

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 November 29, 2019



TICKER: USMJ (Hedged)

MACROECONOMIC HIGHLIGHTS:

North American cannabis companies have faced numerous challenges over the past two quarters. In the US, Cannabis industry capital investment in 2019 hit \$10.4 billion through Week 40 – a 40% increase over 2018 – but the previously hot investment activity has cooled in recent months and is now running at what one analyst called a more “normal” pace of growth.ⁱ

In the US, Regulators have expressed concerns about the dosage of edibles and the possible health impacts of mixing cannabinoids into digestible products. In addition, the threat of competition from large consumer packaged goods companies, like Unilever, Pepsi Co. and Mondelez, has become real. Third, US experience has shown that layers of taxes at various levels can impact a consumer’s decision about where to buy cannabis. The same could happen in Canada, between the goods and services tax, social responsibility tax and provincial sales tax, to name a few that are added to the price for consumers at retail.ⁱⁱ

Several companies reported losses or poor performance during the month. Canopy Growth, the world’s largest cannabis company, reported a \$374.6 million net loss in its fiscal second quarter, more than double Wall Street’s expectations, after the company was hit with millions in charges related to product returns and price changes.ⁱⁱⁱ

Aurora Cannabis also announced a loss and plans to shore up its balance sheet by halting construction plans at facilities in Alberta and Denmark, and settling a convertible debenture due in March. The company reported sales of \$75.3 million in its fiscal first quarter of 2020. Its’ sales into the Canadian recreational market dropped 33 per cent to \$30 million. Its adjusted EBITDA was negative \$39.7 million for the period ended Sept. 30, compared to \$26.6 in the fourth quarter of 2019.^{iv}

Cronos Group reported quarterly revenue of \$12.7 million, an improvement over the previous quarter’s \$10.2 million but slightly lower than consensus estimates. The cannabinoid company’s adjusted EBITDA loss widened quarter-over-quarter to CA\$24 million.^v

Organigram, a Moncton, N.B.-based company capped off fiscal 2019 with a quarterly net loss of \$22.5 million. The Canadian cannabis producer blamed the drop on a “lack of sufficient retail network and slower-than-expected store openings in Ontario” at a time when industry-wide supply is rising.



Los Angeles-based, MedMen, a multistate marijuana operator, announced that it is laying off more than 190 employees to shore up its bottom line, joining a growing list of cannabis companies, among them Weedmaps, Pax Labs and Eaze, that are shedding workers amid falling cannabis stock prices and a dearth of outside funding. The company also disclosed plans to scale back its store openings next year and delay investments in certain markets, including New York and Arizona; and is exploring the sale of certain operations and licenses in states that are currently deemed not critical to the company's retail footprint."^{vi}

Massachusetts regulators maintained a ban on the sale of cannabis oil vaporizers and devices after ordering marijuana retailers to quarantine the products, dealing a financial blow to cannabis companies hoping for a speedy resumption of vape sales. The vape ban first took effect Sept. 24. In making its decision, the state Cannabis Control Commission (CCC) focused on the need to test for vitamin E acetate, an additive that has been flagged as a likely suspect behind the vaping health crisis, which led to the deaths of dozens of individuals across the US.^{vii}

Missouri's highly anticipated medical marijuana market has attracted more than 2,200 applications, which were submitted for only 338 cultivation, manufacturing and dispensary licenses in the state, where annual sales could eventually reach \$300 million.^{viii}

A new Florida law repealing a ban on smokable medical marijuana products in March has given the state's cannabis market a shot in the arm, prompting large multistate companies to aggressively expand their production, operations and retail footprints. As a result, competition has increased, with the market share of Tallahassee-based Trulieve which controls nearly 52% of the sales in the non-smokable marijuana market in the state, gradually declining to around 35%.^{ix}

The Ontario Cannabis Store (OCS) will move ahead with a "hybrid" wholesale model that will allow the private sector to be involved in storing and distributing cannabis. The move comes in response to "feedback" provided from producers to the OCS, many of whom have demanded more involvement in the distribution of cannabis to maximize cost efficiencies. Licensed producers have increasingly become frustrated with the OCS monopoly, arguing that having the province as the middle-man increases the per gram price of legal cannabis, which is currently about 30 per cent higher than the black market price. The OCS will still continue to be involved in wholesaling, using a hybrid model that will allow private involvement.



SOURCES:

- ⁱ <https://nicinvestors.com/2019/11/22/this-landmark-bill-shows-full-legalization-is-just-around-the-corner/>
- ⁱⁱ <https://policyoptions.irpp.org/magazines/november-2019/cannabis-sales-could-jump-with-edibles-but-industry-should-be-prepared/>
- ⁱⁱⁱ <https://ca.finance.yahoo.com/news/canopy-growth-hit-with-millions-in-product-return-charges-124839909.html>
- ^{iv} <https://ca.finance.yahoo.com/news/aurora-cannabis-halts-construction-plans-after-big-miss-in-latest-quarter-234627021.htm>
- ^v <https://mjbizdaily.com/cronos-to-convert-some-cultivation-space-reports-revenue-growth/>
- ^{vi} <https://mjbizdaily.com/major-cannabis-firm-medmen-slashes-more-than-190-jobs-unloads-assets-to-bolster-bottom-line/>
- ^{vii} <https://mjbizdaily.com/massachusetts-keeps-cannabis-vape-ban-orders-quarantine-of-products-as-regulators-focus-on-suspect-additive/>
- ^{viii} <https://mjbizdaily.com/chart-missouri-medical-marijuana-market-draws-thousands-of-applications/>
- ^{ix} <https://mjbizdaily.com/more-medical-marijuana-companies-bolster-operations-in-lucrative-florida-market-following-smokable-flower-ban-repeal/>

DISCLAIMER:

Commissions, management fees and expenses all may be associated with exchange traded mutual funds (ETFs). Please read the prospectus before investing. ETFs are not guaranteed, their values change frequently and past performance may not be repeated. There are risks involved with investing in ETFs. Please read the prospectus for a complete description of risks relevant to the ETF. Investors may incur customary brokerage commissions in buying or selling ETF units.