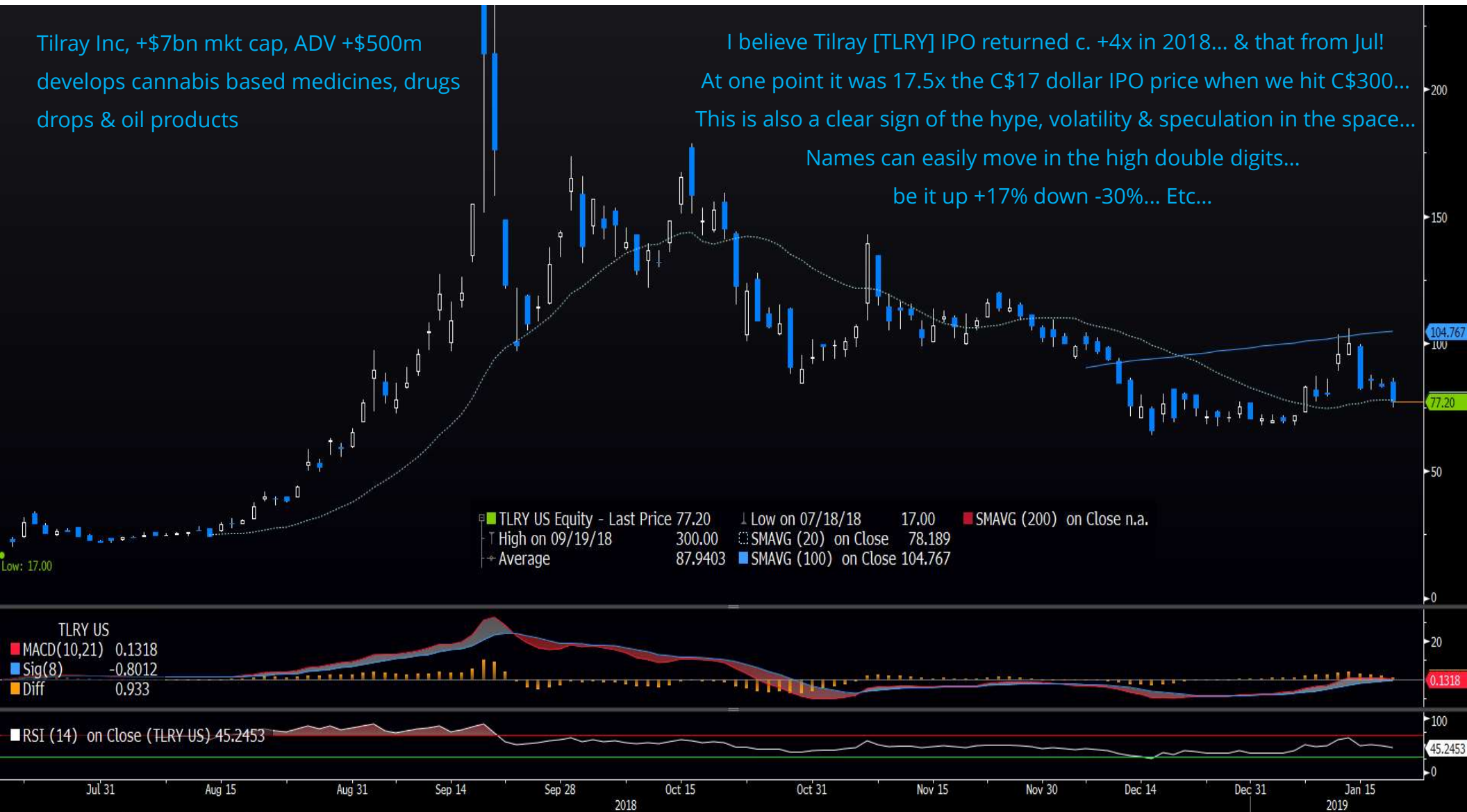
■ WEED CN Equity - Last Price 57.80
 ↓ Low on 02/05/18 20.85
 ■ SMAVG (200) on Close 44.1983
↑ High on 10/16/18 76.91
 ○ SMAVG (20) on Close 43.873
+ Average 41.4649
 ■ SMAVG (100) on Close 52.5691

Canopy Growth Corp Inc [CGC, WEED], +\$15bn mkt cap, ADV +\$430m
 develops cannabis based medicines, drugs
 drops & oil products



Tilray Inc, +\$7bn mkt cap, ADV +\$500m
 develops cannabis based medicines, drugs
 drops & oil products

I believe Tilray [TLRY] IPO returned c. +4x in 2018... & that from Jul!
 At one point it was 17.5x the C\$17 dollar IPO price when we hit C\$300...
 This is also a clear sign of the hype, volatility & speculation in the space...
 Names can easily move in the high double digits...
 be it up +17% down -30%... Etc...



■ NBEV US Equity - Last Price 6.43
 ↓ Low on 08/22/18 1.30
 ■ SMAVG (200) on Close 3.3289
↑ High on 09/21/18 9.99
 ○ SMAVG (20) on Close 5.8465
+ Average 3.3148
■ SMAVG (100) on Close 4.7843

New Age Beverage, +\$481mkt cap, ADV +\$60m
 An example of health & wellness beverage company that is looking
 To incorporate CBD into its drinks. Owns the Marley brand rights,
 Its CEO is ex. Coco Cola... Millennials focused...



GW Pharma [GWPH], +\$4bn, ADV +\$69m

An example of a pharmaceutical company that does R&D in the cannabinoid (CBD) space for treatment of MS, Cancer & Neuropathic Pain

