

THE CANNABIS REVOLUTION: HOW CANNABIS IS DISRUPTING THE FOOD AND BEVERAGE INDUSTRY

2018 EDITION (Published February 2018) More than 70 pages.



This report takes a broad view of innovation opportunities inside the larger cannabis industry, specifically as it relates to food and beverage companies. Much of the research commonly available is either too macro to be actionable, or extremely investment-focused. This report aims to surface innovation opportunities derived from a broad range of content sources, viewpoints and industry insider interviews.

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HAVE
QUESTIONS?

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THE ANSWERS YOU NEED

As cannabis becomes increasingly legal medically and recreationally, public perception and use habits are shifting faster than established companies are innovating. The consumer appetite for consistent, reliable cannabis products is not currently being met, particularly in the food and beverage space – presenting a huge opportunity for food and beverage companies as they contemplate how to enter this market. In recreationally legal markets, cannabis products are already competing with alcoholic and non-alcoholic beverages, as well as wellness and pharmaceutical products. Incumbents who aren't paying attention to this cultural and political reality are at risk of becoming the industry's next Blockbuster or BlackBerry.

As this report demonstrates, the economic opportunity is massive. With the industry expected to grow to \$10 billion in 2018, the time to invest, develop products, and establish a notable offering in the cannabis industry is now – and any company looking to "wait and see" for several years, will find itself behind the curve.

THIS CANNABIS REPORT FEATURES

- Key opportunities for the beverage and food industry in the cannabis space
- 4 original, exclusive interviews with emerging Cannabis industry companies and leaders, including their tips, challenges, and lessons learned
- National and state-specific stats and projections, as well as industry- and niche-specific data
- 77 pages, including 25 original infographics and highly visualized content
- Expert analysis and predictions on what to expect in both the short and long-term, recommendations on how to prepare for these changes and invest in innovative initiatives, as well as suggested entry points for established food and beverage companies

THE CANNABIS REVOLUTION

HOW CANNABIS IS DISRUPTING THE
FOOD AND BEVERAGE INDUSTRY

A
HVCK
INNOVATION
REPORT

January 2018

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ABSTRACT

This report takes a broad view of innovation opportunities inside the larger cannabis industry, specifically as it relates to food and beverage companies. Much of the research commonly available is either too macro to be actionable or extremely investment-focused. This report aims to surface innovation opportunities derived from a broad range of content sources, viewpoints and industry insider interviews.

As cannabis becomes increasingly legal medically and recreationally, public perception and use habits are shifting faster than established companies are innovating. The consumer appetite for consistent, reliable cannabis products is not currently being met, particularly in the food and beverage space — presenting a huge opportunity for food and beverage companies as they contemplate how to enter this market. In recreationally legal markets, cannabis products are already competing with alcoholic and non-alcoholic beverages, as well as wellness and pharmaceutical products. Incumbents who aren't paying attention to this cultural and political reality are at risk of becoming the industry's next Blockbuster or Blackberry.

As this report demonstrates, the economic opportunity is massive. With the industry expected to grow to \$██████ in 2018, the time to invest, develop products, and establish a notable offering in the cannabis industry is now — and any company looking to “wait and see” for several years, will find itself behind the curve.

What to expect in the report:

- Key opportunities for the beverage and food industry in the cannabis space
- 4 original, exclusive interviews with emerging cannabis industry companies and leaders, including their tips, challenges, and lessons learned
- National and state-specific stats and projections, as well as industry- and niche-specific data
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High-level conclusions:

- Smokeables on the decline
- Female and elderly consumers on the rise
- Wellness space growing and ripe for development
- A demand for reliable low-dose consumables
- Huge opportunity for RTD beverages
- Users growing exponentially in states as they legalize
- Canadian market an ideal test market
- Reimagining the cannabis retail space and its marketing messaging will significantly expand the user base
- Immature supply chain logistics are holding back the cannabis industry — and food and beverage companies are well-equipped to fill that gap

This report explains each of these findings and makes actionable, industry-specific recommendations related to each.

BEVERAGES

Cannabis was previously only fat soluble, but thanks to innovation from food scientists, it is now "water compatible," and appears water soluble to the consumer, opening up a huge, new cannabis beverage opportunity.



PEARL2O
\$30

Mineral water that doesn't smell or taste like pot. The water can be frozen into ice cubes, blended into a smoothie, and it can even be boiled while retaining the active THC and cannabinoids (CBD). Infused with 50 milligrams of THC and 50 milligrams of CBD.



KIND WATER
\$7

Includes terpenes, compounds which give cannabis its variety of distinctive aromas and flavors. Certain terpenes also offer a range of health benefits such as limonene, which is antibacterial and anti-fungal.



STILLWATER BRANDS
\$18-24

Tea, coffee, and dissolvable THC. The THC is tasteless. Focus on micro-dosers (10 mg at a time instead of 100 mg). Can add to any food or beverage.



CBD FUSION WATER
\$149 24-pack

Vitamin-infused CBD water that emulates the hydrologic cycle.



CANNA NANO WATER
\$10

CBD water that emulates the hydrologic cycle.



CBD LIVING WATER
\$8

Uses nanotechnology to size CBD and nutrients into tiny particles and infuses them into water for max hydration, absorption, and wellness

WHAT'S DRIVING THE SWITCH FROM ALCOHOL TO CANNABIS?



SAFETY

Fear of impaired decisions and actions when using alcohol



COST

Alcohol costs more than high quality cannabis



HEALTH

Dislike of hangovers; participants report feeling healthier after using cannabis than after drinking

CANNABIS-INFUSED ALCOHOL?

Mixing substances is considered dangerous (just recall the issues that exploded around Four Loko, the malt liquor based, caffeinated alcoholic energy drink). But CBD, which is a mood-enhancer with health benefits, without the psychoactive properties of THC, is a viable option for cannabis/alcohol infusions.

THE MARIJUANA + HOPS EXAMPLE

Marijuana and beer hops have a similar taste, smell, and appearance. This is due in large part to their common terpenes, the compounds that give both marijuana and hops their unique smell. Thus, it is conceivable to successfully integrate marijuana into beer brewing.

HVCK PREDICTION: [REDACTED]

OPPORTUNITY #1: [REDACTED]

OPPORTUNITY #2: [REDACTED]

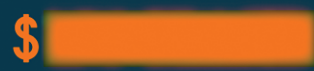
MARIJUANA AND THE PHARMACEUTICAL INDUSTRY



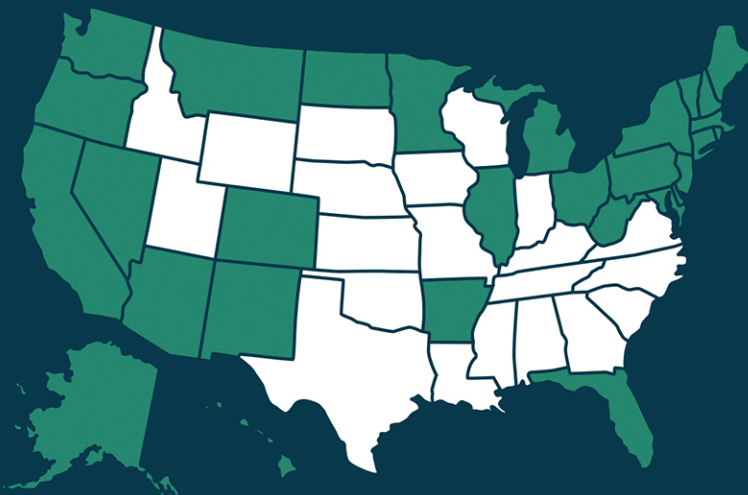
Adults suffering from
chronic pain



Americans addicted to
prescription painkillers



\$ in Medicare spent on
opioids



■ Medically legal cannabis



Reduction in daily opioid
doses prescribed in states
with a medical cannabis
law



Fewer opioid overdose
deaths in medical cannabis
states

Analysis shows dollars spent on over-
the-counter medications are being lost
as adult use cannabis markets swell



CULTIVATION & AGRICULTURE

While the average consumer likely assumes that all marijuana plants are created equal, there are actually several hundred different strains of the marijuana plant, all with their own unique properties, potencies, aromas, environment preferences and growing cycles.



Marijuana strain patents are big business, and big players are operating in the shadows, working to patent strains and create an IP barrier to block new players from entering the market.

OPPORTUNITY: Depending on the product end-use, strain selection can be optimized to produce specific properties of the end product, such as THC and CBD concentration. Coordination between the cultivator and product manufacturer can contribute to a highly optimized supply chain operation.

"With \$1.27 billion in sales in 2016, Washington state's cannabis crop now represents the second most valuable farmed commodity in that state, behind only apples—and ahead of milk, potatoes, and wheat." - *Leafly*

Traditionally, most marijuana has been grown outdoors or in greenhouses, but with several key innovations in technology, there is a rapid shift to indoor growing. At the same time, wholesale prices for indoor grown marijuana continue to be amongst the highest in the industry, compared to outdoor and greenhouse grown.

If that weren't complicated enough, the local counties and cities within each of these states each has their own regulatory frameworks and tax rules that businesses must adhere to.

And finally, given the outcome of the 2016 presidential election, the progress made in the decriminalization and states' rights deferment via the states rights focused "Cole Memo" is increasingly in jeopardy. The previous administration voiced in clear terms that they would not be pursuing organizations in the marijuana industry, provided they adhere to their state and local regulations. The current administration, and the sitting Attorney General, have not outright voiced the same level of support, casting a shadow of uncertainty over the industry.

OPPORTUNITY: While near-term entry into the marijuana industry is indeed fraught with peril, the long-term outlook is promising enough that even more legally conservative organizations can employ a market entry strategy to avoid being left behind.

[REDACTED]

Even if there is little-to-no capital contribution being made,

LITIGATION RISK

Companies exploring the marijuana space often hear of the dramatized adventures of first-time users and those unfamiliar with product dosing, and immediately begin to consider the litigation exposure that might accompany entry into the space. And while these experiences are unpleasant, they are not typical for users with basic education of the product — and certainly not more litigious than alcohol-related incidents.

forging solid partnerships and providing in-kind support can help create a solid launchpad for future market entry efforts.

[REDACTED]

Justin Singer
CEO, Stillwater Brands

Stillwater is a Colorado-based producer of water-soluble cannabis and cannabis beverages.

STILLWATER
BRANDS



Q: Who is your target demographic?

We target seniors and responsible adults, and that is the bulk of our market. Millennials are being targeted with smokable products. Our customers don't use our products to get stoned.

Q: Tell me a bit about your senior outreach program. How has it been received? Have you seen an uptick in sales to that demographic?

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]