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Anxious for Growth? CBD Might Help

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Food & Agribusiness
far.rabobank.com

Jim Watson

Senior Beverages Analyst
+1 212-916-7943

Bourcard Nesin

Beverages Analyst
+1 212-808-6846

For a non-intoxicating substance, cannabidiol (CBD) is certainly creating a lot of buzz around the beverage world. The latest development, the legalization of hemp in the 2018 Farm Bill, has many companies anxiously awaiting new rules that could lead to the nationwide legalization of hemp-derived CBD beverages.

Consumer excitement is driven by the promise of strong functional benefits, but the path to getting there isn't straightforward. Large players would be well-advised to start active planning sooner rather than later.

Why CBD Matters

CBD (a non-psychoactive compound in cannabis) has a number of health claims that make it one of the most exciting potential ingredients in the functional beverage space, with claims around relief for pain, anxiety, and inflammation and aid for relaxation and sleep. CBD, in all forms, is roughly a USD 600m market in the US, according to Brightfield Group, and is growing quickly.

According to the National Academy of Sciences, CBD has some fairly specific medical applications, but many of the broader claims around consumer functionality – like treating anxiety – are far from proven. On the other end, the World Health Organization states, "CBD is generally well tolerated with a good safety profile," and to date, there is no evidence of "any public health-related problems associated with the use of pure CBD."

Why the Farm Bill Matters

The 2018 Farm Bill, passed by Congress last week, legalizes the production of hemp across the United States and the interstate transport of 'hemp products'. Hemp (along with the marijuana flower) is one of the primary sources of CBD. Prior to the legalization of hemp, the DEA maintained that CBD, regardless of origin, is a Schedule I drug. The new Farm Bill could lead to the legalization of hemp-derived CBD in consumer products, but the industry will need clarity from the DEA and FDA before the Farm Bill's ultimate implications are fully understood.

The legal status of CBD did not stop some companies from making CBD-infused products and beverages. A quick internet search will reveal a wide array of products for sale. In its current form, however, the world of CBD-infused products is more or less a cottage industry with small players and little oversight. The legal ambiguity for CBD products left many investors and larger food and beverage companies on the sidelines, but that could change with the new Farm Bill. If hemp-derived CBD is fully legalized (and the Farm Bill is only one step in that direction), global beverage powerhouses could enter the market with all the R&D spend, marketing push, and distribution muscle they bring.

Unanswered Questions

At a recent investor lunch, Bruce Linton, Chairman and co-CEO of Canopy, pointed out that the new legislation leaves two large questions unanswered: what role the FDA will potentially have in overseeing CBD as an ingredient; and how the industry will handle the trace amounts of THC (the psychoactive component in hemp) that will become significant as hemp production scales up and

industrializes. Even in a 'legalized' world, CBD beverages may face further scrutiny as the regulatory framework catches up.

The 'Holy Grail'?

The last 'Holy Grail' ingredient that non-alc discovered was stevia, a natural no-calorie sweetener. Despite much fanfare about its transformational potential, early versions of stevia-sweetened beverages failed to gain traction. Over time, however, constant improvements in the technology and formulations have led to steady gains in stevia products and a bright future for more growth.

We think CBD beverages may take the same path. We don't believe players who have been active in the CBD market will have a notable first-mover advantage, particularly given the significant questions about the formulation and efficacy of current CBD products. A 2017 study in the Journal of the American Medical Association, for example, found that a majority of current CBD products were mislabeled with respect to dosage. Getting this product right will take time and research – something large companies are particularly good at.

Flipping the Switch

Rarely does any industry get the chance to suddenly add a new ingredient with such a combination of consumer awareness, latent demand, and potential benefits.

The opportunities CBD presents are long-term, but companies would do well to consider laying the groundwork now. The Farm Bill is just one more sign that the government and popular opinion are changing rapidly on the use of CBD.

Canada, and now CBD beverages in the US, will serve as the R&D hubs for the rest of the world. Companies that partner well and act urgently once the Farm Bill passes, will be in the leading position as CBD potentially goes global.

Imprint

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Jim Watson	Senior Beverages Analyst	James.Watson@Rabobank.com +1 212-916-7943
Bourcard Nesin	Beverages Analyst	Bourcard.Nesin@Rabobank.com +1 212-808-6846

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