

David, Goliath



& Cannabis Beverages

THERE HAVE BEEN three big shifts in the cannabis-infused beverage industry in Ontario in the past few months that may predict the collaborative nature of companies in this space.

BY LLOYD RANG

FIRST, MOLSON-COORS CANADA announced that they were taking the plunge into the market through a new joint venture. Then the Ontario Government confirmed that they were going ahead with a mix of public and private distribution of cannabis products. And finally, blockbuster news that beverage giant Constellation Brands is investing \$5 billion in Canopy Growth for a 38 per cent share of the cannabis company.

While the established beer and wine giants like Constellation and others have been gobbling up their fair share of the headlines in the past months, there's another story brewing just below the surface. As the weed side of the industry starts to consolidate under major brands like Canopy, newer, smaller companies are nimbly moving into the beverage space — which has suddenly become a lot more open and competitive. These upstart startups are hoping to catch the big brands asleep at the switch — and it just might happen.

One of these companies is Toronto-Vancouver based Phivida Holdings Inc, who has signed a joint venture with WeedMD to create Cannabis Beverages Inc. — or CanBev

for short. The new company will be home to one of the first federally legal cannabis-infused consumables manufacturing facilities in the world — and the new company promises to be more than the sum of its parts. Phivida, a startup, has surprisingly deep experience on the beverage and marketing side, and WeedMD is bringing its experience with locally grown production. It's a case-study in how smaller companies are attracting top executive talent, teaming up and hoping to dominate the market.

In the new partnership, WeedMD will be the cannabis supplier for CanBev through its 610,000 sq. ft. state-of-the-art facility in Strathroy, Ontario. WeedMD also brings premium genetics, large scale food grade production infrastructure for scalable expansion and low

cost of input onsite as well as an existing distribution deal with Shoppers Drug Mart.

For its part, Phivida brings an all-star management team, US branding and influencer endorsements and product design, innovation, research and new product development expertise. Phivida only went public in December, but in the cannabis space, months are like dog years and the company has been growing its executive team steadily. In fact, both of these small companies have drawn some impressive senior talent into their boards — and are pouring that talent onto the new CanBev board.

Phivida brings Red Bull alumnus Jim Bailey and fellow beverage expert Greg McCauley to the board. Bailey has a strong packaged-goods brand marketing background that he earned as a senior executive for adidas Canada, Merrell Footwear, and



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as former President of Red Bull Canada. McCauley has a wealth of executive leadership with a record of establishing sustainable revenues and working with Fortune 500 brands, most recently as the EVP of Sale for CytoSport (Muscle Milk) and Jägermeister.

WeedMD has nominated Keith Merker and Kevin McGovern to the CanBev board. Merker, now CEO of WeedMD, comes to CanBev with extensive experience in corporate finance, accounting and operations with both emerging growth public and private companies. Kevin McGovern has co-founded over twenty-five companies, six of which have become world/category leaders, and he has been lead negotiator/principal in over fifteen global joint ventures.

What the big companies — and investors — sometimes fail to realize is the depth of management experience new companies in the cannabis sector are attracting. Lured by the opportunity to build something new and unique, top-shelf talent like Bailey and McGovern give newer companies an unexpected gravitas and stability. Competitors should underestimate cannabis beverage startups at their peril — and investors who overlook them may be missing out.

Now that big alcohol is being forced to defend a century-old monopoly from the disruption of the new legal cannabis market through consolidation and investment into innovative cannabis brands, there's room for startups like CanBev to move quickly into the space. How well they succeed will depend on whether their agility and ability to take advantage of a wide-open market is a more competitive advantage versus the size, scale and established branding of the big alcohol companies.

It's a classic David and Goliath story — it's startups versus giants, each vying for a piece of a booming market. The growing mergers and acquisitions and investment activity between big alcohol and cannabis has only just begun — and the experts are predicting more — a lot more.

The race is on.

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To discuss solutions that fit your company, contact: **Will Stanton**
wstanton@postmedia.com
519-471-2907 x 540255

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