

# Cannabis industry update on Smith decision, Tweed deal and Tilray layoff

✘ The Canadian cannabis industry is digesting three high profile news items from the past few weeks.

**Event 1:** The *Smith* decision from the Supreme Court of Canada. Meaning: legalized medical marijuana consumables. Impact on the industry: highly positive. A new segment of the industry has been created.

**Event 2:** Tweed and Bedrocan, two of the largest participants in this newborn industry, announced a merger. Meaning: their respective expenses are far too high for the revenue they expect to generate in the short term. They would have faced financial crisis going it alone. Impact on the industry: mildly positive in the very short term as excited investors pile in, but negative in the medium term once the financial realities become apparent, and positive in the long term since this leaves one healthy company rather than two injured ones.

**Event 3:** Tilray (another MMPR licensee) laid off roughly one-third of its work force (61 out of roughly 200). Meaning: cost structures are again out of whack, with little revenue growth expected in the short term. Impact on the industry: negative in the short and medium terms, but again positive in the long term since this should make for a more efficient company with a leaner cost structure.

Don't expect much revenue growth from any of the MMPR's or many (if any) new MMPR licences until *Allard* and the federal election are resolved. Expect the grey market in MMPR applicants to continue, albeit with declining valuations.

What does this mean for the average investor? First, recognize

that the evolution of the cannabis industry will not be a simple or straight path. It's a story still unfolding, yet untold. That means you need to invest in a high quality management team with real business experience who can adjust as need be. Find people who have been part of other successful stories, even if in other industries.

Second, don't invest in just one cannabis related company. Take a portfolio approach and balance your risk.

Third, do your homework. Read whatever you can get your hands on, and think about what it means. For example, most people assumed the Tweed / Bedrocan deal was a positive event – a moment's analysis reveals it to be a financial defensive manoeuvre.

And against that background, we turn the microphone around to question Tracy Weslosky, publisher at InvestorIntel. InvestorIntel was the media sponsor of the recent Jacob Securities Canadian Cannabis Investor Conference at The Trump in Toronto, and that meant Tracy was well positioned to observe the jockeying for position. She's been related to the securities industry for, well, a while. She's seen new industries sprout, old technologies fade away, then new markets evolve to fill the niche.

**Q: How was the Jacob Securities conference?**

A: I loved it! A room full of accredited investors, standing room only: this is our audience, it was fun!

**Q: What impressed you the most at the conference?**

A: This is easy – Bruce from Tweed and Terry Booth from Aurora Cannabis Inc. (CSE:ACB) were my top two speakers. I agree with Bruce that this sector is tightly held by a chosen few. I believe he said something like, "It's a great business if you are in it already, but it's a very hard business to get into now." Terry clearly loves what he does and took control of the

room when he spoke. He left investors 'soft' on widening their investment portfolio to integrate pot, feeling confident that this is a real business.

I sat next to Richard Carleton of the CSE who provided the best statistics on the financial aspect of the overall industry. Bill Fleming, CEO of Abattis Bioceuticals Corp. (CSE:ATT) was being followed around by a pack of eager investors wanting to know more about what he was going to do next and I love how knowledgeable he is on pain management. I enjoyed seeing Harry Barr from NexGen and Ryan Brown from GrowPros who has been amazing at explaining the sector's equipment infrastructure for our understanding.

Overall I genuinely felt Khurram Malik and Sasha Jacob pulled out all of the stops, and get the two thumbs up for an exceedingly informative, perfectly paced and classy event – outstanding.

**Q: What topic or company do you want to learn more about as a result of the conference?**

A: The topics I would have stayed late to hear would have been an opinionated panel with the financial analysts covering the sector, with at least one of them offering reasons NOT to invest. This industry is so new there only a handful of IIROC analysts currently covering it and we need intelligent debate to reveal its strengths. Another panel that would have been ideal is one full of lawyers. Yes, you heard me right, but this is an intensely debated sector with more legal tight-walking than just about any other sector.

And finally – a segment on equipment and infrastructure. Aurora's Terry Booth was explaining all kinds of competitive advantages and options that can occur during the building of these facilities, and since he has a successful construction background you have to suspect their buildings are "better" than the others.

**Q: Will the Allard decision from Canada's Federal Court of Appeal have an impact on your business?**

A: It will have a HUGE impact on the overall marijuana industry. I have 2 sisters that are strongly opposed to legalization of marijuana and then there are 2 of us that are more relieved as taxpayers that we are not wasting money putting pot smokers in jail. I personally support any court decision that gives patients more control over their own pain management, in the delivery format that seems to work best for them.

**Q: How do you see the edibles market developing in Canada over the next year?**

A: The Supreme Court of Canada has legitimized the edibles market. I believe that the medical consumable market will eventually be greater than the smoking option. If Canada ever decriminalizes pot the consumables market would be massive, much larger than the medical market. I think the players in the industry now are trying to set themselves up to exploit that opportunity if it comes to pass after the federal election in October.