



THE ALCOHOL INDUSTRY GETS INTO THE CANNABIS GAME

AS LEGALIZATION INCREASES, MAJOR BEVERAGE ALCOHOL COMPANIES ARE INVESTING IN CANNABIS BEVERAGES. COULD THIS HELP LEGITIMIZE THE CATEGORY?

BY RYAN MALKIN

The tide is changing for cannabis in the U.S., and the beverage alcohol industry is noticing—and increasingly, getting in on the game. Cannabis sales in the U.S. are expected to reach \$16.2 billion in 2021, with cannabis beverage sales comprising \$1 billion of that, according to BDS Analytics.

These blockbuster sales come as cannabis legalization becomes far more widespread; only three states—Idaho, Kansas, and Nebraska—lack some form of legal cannabis, according to the National Cannabis Industry Association. New Jersey and Arizona, among others, passed adult recreational use of cannabis this past November, and New York is poised to be next.

While past studies have been mixed on whether cannabis legalization impacts alcohol sales, health and wellness have increasingly become consumer priorities, and 81 percent of cannabis consumers believe that cannabis is safer than alcohol, according to a New Frontier Data survey. Increasingly, alcohol companies have been hedging their bets and making significant

investments in cannabis—specifically, the cannabis beverage space.

Constellation Brands made news in 2017 with its investment in Canadian cannabis company Canopy Growth; since then, it has upped its stake in Canopy, even as Constellation reportedly lost millions as a result. This set into motion a chain of alcohol companies making moves: A Canadian subsidiary of Southern Glazer's, Great North Distributors, began distributing cannabis brand Aphria in 2018, and in early 2021 Molson Coors launched Truss, a CBD sparkling water. Both Lagunitas (owned by Heineken) and Pabst have launched THC-infused beverages.



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Despite talk of cannabis as a threat to alcohol, many see opportunity in the cannabis space. Can beverage alcohol's influence help cannabis beverages overcome persisting legal and financial challenges?

Opportunities to Lead

The cannabis beverage market includes two main categories: THC beverages and hemp-derived CBD beverages. Each is subject to its own legal requirements and therefore different paths to market. However, they attract consumers for similar reasons: Nonalcoholic and boasting low or no calories, cannabis beverages are seen as healthy alternatives to alcohol.

Cannabidiol, or CBD, is the most common of the many cannabinoids found in the cannabis sativa L. plant, from which both marijuana and hemp are derived. The 2018 Farm Bill removed hemp, which contains only trace amounts of tetrahydrocannabinol, or THC, from the U.S. Drug Enforcement Administration's Schedule I list of controlled substances. Meanwhile, marijuana, which contains

LEFT: Canopy Growth, backed by Constellation, recently debuted Quatreau, a CBD sparkling water in four flavors // RIGHT: ALT Life, a portable, liquid cannabis company, allows consumers to add THC to any beverage.

more than 0.3 percent THC, remains a controlled substance.

Because CBD is typically derived from hemp, there's been an influx of hemp-derived CBD products, from oils to hair products. Canopy estimates the demand for hemp-derived CBD products will be \$10 billion by 2023, with CBD beverages approximately \$1.1 billion of that.

"Cannabis is benefiting from the overall shift towards health and wellness, with millennials drinking less alcohol," says Robert Davis, co-founder of ALT, a liquid cannabis company that allows consumers to add THC to any beverage." Douglas Siegel, another beverage alcohol insider (most recently of Allied Beverage Group) saw the same trend towards health in the beverage space and created Zolt, a hemp powder blended with "superherbs" designed to add to cocktails and nonalcoholic drinks.

Interestingly, with these new products, most of the beverage alcohol companies investing in cannabis are losing the one thing they've become experts in: alcohol. THC and CBD are not allowed in alcoholic beverages, though the TTB does allow hemp in beverage alcohol products if producers follow their hemp policy. However, hemp-infused beverage alcohol products are not yet popular; there were just 15 labels approved in 2020 and none so far this year.

As a case study for cannabis, Colorado continues to be the model, and post-COVID, Colorado's social use licenses—which allow businesses to sell cannabis to adults for on-premise, recreational consumption—are expected to drive significant growth within cannabis beverages by bringing cannabis into hospitality spaces. "This will open up a whole new avenue for sales," says Eric Knutson, the founder of cannabis beverage company Keef Brands and formulator



of the cannabis portion of Ceria, a THC-infused, nonalcoholic craft beer from Blue Moon former master brewer.

In addition to legalization, better cannabis beverage technology has allowed beverage alcohol brands more easily enter the beverage space. Companies like SörSE Technology have found ways to make CBD, THC, hop oil, and other terpenes water soluble, which creates a faster and more predictable onset after cannabis beverage consumption. Consistency, which has long been one of the criticisms of cannabis food and drinks, is catching up to beverage alcohol and lending credibility to the category.

Companies like the Constellation-backed Canopy Growth—which recently debuted into the U.S. market with Quatreau, a CBD sparkling water with four flavors—see an opportunity to lead the still-growing cannabis beverage market. "There are a lot of players but no key national market leader," says Tara Rozalowsky, the company's vice president of beverages and edibles.

Cannabis beverages that have the backing of an established beverage alcohol company may be poised to snag that top spot more quickly. "Constellation's huge distribution network enables national scale and allows us to accelerate bringing products to market," says Rozalowsky.

Regulatory Challenges

Though increased cannabis legalization has allowed cannabis beverages to become more prevalent, the category still has legal hurdles and market challenges to overcome. Even though THC products are permitted for recreational use in few-



Austin Stevenson

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er states, THC beverage products have a clearer path to market: Producers can obtain licenses to become the dispensary or sell to dispensaries.

However, the FDA has been unable to provide the same clear path with hemp-derived CBD food and beverage products, despite broader legality of CBD products in general, which is slowing down growth on that side of the category. CBD is a gray area because the FDA prohibits the use of CBD in food and beverage products, says Austin Stevenson, the CIO of Vertosa, which provides the cannabis emulsion used in Pabst's THC seltzer, among others.

"CBD is not generally regarded as safe," explains Ashley Simpson, senior counsel

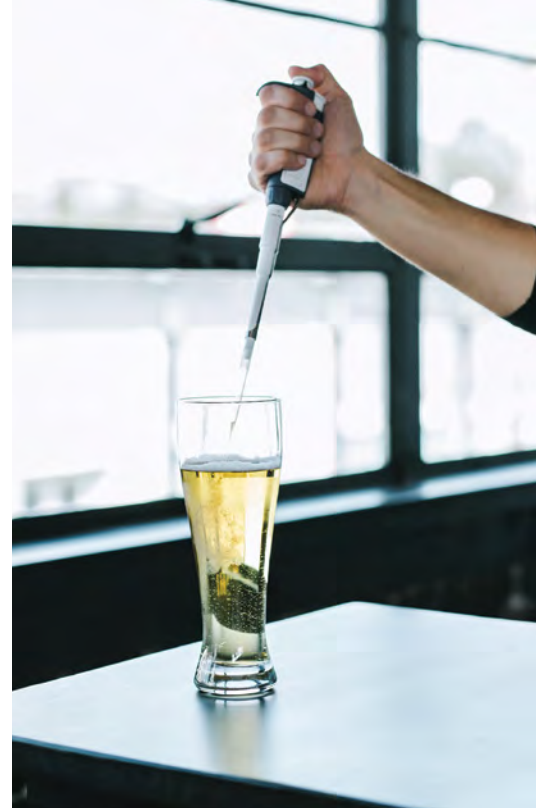
ABOVE: Vertosa provides the cannabis emulsion used in Pabst's THC seltzer, among others. / Austin Stevenson, CIO of Vertosa.

with the Denver-based Hoban Law Group. "It's used in Epidiolex, a prescription drug, and you can't put drug ingredients in food." However, more products are entering the market, she says, because the FDA simply has limited bandwidth to enforce violations, so it only targets "unapproved new drugs," which include CBD products making medical claims (such as curing cancer or depression). Congress re-introduced legislation in February to make hemp-derived CBD lawful for use.

This year could be a landmark one for cannabis. Thanks to the incoming Democratic administration and public policy statements, Bob Hoban, the president of and founder of Hoban Law Group, suggests cannabis will be decriminalized in 2021. "States should have the right to define use in the state," he says, noting that post-COVID economic recovery is motivating states to legalize cannabis.

Even without complete federal legalization, passage of the Safe Banking Act (introduced in 2019) would give the cannabis industry access to financing. Because cannabis is federally illegal, banks cannot accept money from cannabis businesses. The Safe Banking Act would allow cannabis companies to bank with FDIC institutions, a huge win for cannabis.

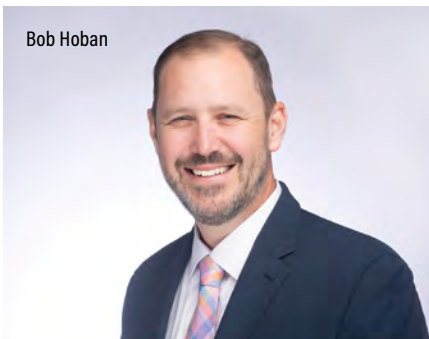
"To scale these businesses we need tools like debt or PO financing to make larger orders and drive costs down," explains Vertosa's Stevenson.



Still, it's a challenge for consumers to embrace cannabis beverages for casual social consumption when a six-pack can cost \$60 in some states, says Adam Stites, the CEO of THC and CBD beverage producer Mirth Provisions. "The tax burden is unfairly leveled on cannabis," he notes.

For instance, the tax on a 12-ounce can of Bud Light is approximately \$.12, while the tax for a 12-ounce can of Mirth Provisions THC Legal Tonic is \$5.53. That results in a \$1.21 price tag for the Bud Light versus \$9.76 for Legal Tonic, making it difficult to add new customers. "Long-term, how sustainable is the THC side [of business] if we can't add new customers?" asks Stites.

Helping lobby for tax relief and push cannabis beverages to \$5 per unit or less is the Cannabis Beverage Association, which represents this growing segment of the cannabis industry, and as more beverage alcohol-related companies—like Pabst Labs, a Cannabis Beverage Association member—invest in the category, momentum is sure to grow. No strangers to legislation lobbying, the support of big beverage alcohol businesses could give cannabis beverages a real seat at the social libations table. ■



Bob Hoban