



Cannabis: Put That in Your Beverage and Drink it?

Description

Boy, oh boy.

Everyone saw this coming. I mean, valuations in the Canadian cannabis industry a year ago were just loony. Anyone who read my piece [“Bigger Bubble: Cryptocurrencies or Cannabis”](#) were warned of this near the peak.

That’s ancient history now, but with the overall cannabis sector down over 70% from these highs, my hopes are that folks who put their retirement savings or life savings into one of these black holes got out okay. The ship is still sinking, with a number of headwinds unlikely to abate. I’d recommend taking a look at the exchange-traded fund (ETF) tracking this sector, **Horizons Marijuana Life Sciences ETF**, to see just how linear this slide has been over time.

Cannabis 2.0

That being said, there are still cannabis bulls out there who are banging their drums, screaming “BUY” at the top of their lungs. They are pointing to “Cannabis 2.0” and specifically cannabis-infused beverages as the key catalyst that will bring us back to valuations of 100 times sales or more. I’m going to address those assertions today.

First of all, anyone who tells you that such beverages “are right around the corner” should be silenced. These products are still a long ways out. The fact that prototypes have been developed and testing is ongoing is irrelevant. That’s because of how long it takes Health Canada and the Federal and Provincial governments to regulate and approve such products. I would be shocked to see any 2.0 products hit the market in 2020 in any meaningful quantity with any meaningful bottom-line impact.

Partnerships with beverage companies

The other reality investors need to keep in mind is cannabis producers are farmers. They grow a weed and sell it — same as corn or soybeans. Any Cannabis 2.0 beverage would require a partnership.

Partnerships can take many forms, but I would be hard-pressed to believe that a large beverage producer would give away a massive chunk of potentially lucrative business for free. Capital expenditures related to the development and production, sale, marketing distribution, etc., of these drinks would need to be shared with whatever cash-strapped producer decided to engage in such a deal.

The assertion that cannabis producers have valuable brands, and that a beverage manufacturer might give up a bigger piece of the pie, or eat more upfront cost, to have the honour or distinction of displaying a particular cannabis brand is nonsense. The way cannabis is regulated now in Canada, any advertising, promotion, or general encouraging of someone to use cannabis is illegal. If anything, a beverage manufacturer who wants to engage in such a partnership will do everything in their power to **not** use a cannabis brand.

Bottom line

Cannabis 2.0 creating massive margins and brand value for cannabis producers is a fairy tale, at least in Canada, given the way legalization has rolled out from a retail and advertising standpoint. These products, when they do hit the market in the distant future, will be so over-regulated and taxed that consumers just won't bother, and will buy their usual six pack of beer instead.

Stay Foolish, my friends.

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