



THE HIGHS & LOWS OF CANNABIS

Outright prohibition of cannabis began in the United States in the 1920s. However, over the past several years cannabis legalization has been rapidly occurring across the United States, at the state level. In Canada, it is already legal for both recreational and medicinal purposes. The cannabis sativa plant has almost 500 natural components; as many as 70 of which are cannabinoids, chemicals that are unique to the plant. The push for legalization is led in large part by the medical discovery in the early 1990s of the endocannabinoid system, a complex cell-signaling system inside the human body. The possible applications for the constituents of cannabis are plentiful and vary across many industries, including healthcare, beverages, manufacturing, beauty & cosmetics, farming and more.

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CANNABIS IN CANADA

In the lead up to the Canadian legalization of cannabis for recreational purposes in 2017, the enthusiasm for cannabis stocks mimicked technology during the Dot-Com bubble in 2000. Nearly all the publicly listed companies operated without revenue, nevertheless speculation elevated prices without regard to fundamentals. However, capital support and investment from behemoth companies such as Constellation Brands, Anheuser-Busch and Altria, to name a few, fueled the excitement in the sector. Through 2018 and 2019, fundamentals improved, and firms reported sales growth ranging from 10x to 200x the levels earned in 2016. Despite the progress, profit expectations have not materialized and share prices have fallen sharply. Access to capital and regulatory restrictions on interstate growth and acquisitions have also been harmful to valuations.

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CANNABIS IN THE USA

In the United States, cannabis remains illegal under federal law for any purpose as it is classified as a Schedule I substance, a category reserved for substances with a high potential for abuse and no accepted medical use. Despite the federal classification, the United States is the fastest growing market for cannabis as individual states have legalized cannabis for both medicinal and recreational purposes. As of now, 40 states have allowed some form of legalized cannabis and has grown from just 17 at the end of 2010. Adoption has accelerated in large part due to the amendments of the Cole Memorandum, named the Rohrabacher-Farr amendment which bars federal prosecution of individuals who comply with their state's medical cannabis laws. The rapid growth has created additional pressure for the federal government to address the legal discrepancy. This sets the stage for cannabis to be used as a political weapon in the 2020 election.

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US POLITICS AND CANNABIS

Democratic front-runner, Elizabeth Warren, introduced the STATES Act in June 2018, which prohibits Federal interference with cannabis corporations operating legally within the US. The STATES Act enjoys the most bipartisan support and includes backing from President Trump. Further, in December 2018, Trump signed the omnibus Farm Bill, which redefined hemp as an agricultural product rather than a Schedule I substance. On September 25, 2019, the House of Representatives voted in favour of the SAFE Banking Act, a bill aimed at giving clarity for financial regulations across the United States. If approved by the Senate, US operators would gain access to capital and can purchase common social services for employees such as insurance. The Bill however has not made it through the Senate, and if it is pushed until 2020 the process for approval will reset. Current Senate Banking Committee Chair Mike Crapo has been steadily softening his once hardline position on the subject.

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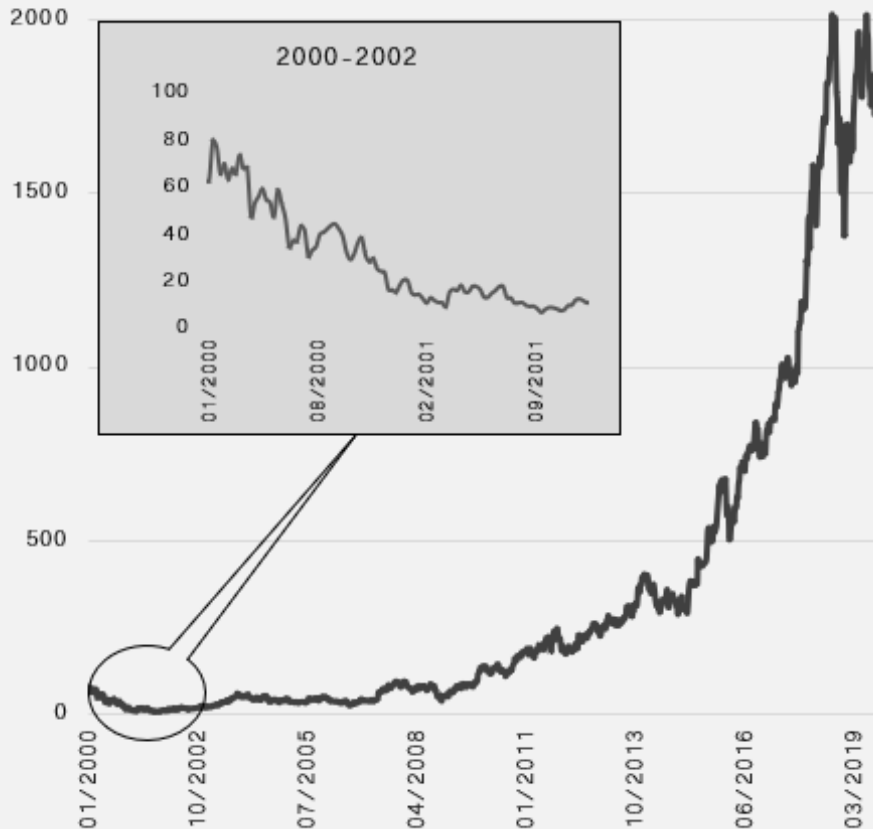
WEED IN THE UNITED NATIONS

In addition to the legislative changes in the United States and Canada, there is a global push for rescheduling cannabis by the United Nations. In early 2019, the World Health Organization called for the whole marijuana plant to be removed from its most restrictive category of a 1961 convention. Such a shift by the United Nations would be a positive catalyst as additional nations would likely be more inclined to scale back or repeal their prohibition laws. It should be noted, however, that legalization for non-medical reasons would still violate global conventions and the vote which was scheduled for March 2019 was postponed with no clear indication on a new vote date.

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AMAZON SHARE PRICE



THE FUTURE OF CANNABIS

Within a 24-month time frame, the cannabis industry has transitioned from stretched valuations to panicked selling. The thoughtless flogging is reminiscent of the beating undertaken by Amazon and Booking Holdings (formerly Priceline Group) when the Dot-Com bubble went bust. When Priceline IPO'd in 1999, it soared to a \$23 billion market value. But by 2002, tanking tech stocks devalued its market cap to about \$150 million. Today, the company's value is approximately \$85 billion. It would be reckless to suggest that Booking/Priceline history will repeat with the whole cannabis complex. Nevertheless, sentiment is approaching extreme negative levels at a time when growth is accelerating, and structural impediments are fading. We anticipate that momentum will shift, as legislation and access to capital improve, and today's investors will enjoy favorable outcomes in the long-term.