

CANNABIS- INFUSED PRODUCTS:



U.S. CONSUMER EXPERIENCE & DEMAND

EXECUTIVE SUMMARY

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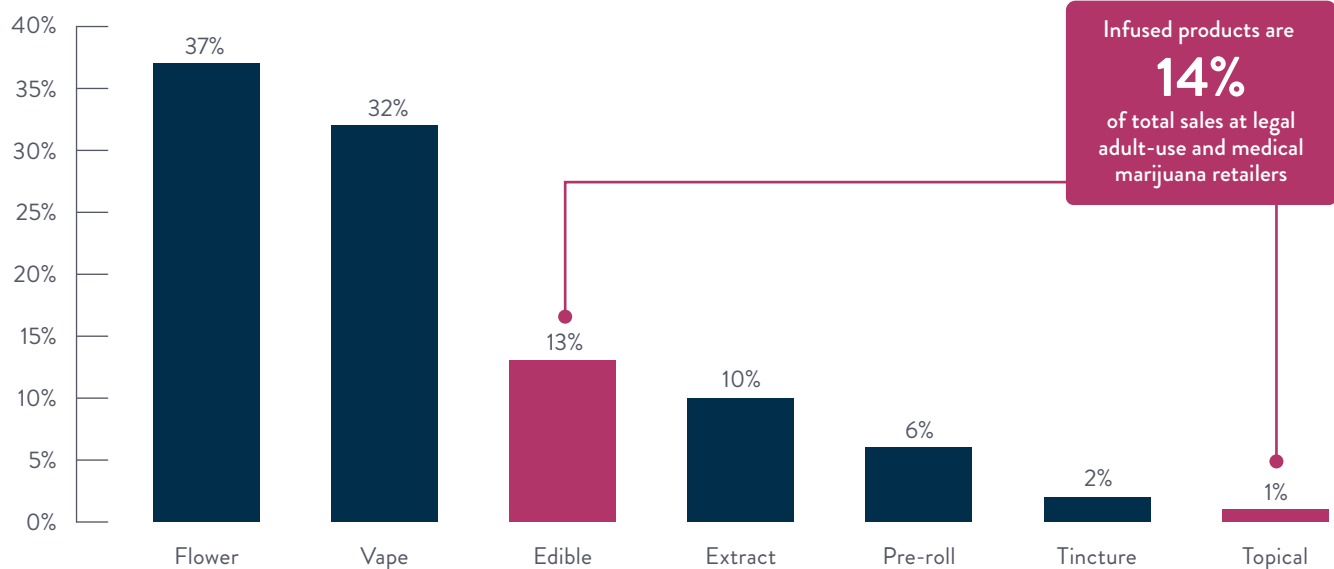
executive SUMMARY

KEY FACTORS SHAPING THE MARKET FOR CANNABIS- INFUSED PRODUCTS

Consumers are using and integrating cannabis into their lives in entirely new ways, motivated by new products, improving access, and changing norms. New Frontier Data projects that in the United States, spending on legal cannabis in 2020 will grow by 25%, to exceed \$18 billion. Cannabis-infused products will represent nearly \$3 billion (or 17%) of that total.

Cannabis-infused products are made by permeating active compounds of the cannabis plant into ingestible or topically applicable products. In the United States, legal sales of marijuana products (i.e., THC % > 0.3% in dried plant matter) are currently restricted to state-licensed dispensaries in local jurisdictions. Low-THC (non-detectable THC), high-CBD infused products have become more widely available at traditional retail locations such as pharmacies, drugstores, grocery stores, and online outlets. Solid edible products, led by gummies, comprise >90% of the top-selling infused products. Other infused product types like lotions and (to a lesser extent) beverages are also gaining popularity, particularly in CBD formulas.

U.S. SALES OF MARIJUANA PRODUCTS Q1 2020



Source: New Frontier Data



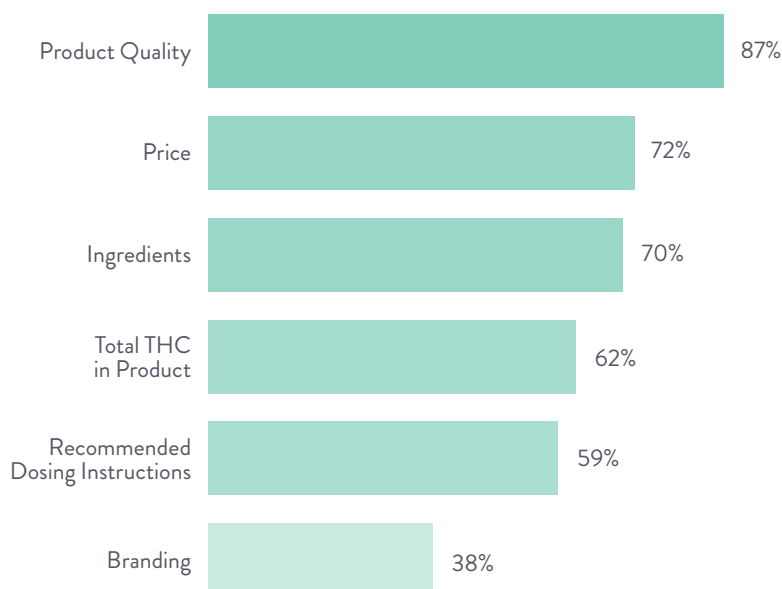
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Consumers tend to have disparate, diverse expectations when it comes to infused products, but agree that quality is a fundamental factor in purchasing decisions. In both the CBD and marijuana markets, consumers consistently listed ingredients, dosage, and testing results as the most important factors. Companies are responding by investing heavily in both product development and manufacturing technologies.

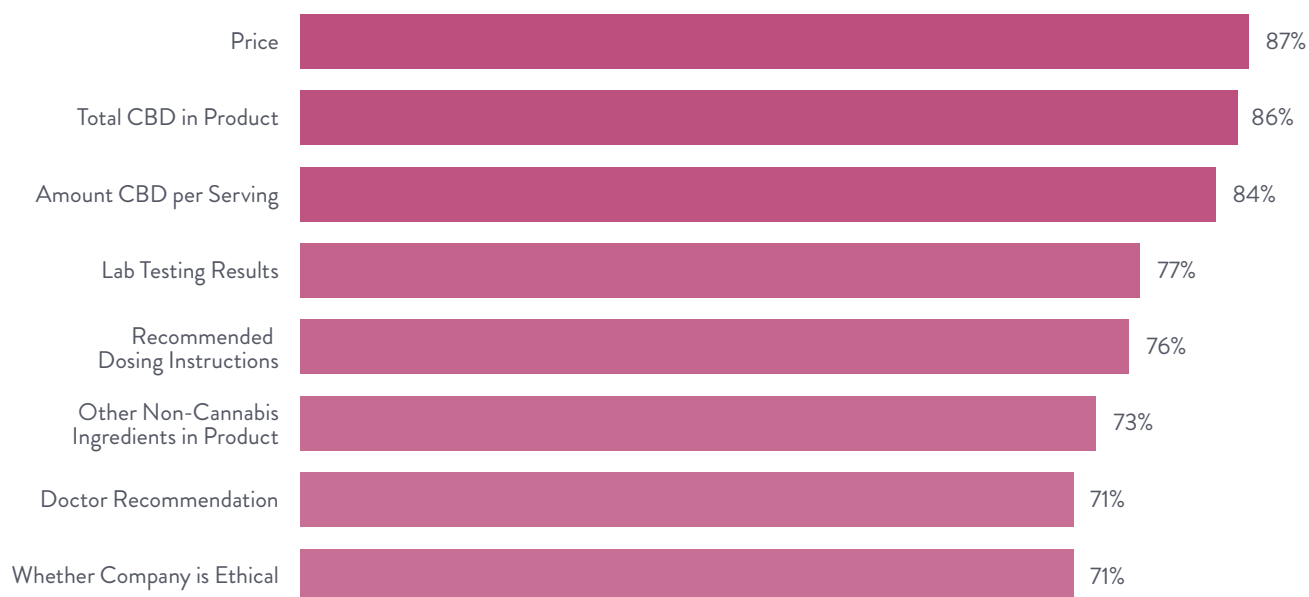
While manufacturers of cannabis-infused products stand to benefit from bringing to market products which are accurately and precisely dosed, consistency has historically plagued the product category. The process for manufacturing infused products requires extracting active ingredients from the plant, and

TOP PURCHASING FACTORS MARIJUANA-INFUSED PRODUCT USERS



Source: New Frontier Data

PURCHASING FACTORS CBD-INFUSED PRODUCT USERS



Source: New Frontier Data



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MAD TASTY
Broad-Spectrum Beverage



VELVET SWING
Full-Spectrum Massage Oil



PLUS PRODUCT
CBD Isolate Soft Chews

infusing the extracts into consumable products. The synergistic interplay of all the cannabinoids, terpenes, and flavonoids represents a major influence on the cannabis experience (i.e., the "entourage effect"), and the basis for what distinguishes the three classes of infused products: full-spectrum, broad-spectrum, and isolate.

At the extraction level, modern techniques (like supercritical Co2 extraction) take advantage of disparate boiling points of the cannabinoids. They can yield exceptionally pure and precise extracts free of harmful hydrocarbons which are often byproducts of many solvent-based extractions. Nonsolvent, mechanical methods (e.g., rosin) use heat and pressure to extract full-spectrum oils at high yields.

Revolutionizing infusions such as water-based emulsions are now utilized to improve bioavailability (i.e., the body's ability to absorb the extracts), and accelerate the onset time of effects. That significantly strengthens a product category's competitive position. Beverage companies are using water-based emulsions to mask the "herby cannabis taste" and create more stable products which may have a 12+ month shelf life. Glycosylation is another infusion technique which transforms cannabinoids into hydrophilic (water-soluble) molecules, but its market potential is yet to be realized.

Key Consumer Insights:

- Solid edible products, led by gummies, comprise >90% of the top-selling infused products.
- Among younger consumers, 42% expressed awareness about where infused products are available, compared to 38% of middle-aged and 17% of older consumers. Those rates reflect significantly limited sales, as 95% of both middle-aged and older consumers with such awareness reported their prior use.



- Consumers of cannabis-infused products are much likelier to primarily source their cannabis products from cannabis dispensaries than are those in the overall population of cannabis users (37% vs. 15%, respectively).
- Quality is of paramount concern for consumers of cannabis-infused products who look to labeling to assuage concerns regarding ingredients, potency, and dosing amounts. Once satisfied with a product, consumers tend to remain very brand-loyal.

Key Manufacturing Insights:

- Solvent extractions are relatively simple, but have shortcomings about consistency: Hydrocarbon and alcohol-based extracts can be difficult to evenly infuse in products, and may contain harmful contaminants.
- The U.K. regulations for cannabis and CBD food products will hamper growth of the full-spectrum and broad-spectrum market in favor of distillate/isolate products. At the same time, in the United States lack of guidance from the FDA could result in a similar market shock once the agency does act.
- Improved efficiencies and economies of scale will bring down the cost of infusion technology, and more companies will be able to adopt state-of-the-art extraction and infusion technologies.

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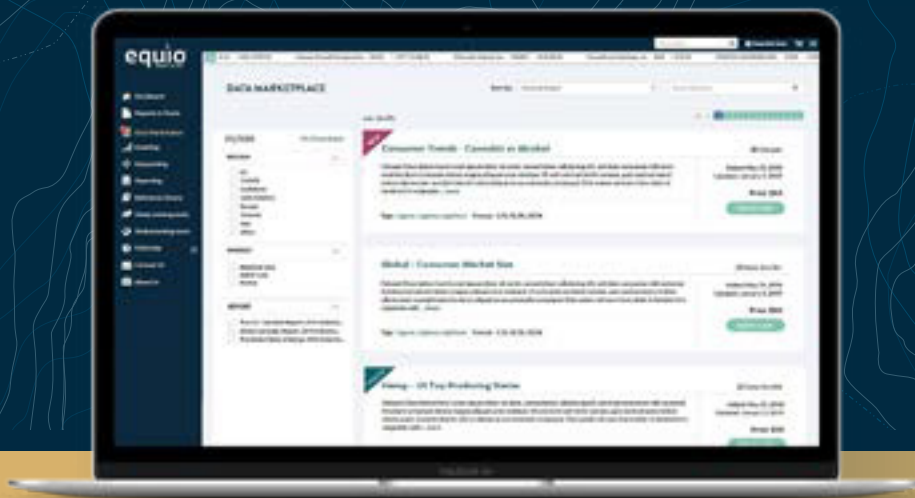
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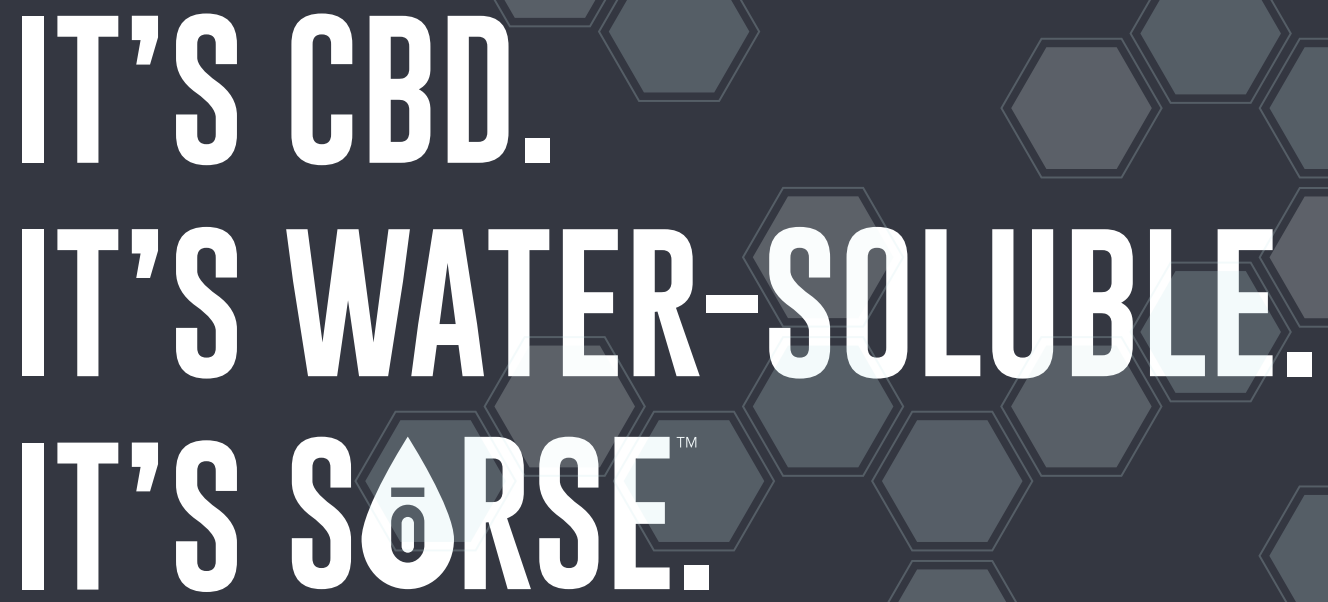


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