



Canadian Cannabis Industry

Industry Hits an All-Time High

The Canadian cannabis industry has grown drastically since its legalization back in October 2018 and has set a great example for cannabis to be legalized and adopted in the rest of the developed world. Cannabis products have been widely accepted by the Canadian public fueling economic growth from more business investment and creating thousands of Canadian jobs. Additionally, the government revenue from the excise tax on cannabis products ranging from cannabis gummy bears to cannabis infused drinks has allowed the government to use this money on other important initiatives. Nevertheless, COVID-19 and other trends have sparked new opportunities while others have posed some challenges. Companies must adapt in this quickly changing and relatively nascent industry in order to stay ahead of an increasingly competitive industry.

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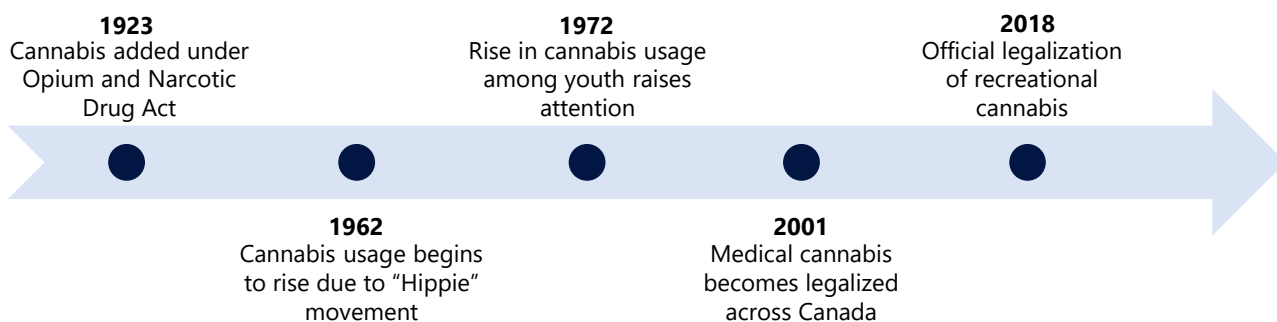
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The Cannabis Industry

Overview

The Canadian cannabis industry has encountered many highs and lows over the years. The substance contains many psychoactive properties mainly used for medical and recreational purposes and was originally prohibited by the Canadian government back in 1923. Fast forward to October 17, 2018, the federal government of Canada has officially legalized the consumption and sale of recreational cannabis under the *Cannabis Act*. The legal framework is responsible for controlling the production, distribution, sale, and possession of recreational cannabis in Canada. Provinces and territories are responsible for outlining their own rules and regulations when it comes to cannabis business activities.

Since the legalization in 2018, the cannabis industry has grown significantly as new businesses started to become involved in the cultivation and distribution process and creation of cannabis 2.0 products.

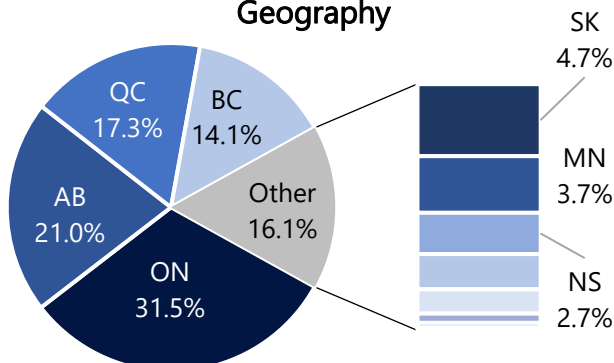


Sales Originations

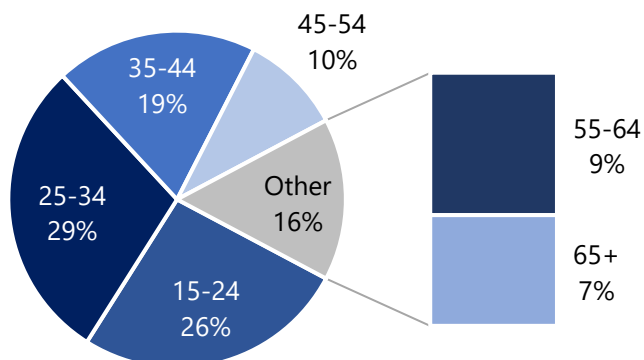
The legalization of recreational cannabis has significantly impacted consumer usage and business activity. As of April 2021, Canada reported more than 600 federal cannabis license holders and producers (licenses for cultivation, processing, and selling). Within the first three months of the legalization in October 2018, the country observed an increase in sales accumulating to over \$150 million. Sales further increased to approximately \$1.15 billion in 2019 and \$2.625 billion in 2020.

Cannabis sales were able to double from 2019 to 2020 given the expansion of brick-and-mortar retailers across Ontario, Quebec, and British Columbia. Ontario has reported the highest number of cannabis sales with the remaining revenue varying between other provinces and territories. Furthermore, the sale of cannabis can be analyzed by demographics such as age and gender. Canadians between the ages of 25 and 34 have the highest cannabis usage with the average age for first-time cannabis users being 20 years old. On a daily basis, men are twice as likely to use cannabis than women.

Canada Cannabis 2020 Sales by Geography



Canada Cannabis 2019 Usage by Age



The Cannabis Industry

Real Estate and Employment

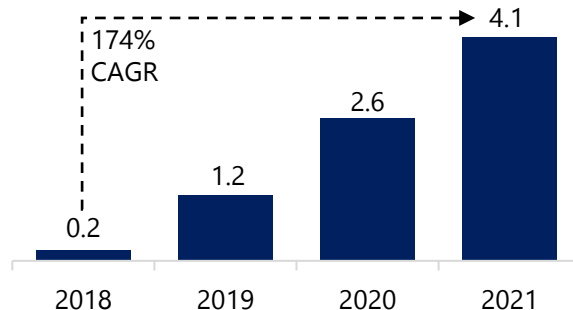
As new and existing businesses seek industrial space for the cultivation, research and development, and retail of cannabis, the pricing of nearby real estate has been impacted. According to RE/MAX, residents of small towns in Ontario and Eastern Canada are facing a surge in housing sales and prices as a result. Furthermore, the rise production and business activity on cannabis has created over 9,000 jobs across Canada.

Located in Smiths Falls, Ontario, Canopy Growth Corporation has contributed to the 25% increase in housing sales and 10% jump in housing prices. Previously known as Aphria Inc., Tilray Inc. has supported the 8% rise in housing sales and 10% increase in housing prices in Leamington, Ontario. Nonetheless, nearby residents are not fond of the growing cannabis market as 65% of Canadians say they prefer not to live close to a cannabis retailer. However, those who seek employment opportunities benefit from these events as both cannabis companies have created more than 1,300 and 1,000 jobs, respectively.

Government and Taxes

The Canadian government has the authority to tax the sale of cannabis given the legalization in October 2018. Excise tax can be calculated as the greater between a flat rate of \$1.00 per gram of dried cannabis or 10% on the sales price. The cannabis industry has been growing over the years and is expected to continue growing at a 26% CAGR between 2019 and 2025, thus increasing the amount of government revenue generated.

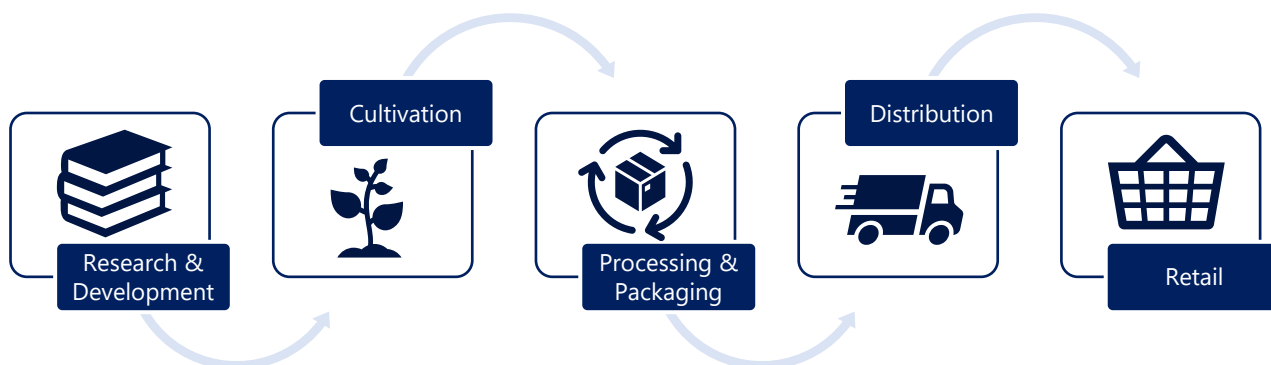
Annual Canadian Recreational Cannabis Sales (billions of CAD)



Distribution

Prior to COVID-19, distribution of cannabis was most common through brick-and-mortar retailers since the majority of consumers preferred shopping in-person rather than online. Throughout 2020, the number of brick-and-mortar retailers across Canada increased from 110 to over 300 with retail store sales contributing to approximately 88% of total cannabis sales in Q4.

With the pandemic, e-commerce has allowed customers to access the products they want without going to physical locations. After noticing the 118% increase in recreational cannabis users in 2020, businesses are determined to continue to make cannabis more widely accessible to consumers on every shopping platform.



The Cannabis Industry¹

Aurora Cannabis Inc.



Aurora Cannabis Inc. was one of the first Canadian cannabis stocks to trade on a public exchange. The company produces and distributes a variety of cannabis products worldwide including vapes, edibles, and topical treatments. It operates on various segments of the cannabis value chain ranging from cannabis breeding to genetic research to home cultivation. Back in May 2020, the company acquired Reliva LLC, an American cannabis company who is heavily involved in the sale of hemp-derived CBD products. The combined company is striving to become the global leader in the medical and recreational cannabis market.

Current Share Price \$9.02

52 Week Range \$4.93 - \$24.10

Market Cap 1.79B

Beta 3.12

Shares Outstanding 197.98M

Canopy Growth Corporation



Canopy Growth Corporation is one of the largest cannabis companies worldwide, being one of the first federally regulated cannabis growers. The company is involved in the production, distribution, and sale of cannabis and hemp-based products such as oils, soft gel capsules, and dried cannabis flowers. The company mainly operates in Canada but hopes to expand into the United States once cannabis is federally legalized. Having partnered with NEEKA Health Canada and NHL Alumni Association, the company is heavily involved in clinical research regarding the efficacy of CBD-based therapies on individuals who suffer from persistent post-concussion symptoms.

Current Share Price \$23.52

52 Week Range \$18.44 - \$71.60

Market Cap 9.25B

Beta 2.09

Shares Outstanding 393.17M

Tilray Inc.



Tilray Inc. is a pharmaceutical company involved in the research, cultivation, and distribution of medical cannabis. The company has more than 20 brands available on the market with some of their manufactured focused products being hemp-based food products and alcoholic beverages. After merging with Aphria Inc. in May 2021, the combined company has demonstrated major growth with the recent launch of a new brand called Symbios. Tilray Inc. has become a key player in the European cannabis market and controls nearly 20% of the Canadian recreational cannabis market, according to ATB Capital Markets.

Current Share Price \$17.84

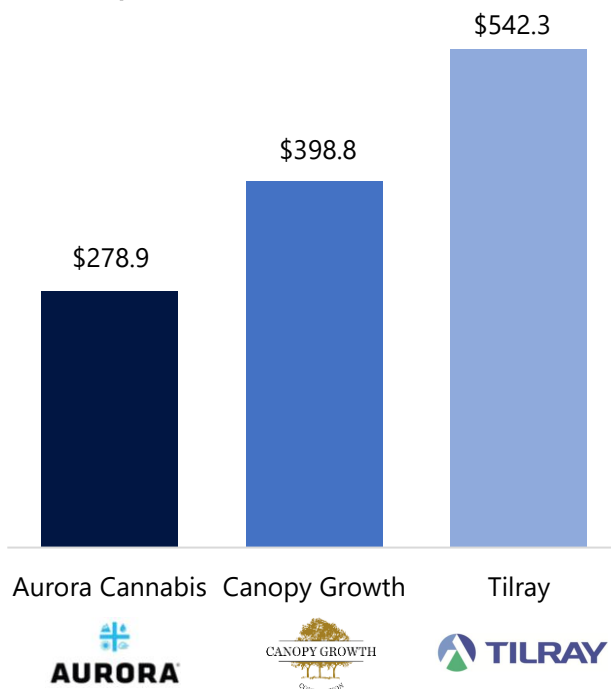
52 Week Range \$15.80 - \$27.88

Market Cap 8.01B

Beta N/A

Shares Outstanding 449.22M

2020 Revenue of Major Cannabis Companies on TSX (millions of CAD)



Industry Drivers

Cannabis Adoption in the Western World

On October 17, 2018, cannabis was legalized in Canada under the *Cannabis Act*, making Canada the second country in the world (and first of the G7 and G20), after Uruguay, which allows adults to publicly possess a limited amount of cannabis and/or cannabis related products. In essence, cannabis is a regulated product akin to alcohol or tobacco in Canada.

Cannabis retail is heavily regulated, with provinces such as Ontario implementing strict licensing requirements for store owners, and geographic limitations such as having to maintain 150 metres distance from any schools. Furthermore, any Canadian over the age of 18 or 19 (depending on the province) is allowed to possess and share 30 grams of legal cannabis, as well as grow up to four plants per household (from legally bought seeds). Failure to comply with these regulations will result in ticketing and/or a penalty of up to 14 years in prison.

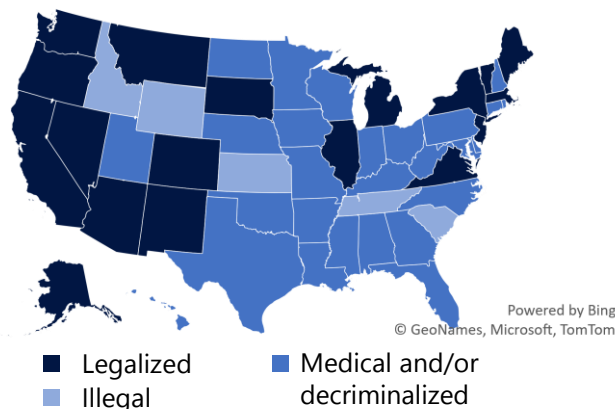
United States

In the United States, 19 states, the District of Columbia, and Guam have legalized recreational cannabis use, with all but D.C. having legalized commercial cannabis sales. There is speculation that there may soon be nationwide legalization under the Biden administration. In April 2021, Gov. Andrew Cuomo, Governor of New York, signed legislation into law, immediately legalizing cannabis products for adults 21 and older. Currently, California is the biggest cannabis market within the United States, having roughly tripled sales from 2018 to 2020.

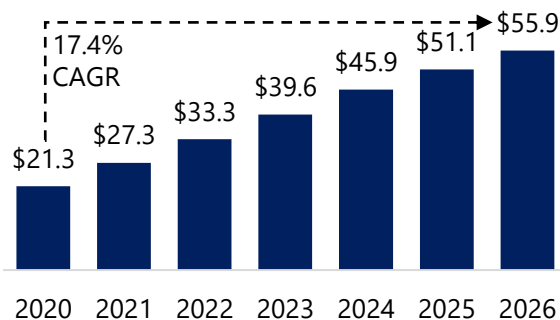
International

Internationally, countries such as the Netherlands have already decriminalized cannabis, while Mexico, Uruguay, South Africa, and Georgia have legalized it for recreational use. International acceptance of cannabis was displayed on December 2, 2020, when the United Nations voted to remove cannabis from its Schedule IV narcotic status under the *1961 Single Convention on Narcotic Drugs*, meaning that cannabis is no longer grouped alongside harder drugs such as heroin, and may see more legalization to come across North America and Western Europe. Europe in particular is likely to be a strong growth driver for the industry as a whole, since countries like Germany and Italy have implemented initiatives to build up localized supply for their medical cannabis industry. However, as of yet, the vast majority of legal cannabis spending is in North America.

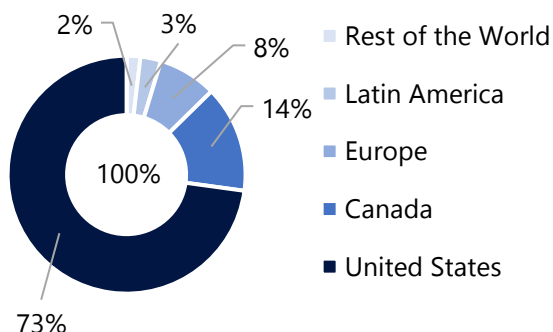
Legality of Recreational Cannabis in the United States



Global Cannabis Sales Forecasts (billions of USD)



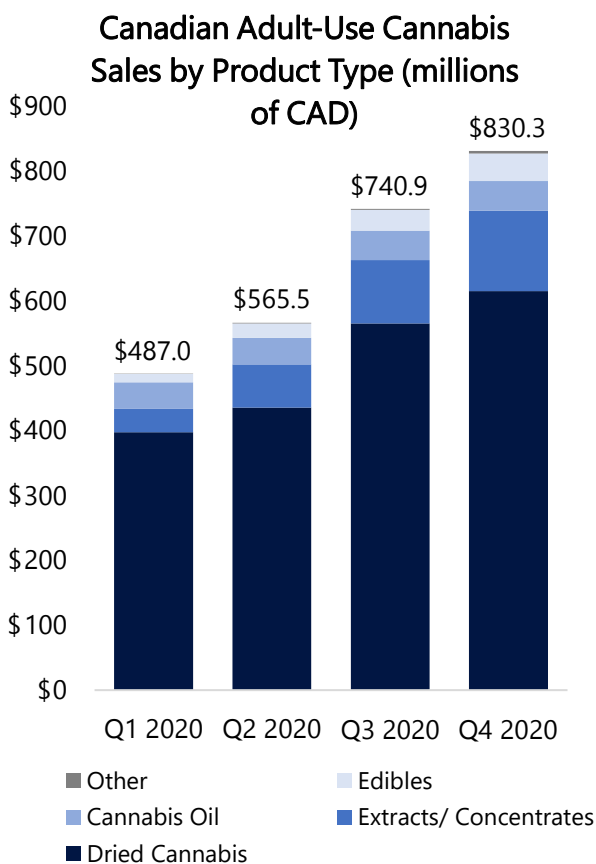
2024E Legal Cannabis Spending by Country (billions of USD)



Industry Drivers

Alternative Cannabis Products

Throughout time, cannabis products have evolved and diversified to a large extent. Cannabis has evolved from a largely smoked drug to one that is now available in nearly every form. The continual and ever-advancing new kinds of cannabis that continue to emerge in the market demonstrate development, indicating that the sector is only at the start of its expansion. With the introduction of Cannabis 2.0, the Ontario Cannabis Store (OCS) has looked into various lucrative uses of cannabis. Beverages, capsules, concentrates, edibles, oils, seeds, topicals, and vaporizers are examples of newly innovated alternatives, giving customers more options in their usage. In the year 2020, edible cannabis sales increased by over 300%, as compared to traditional dried cannabis, which grew by just over 150%.



Industry Partners

The cannabis industry has many industry partners, ranging from famous influencers promoting cannabis products to brands in neighboring industries such as the Alcohol space. Without these partners the cannabis industry would not be able to grow at such a fast pace.

Influencer Promotion

Famous celebrities such as Snoop Dogg, Dan Bilzerian & many more have played a crucial role in normalizing the consumption of cannabis and making it more socially acceptable. Snoop Dogg has always been a cannabis enthusiast and is not afraid to show it, even before it being widely legalized in North America. He also owns his very own cannabis brand, "Leafs By Snoop", launched in November 2015, which is produced by Canopy Growth. Alongside Snoop Dogg, Dan Bilzerian is also an extremely popular social media influencer who owns, "IGNITE", a popular cannabis-based brand founded in 2017, that deals in CBD, Vape Pens, Spirits, Apparel and other products.



Cross-Sector Partnerships

Anheuser-Busch InBev, the world's largest drink brewer and the manufacturer of Budweiser announced in early 2019 that it is collaborating with Tilray, a Canadian medical marijuana firm to investigate cannabis-infused drinks. They later went on to form Fluent Beverages, which is still in early stages of development.



Industry Drivers

Research & Development Costs

Experts in the pharmaceutical industry have spent years researching the benefits of cannabis, enabling it to become an industry valued at \$20.5 billion in 2020. Research and development is a primary expense as many companies have boxed themselves into negative profit margins as they significantly invest in product development. Increased R&D spending is said to accelerate the industry's value to \$90.4 billion by 2026 at a staggering CAGR of 28%.

Cost of Capital

The production of cannabis involves huge facility costs for appropriate storage and maintenance. Cannabis storage requires specific temperatures and lighting to avoid spoilage, thus making it an intricate process. Alongside facility costs, overhead expenses on fertilizers, soil, seeds, etc. play a crucial role in storage and production. Furthermore, other logistical expenses such as distribution play a huge role in the expenses incurred.

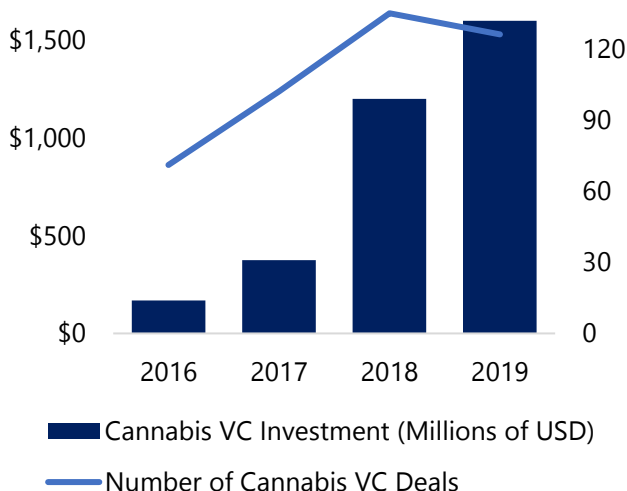
Remuneration and Related Costs

A large chunk of cannabis dispensaries are local businesses where labour costs eat a large chunk of their bottom line. Wages as a percentage of revenue will fall as the business matures and companies improve their manufacturing process. Additionally, revenue is said to significantly exceed operating expenditures through investments in R&D and cheaper cultivation procedures. Wages are estimated to account for 39.6% of industry revenue.

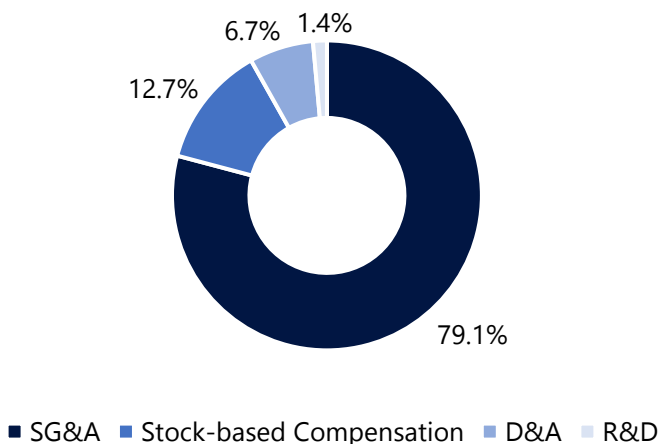
Other Expenses

From production to consumption, other costs such as depreciation, legal fees, government taxes play an important role. As observed, cannabis production is an intricate process that involves heavy capital expenditure, thus also welcoming spending on depreciation. Paired with depreciation expenses, producers incur legal fees and government taxes during the distribution of the end product.

Venture Capital Investment in Cannabis VS. Number of Deals



Operating Expenses Breakdown of Three Major Cannabis Companies (Tilray, Canopy Growth, Aurora)



Developments and Trends

Research, Development, and Operations

Technology can revolutionize the cannabis industry, both in terms of improving production processes and enabling a wider range of end uses. For example, automation is slowly being integrated into cannabis companies to streamline the stringent compliance protocols that these companies must follow. Additionally, high-tech analytical software can both proactively detect certain crop issues, such as disease, and can help optimally allocate resources to the plants in order to maximize yields and minimize resource wastage.

Technological innovation has also improved production methods for certain cannabis related products. For example, Canopy Growth has patented a carbon dioxide extraction method to produce cannabis oils from the plant. Another example is Aurora Cannabis' new dehydration technology significantly shortening the drying period, thus improving inventory turnover. Technology is also helping digitize the supply chains for cannabis – despite stringent regulation surrounding online sales, several e-commerce platforms like Jane Technologies have been launched which allows for dispensaries to tap online sales channels with greater ease.

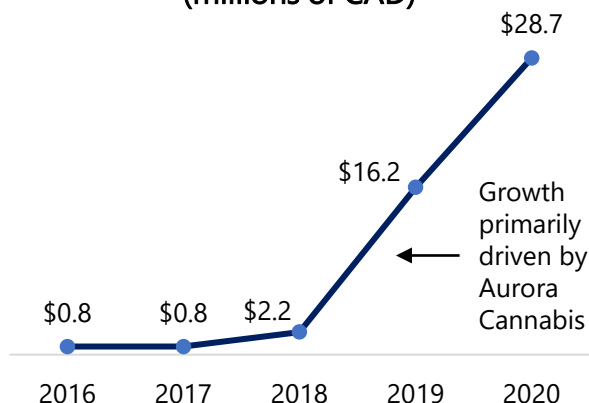
Overall, technology is a major differentiator of companies within the cannabis sphere. The research and development of proprietary intellectual technology creates a moat for companies with a large patent portfolio.

End Uses

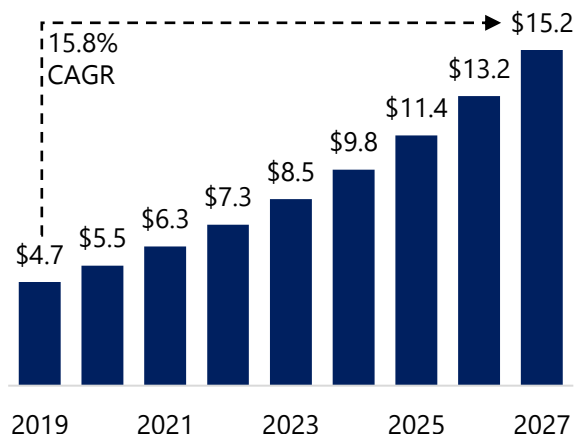
New technologies are also improving the end uses of cannabis. For example, increasing research and development of medical breakthroughs involving the substance are allowing for a wider range of possible uses, continuously growing both the total addressable market of cannabis and the potential market size. Technology plays a crucial role into this because firms are increasingly developing synthetic molecules (i.e., cannabinoids) that allow for a wide variety of medical applications, such as anti-nausea medication for chemotherapy patients (Dronabinol).

Additionally, technology is driving increased industrial uses of hemp, which is essentially low-THC cannabis. Improvements in the processing of hemp, it is possible to create hemp-based fuel, bricks, composite materials, and textiles, which all carry a wide range of benefits, such as increased environmental sustainability. Currently, using hemp for some applications, such as paper production is very expensive. This is due to a lack of adequate investment into improving manufacturing processes, as well as a lack of economies of scale. However, as the market for cannabis and hemp expands, improved technology may be able to improve the viability of hemp-based alternatives to common products.

Combined R&D Expenditures of the Largest Cannabis Companies
(millions of CAD)



Global Market Size of Hemp
(millions of USD)



Developments and Trends

United States Presidential Election

On January 20, 2021, Joe Biden became the 46th President of the United States, with Kamala Harris as his Vice-President. Both Biden and Kamala have endorsed legalizing cannabis for medicinal purposes, and to also reclassify it as a less severe drug than cocaine and ecstasy. Additionally, they also wanted to decriminalize cannabis on a federal level, which would eliminate jail time for those caught possessing the drug.

However, federal progress towards cannabis legalization remains slow. While United States states continue to legalize the substance at swift speed, the Biden administration itself has been moving at a far slower pace. Even if cannabis is legalized across the states, this will spell difficulty for the sector, since some companies like Canopy Growth do not operate in countries without federal legalization.

Black Market

One of the traditional challenges with clamping down on the cannabis black market in Canada has been due to the absence of long supply chains. Drugs such as cocaine or heroin have very long supply networks stretching from countries such as Columbia and Afghanistan, and it is relatively easier for the government to intercept the flow of these narcotics into Canada. With cannabis, most of it has traditionally been grown locally, making both production and consumption very localized and hard to restrict.

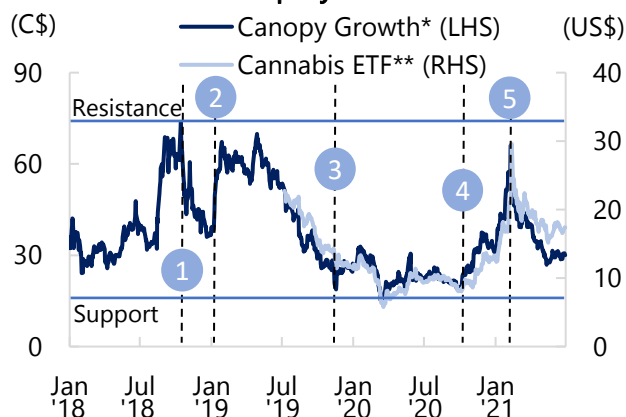
Nevertheless, the legalization of cannabis in Canada has led to decreased black market activity. Initially, cannabis legalization did not go very smoothly due to high government prices and supply issues; however, in the second quarter of 2020, Canadian household spending on legal cannabis overtook spending on illegal cannabis, with sales of \$803 million and \$784 million respectively. In fact, from the first to fourth quarter of 2020, Canadian legal cannabis spending increased around 66%, while illicit spending declined by approximately 17%. Additionally, since legalization illicit spending has been sliced in half. The Canadian cannabis black market will most likely continue to decrease in size, as the legal alternatives become more attractive and optimized.

Financial Markets

Historically, the cannabis equities space has been quite volatile with Canopy Growth as the dominant player. Canada's legalization date was shortly followed by a general market sell off. Furthermore, the industry struggled in the second and third quarters of 2019 because of a lack of cannabis outlets in key Canadian provinces. This arose from delays in licensing due to slow and strenuous regulatory procedures.

The United States 2020 Presidential election has proved beneficial for the cannabis industry due to a more progressive democratic agenda. Additionally, most of the market was propelled upwards aided by large fiscal stimulus and COVID-19 vaccine optimism. The cannabis industry a part of the growth category sharply declined in February 2021 due to 10-Year Treasury yields surging, affecting valuations. In recent months, the cannabis sector has returned to more "normal" and less euphoric levels.

Cannabis Equity Performance



*Ticker: WEED.TO

**Ticker: THCX

- 1 Canada legalizes cannabis; hype fades
- 2 Piper Jaffray initiates coverage on the industry & Canopy Growth upgraded
- 3 Canopy Growth records \$374.6 million Q2 loss; lack of Canada cannabis outlets holds back industry
- 4 United States Presidential Election Day
- 5 United States 10-Y Treasury yields start to surge

Developments and Trends

Increased M&A Activity

M&A activity within the Canadian cannabis sector is heating up and is expected to continue for months as licensed producers seek strategic opportunities to expand their market share while also aiming for a potential pathway toward profitability through cost-cutting. This comes after a recent rush in acquisition announcements from two of the country's top cannabis producers: Hexo Corp. and Canopy Growth Corp., who have both made several multi-million dollar deals in the past year to obtain a leading share of the Canadian cannabis market.

While large producers such as Hexo and Canopy Growth have a bright future ahead of them, some cannabis companies are struggling to compete, which has motivated the market for an increase in mergers and acquisitions. Nevertheless, the cannabis market poses as an unpredictable challenge to the valuation and growth of these companies; at the start of legalization back in 2018, the cannabis market soared on the promise of future growth, but government regulations limited the number of retail stores that could open and thus a lower supply of products, which resulted in a downward trend in valuations.

Bloomberg reports that the number of cannabis M&A deals in the past 6 months ended June 4, 2021 came to 29, almost double from last year due to the impact the beginning of the COVID-19 pandemic had on small and large businesses. One of the most significant M&A deals of 2021 is Hexo's massive \$50 million purchase of 48North Cannabis Corp. in an attempt to expand its shelf space and speed up its business. This is one of the main reasons for M&A activity in the cannabis industry as small businesses look to expand and develop the size of their production. Other reasons include expanding their customer base, entering new trends or markets and acquiring new distribution channels for growth.

Following the steps of deals and acquisitions, more companies are seeking to consolidate their businesses with larger players in the industry. As a result of this, the cannabis market could see an upturn in prices and an increase in supply, providing a positive outlook and signal to investors and retail buyers. There are many more anticipated announcements for the Canadian cannabis industry during the rest of 2021 and in the next 12 months, especially if companies are looking to compete with Hexo and Canopy's successful deals. Overall, while it is difficult to predict the direction of the current state of the market, the outlook continues to look good as the COVID-19 pandemic improves.

Hexo Corp. and Redecan

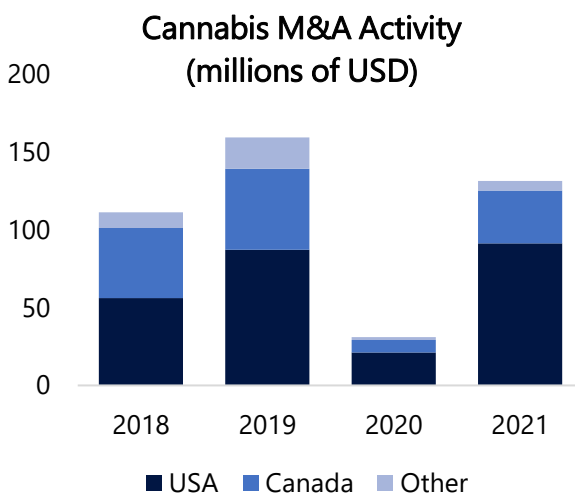


Coming after an already impressive \$50 million purchase of 48North Cannabis Corp, Hexo Corp. announced in May 2021 its third and biggest deal of the year; it's acquisition of the family-owned Redecan Cannabis company. This deal is positioned to push Hexo Corp. up the leadership board where it is expected to hold the number one position in Canada's four biggest markets, Alberta, British Columbia, Quebec, and Ontario. Hexo will be paying \$400 million in cash and issuing \$525 million in common stocks in order to fund the deal. The massive deal is expected to close in the third quarter of 2021 where both companies are looking to focus on expanding their business in the United States and Europe.

Tilray Inc. and Aphria Inc.



On May 3, 2021 Tilray and Aphria announced the closing of their deal, a transaction that rattled the global cannabis industry. The two combined companies are now operating as Tilray and brings together two highly complementary businesses to bring leading cannabis products for consumers with a focus on accelerating their global growth strategy. Tilray is now known to be the world's largest global cannabis company, let alone in Canada, with a combined market cap of US\$8.3 billion. They are expected to control more than 17% of the retail cannabis market and have a pro forma revenue of \$874 million. Being the largest cannabis company, they are well positioned to capture international growth.



Industry Outlook

Short Term

As the world recovers from the long-lasting effects of COVID-19, the unemployment rate in Canada is now down from a high of 13.7% in May of last year, to 8.2% in May of this year, this number is set to continue to decline, as more and more provinces and territories continue to ease their COVID-19 restrictions. With businesses continuing to open, the Canadian cannabis industry is set to follow suit, where Canadian cannabis sales is projected to grow by over 60% from 2020 to 2021 to \$4.17 billion.

A large part of this growth is driven by retail openings, particularly in Ontario, where the number of stores grew from just 53 in early 2020, to 572 in early 2021 and Alberta, where sales drastically increased without the presence of a cap on the number of licenses for retailers. Furthermore, 35.8% of consumers reported having obtained cannabis from illegal sources in 2020. The expectation is that in the short term, sales are expected to grow substantially, as more stores are set to open, offering much needed availability to consumers, who were previously inclined to source non-legal cannabis products.

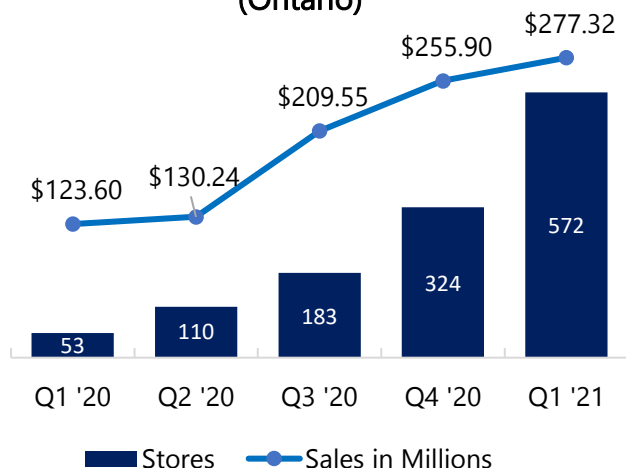
While the Canadian cannabis industry had been growing at a rapid and steady rate through 2019, this growth was disrupted due to the COVID-19 pandemic, which started in March 2020, closing many businesses and sectors across the nation.

Before COVID-19

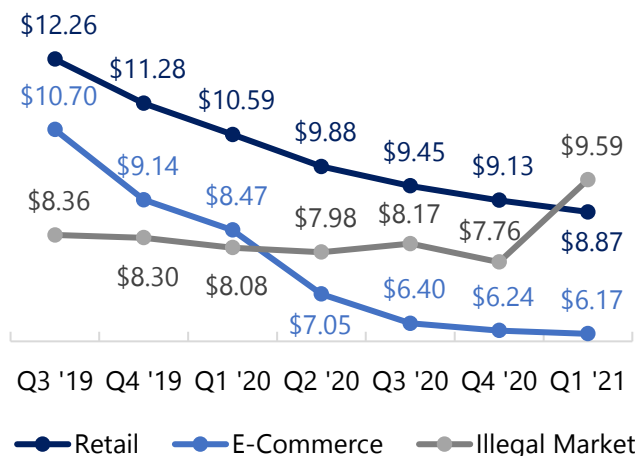
From the fourth quarter of 2018 to the fourth quarter of 2019, quarterly sales in Canada had grown by over 170%, reaching \$412 million. Cannabis use has been increasing year over year since the Canadian government had legalized the substance for nonmedical use, with 14% of Canadians reporting having used cannabis in the last 12 months in 2018, to 17.5% in 2019, and 20% in 2020. The major cause for the increase in sales, however, is primarily the increase in market size. According to the Ontario Cannabis Store, the legal market was only able to capture 5.4% of the total market share in 2018, with the rest of the market being illegal. In Q4 of 2019, the legal market share had increased to 19% of the total market. Furthermore, the legal market is bound to gain a larger portion of the total market as availability and licensing options increase.

A recurring problem that the cannabis industry has faced is having to compete with the illegal market, where pre-pandemic illegal cannabis prices have always been able to significantly undercut legal prices. This makes it difficult for consumers to choose to source their cannabis legally when there is always a cheaper option to choose from. The illegal market also brings a larger product mix, with a variety of products from other countries that the Canadian government has not licensed to sell in Canada, consumers will also have more choice in the illegal market.

Impact on Sales on Stores Opened (Ontario)



Price Per Gram for Dried Flower



Industry Outlook

COVID-19 Impact

The COVID-19 pandemic brought many challenges to multiple sectors in Canada, with most businesses unable to operate due to provincial and territorial lockdown restrictions. However, the Canadian cannabis industry was deemed as an essential business and was able to stay open for most of the pandemic, growing 118% from 2019 to 2020 to \$2.6 billion in sales. These sales figures outperformed estimates from CIBC Capital Markets by \$100 million, despite such estimates being previously lowered from \$3.4 billion pre-pandemic to \$2.5 billion. One of the main struggles for the Canadian cannabis industry was the slow rollout of regulated stores in key markets across the nation, an issue that plagued the cannabis industry since its legalization. Store rollout has been key in markets such as Ontario, where according to OCS data, during the pandemic, e-commerce sales decreased from its COVID-19 peak of \$43.5 million in Q2 of 2020 to more historical levels of \$29.4 million in Q4 of 2020, while the retail soared as stores continued to open (still lower than previously anticipated rate), reaching \$221.7 million in Q4 of 2020 making up over 88% of total sales in Ontario.

Long Term

As the cannabis industry is projected to grow to \$8.62 billion by 2026, steady growth remains within the Canadian cannabis industry until market saturation is reached. However, many Canadian companies have now started to expand beyond Canada to other new markets, such as the United States.

New Markets

Currently, the use, sale, and possession of cannabis remains illegal under federal law, being classed as a schedule 1 drug under the federal Controlled Substances Act of 1970. However, much speculation remains about the legalization of recreational cannabis in more states, following the footsteps of seventeen states, two territories, and the District of Columbia. With the United States social support for legalization of cannabis reaching a high of 68% according to a poll by Gallup in November of 2020, cannabis is now more socially accepted than it has ever been in 50 years. Such support comes as more and more states vote in favour of legalization, which would allow the market to grow, benefiting Canadian based cannabis companies.

Long Term

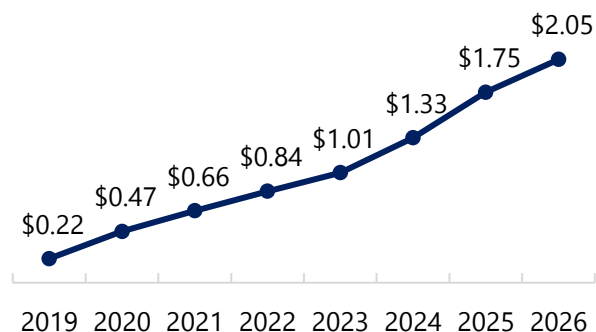
Many Canadian cannabis companies have formed strategic partnerships and M&A deals with U.S. based pharmaceuticals as they enter the United States market. These deals allow Canadian firms a new source of revenue in an unsaturated market that is quickly growing. It is expected to reach \$43 billion U.S dollars in sales by 2025 according to a recent study from New Frontier Data.

New Products

As the market continues to grow, many companies are also developing new products, a new emerging offering is non-psychoactive products derived from cannabis plants, such as products made with the cannabidiol CBD, which has seen a major growth in popularity due to its potential health benefits in relieving stress, anxiety, muscle pains and much more. The Canadian CBD consumables market was valued at \$443.4 million in 2018 and is set to reach \$3.087 billion by 2025, appealing to consumers who look for the health benefits of cannabis rather than recreational purposes.

Although dried flower continues to dominate much of the cannabis industry in market share, making up 52% of the market, as the market grows, other product types are expected to gain increasing traction. For example, the edible cannabis space largely held back by the cost of development and a limited amount of THC allowed in products is subjected to change as social acceptance along with cost synergies increase.

CBD Pharmaceuticals Forecast (billions of USD)



Valuation and Financials

Company Name	Ticker (TSE)	Capitalization			Revenue LTM	EBITDA LTM	Multiples	
		Equity Value	Enterprise Value	Debt/Capital			EV/Revenue LTM	EV/Revenue NTM
Canopy Growth Corp.	WEED	11,898	11,440	32.2%	546.6	(444.0)	20.9 x	12.3 x
Tilray, Inc.	TLRY	10,049	10,768	37.2%	611.1	9.0	17.6 x	9.7 x
Cronos Group Inc.	CRON	4,086	2,571	0.6%	62.6	(197.0)	41.1 x	19.4 x
Aurora Cannabis Inc.	ACB	2,229	2,233	18.1%	267.2	(370.5)	8.4 x	7.1 x
Mean		\$7,065	\$6,753	22.0%	\$371.9	\$(250.6)	26.0 x	0.3 x
Median		\$7,067	\$6,670	25.1%	\$406.9	\$(283.8)	19.3 x	0.3 x

Conclusion

Despite facing many challenges brought by the ongoing COVID-19 pandemic, the Canadian cannabis industry proved to be resilient. The industry grew 118% to \$2.6 billion in sales from 2019 to 2020 and is projected to grow a further 60% in 2021, largely driven through the opening of retail outlets across the nation. The Canadian cannabis industry shows promising channels which can see strong growth in years to come.

In international markets, support for legalization of recreational cannabis is the largest it has ever been, which presents a unique opportunity for Canadian companies to grow by increasing their presence overseas. Additionally, investment in breakthrough technologies, new innovative products, coupled with mergers and acquisitions will be key drivers for the industry. Post-pandemic, expect to see legal cannabis continue to shift cannabis users away from the black market. This outlook is due to legal prices falling to levels only cannabis users can get illegally. Lastly, as social distancing measures ease, restoring unrestricted in-person access to stores will benefit the industry while also providing access to underserved communities.