



Is Cannabis Legalization a Threat to North American Beer Sales?

Description

On Wednesday, recreational cannabis officially became legal for Canadians.

The response on October 17 – the day of – was largely a mixed bag *ahem*.

Some hailed it as a landmark day for the country's cultural history and a celebration for all those who had been active in supporting the agenda to push for a more liberalized stance toward the drug.

Others meanwhile scoffed and said that it was "just another day."

One thing that we do know is that what happened on Wednesday has never before happened in a large industrialized nation.

Frankly speaking, we are now in uncharted territory.

Well, almost.

While Canada is in fact the first of the G7 nations to legalize cannabis consumption for recreational purposes, Colorado passed a law in 2013 to relax the states stance toward recreational pot use.

And the results in Colorado since then – well, they're at the very least worth taking note of.

In Aspen last year, legal sales of cannabis surpassed those of alcohol in what's believed to be the first time in American history that has happened.

Aspen's cannabis sales grew by 16% in 2017. Meanwhile, cannabis also happened to be the fastest of any retail sector in the city according to tax officials.

Meanwhile a separate report has claimed that alcohol sales in states where cannabis became legal solely for medicinal purposes on average fell by 15% the next year.

And counties where cannabis can be legally be obtained have experienced 20% lower alcohol sales compared to neighbouring jurisdictions where the drug is still prohibited.

Add to this that North American — and global — beer sales are off to a *rocky* start in 2018, and you might imagine that shareholders in alcohol beverage makers might be starting to quake in their boots just a little bit.

Through the first two quarters of 2018, sales at **Molson Coors** ([TSX:TPX.B](#))([NYSE:TAP](#)) are down 1.9% as the global beer market appears on the brink of a saturation point and continues to struggle with stagnating sales.

Part of the industry's declines through the first half of the year have been attributed by Molson management to the lapping of a one-time tax credit from 2017, which it expects to recoup in the second half of this year.

Although it still expects to meet earnings guidance in 2018, including free cash flow of \$1.5 billion, the company is still taking proactive steps to deal with the emergent threat of legalized cannabis.

Earlier this month, the company announced that it had closed on its agreement to [form a joint venture with Hexo Corp \(TSX:HEXO\)](#) "to pursue opportunities to develop non-alcoholic, [cannabis-infused beverages](#) for the Canadian market following legalization."

The Canadian government has delayed the launch of edibles and cannabis-infused beverages until the first of July 2019, so Molson shareholders will have to hold tight and wait to see if the infused beverage experiment will end up bearing fruit or not.

Bottom line

Either way, there's no denying that the introduction of cannabis into the recreational market at least gives Canadians one more option to choose from when they're looking to take the edge off at the end of the day or work-week.

Mind you that doesn't mean the introduction of cannabis will mark the end of an era for alcohol brewers – necessarily – but it should at the least be enough to keep them on their toes over the coming months (and years) to ensure that at the same time it doesn't end up becoming their fate.

CATEGORY

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TICKERS GLOBAL

1. NYSE:TAP (Molson Coors Beverage Company)
2. TSX:TPX.B (Molson Coors Canada Inc.)

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