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Pot M&A Boom Awaits, in California and Beyond: Cannabis Weekly

Tiffany Kary, Bloomberg News



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INDICES

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DAX

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SEMI

93.93

135.90

26,482.41

15.09

3,856.89

78.56

3,856.30

32.01

DALY CITY, CA — A bowl of medicinal marijuana is displayed in a booth at The International Cannabis and Hemp Expo, 2018, 2010 at the California State Center in Daly City, California. The two-day Cannabis and Hemp Expo features speakers, retailers selling medical marijuana smoking paraphernalia and a special tent available for local marijuana patients to make their medical use. California will consider a measure on the November general election ballot that could make the

EU May Take More Anti-Covid Eco Measures in Spring: Gentiloni

15.09

78.56

3,856.30

\$69.24

+0.33

32:01 am

... legalize the growing of a limited amount of marijuana for
 (Justin Sullivan/Getty Images) Photographer: Justin Sullivan/Getty Images
 North America, Photographer: Justin Sullivan/Getty Images

(.)

POST-COVID RESILIENCE DISCUSSED

(Bloomberg) -- Jazz Pharmaceuticals Plc's \$7.2 billion purchase of GW Pharmaceuticals Plc this past week is the biggest tie-up yet for the cannabis industry. And it's likely just the beginning.

Fmr. IBM CEO Rometty on Career, Advise to Young Women

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CONTINUOUS PLAY: ON OFF

The blockbuster deal, which dwarfs Tilray Inc. and Aphria Inc.'s \$3.8 billion-valued merger as well as Constellation Brands Inc.'s multibillion-dollar investment in Canopy Growth Corp., shows the growing interest in pharmaceutical-grade cannabinoids. With big money flowing into this market and the broader industry, it also portends more megadeals ahead.

"Capital is back in the cannabis sector," Bill Doran, a partner in Benesch's Chicago office specializing in mergers and acquisitions, told me last week.

After a financial drought for even some of the biggest multistate players, activity is heating up just as the march toward U.S. legalization -- at both the state and federal levels -- picks up pace, creating a perfect environment for an M&A boom. The big question now is where those deals are likely to happen.

Doran predicts California will be a key. Despite being difficult to evaluate because of the persistence of the black market, there are a lot of small, promising brands with loyal followings.

"Multistate operators that aren't there already will set their sights on California," he said. "It's by far the biggest market in the country, and it eclipses the entire Canadian market from a demand perspective."

States that have medical markets but haven't yet legalized recreational use will also continue to attract companies that want to get in before the legal change, he said, citing Cresco Labs' recent \$213 million deal with Bluma Wellness to move into Florida.

Investors will also look to ancillary technologies that support the industry, such as logistics companies and e-commerce specialists. Think Uber-Drizly's alcohol-delivery deal, but for cannabis. Again, California is a ripe geography for acquisition because cannabis has been legal for longer there, making it a more developed market.

While there are hundreds of smaller players that may be eager to pair off, economics favor companies with more scale, said Matt Hawkins, managing partner of private

S&P/TSX (/markets)	Dow Jones (/markets)	S&P 500 (/markets)	Nasdaq (/markets)
93.93	92.38	15.09	78.56
18,135.90	31,148.24	3,886.83	13,856.30

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BHC:CT \$36.17 +0.31 (/stock/BHC:CT) **BIP-U:CT** \$69.24 +0.33 (/stock/BIP-U:CT)

are larger and can move quickly to sell to institutional capital or large CPG, alcohol, pharmaceutical, nutraceutical and tobacco companies are going to be the

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has deployed more than \$150 million in about 66 investments in the cannabis industry.

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One of the most interesting factors to watch in this consolidation is the science. A growing number of companies are pursuing research on the compounds in marijuana plants and their effects on specific diseases and disorders.

That was a central factor in the GW-Jazz deal. GW makes an epilepsy medication called Epidiolex, the first drug derived from the cannabis plant to win approval from the U.S. Food and Drug Administration. But it wasn't just about Epidiolex -- it was also about the promise of its late-stage trials for other cannabis-derived compounds to treat things like multiple sclerosis, autism and schizophrenia.

Pharmaceutical companies aren't the only ones interested in rare cannabinoids, which can be extracted from plants or synthesized from labs, and usually come without psychoactive effects. In a recent overview of players in that space, ATB Capital Markets analyst David Kideckel pointed out that the market, already worth around \$20 billion, is also attractive to consumer companies.

Cannabinoids are likely to become a "critical" ingredient in pharmaceuticals and consumer goods, he wrote. With that in mind, the GW deal is a "game changer for the industry."

COLUMNIST'S NOTE

This newsletter currently publishes Sundays at 10 a.m. New York time. We are considering moving its publication to Monday mornings before the start of regular trading. If you have any questions or concerns, please contact the columnist at: tkary@bloomberg.net

NUMBER OF THE WEEK

- \$2 billion: The estimated boost to U.S. cannabis sales in 2020 from prior expectations due to the Covid-19 pandemic, according to BDSA.

QUOTE OF Markets	E WEEK INDICES	S&P/TSX (/markets)	Dow Jones (/markets)	S&P 500 (/markets)	Nasdaq (/markets)	MARKETS (/MARKETS)
"This has b	a far more stressful time in people's lives	93.93	92.38	15.09	78.56	
than normal. People are also looking for more ways at	home to entertain themselves, and cannabis was	18,135.90	31,148.24	3,886.83	13,856.30	
ck/BCE:CT)	BHC:CT \$36.17	+0.31 (/stock/BHC:CT)		BIP-U:CT \$69.24	+0.33 (/stock/BIP-U:CT)	

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could fill the gap," Kelly Nielsen, vice president of research and analytics at BDSA, said in an interview. Nielsen's group found a 34% increase in people saying they're shopping more often for cannabis during the pandemic, generally to deal with stress and anxiety.

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WHAT YOU NEED TO KNOW

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- Cannabis stocks got a broad-based boost from the Jazz-GW deal.
- While U.S. investors are starting blank-check firms to hunt for deals, including in the cannabis space, Canadians are forming fewer of the so-called SPACs.
- A micro-cap Canadian stock, Nabix Holdings Inc., surged 9,500% before regulators canceled all the trades.
- U.K.-based cannabis company Cellular Goods Plc, which counts soccer star David Beckham among its investors, seeks to list on the London Stock Exchange.
- With New York on the precipice of legalizing recreational marijuana, a fight is brewing over how to spend what's expected to be more than \$300 million in tax revenue.
- Minnesota Democrats have renewed a push to legalize recreational cannabis, potentially making it the 16th state to do so.
- A Kansas plan to fund Medicaid with marijuana taxes will be a long shot in the 2021 legislative session, lawmakers say.
- In Montana, conservation, drug treatment and economic development are all vying for the state's new stream of marijuana tax revenue.

EVENTS

Tuesday 2/9

- Canopy Growth reports third-quarter earnings before the market opens.

Thursday 2/11

- Aurora Cannabis reports second-quarter earnings after the market closes.

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