

Craft Cannabis or Big Cannabis: How Will the Eventual Business Model Shape Investment in this Evolving Industry?

By: Adam Szweras



Different Industry and Business Verticals Breed Different Regulatory Structures and Business Models

- Pharmaceutical
- Neutraceutical
- Food additive
- Adult use/recreational
- Agricultural product



Regulation is Shaping the Industry

- Canada - push to scale
- United States - patchwork resulting in innovation

Canada

- “Big cannabis” approach vs. craft industry, will provide support for pharma, nutraceutical, recreational and industrial uses
- Tightly regulated environment = difficult for smaller scale entrants into the market - at least for those who are legal participants.
- Significant infrastructure and cap ex investment required
- MMAR may breed a "craft industry" investors should stay away from

United States

Regulatory environment in leading US states breed creativity and craft businesses

- No limit to licences
- Federal prohibitions inhibit scale
- Robust competition and creativity
- Few product forms are prohibited

Comparison Canada vs. Colorado

	Colorado	Canada
<i>Population</i>	5.4 million	36 million
<i>Number of Licenses</i>	1,600 medical licenses and almost 1,300 recreational licenses	35 “seed to sale licenses”
<i>Facility Type</i>	Craft Style	Pharma style



Regulatory Push to Scale

- More competitive environment
- Less room to innovate
- New product offerings by acquisition
- Fewer small producers
- US states with push to scale – New York, Massachusetts, Illinois, New Mexico

Competitive Forces Analysis

	Threat of new entrants	Threat of substitutes	Bargaining power of buyers	Bargaining power of suppliers	Industry rivalry
Canada's "Big Pharma"	Low - Capex required, regardless of jurisdictions, specialized skill required	Low – consumers are price takers as there is little choice available	Low – Consumers are price takers	Low – there are many suppliers and switching cost is low	Moderate - Low
"Craft" style Industry in Colorado	Moderate – High Lower Capex required, but in jurisdictions with more moderate regulations CAPEX is lower	Very high – some products (eg. Dried flower) are relatively undifferentiated and follow the monopolistic competition market model	High – switching costs are low and competition based on price is prevalent.	Low – there are many suppliers.	Very High

Northeast - Industry on a Leash

- Pharma like growing regimes
- Limitations on qualifying conditions
- Limitation on cross industry commerce
- Residency requirements
- THC level caps
- Product type caps (eg. edibles or infused products ban)
- Local Zoning



Distribution Model

- Retail
- Delivery
- Government monopoly or market forces
- Will innovation prevail?
- Consumer choice will power innovation
- Rapid product roll outs in US "adult use" states
- Product mix changing frequently



Technological Innovation

- Industrial Revolution of the Cannabis industry
- Drive to enable economies of scale
- Innovation and creativity in craft markets
- Importance of strain banks, genetic labs and advanced testing facilities
- Importance of Social Media

Thank you

Adam K. Szweras

Partner - Fogler, Rubinoff LLP
Chairman – Foundation Markets Inc.

aszweras@foglers.com

aszweras@foundationmarkets.com

Phone: 416-941-8827

Cell: 416-564-5926

