ICR STRATEGIC COMMUNICATIONS & ADVISORY

SPECTACLE

THE 2020 CANNABIS CONSUMER

An in-depth look at the cannabis industry through the eyes of the consumer

COVID-19 AND CANNABIS

Since the time of this research, COVID-19 has emerged as an issue that will impact all business and sectors, with significant implications for the cannabis industries. Here we share our thinking on this topic before we dive into the research.

On March 23, 2020, when Denver Mayor Michael Hancock announced that the city would close recreational marijuana dispensaries as part of a citywide stay-at-home order in response to the COVID-19 pandemic, the announcement, intended to curb large gatherings of people, had the opposite effect.

Lines—quite literally around the block—started forming at dispensaries throughout the city, in a matter of minutes. Only a few hours later, the ban was lifted and both medical and recreational cannabis businesses were deemed "essential."

States across the country experienced similar early confusion as the COVID-19 outbreak worsened, but when the dust began to settle on stay-at-home orders, cannabis was widely deemed an essential business, further cementing its role in the public sphere as a critical contributor to health and wellness, both for medicinal and recreational consumers.

In total, cannabis businesses in 24 states—Arkansas, Arizona, Connecticut, Delaware, DC, Hawaii, Florida, Louisiana, Maine, Maryland, Massachusetts, Minnesota, Montana, North Dakota, New Hampshire, New Jersey, New York, Ohio, Oklahoma, New Mexico, Pennsylvania, Rhode Island, Vermont and Utah—could remain open for medical purposes.

Additionally, states including California, Colorado, Illinois, Michigan, Nevada, Alaska, Washington, and Oregon have allowed cannabis businesses to remain open for medical and recreational users. Of note, the California Department of Food and Agriculture also classified cultivation as an essential business, and back in Colorado, Governor Jared Polis issued temporary orders to allow dispensaries to provide curbside pickup, and permitted doctors to issue medical cannabis recommendations via telemedicine. Oregon also took action to make it easier to obtain cannabis worker permits.

As of this writing, the long-term impact of COVID-19 on businesses—both essential and not—are unknown. Most cannabis businesses deemed essential saw an immediate boost in sales. Classifying cannabis dispensaries as essential (even for adult use) signals that cannabis is continuing to become mainstream. Furthermore, as local governments and municipalities look to reignite economies following what could be months of social distancing measures, we may see more public officials increasingly open to the cannabis industry as they look for additional sources of tax revenue and employment opportunities.

That doesn't mean cannabis gets a free pass. As COVID-19 is a respiratory illness and even occasional smoking can increase risk, we may see an accelerated shift from flower to alternative consumption forms, presenting opportunity for edibles to increase their market share.

And there are still challenges ahead. According to The Motley Fool, the long-term implications of COVID-19 could range from supply chain disruptions and tradeshow cancellations to a drop in cannabis tourism and national legalization support. As such, it's a critical time for cannabis entrepreneurs to showcase innovations and operational agility.

While the cannabis industry appears to have solidified its role as essential during the COVID-19 outbreak, the effects of the pandemic have been devastating to many. Of the thousands of people who died from the virus, among them was 13-year-old Charlotte Figi, the beloved Charlotte's Webb namesake, who helped pioneer the critical use of CBD for seizures.

Sources:
https://www.foxrothschild.com/publications/cannabis-companies-deemed-essential-businesses-in-some-states-but-not-all/
https://mjbizdaily.com/states-that-have-allowed-marijuana-businesses-to-remain-open-during-coronavirus-pandemic/

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INTRODUCTION

It will come as a surprise to few that the stereotypes of 1960s-era "potheads"—those unmotivated, unkempt and unemployable counterculture "stoners"—are outdated as we enter the dawn of a new decade. Cannabis and its non-psychoactive compound CBD are now mainstream, with new and diverse consumers using a myriad products in ways never before possible and we're still in early innings.

This cultural wave has been propelled by legalization efforts, with recreational cannabis now legal for adults in 11 U.S. states and medically legal in 33 states and the District of Columbia as of the writing of this report. Coupled with a new generation of cannabis consumers, the cannabis economy is seeing massive growth and the emergence of ancillary industries.

According to Vivien Azer, the Cowen senior analyst for the cannabis sector, the global cannabis opportunity is already worth $50 billion (inclusive of illicit channels)[1].

Projections for the CBD opportunity are also eye-opening. Industry analysts at Brightfield Group, say the hemp CBD market alone could hit $22 billion by 2022[2].

Mainstream retailers including CVS, Kroger and Walgreens have lined their shelves with CBD topicals, tinctures and more[3]. Despite this progress, formidable challenges remain ahead for the industry. Consider:

- While stigmas surrounding cannabis may *seem* less pervasive today, they remain one of the single largest barriers to usage.
- Many employers still enforce pre-employment and employee drug testing programs with zero tolerance for cannabis violations, despite state-level attempts to protect medical and, in certain states, recreation cases[4].
- The vaping crisis made national headlines in 2019 as lung injuries tied to vaping killed at least 60 people in 27 states and sickened 2,711[5].
- Federalization, of course, remains the largest existing barrier. Cannabis' status as a Schedule I drug means that deep scientific research and medical studies are not permitted under federal law.

The roar of the industry—whether regulatory chatter, capital markets transactions or clickbait headlines—has left companies dazed and confused as we've lost site of an important factor: the consumer.

With this study we set out to better understand who, exactly, is the modern cannabis consumer and what influences their behaviors regarding cannabis?

We surveyed over 1,000 U.S. consumers on their attitudes toward and usage of THC and CBD products. All respondents were between ages 18–65; users of recreational or legal cannabis (purchased from a dispensary) at least two times per year; and did not work in advertising, PR, market research, financial services, cannabis retail, cannabis operations or alcohol production.

Our study and this subsequent report provides a clearer view of the modern U.S. cannabis consumer and evaluates major industry macro-trends within the industry: social stigma; the 2020 political climate; the impact on alcohol and other adjacent categories; cannabis and the female consumer; and the brand opportunity.

Uncovering insights on what consumers are experiencing in the market, we reveal whitespaces of opportunity for companies bold enough to navigate these new waters. If nothing else, you will be able to expertly explain why "pothead" is rather outdated nomenclature at your next cocktail party.

We hope you find value in this report as you execute your strategic growth plans. If we can be helpful in unpacking its findings further or discussing a specific need, please don't hesitate to get in touch.

— ICR and Spectacle Strategy

SECTION 1

TODAY'S CANNABIS CONSUMER

The face of the cannabis consumer has evolved and is more diverse than you may think. From Gen Z to Boomers, cannabis usage is spanning demographic cohorts; however, consumers remain loyal to familiar consumption means.

- While many may think of cannabis consumers as a homogenous group, the modern cannabis consumer is far more diverse than stereotypes, highlighting the imperative to better understand these segments to better inform product development and marketing.

- Cannabis consumption today blurs the lines between strictly recreational or medical–over half of users report using cannabis for both medical and recreational reasons.

- Today's consumer is more driven by functional attributes over brand. Price ranks #1 as the most important attribute, #2 is strain, and #3 is THC dosage. This is not a sustainable source of competitive advantage.

- Flower remains king as the #1 form of consumed cannabis across all survey segments. Vaporizers/pods and pre-rolled joints tied for second in terms of popularity; beverages and capsules/pills ranked least popular.

- Cannabis users are largely representative of the general population, but preferences and behaviors vary by cohort. To win, companies need to understand these nuances.

THE EVOLVING FACE OF THE CONSUMER

On the surface, it's easy to understand that the cannabis consumer has changed and evolved. But taking a deeper dive, exactly how much has the cannabis consumer evolved? What are their current attitudes toward a range of industry topics, and how are they consuming products now?

Our sample skewed younger and slightly more male versus general population data. And while we surveyed the entire country across all legal states, we found that 60% of respondents lived within five states: California, Washington, Michigan, Colorado and Massachusetts.

FIGURE 1–SAMPLE DEMOGRAPHIC DISTRIBUTION

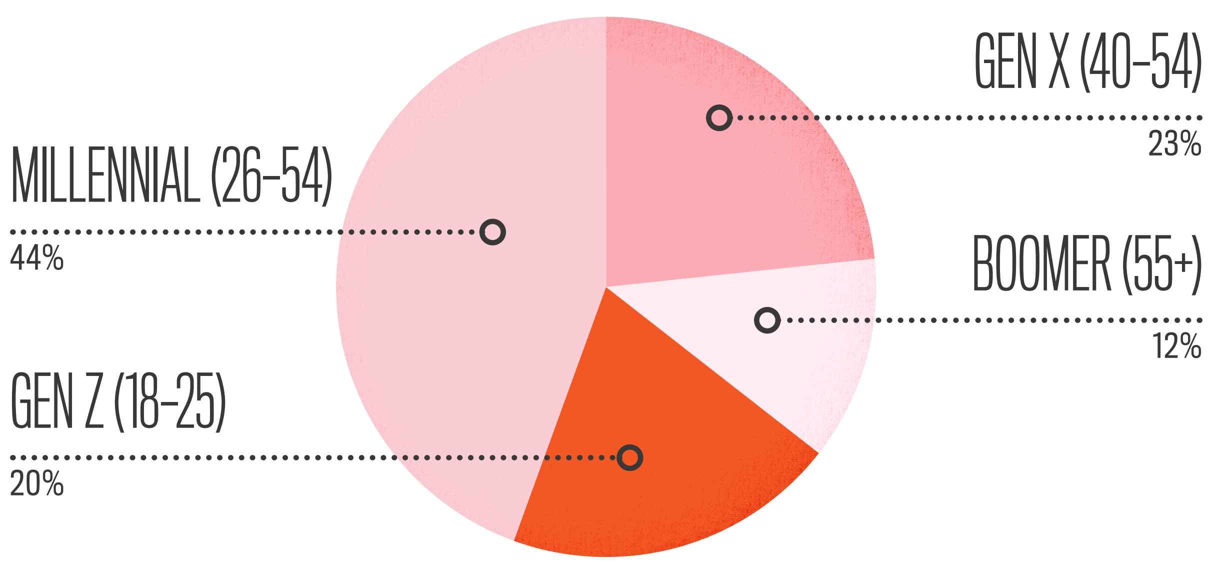
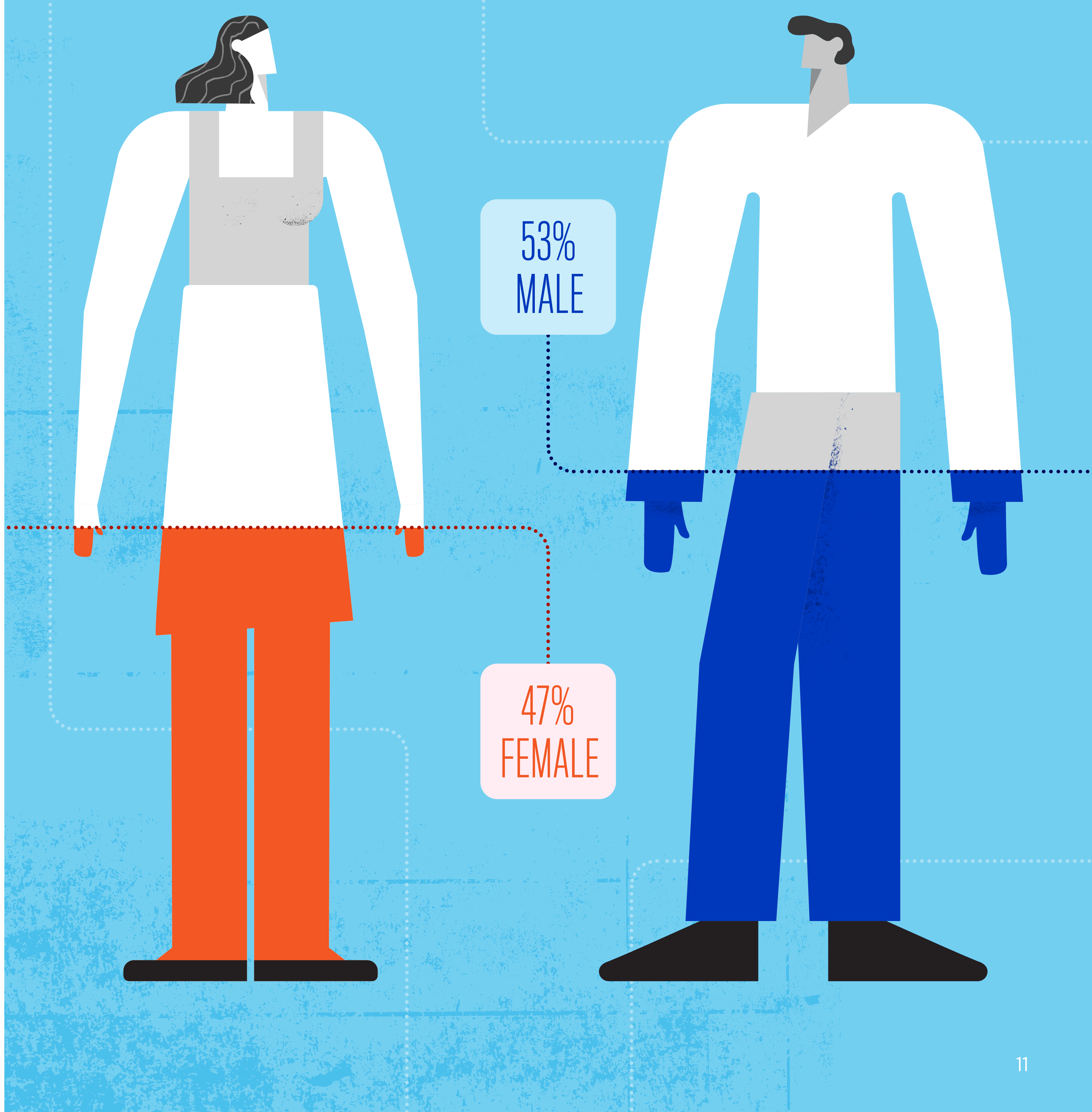


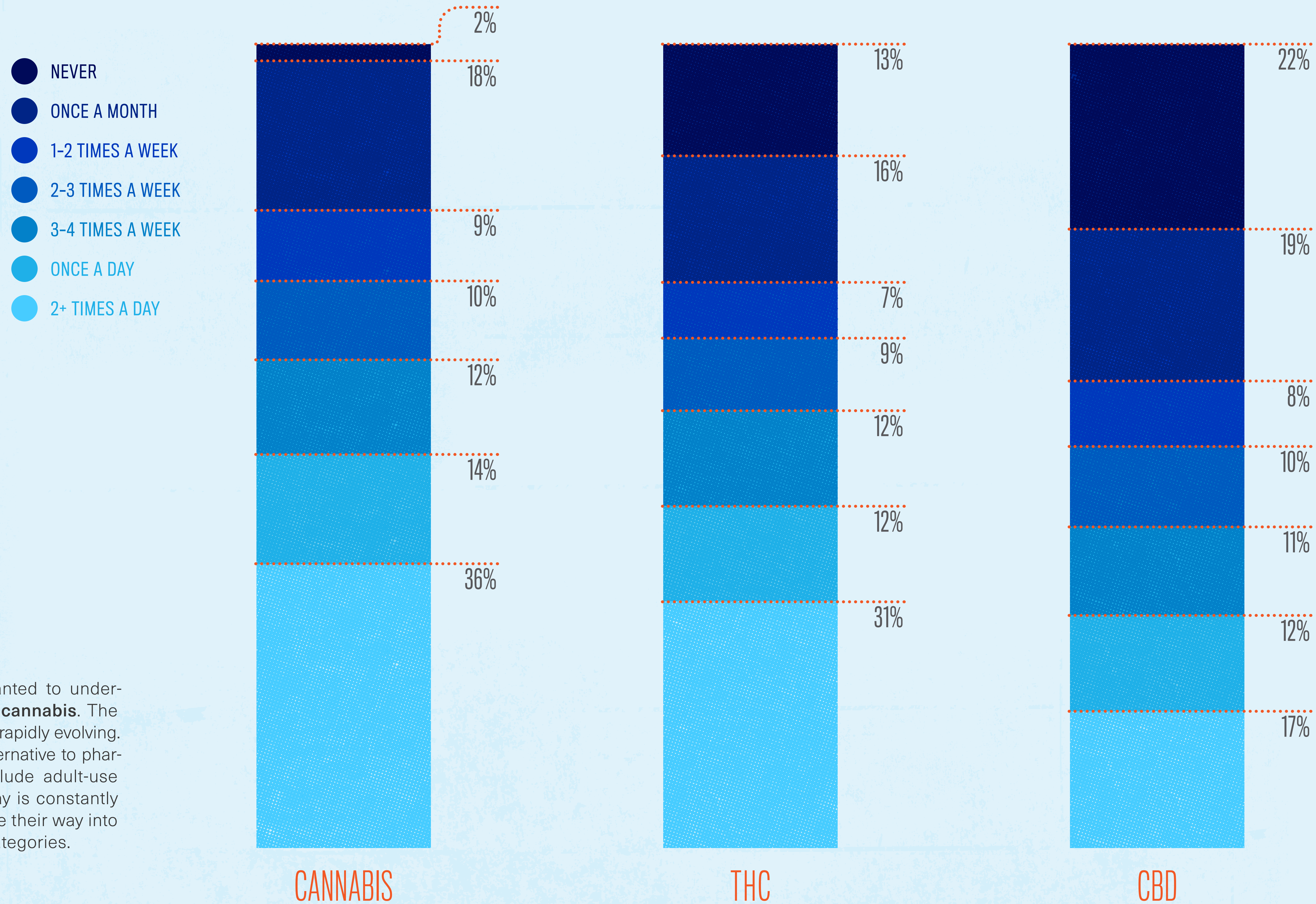
FIGURE 2–SAMPLE DEMOGRAPHIC DISTRIBUTION



REASONS FOR USAGE

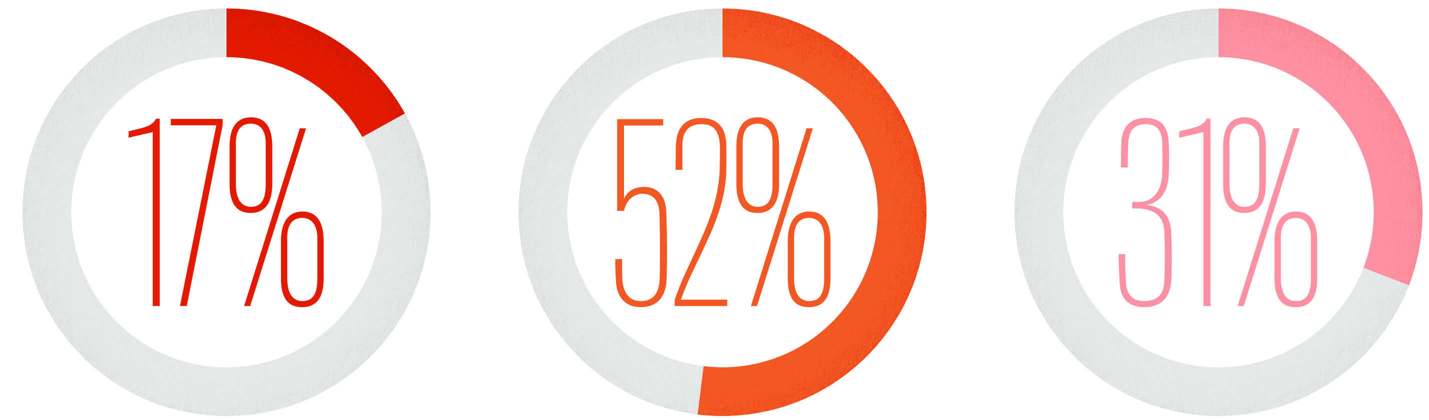
One foundational aspect we wanted to understand was **why consumers use cannabis**. The frame of reference for cannabis is rapidly evolving. Legal use began as a medical alternative to pharmaceuticals and evolved to include adult-use recreational. The landscape today is constantly expanding as THC and CBD make their way into an even wider array of product categories.

FIGURE 3-REPORTED CANNABIS USAGE



OVER HALF OF USERS REPORT USING CANNABIS FOR BOTH MEDICAL AND RECREATIONAL REASONS.

FIGURE 4-CANNABIS USAGE CONVERGING AROUND EVERYDAY WELLNESS



MEDICAL

17% of respondents reported using cannabis strictly for medicinal purposes

MEDICAL & RECREATIONAL

52% of respondents reported using cannabis for medicinal and recreational purposes

RECREATIONAL

31% of respondents reported using cannabis strictly for recreational purposes

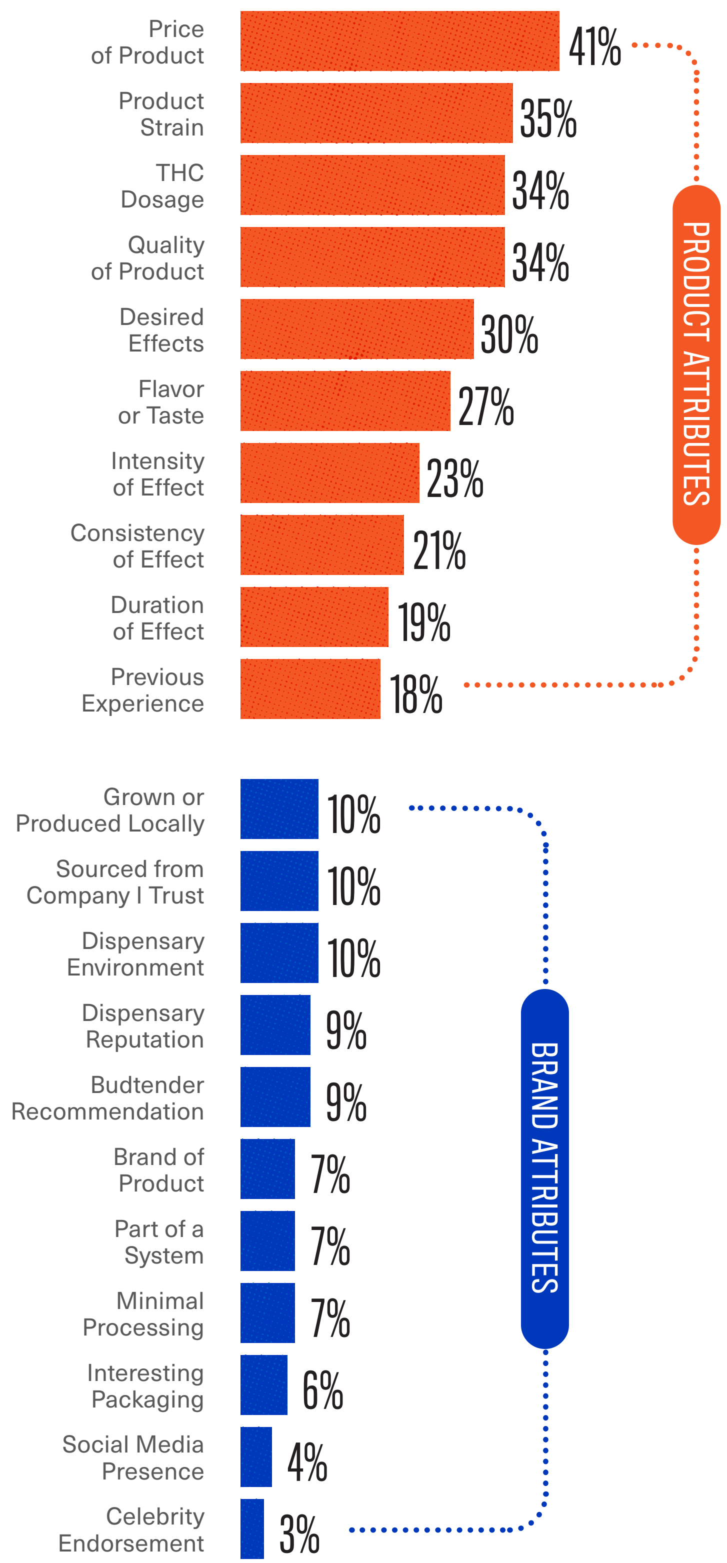
NEED IT... ...WANT IT

CONVERGING AROUND EVERYDAY WELLNESS

We see the market **shifting from two polarities of medical or recreational** to encompass more **"general wellness"** reasons for usage. In fact, over half the consumers surveyed report using cannabis for **both medical and recreational needs**.

FIGURE 5-IMPORTANCE OF PRODUCT ATTRIBUTES VS. BRAND ATTRIBUTES IN CANNABIS

How important are the following attributes when selecting cannabis products?



PRODUCT ATTRIBUTES AND SELECTION

Despite intense industry efforts to drive brand growth, our survey finds that branded elements including the retail dispensary experience, brand of product, product packaging and social media presence rank very low with current consumers, with celebrity endorsements ranking last.

This indicates that consumers are still making purchase decisions based primarily on "effect factors" including strain, dosage, quality and effects. Unsurprisingly, price is the top factor influencing purchase.

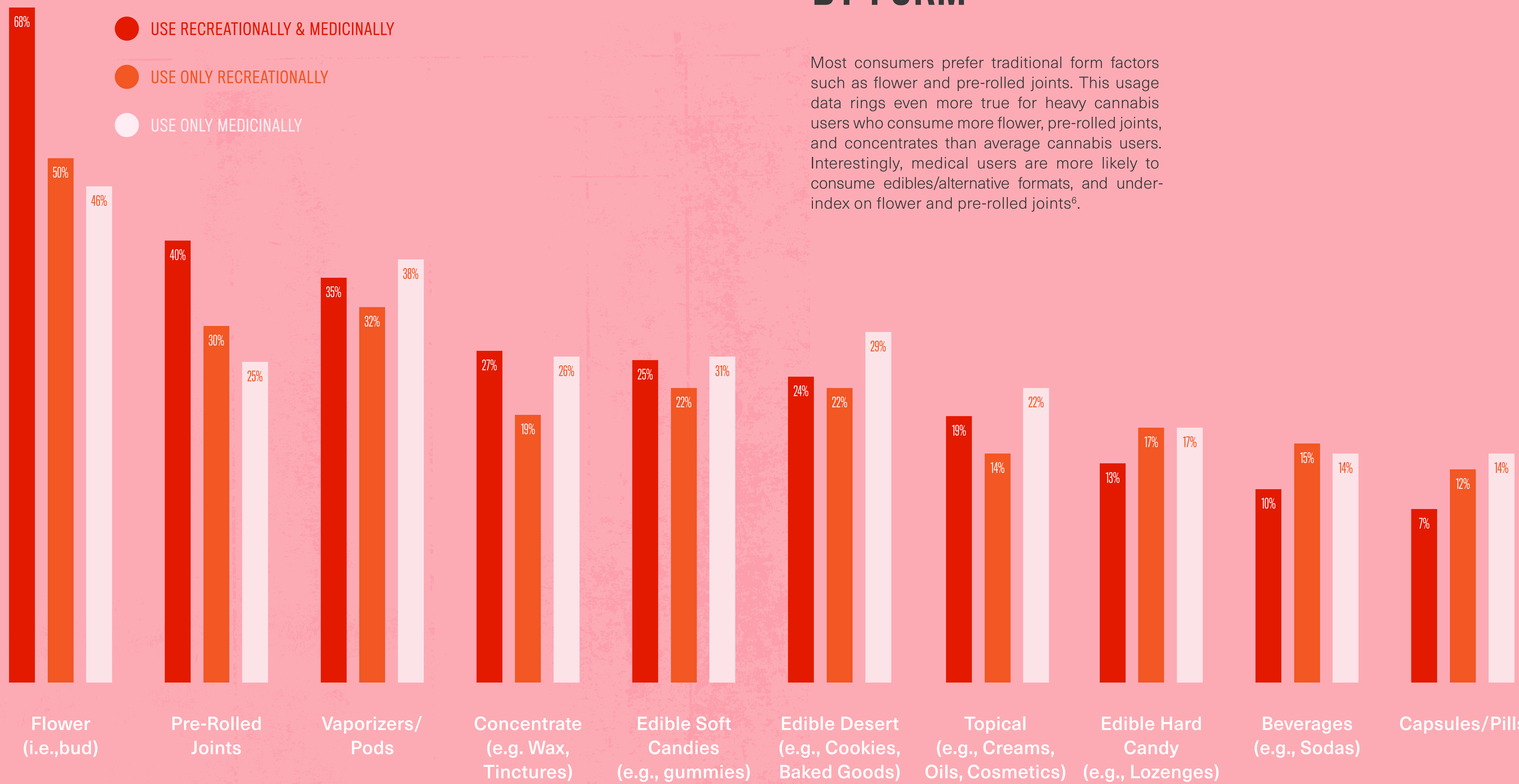
THE TOP 5 REASONS CENTERED AROUND EVERYDAY WELLNESS NEEDS THAT AFFECT ALL AGES.

The Top 5 reasons for cannabis usage are for more "Everyday Wellness" vs. more serious medical conditions or purely recreational purposes. Consumers are turning to cannabis for a wide variety of reasons and to deliver more specific benefits and effects for the occasion. Even more interesting is that these reasons are consistent across cohorts from Gen Z to boomers.

We see this data as reinforcing a broader cultural trend around "conscious consumption" in which consumers are more engaged and conscientious about the products they consume and how they fit into their holistic health and wellness. We believe the industry is still in the infant stages of growth as modern consumers continue to learn more about the benefits cannabis can offer, and its usage becomes more socially and legally accepted.

FIGURE 6-CANNABIS FORM FACTORS

Which of the following cannabis products do you regularly use?



PRODUCT USAGE BY FORM

Most consumers prefer traditional form factors such as flower and pre-rolled joints. This usage data rings even more true for heavy cannabis users who consume more flower, pre-rolled joints, and concentrates than average cannabis users. Interestingly, medical users are more likely to consume edibles/alternative formats, and under-index on flower and pre-rolled joints[6].

FIGURE 7-FORM FACTORS AND HOUSEHOLD INCOME

Which of the following cannabis products do you regularly use?

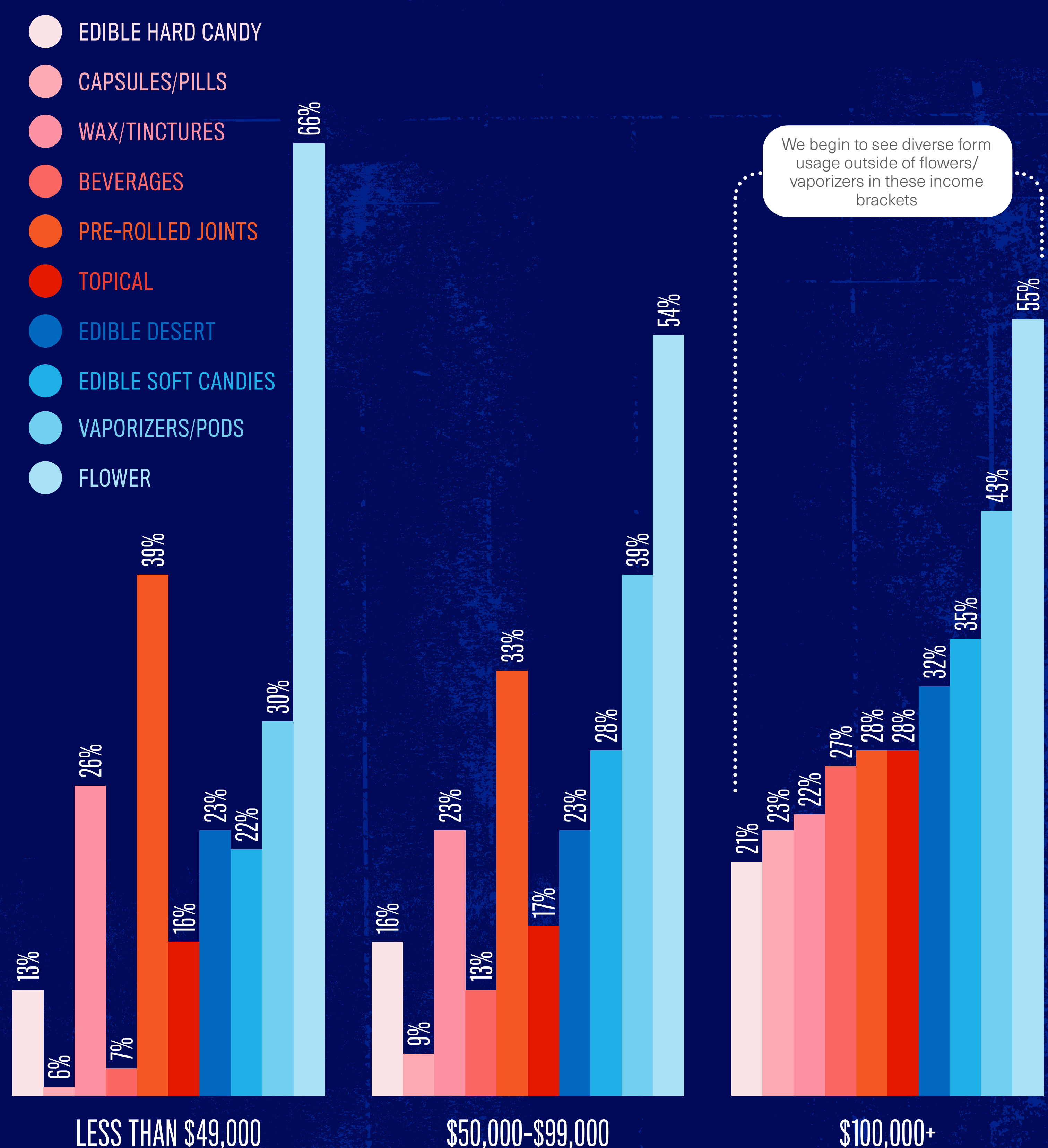


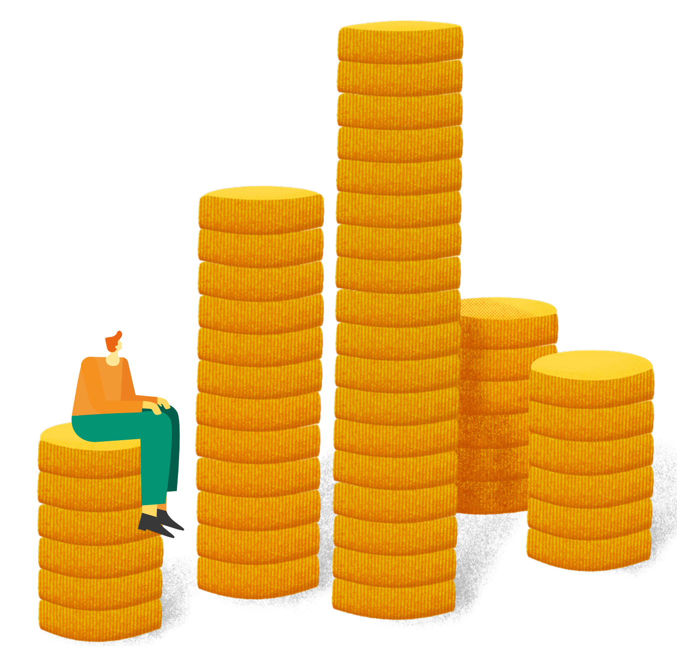
FIGURE 8-HOUSEHOLD INCOME AND REASON FOR CANNABIS USAGE

Which of the following describes why you use cannabis?	UNDER $35K	$35K TO $75K	$75K TO $150K	OVER $150K
I only use cannabis for **recreational purposes**	19%	31%	37%	57%
I only use cannabis for **medical purposes**	19%	16%	17%	7%
I use cannabis for both **recreational** and **medical** purposes	62%	52%	46%	35%

PRODUCT USAGE BY HOUSEHOLD INCOMES

More wealth equals more willingness to experiment with products, and more diverse consumption methods. Consumers with Household Incomes (HHI) over $75,000 over-index[15] on consuming alternative forms and products, which indicates that high income consumers drive category incrementality.

This is a crucial insight for cannabis manufacturers looking to diversify product lines and encourage consumption across portfolios or form offerings. Our survey also finds wealthier households are nearly twice as likely to use recreationally (1.8x), as compared to the average cannabis consumer, while households earning $35,000 or less per year over-index[15] on use for medical purposes.



SECTION 2

THE SOCIAL STIGMA OF CANNABIS

Cannabis consumption has breached the mainstream; however, overcoming cannabis stigma is proving to be a surprisingly significant and tricky obstacle for today's consumer.

- In order to put to rest, finally, the "pothead" trope, the industry will need to invest more resources toward destigmatizing cannabis usage and educating consumers to ultimately appeal to a broader base of consumers.
- Education and continued advocacy efforts should be coordinated and implemented on a grassroots basis as the industry develops, versus in retrospect. These education and advocacy efforts are not "nice-to-haves," but rather "must haves" that are critical to sector growth.
- Women are slightly more comfortable in facing cannabis stigma than males.
- Potential whitespace opportunities exist at the intersection of advancing and modernizing cannabis products to appeal to new consumers outside of the stereotype.

STIGMA AROUND CANNABIS IS THE **#1** CITED BARRIER TO USAGE.

THE SUPRISINGLY STUBBORN "POTHEAD"

Despite increasing legalization and a more diverse base of users, social stigma will likely remain a top barrier to cannabis usage in 2020. We find that for consumers with stated barriers to usage, cannabis stigma is the #1 cited barrier to usage.

Stigma surrounding cannabis carries a bigger stigma than alcohol with 73% of respondents stating cannabis has a bigger stigma than alcohol, although early signs indicate that might be changing.

Our survey finds that 79% of respondents feel comfortable discussing cannabis with their friends and colleagues, and 75% feel more comfortable discussing cannabis with friends and colleagues compared to two years ago. Interestingly, heavy CBD users are slightly more focused on discretion in products (125 index[6]).

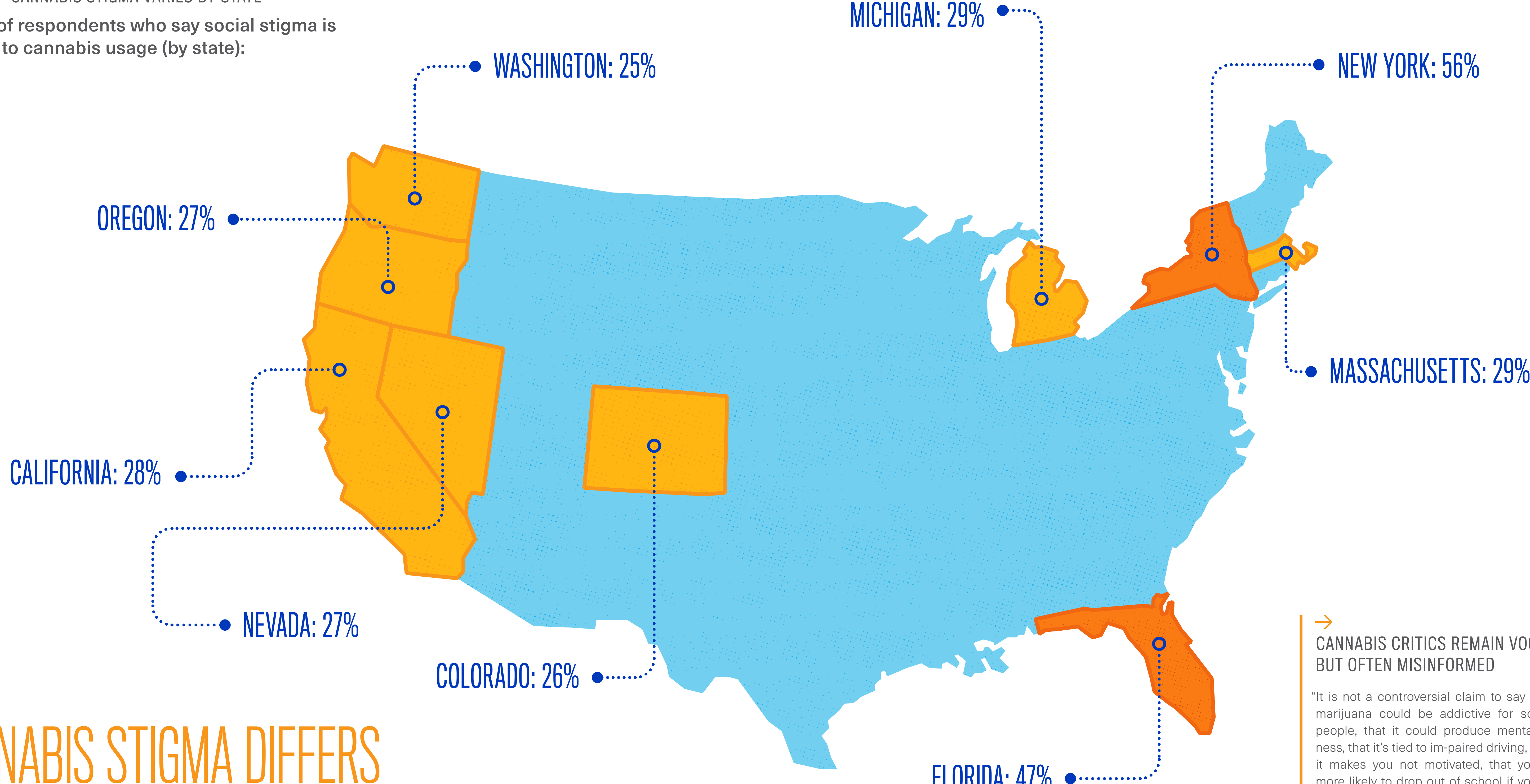
Social stigmas have been overturned before, of course, edged on by science and evolving cultural norms. How quickly the change will happen for the cannabis industry depends on a multitude of factors, but it starts with the industry taking steps toward better, more coordinated consumer education.

FIGURE 9–CANNABIS STIGMA

Please rate the degree to which you agree with each statement (total users).

FIGURE 9.5–CANNABIS STIGMA VARIES BY STATE

Percent of respondents who say social stigma is a barrier to cannabis usage (by state):



CANNABIS STIGMA DIFFERS GREATLY FROM STATE TO STATE.

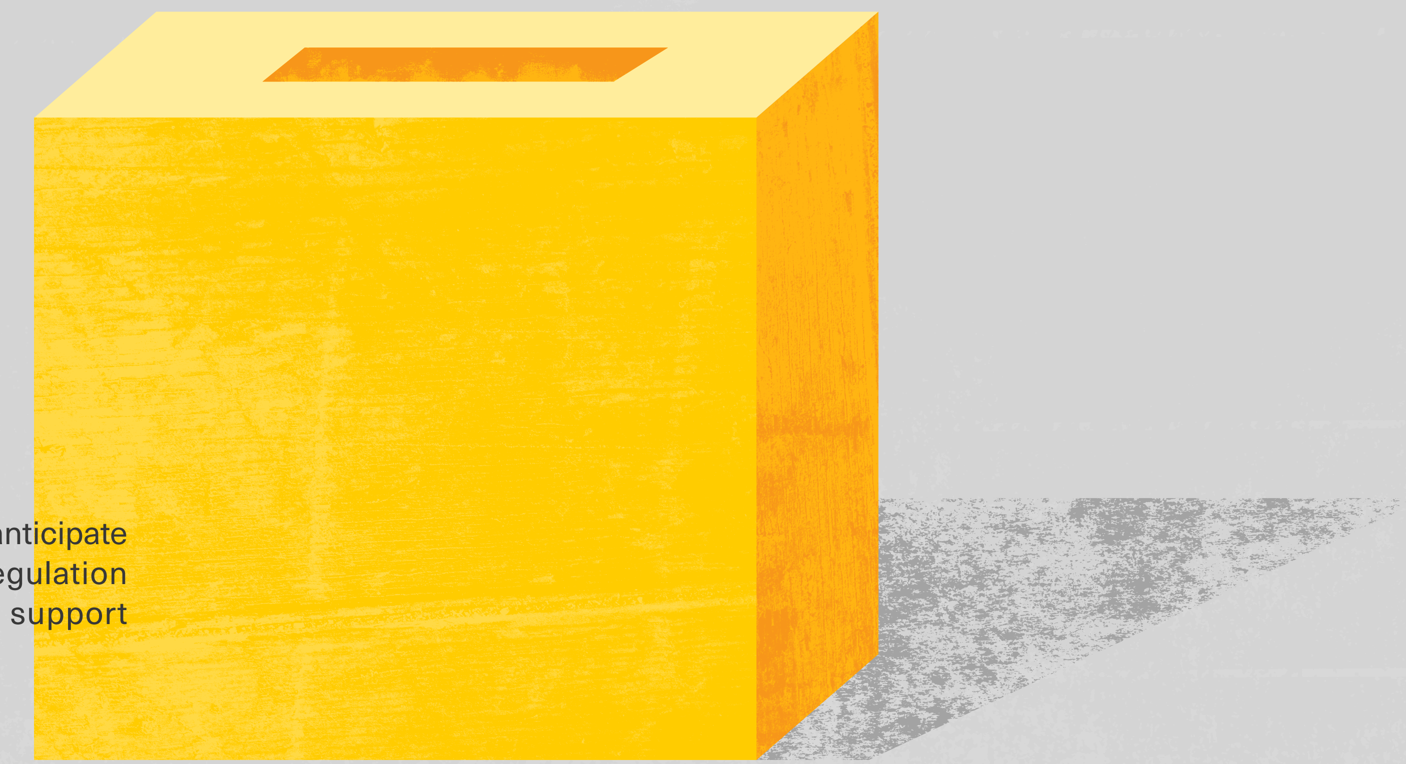
→

CANNABIS CRITICS REMAIN VOCAL BUT OFTEN MISINFORMED

"It is not a controversial claim to say that marijuana could be addictive for some people, that it could produce mental illness, that it's tied to im-paired driving, that it makes you not motivated, that you're more likely to drop out of school if you're a kid using," said Kevin Sabet, president of the group Smart Approaches to Marijuana and a former drug policy adviser to presidents Clinton, Obama and George W. Bush.

SECTION 3

CANNABIS AND THE 2020 POLITICAL CYCLE



As we enter the 2020 election year, we anticipate that consumer stances on marijuana regulation and legalization will impact who they support to become the next President.

- In 2019, more Americans favored cannabis legalization for medical and recreational use (59%) than favored prohibition.
- 88% of cannabis users believe cannabis should be legalized and 2/3 of consumers "would not vote for a political candidate who opposes the legalization of cannabis."
- 79% of respondents feel cannabis should be legalized, regulated, and taxed like cigarettes and alcohol.
- 84% of respondents feel that cannabis is safer than alcohol, and 81% believe that cannabis products are a safer alternative to prescription medications.

THE CANNABIS CLIMATE

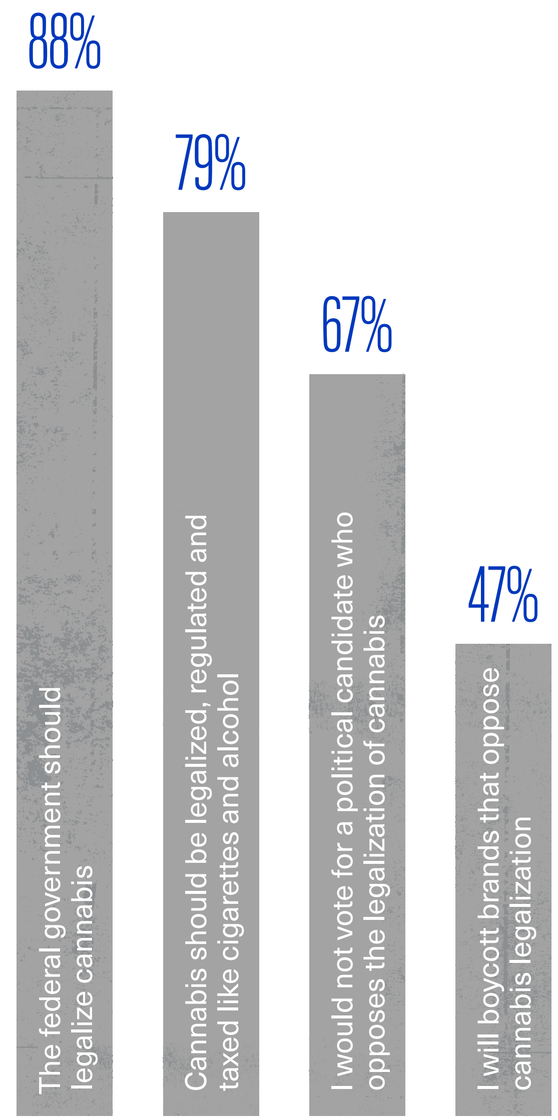
2020's election will decide many things in America, including the (near-term) future of cannabis in America. Public sentiment around cannabis legalization has come a long way in 10 years: the share of U.S. adults who oppose legalization has fallen from 52% in 2010 to just 32% today.

What's more, 59% of Americans support legalization for medical and recreational use[7], and our study finds that 88% believe cannabis should be legalized and 2/3 of consumers "would not vote for a political candidate who opposes the legalization of cannabis".

It seems that this attitude is not solely based on their affinity for cannabis, but also lessening the negative impacts of alternatives. In a climate where Americans are more conscious around alcohol consumption and the country is fighting an ongoing opioid crisis, 84% of respondents feel that cannabis is safer than alcohol, and 81% believe that cannabis products are a safer alternative to prescription medications.

FIGURE 10-CANNABIS LEGALIZATION ATTITUDES

Please rate the degree to which you agree with each statement.



Consumers seem to recognize the potential macro benefits of legalization: 79% of respondents feel cannabis should be legalized, regulated, and taxed like cigarettes and alcohol, indicating an interest in the potential tax revenue associated with the industry.

FIGURE 11-ATTITUDES AROUND ILLICIT SUBSTANCES & CANNABIS LEGALIZATION

79% OF RESPONDENTS FELT CANNABIS SHOULD BE LEGALIZED, REGULATED, AND TAXED LIKE CIGARETTES AND ALCOHOL.

MARIJUANA LEGALIZATION NOW HAS BIPARTISAN SUPPORT: 78% OF DEMOCRATS AND DEMOCRATIC-LEANING INDEPENDENTS AND 55% AND OF REPUBLICANS SUPPORT LEGALIZATION[7].

CANNABIS IN THE 2020 RACE

Marijuana legalization now has bipartisan support: 78% of Democrats and Democratic-leaning Independents and 55% and of Republicans support legalization[7]. Cannabis has become a key litmus test in the Democratic party, with every initial candidate in the Democratic race supporting decriminalization or full legalization.

More than half the field received an "A" rating from NORML[8], a cannabis advocacy group that promotes legal adult cannabis use. For those in favor of full legalization, criminal justice reform plays a large role in their policies. Candidates like Warren, Sanders and Buttigieg have all released plans to overhaul the criminal justice system with marijuana legalization as a key element.

Sanders' and Warren's plans called for past marijuana convictions to be expunged and for an overhaul of federal criminal justice policies. In fact, both senators currently sponsor legislation (the Marijuana Justice Act, the Marijuana Opportunity Reinvestment and Expungement Act) that would dramatically reshape federal drug policies.

Two key moderate candidates in the Democratic primary, Biden and Bloomberg, have backtracked their previously tough stance on marijuana, now favoring decriminalization or state regulation over full prohibition.

President Trump to date has maintained the right of states to enact their own cannabis laws without federal interference. However, when signing a large-scale funding bill in December of 2019 he released a statement reserving the right to ignore Congress's ability to block federal prosecution of medical cannabis patients and providers.

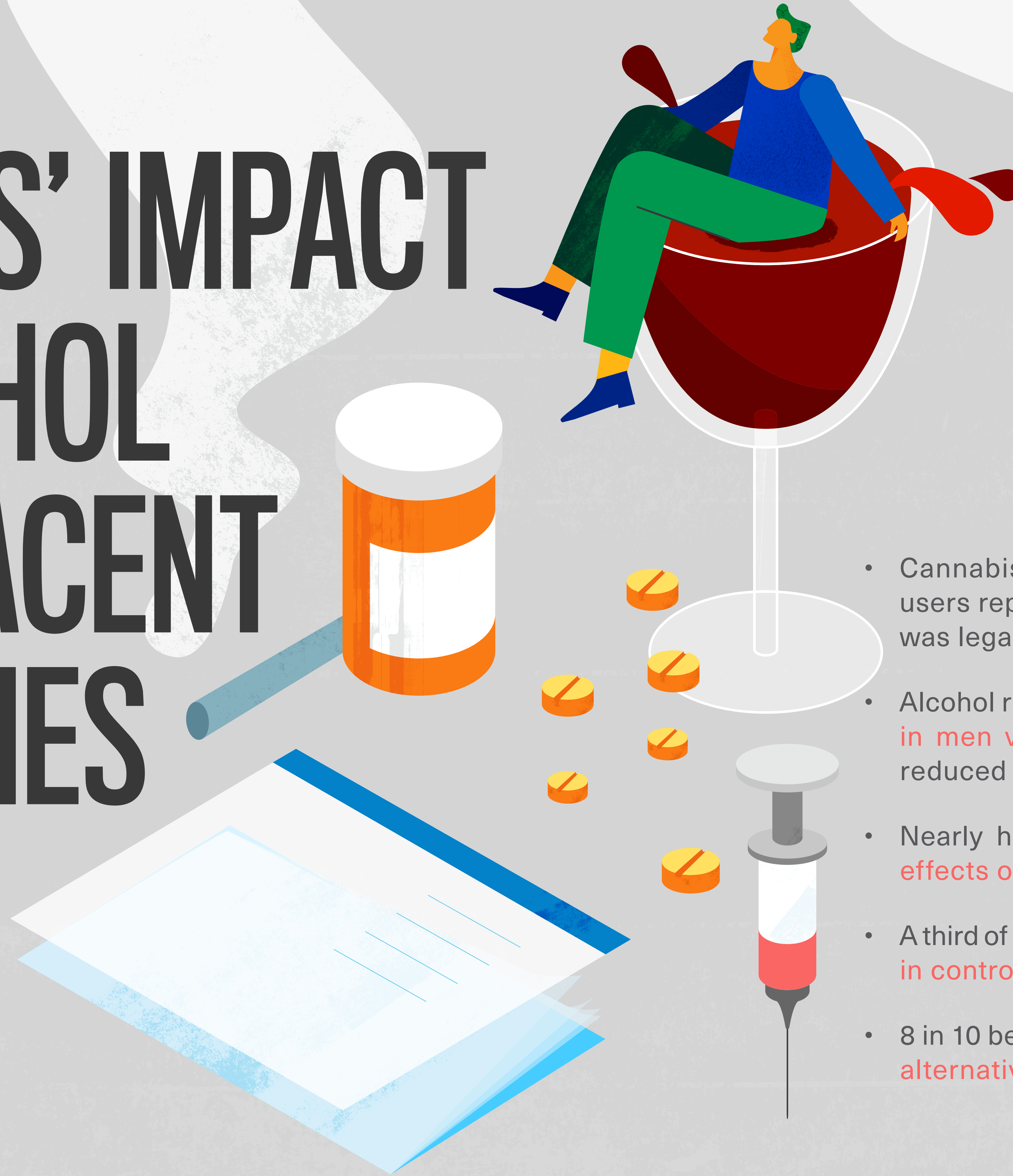
As public sentiment for marijuana legalization grows, we anticipate that the national conversation around federal legalization will continue, and any presidential action prohibiting sale and use of medical or recreational marijuana.

If a Democrat enters the Oval Office in 2020, we anticipate a very serious conversation around federal legalization, releasing the floodgates for Cannabusiness in the U.S. and around the world.

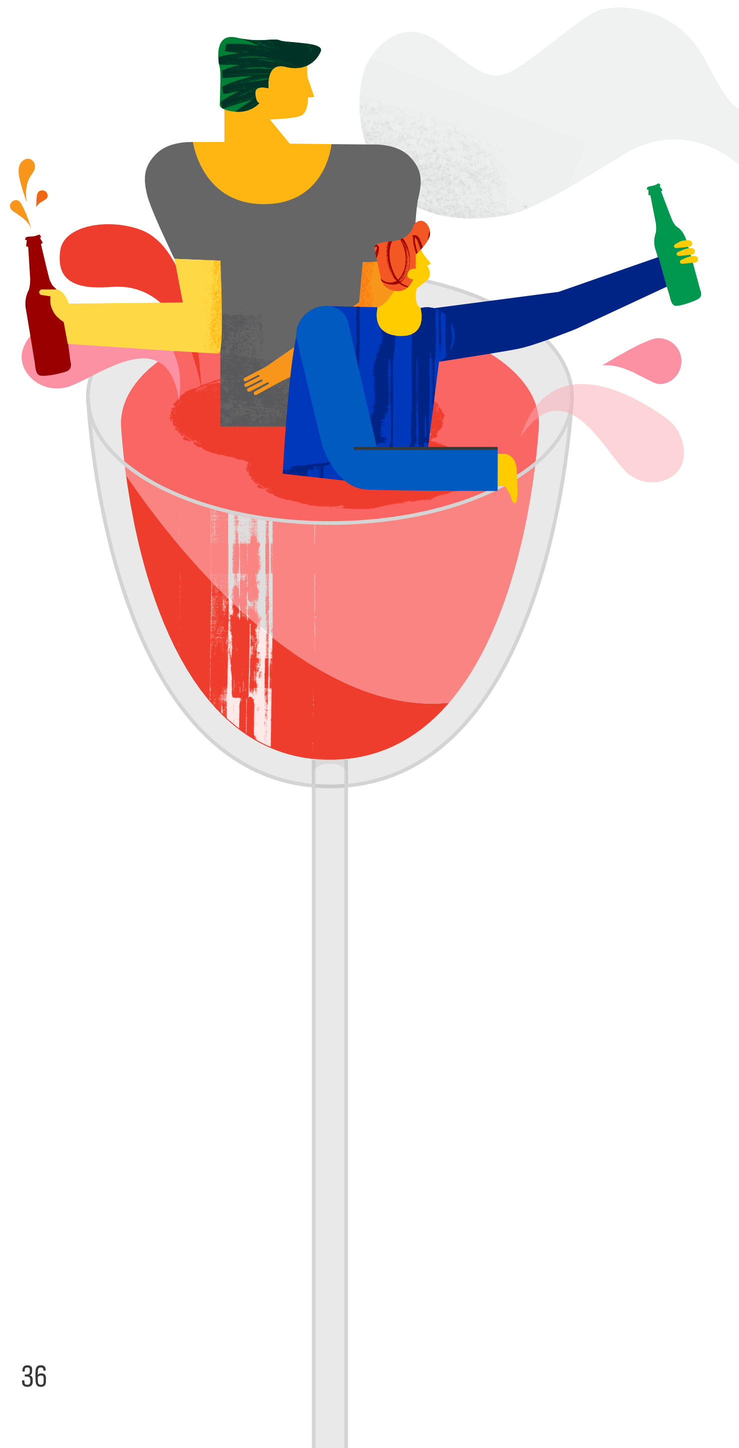
SECTION 4

CANNABIS' IMPACT ON ALCOHOL AND ADJACENT CATEGORIES

Cannabis consumers overwhelmingly agree that cannabis is safer than alcohol (and prescription medication), a trend that will likely grow as the millennial and Gen Z consumer overtakes markets.



- Cannabis is curbing alcohol usage as 1 in 3 users report drinking less than before cannabis was legalized.
- Alcohol reduction appears to be more prominent in men vs. women, with 42% and 26% citing reduced alcohol usage, respectively.
- Nearly half of consumers say they prefer the effects of cannabis to alcohol (47%).
- A third of cannabis consumers report feeling more in control with cannabis compared to alcohol.
- 8 in 10 believe that cannabis products are a safer alternative to prescription medication.



CANNABIS IS A MAJOR THREAT TO ALCOHOL

Legal cannabis consumption changes the game for any company fighting for "Share of Buzz", and the alcohol industry is taking note. Younger generations show less interest in consuming alcohol and more interest in health and wellness. In fact, Gen Z is less likely to drink or do drugs than any generation prior, with cannabis usage as the major exception[9].

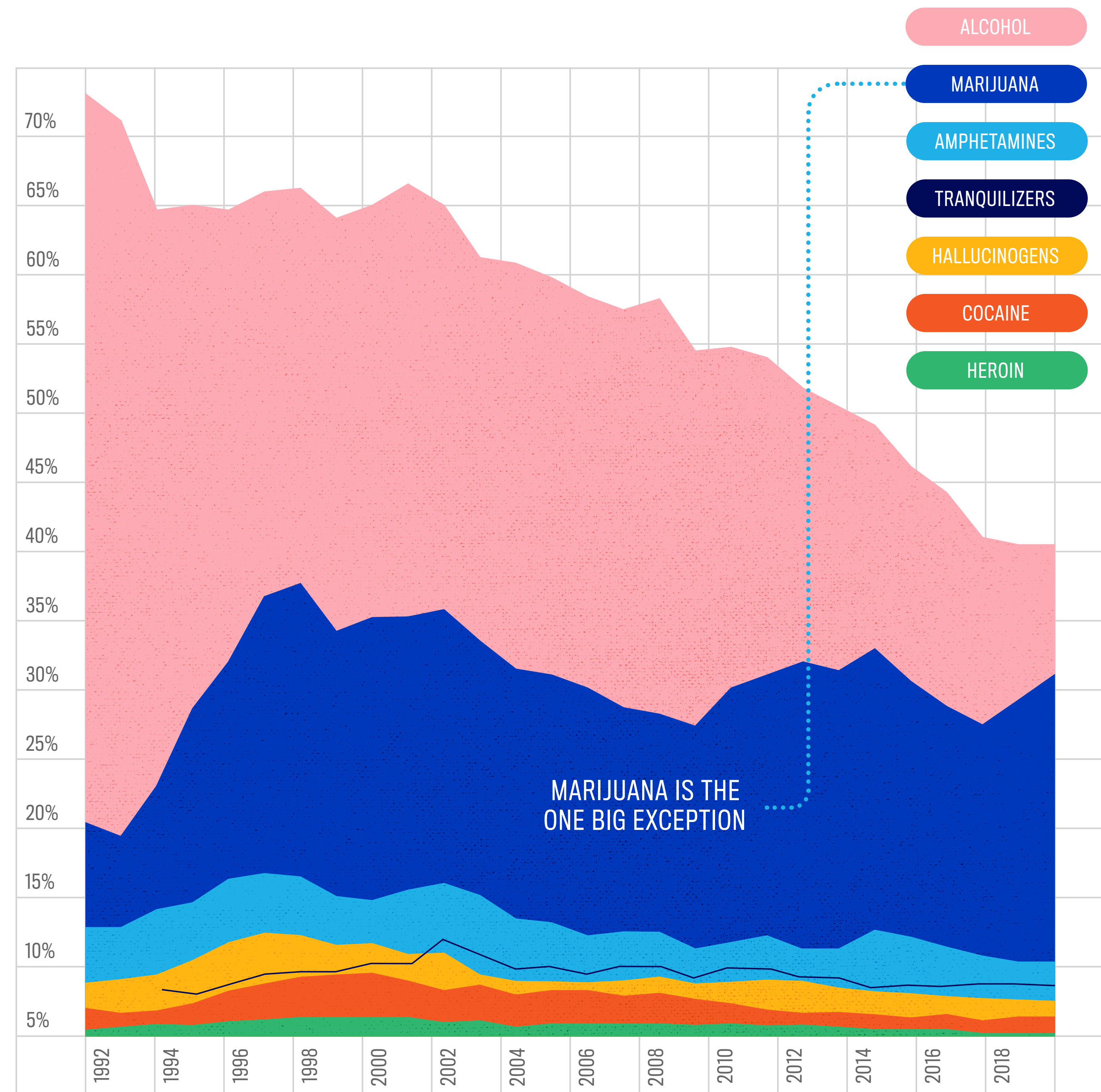
Beer consumption has been in a steady decline for more than two decades and the share of college students who drink alcohol daily fell from 6.5% in 1980 to 2.2% in 2017[10], a drop of more than four points.

In contrast, nearly 11% of U.S. adults aged 65 and older are currently binge drinkers. Non-alcoholic options have experienced explosive growth: total U.S. non-alcoholic beer sales were up 19% in 2019[11], and a non-alcoholic beer is the fastest-growing segment of the beer market[12].

Given the industry's seismic shifts, it's no surprise that category leaders have moved to investing in the sector. Most notably, Constellation Brands, which owns mainstream brands including Corona and Modelo, invested more than $4 billion in Canopy Growth—the largest investment in the history of weed[13]. In 2018, Molson Coors Canada aligned with HEXO on a joint venture, called Truss, to develop a portfolio of THC-infused beverages[14].

TEENAGE DRUG AND ALCOHOL USE IS FALLING–SOURCE: NEW YORK TIMES

Percent of 10th graders who have used various substances in the last year.

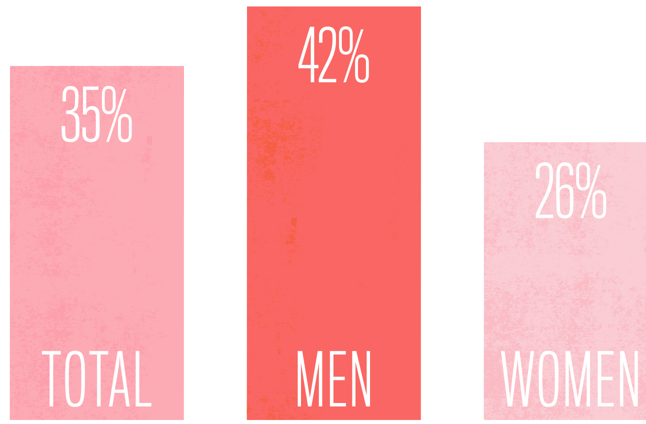


CANNABIS TAKING SHARE

Of the consumers we surveyed, 35% indicate they "consume much less alcohol than before cannabis was legal," a significant insight for spirits and beer companies already facing a contracting market. The impact appears to be affecting men more than women, with 42% and 26% citing reduced alcohol usage, respectively.

FIGURE 12–ALCOHOL CONSUMPTION IMPACT SINCE LEGALIZATION

Percent of respondents who agree with the statement: "I drink much less alcohol than before cannabis was legal."

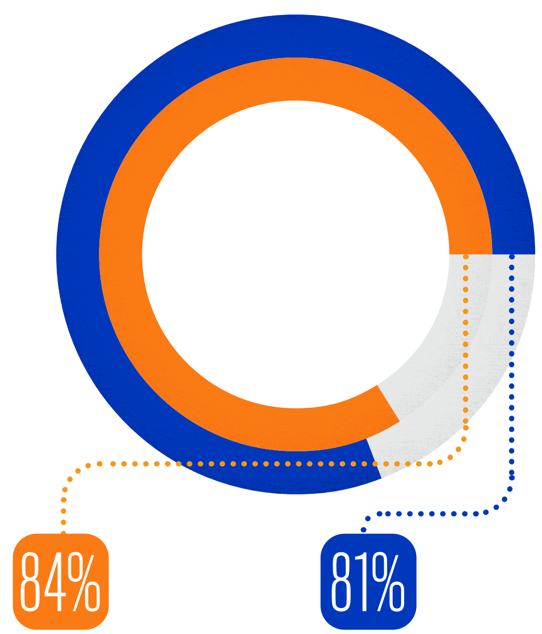


CANNABIS: THE SAFER CHOICE

For decades, the government and supporters of marijuana prohibition have led the public to believe that marijuana is so dangerous that it must be kept illegal at all costs. It is not an exaggeration to suggest that hundreds of millions of dollars have been spent attempting to alarm the public and perpetuate the "pothead" stereotype.

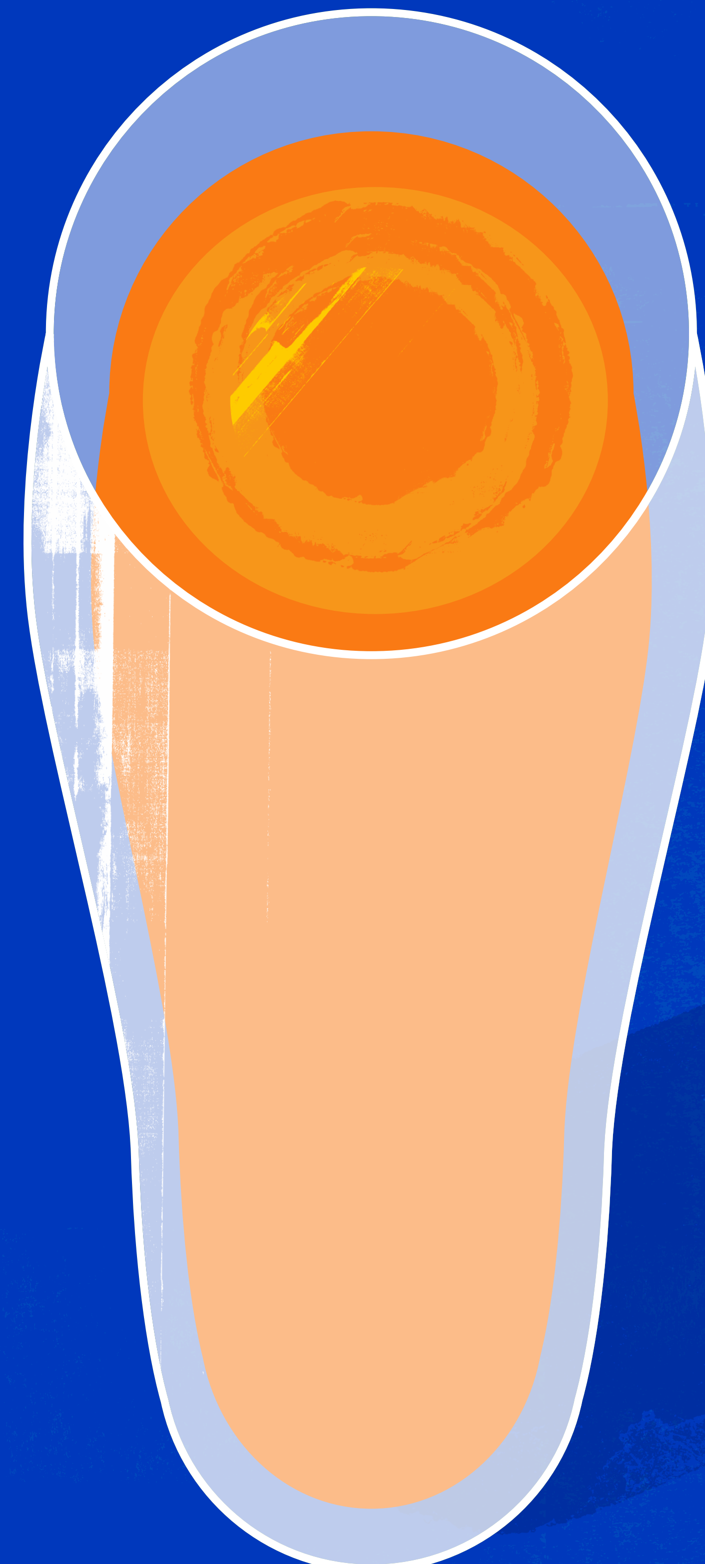
Our research finds that, across demographics, cannabis users believe cannabis consumption to be less harmful to their health, with 84% of respondents believing cannabis is safer than alcohol and 81% believing cannabis is a safer alternative to prescription drugs.

FIGURE 13–ATTITUDES TOWARDS CANNABIS VS. ALCOHOL AND PRESCRIPTION DRUGS



84% of respondents feel that cannabis is safer than alcohol

81% believe that cannabis products are a safer alternative to prescription medications



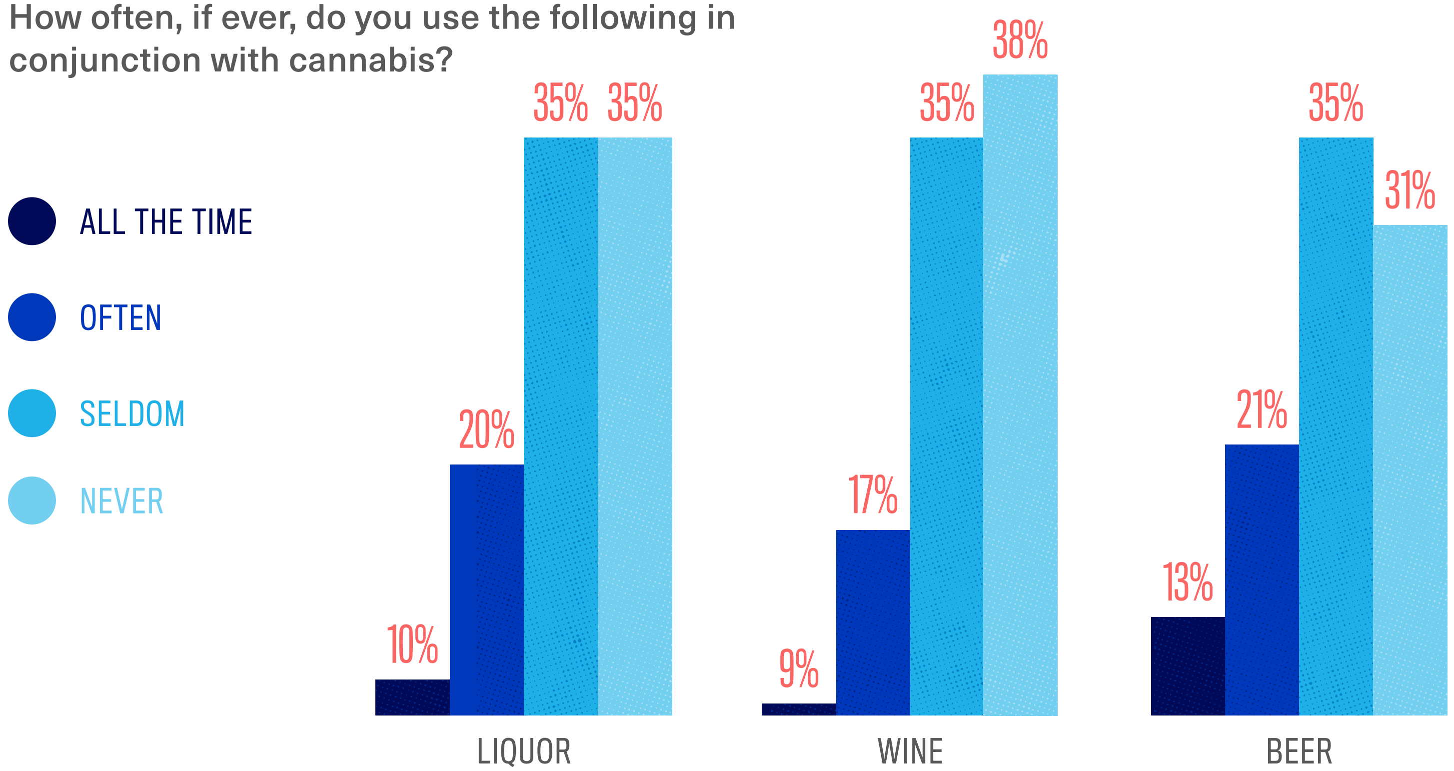
CHALLENGING CONSUMPTION NORMS

New research continues to emerge suggesting the risks of alcohol consumption have likely been underestimated in the past. According to a global medical study published in 2018[15], there is no safe level of alcohol consumption and alcohol use is more likely than not to cause harm. According to studies of alcohol and common drugs, alcohol presents the highest risk of death, followed by nicotine, cocaine and heroin[16].

The rise of the "sober-curious" consumers and movements such as "Dry January"[17] are additional indicators that consumers are challenging long-held cultural norms surrounding consumption and many have decided that alcohol simply isn't worth the calories or hangover.

FIGURE 14–ALCOHOL PAIRINGS WITH CANNABIS

How often, if ever, do you use the following in conjunction with cannabis?

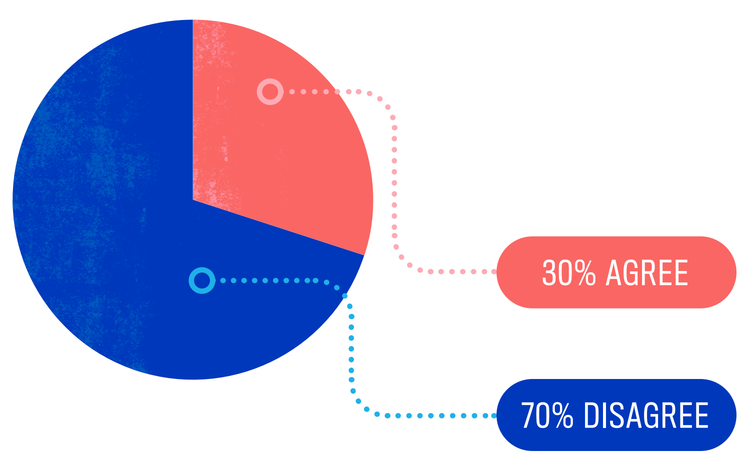


BETTER TOGETHER? NOT SO FAST...

Contrary to what you may assume, most of the consumers we surveyed don't typically consume cannabis and alcohol together. More than two-thirds of respondents to our survey report they "seldom or never use cannabis together with alcohol." Similarly, only one-third of respondents look for "cannabis products designed to pair well with alcohol" as an important factor in decision making – an insight worth considering for any operator planning product innovation or marketing campaigns focused on cannabis and alcohol pairings.

FIGURE 15–DESIRE TO PAIR ALCOHOL WITH CANNABIS

"I look for cannabis products that are designed to pair well with alcohol when making decisions."



CANNABIS BEVERAGES STAYING ON SHELVES

Given the shifting consumer demand preferences, brace yourself for an onslaught of alcohol-free cannabis sodas, seltzers, teas and other infused offerings. But while the industry is gung-ho, consumers remain reluctant to drink their cannabis, as infused beverages made up a mere 3% of total industry sales in 2019. During the first half of 2019, cannabis beverage sales at dispensaries in Colorado, Nevada and Washington totaled only $18 million, a paltry figure compared to $58 billion U.S. alcohol market overall. In California—the world's largest legal cannabis marketing—cannabis beverages accounted for only .7% of overall sales in 2018.

Product dosage could be a factor contributing to the category's slower-than-anticipated growth. Currently, THC beverages are aimed at either serious, all-day cannabis consumers, with products containing 100 milligrams or more of THC per bottle, or toward "entry level" users, with beverages offering only 2.5 milligrams per bottle. Such discrepancy with dosage, combined with the fact that onset timing for THC beverages can vary significantly from person to person, can make the experience more intimidating compared to traditional forms such as flower and pre-rolled joints.

Despite these findings, cannabis beverages are a category worth watching as infused beverage sales in regulated dispensaries could exceed $1 billion by 2022, with lower-dose beverages leading the pack. Also, we have yet to see how most of the big CPG brands entering cannabis will go to market—a few years of marketing from a beloved consumer beverage brand could change the game, especially as advertising rules for cannabis are standardized.[18]

SECTION 5

CANNABIS AND THE FEMALE CONSUMER

As cannabis moves beyond the “stoner dude” stereotype and becomes more mainstream among females, there are significant opportunities to win their preference.

- Men and women experience different levels of comfort in dispensaries with 39% of men saying that are “very comfortable” in dispensaries compared to only 28% of women. 9% of females are uncomfortable in dispensaries vs. 5% of men.

- Brands geared towards women will play a critical role in breaking through the stigma barrier and building long-term brand loyalty.

- Women-specific celebrity cannabis brands are quickly gaining mind and market share –and time will tell if these endorsements drive long-term brand loyalty.

- Smart cannabis companies are seizing the opportunity to create and market women-specific brands to establish and build long-term brand loyalty.

CANNABIS AND THE FEMALE CONSUMER

While the cannabis industry faces significant challenges in the destigmatization of cannabis usage and broad-base lifestyle appeal, our research indicates this is particularly true with female consumers.

Men and women report different levels of personal comfort in dispensaries, with 39% of men saying that are "very comfortable" in dispensaries compared to only 28% of women. While 33% of both men and women said they are "comfortable in dispensaries, women report being "uncomfortable" or "very uncomfortable in slightly greater numbers (9% of females are uncomfortable in dispensaries vs. 5% of men, and 9% of females are uncomfortable in dispensaries vs. 7% of men).

While these comfort levels are generally aligned across both genders without significant disparity, cannabis companies have the opportunity to unlock an untapped portion of the population if they can appeal to the female cohort with a comfortable and welcoming category experience –especially if they can make the experience "very comfortable" for women.

While female-focused product and brand positioning presents a large opportunity in cannabis, brands should be careful not to "pink wash," a brand's marketing to attempt to sell them to women. As consumers in the space continue to view femininity and gender in a nuanced light, brands should focus on doing the same.

We predict that a more holistic lifestyle approach to branding will win in the space. By taking a modern female's lifestyle into account, a brand can create an empathetic and reflective experience for female consumers without simply "pinking and shrinking" the product.

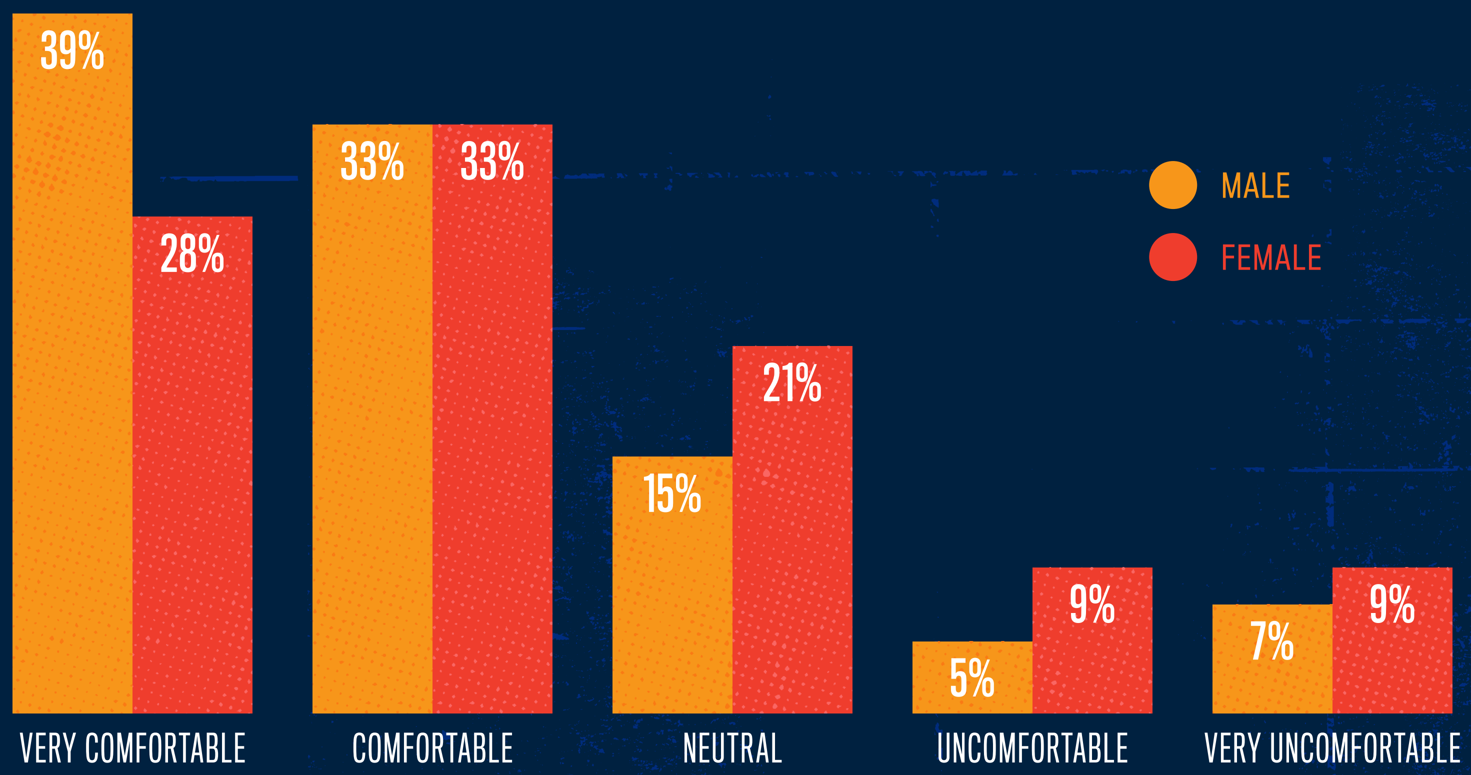
→

APPEALING TO THE HEALTH-CONSCIOUS FEMALE CONSUMER

Our study finds that female consumers use concentrate products such as wax or tinctures at a higher rate than male consumers. We see an under-indexed opportunity to appeal to a health-conscious female consumer thorough delivery systems that look beyond flower or edible to a cleaner experience.

FIGURE 16–COMFORT IN CANNABIS DISPENSARIES

in general, how comfortable are you when browsing and purchasing products at cannabis dispensaries?



→

A NEW WORLD OF POSSIBILITY

In April 2019, NorCal Cannabis, one of the largest vertically integrated cannabis operators in California, announced a joint-venture with comedian, entrepreneur, author and activist Chelsea Handler to develop a new line of female-focused, branded cannabis products. In a press release announcing the partnership, Chelsea noted, "I wanted to take my experience and create something specifically for women who have either never tried it before, or who had a bad experience 20 years ago. We were missing the educational component to cannabis, and now with the legalization of cannabis and micro-dosing, we are in a whole new world of possibilities."

SECTION 6

MACROTREND: THE BRAND OPPORTUNITY

While a brand is not the primary driver of consumer choice today, we expect brand trust and loyalty to be the biggest keys to unlocking long-term success.

- Today's cannabis consumer is largely uninfluenced by current brand offerings, ranking brand in the bottom quartile of elements (22 of 28) when choosing a cannabis product.
- Consumers look for reliability and a consistent experience with 75% of respondents stating they look for brands that "make it easy to manage the effects and know what to expect".
- Consumers want a more nuanced experience from their cannabis products and 67% seek out brands that more directly fit their broader lifestyles.
- Brands have numerous product and messaging opportunities to help consumers understand their products' effects, explore holistic wellness, offer more premium options, story tell around growing process, and communicate brand commitment to sustainability and impact causes.

THE [MISSED] BRAND OPPORTUNITY

Our research finds that brand falls behind more functional attributes in cannabis product selection, driven by a couple of key factors.

First, brands have not developed meaningful differentiation in the market so today's consumers discern more by features and flavors, which can be easily replicated by competitors.

Second, in a nascent market that operates on a state-by-state basis, availability and distribution become a key barrier to building a recognizable brand name that instills a sense of trust.

Today's consumer is more sophisticated, diverse, and image conscious. As cannabis brands become more mainstream, the bar for winning in the marketplace becomes even higher. We believe the industry is reaching an inflection point – where the "wild west" of first movers risk falling prey to more disciplined businesses.

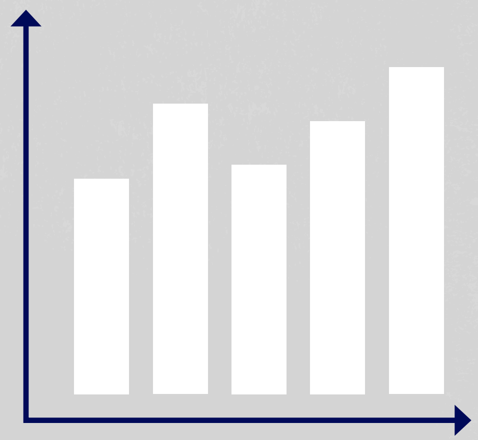
The next decade will separate the commodity suppliers from those seeking long-term returns and who are willing to invest in building sustainable competitive advantages.

71% OF CONSUMERS CARE MORE ABOUT THE STRAIN OF MARIJUANA THAN THE BRAND SELLING IT.

AT THE DAWN OF A NEW DECADE, LET'S TAKE A LOOK BACK ON WHAT GOT US THERE...

REGULATORY COMPLIANCE

Cannabis companies must establish themselves amid inconsistent and evolving regulations. Since cannabis is still illegal at the federal level, distribution and marketing regulations vary greatly across state (and county) lines and these regulations are often confusing or ambiguous.



SUPPLY & DISTRIBUTION FOCUS

In emerging industries, supply is king, and speed is key. In the cannabis "land grabs" over the last decade, companies needed to focus on speed to market priorities: obtaining finite licenses, navigating legal and banking hurdles, and securing retail distribution. With pent up demand, maximizing reach and getting products on shelves were the priority. Product innovation was the next to follow, with new product forms, formats and line extensions. As the market evolves, consumers will demand more from brands and customer experience, following the trends seen in other industries.

LIMITED CONSUMER INSIGHTS

Many cannabis companies have limited primary research on how the consumer sees the industry – a foundational element to developing a winning strategy. With segments emerging and preferences perpetually evolving, it can be daunting to know where to focus without market intelligence.

Consumer insights help illuminate underserved segments, market opportunities sand profit pools. We expect this to shift going forward, as more disciplined marketers develop rich insights and employ analytics to optimize their portfolios.

ADVERTISING & MARKETING BARRIERS

The laws governing what messages media cannabis companies can utilize varies from state to state, with many of these laws having unique stipulations for marketing placement (e.g., proximity to schools).

What's more, various digital and social media platforms have taken different stances on cannabis, making the landscape tough to navigate for brands with lean marketing organizations.

CANNABIS BRAND EXPERIENCE IN 2020

We expect the landscape to evolve to reflect more targeted strategies to win consumer loyalty. The big question is... **what is the 2020 cannabis consumer truly looking for?** Winning cannabis brands in 2020 will deliver a full consumer experience far beyond simply accessing the product.

TILRAY LABS

TILRAY LABS

01: BUILDING TRUST

4 out of 5 consumers cite trustworthiness and consistency as the most important drivers for brand choice. Brands that can build a true and deeper sense of trust can unlock loyalty. Leaders like Tilray have helped to elevate cannabis as a whole through a scientific approach to research and development for pharmaceutical and consumer products.

Throughout 2019, we saw cannabis become even bigger business through mergers, acquisitions, and private equity backing. Similar to sentiment we've seen in other industries, however, bigger is not seen as better among consumers. Our study finds that 53% of consumers prefer to support smaller, local cannabis brands. This suggests that cannabis consumers will opt for the underdog as they have previously with food, beverage, and alcohol choices.

↑ TILRAY LABS [ABOVE]

Tilray's commitment to evolve current scientific understanding of the field has led to development of techniques that achieve clinical grade isolates. These allow cannabis' participation in clinical trials conducted by select research partners at world-leading hospitals and universities.

TILRAY LABS

54%

prefer local brands to national brands

53%

prefer to support small cannabis brands versus big cannabis brands

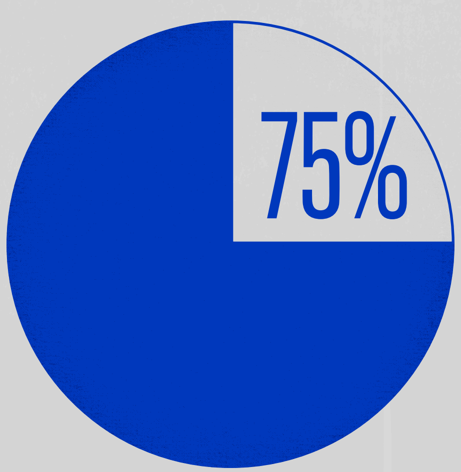
4 OUT OF 5 CONSUMERS CITE **TRUSTWORTHINESS** AND **CONSISTENT** PRODUCTS AS THE MOST IMPORTANT DRIVERS FOR BRAND CHOICE.

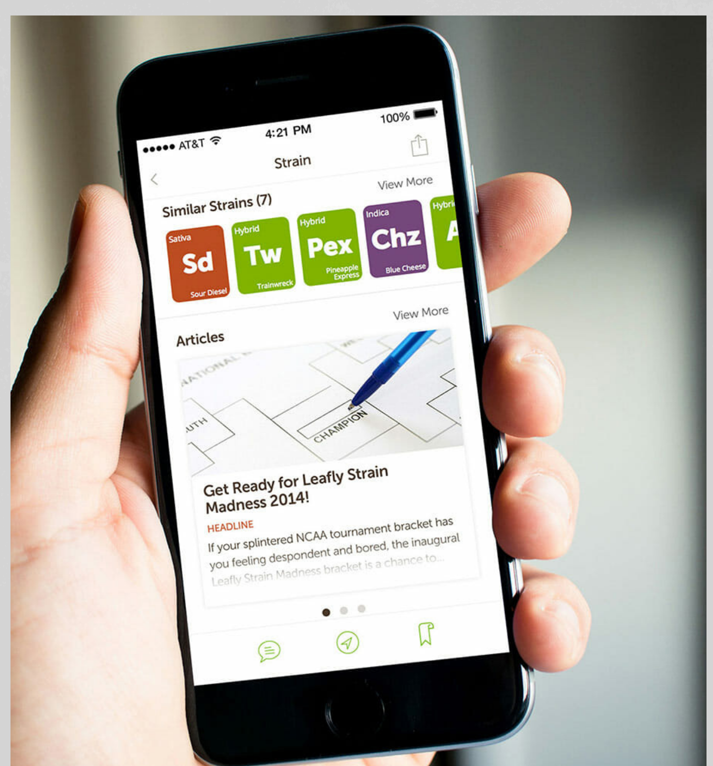
How important are the following attributes when selecting cannabis products?

% represents Top 5 Ranking

Attribute	%
Product Strain	35%
THC Dosage	34%
Product Quality	34%
Desired Effects	30%
Intensity of Effect	23%
Duration of Effect	19%

75% Cannabis consumers seeking "brands that make it easy to manage the effects and know what to expect."



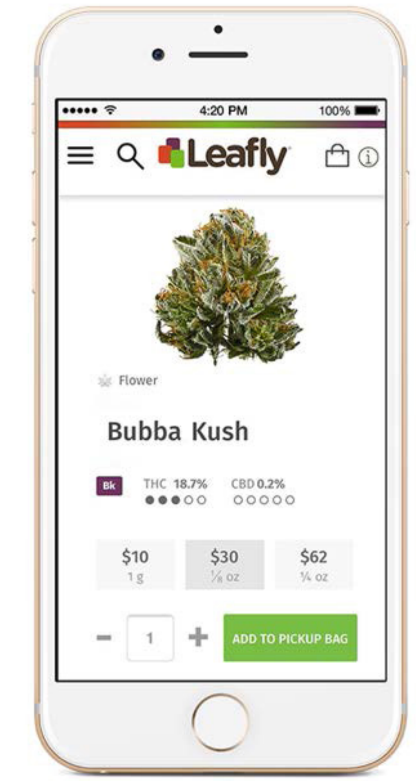


LEAFLY APP

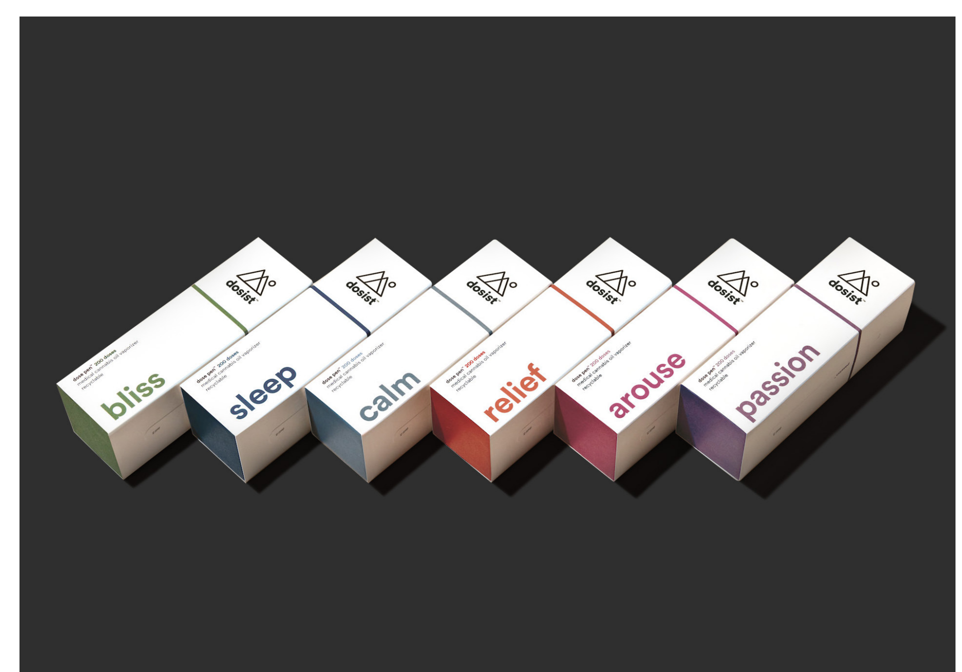
02: BUZZ CONTROL

As more consumers re-engage with or try legal cannabis, they are often introduced to a whole new vernacular at point of purchase and a much stronger product than they experienced pre-legalization.

One of the top preferences among 75% of respondents is that brands "make it easy to manage the effects and know what to expect." Cannabis moderation isn't not as simple as ABV or drinks per hours. We expect successful brands to focus on educating consumers on the intricacies of cannabis. As we've seen a push towards sessionability and lower ABV in alcohol, we also anticipate the next generation of cannabis to pull back on potency or make it easier to manage their experience. For example, Dosist offers controlled dosing pens and information sources such as Weedmaps and Leafly help consumers determine which strains are best for their desired experience.



LEAFLY APP



DOSIST

LEAFLY APP [ABOVE]

Information sources such as Weedmaps and Leafly help consumers determine which strains are best for their desired experiences.

DOSIST [LEFT]

Dosist offers controlled dosing pens for a consistent and predictable experience.

1906 DROPS

03: HOLISTIC WELLNESS DISCOVERY

The lines between therapeutic cannabis as a category has a broader frame of reference as its benefits and effects become better understood.

Over half (52%) of the respondents in our study report using cannabis for both medical and recreational needs. We see a clear trend in consumers seeking products that deliver a physiological or well-being benefit (e.g., "calm", or "energy", or even "love").

1906 New Highs develops THC chocolates and drops with the optimal balance of THC and CBD to deliver specific emotional boosts such as its Genius product line (pictured below). Additionally, companies like Gymbox are offering classes that are supplemented with CBD to aid in recovery.

NEW HIGHS GENIUS [ABOVE]

1906 New Highs Genius product line combines a low dose of Sativa (2.5 mg) with other ayurvedic plant medicines to enhance mental acuity and focus. The product was inspired by founder and CEO Perter Baroom's desire to provide an alternative to stimulants like Adderall or Ritalin for adults dealing with ADD or ADHD.

52% OF THE RESPONDENTS IN OUR STUDY REPORT USING CANNABIS FOR BOTH MEDICAL AND RECREATIONAL NEEDS.

NATURAL WONDER BREATH SPRAY

PAX OUTDOOR ADVERTISEMENT

PAX [LEFT]

PAX released this outdoor advertisement this winter which targets a more affluent and "grown up" millennial consumer whose life circumstances may be changing.

NATURAL WONDER [LEFT]

Natural Wonder encourages consumers to get outside and enjoy their active lifestyle without using any traditional stoner or "getting high" cues.

04: MORE LIKE ME

Our study finds that 67% of consumers seek brands that fit their lifestyle. This points to a desire for cannabis brands that embody a set of shared values and reflect their own self-image.

Only 35% of respondents feel that "the brands of cannabis I use say a lot about who I am", indicating a need for more authentic brands and products that move away from the "stereotypical stoner."

We also see a desire for products that make cannabis usage discreet – over half of respondents agree or strongly agree that "I look for cannabis products that are discreet to use". Cannabis companies have evolved to offer more discrete ways to consume across vaping, edibles, tinctures, beverages and even additives.

67%

of consumers seek brands that fit their lifestyle.

35%

of respondents say "the brands of cannabis I use say a lot about who I am".

51%

of respondents agree or strongly agree that "I look for cannabis products that are discreet to use".

LORD JONES CAPSULES

LORD JONES [LEFT]

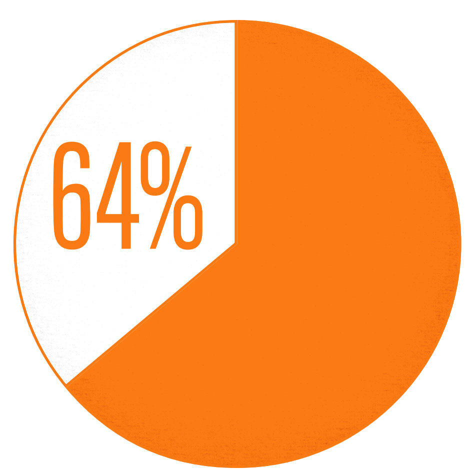
Lord Jones, a CBD skincare company, sells CBD gel capsules for $95 in Sephora and other premium retailers. Premiumization at its core is about access to lifestyle enhancement. For an industry that has been historically "behind closed doors" we anticipate innovations to include access to content, curated events, meaningful rewards and continued engagement.

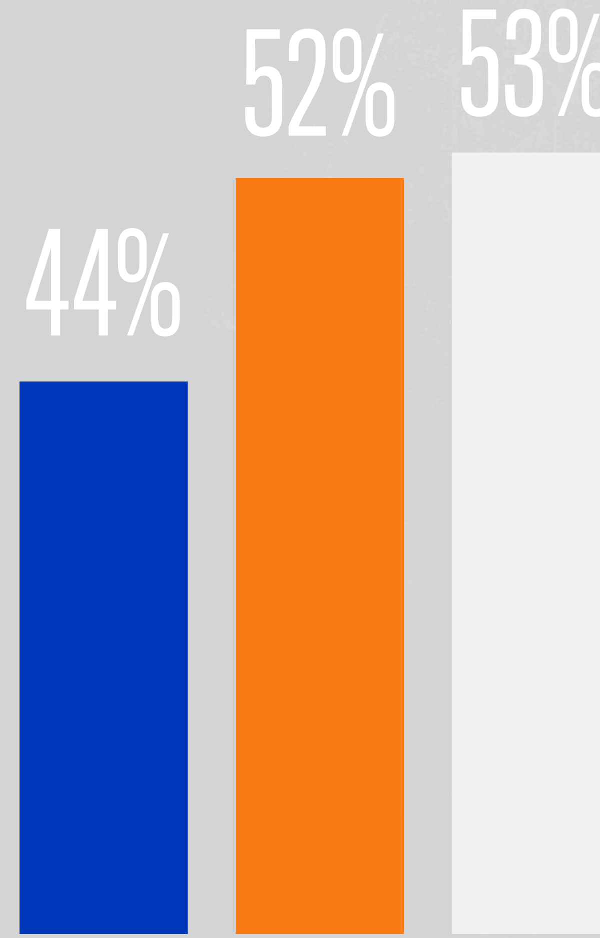
05: PREMIUM PLAYS

With a more educated and affluent cannabis consumer comes the demand for more premium options. 64% of respondents state that having premium strains or ingredients were important to selecting a brand.

To win here, cannabis companies must recognize that premium brands are not just about product, they must also embody a unique point-of-view and deliver a more premium experience. As cannabis is becoming a more diverse industry, spanning categories like F&B, skincare, and technology, we expect premiumization to play out quite differently for each sub-category.

64% of respondents state that having premium strains or ingredients are important to selecting a brand.





06: PROVENANCE OF POT

We expect cannabis to follow the specialty trends that have played out in similar categories (e.g., natural foods, craft beer).

Over half of consumers placed importance on things like provenance (52% prefer products that are locally grown) and standards (53% find organic and natural certification important).

- 44% have a desire to see the entire lineage, from seed to shelf, of the product they're buying
- 52% prefer products that are locally grown
- 53% find organic and natural certification important

1964 SUPPLY CO FLOWER

1964 SUPPLY CO [LEFT]

Brands like 1964 Supply Co from Rubicon Organics aim to offer consumers and craft authentic experience in cannabis with more natural credentials.

WILLIE'S RESERVE PRE-ROLLED JOINTS

↑

CELEBRITY ENDORSEMENTS [ABOVE]

Willie's Reserve pioneered this move in cannabis. Jimmy Buffet recently launched Coral Reefer brands in partnership with Surterra. Even Martha Stewart is getting in on the action with Snoop. But consumers don't seem to place much weight on that ... with only 1 in 4 consumers saying celebrity endorsements are important.

07: BOOMER FRIENDLY

The U.S. population over 65 is the largest in history and boomers represent the fastest-growing segment of cannabis users. Cannabis usage increased 10x among Americans over 65 from 2007 to 2017 and 5x among those 60 - 64[19].

Our study finds that besides general relaxation, users over 55 primarily use cannabis for pain relief, indicating an opportunity for pain management products aimed at an older cohort. Cannabis users over age 60 also were 27% less likely to feel that "the brand of cannabis available are 'for me'" vs. the total sample, creating whitespace for a brand aimed directly at mature audiences.

62%

of users over age 55 use cannabis for pain relief

CANNABIS USERS OVER AGE 60 ALSO WERE **27% LESS LIKELY** TO FEEL THAT "THE BRAND OF CANNABIS AVAILABLE ARE 'FOR ME'".

ABOUT THE AUTHORS

STRATEGIC COMMUNICATIONS & ADVISORY

Established in 1998, ICR partners with companies to execute strategic communications and advisory programs that achieve business goals, build awareness and credibility, and enhance long-term enterprise value. ICR's cannabis practice leverages the firm's highly-differentiated service model, which pairs capital markets veterans with senior communications professionals, bringing deep sector knowledge and relationships to its clients.

www.icrinc.com

Since establishing its cannabis practice in 2018, ICR has helped its cannabis clients navigate several go-public transactions, M&A, capital raises and special situations, while also providing ongoing, integrated investor relations and public relations services to raise awareness, visibility and understanding of their long-term growth strategy. In February 2020, ICR was ranked as the #1 communications firm for cannabis companies by Green Market Report, a leading financial news source for the cannabis industry.

SPECTACLE

Spectacle Strategy is a creative strategy consultancy that helps their clients grow smarter and faster through branding, insights, and customer experience. With over 20 years of experience working with Fortune 500 incumbents, Spectacle set out to create the consultancy that reflects the current business climate where disruption is the new normal.

www.spectaclestrategy.com

Spectacle has worked with numerous brands in the emerging technology and health and wellness space, and specializes in creating brand experiences reflective of targeted consumer needs. Based in Denver, CO, Spectacle has studied the rise and success of the cannabis industry and its far-reaching effects on wellness and business in general.

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