

Evolve U.S. Marijuana ETF

USMJ is an actively managed ETF that provides investors with exposure to a diversified mix of equity securities of public issuers that are involved in the U.S. marijuana industry.

As at October 31, 2019



TICKER: USMJ (Hedged)

MACROECONOMIC HIGHLIGHTS:

Cannabis is making an increasing contribution to Canada's economic growth. In a report released in October, Statistics Canada stated that the sector – both the legal and illegal market – contributed \$7.92 billion to the country's gross domestic product in August, up from \$7.02 billion last October when recreational cannabis was first legalized. The agency also estimated that the legal cannabis industry grew by 116 per cent in the first 11 months since recreational marijuana was legalized, while the black market's cannabis output has fallen by 22 per cent in that same period.ⁱ

However, an analysis of retail sales data by Cannabis Benchmarks stated that Canadians are buying a fraction of the legal recreational cannabis that the government projected, suggesting that cheaper black market pot is proving irresistible for many consumers. The average price of cannabis per gram in Canada's legal market is \$10.23, compared to an average of \$5.59 on the black market, according to third-quarter data published by StatsCan on Wednesday. That is a price differential of 45 per cent, which has widened from a gap of about 35 per cent in the fourth quarter of last year, StatsCan data showed.

Meanwhile, cannabis producers are harvesting enough marijuana to come close to hitting Canada's projected annual demand of 924,000 kilograms, based on separate analysis by The Cannalysts Inc., an independent cannabis research firm, indicating that the sector could soon face an oversupply.ⁱⁱ

In the manufacturing space, Tilray Inc. and Anheuser-Busch InBev announced that their joint venture would be selling CBD drinks in Canada almost as soon as they are legal in December. They delayed the launch of THC drinks because they wanted to make sure the product is exactly right, since THC and CBD tend to degrade when in a liquid environment, losing their potency.ⁱⁱⁱ

In early October, Canopy Growth announced the completion of an all-cash transaction to purchase a 72% stake in BioSteel Sports Nutrition, with an agreement to have a 100% ownership stake in the future. The transaction will pave the way for Canopy to introduce CBD-infused products to the market. Though now legal under federal law, CBD, which must have less than 0.3% THC, is still subject to regulation when sold with a claim of therapeutic benefits, though various States and cities have their own rules on the issue.^{iv}



Aphria Inc. became the first large pot producer to report a second consecutive profitable quarter. The company said it earned \$16.4 million on revenue of \$126.1 million in the quarter ended Aug. 31, a slight decline from the prior period. It also reiterated its outlook for fiscal 2020, which calls for revenue of \$650 million to \$700 million and adjusted EBITDA of \$88 million to \$95 million.^v

According to a poll released last week by Gallup, 66 percent of Americans now say that they endorse legalization of cannabis, a total that is consistent with other recent polls, representing a nearly 30 percent increase over 2012 totals. A separate nationwide poll also released last week by PPRI (the Public Religion Research Institute) also reported that two in three Americans support legalizing and regulating cannabis. The Gallup poll found that support for legalization is held by a majority of Democrats (76 percent), Republicans (51 percent), and Independents (68 percent).^{vi}

On the negative front, at least 18 people died across the U.S. from an illness linked to vaping in October. The Centers for Disease Control and Prevention (CDC) reported that at least 1,080 cases of the illnesses have been reported in 48 states and one U.S. territory, while deaths have occurred in 15. The illnesses were not linked to one specific substance, however the CDC says products containing THC, a psychoactive component in cannabis, played a role in the outbreak.

In the meantime, the Trump administration is mulling a ban on flavored e-cigarettes, while market leader Juul Labs has halted its print and broadcast advertising in the U.S. That comes after major broadcasters including Viacom and Warner Media announced a ban on e-cigarette advertisements. New York, Massachusetts and Rhode Island have so far banned vaping products, while Los Angeles banned the sale of flavored tobacco products, including e-cigarettes.^{vii}

SOURCES:

ⁱ <https://www.bnnbloomberg.ca/cannabis-canada-pot-industry-added-nearly-8b-to-gdp-in-august-statscan-says-1.1341044>

ⁱⁱ <https://www.bnnbloomberg.ca/cannabis-gold-rush-falling-short-amid-lure-of-cheaper-black-market-pot-say-analysts-1.1329064>

ⁱⁱⁱ <https://nicinvestors.com/2019/10/16/hexo-and-the-green-organic-dutchman-what-to-learn-from-recent-news/>

^{iv} <https://www.forbes.com/sites/michaellore/2019/10/23/canopy-growth-and-biosteel-to-introduce-cbd-products-to-sports-nutrition-market/#216bcc88f9b7>

^v <https://business.financialpost.com/cannabis/cannabis-business/pot-producer-aphria-soars-pre-market-after-posting-second-profitable-quarter>

^{vi} <https://thehill.com/opinion/civil-rights/468162-60-percent-of-americans-support-marijuana-legalization-times-are>

^{vii} <https://www.forbes.com/sites/isabeltogoh/2019/10/04/vaping-death-toll-from-mysterious-illness-linked-to-e-cigarettes-rises/>

DISCLAIMER:

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