THE GLOBE AND MAIL

Amid looming marijuana legalization, brewers eye joint ventures

ANDREW WILLIS

PUBLISHED MAY 4, 2018

FOR SUBSCRIBERS

A few Thursday nights ago, the future of the Canadian cannabis took the stage at a downtown Toronto concert hall.

Against the backdrop of a Bob Marley cover band, medical-marijuana producer MedReleaf Corp. rolled out what it called a "cannabis-inspired beer," handing out free tall boys of a brew called San Rafael '71 4:20 Pale Ale. Pop the top of the bright silver can and you can sip "a unique blend of citrus and summit hops and specialty malts that gives a nod to the cannabis experience with peach and pine aromas."

You won't get high, no matter how many San Rafael '71s you drink. The beer is made by Amsterdam Brewing Co. and doesn't contain cannabis. The shiny cans are a marketing stunt: They sport the same name as a brand of marijuana that MedReleaf plans to market once the federal government legalizes recreational use of the drug later this year.

The beer represents a novel attempt to build public awareness for a product you can still get arrested for consuming in public. The partnership between beer brewer and pot grower is the latest sign of what's expected to be a wave of deals in the sin sector.

At the same time, the sector is consolidating – MedReleaf revealed this week it has held deal talks with rivals that include Aurora Cannabis Inc. – Canadian cannabis companies are working on everything from marketing agreements to outright takeovers by alcohol and tobacco companies. It's all part of growth curve in an industry evolving from a niche sector, dominated by criminals, to mainstream consumer product.

Deloitte forecasts Canadians will consume up to $9-billion of cannabis annually once the drug is legal and some deep-pocketed companies are plotting to dominate weed the same way Seagram ruled the liquor businesses coming out of prohibition.

The booze industry has reason to be paranoid about the appeal of marijuana. AltaCorp Capital Inc. published a report this week that projected legalization will result in a 15 per-cent decline in alcohol sales. Analyst Russell Stanley, who follows cannabis companies for Echelon Wealth Partners, said: "Alcohol companies have a great deal to lose, in terms of share of consumer wallet, as the cannabis market evolves with the introduction of edible products and beverages."

To get ahead of that threat, U.S. wine and beer company Constellation Brands Inc. spent $245-million last year for a 9.9-per-cent stake in Canopy Growth Corp., Canada's largest cannabis company. Echelon's Mr. Stanley said: "Constellation was the first mover into cannabis, it won't be the last."

One company to watch is Diageo plc., the British-based maker of Crown Royal Canadian whisky and a bevy of global brands. Sources in alcohol and marijuana sectors say Diageo executives have held exploratory talks on investments in a number of Canadian cannabis companies.

"It would be incredibly naive for the booze companies to think cannabis won't cut into alcohol consumption, and they are not naive," said Peter Shier, president of advertising agency Naked Creative. Mr. Shier's company works with a number of cannabis companies, and he said there

ongoing conversations on how pot producers will work with brewers, pharmaceutical firms and tobacco companies on everything from marketing campaigns to outright business combinations.

Growing marijuana is relatively easy – it's a weed and flourishes with a little light and love. Building a brand will prove more difficult for pot producers, in the face of government restrictions on packaging, advertising and celebrity endorsements.

"The biggest challenge cannabis companies face is being innovative about how and where they get their name in front of the public," Mr. Shier said. "They're all in a foot race to create awareness." For new cannabis producers, teaming up with an established alcohol or tobacco company means tapping expertise in marketing and distribution of a product that is subject to intense government scrutiny.

Takeover traffic is likely to be two-way, as many publicly traded marijuana companies are flush with cash (thanks to investor interest in buying their equity) and have stock that can serve as currency in acquisitions. They are potential buyers of established booze or pharmaceutical businesses.

For example, Aurora Cannabis invested in a distribution network by spending $104-million in February to acquire a 19.9-per-cent stake in Liquor Stores N.A. Ltd., the largest alcohol retailer in Alberta.

And on Thursday, Vancouver-based Harvest One Cannabis Inc. announced the $34.5-million takeover of a company that makes Dream Water, a 2.5 ounce, zero calorie "liquid sleep shot" sold online and in 30,000 North American retail outlets. Harvest One plans to move its medical and recreational marijuana products through the same distribution channels.