

# What Big Tobacco's Cannabis Investments Mean For Market

By **Slates Veazey and Whitt Steineker** (August 30, 2023)

For years, the cannabis industry has been the purview of entrepreneurs and those willing to operate in gray areas — those willing to take some measure of risk to recover the premium on that risk.

As cannabis has become legal for medical and/or adult use under the law of 80% of the states, it is inevitable that less risk-averse players would enter the space — and, eventually, that major players would seek a piece of the ever-growing pie.

True to form, word recently began circulating that tobacco giant Philip Morris International Inc. has agreed to purchase Israeli cannabis technology company Syqe Medical Ltd. for a whopping \$650 million if Syqe obtains certain approval from the U.S. Food and Drug Administration.[1]

While the two companies evidently have some history together, this new deal is reportedly tied to Philip Morris' interest in acquiring Syqe's metered-dose, pharmaceutical-grade inhaler that dispenses precise doses of medical cannabis to patients.

To be fair, this is not the first instance of big tobacco investing in cannabis. As MJBizDaily reported,[2] tobacco companies invested significant amounts in cannabis in 2018 — for instance, Altria Group put \$1.8 billion in Canadian company Cronos Group — and in 2019, when Imperial Brands put \$92 million in Auxly Cannabis Group.

The recent news, however, made us wonder if this time will be different, with big tobacco — and perhaps the alcohol industry, as well — shoring up their investments in the cannabis market. Here are some reasons it just might be different, and other takeaways.

## **Vaped and noncombustible cannabis delivery products will continue to thrive.**

Between 2020 and 2021, vape products were up 28.1% in year-over-year sales growth in the U.S. cannabis market — second only to prerolls' year-over-year growth — and nearly 10% more than the overall cannabis market growth in California, Colorado, Michigan, Nevada, Oregon and Washington.[3]

In 2022, vape cartridge sales exceeded \$2.8 billion, which was 23% of the entire cannabis market. Since 2018, sales of these products have increased by 172%.[4] Some projections value the vaped medical cannabis market at \$22 billion in the next 10 to 15 years.[5]

Big alcohol also recently made merger and acquisition headlines in the cannabis space. Anheuser-Busch and Tilray Brands Inc., a Canadian cannabis and consumer packaged goods company, announced Tilray's acquisition of eight Anheuser-Busch beer and beverage brands the first week of August.

It appears the imminent plan is for Tilray to stay in the legal alcohol space with these brands, which include Shock Top, Breckenridge Brewery and Widmer Brothers Brewing.



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However, we have little doubt that Tilray is eyeing a cannabis-infused alcohol beverage line once marijuana is either rescheduled or descheduled, if not before.

Indeed, the cannabis-infused beverage market began in earnest around 2010, when Keef Brands launched its business in Boulder, Colorado. Since then, Keef Brands has grown significantly, as has its competition.

In 2020, according to Fortune Business Insights,[6] the global cannabis beverages market was valued at \$574.9 million, and is projected to exceed \$19 billion by 2028 at a compound annual growth rate of 54.3% between 2021-2028.

The recent news makes it clear that Philip Morris and major players in the food and beverage industry are paying attention to the trends in the cannabis industry.

The above sales and market projection figures, coupled with the news of the Philip Morris-Syqe and Tilray-Anheuser-Busch deals, confirm that vape and noncombustible cannabis products are here to stay, and may soon likely dominate the industry. And, with these products gaining a stronghold, companies in well-established industries may take note and make similar investments.

### **Is this a sign that Congress will reschedule rather than deschedule?**

Following President Joe Biden's October 2022 announcement[7] pardoning federal convictions of simple marijuana possession and directing that the U.S. Department of Health and Human Services expeditiously review the scheduling of marijuana under federal law, many working in or around the cannabis industry — including us[8] — began to ponder whether the federal government would deschedule marijuana out of the Controlled Substances Act, or reschedule it, keeping it within the CSA's purview.

While far from definitive, the Philip Morris-Syqe and Tilray-Anheuser-Busch deals may suggest rescheduling is on the horizon — or at least that's the intel these companies may have received. And any list of industries that carry weight in the halls of Congress must include the tobacco lobby.

In addition, the tobacco industry is almost singularly situated to navigate the world of a highly regulated industry, particularly when it comes to inhalable products. To that end, Syqe's inhaler product is what likely enticed Philip Morris to the table.

Philip Morris seems to be anticipating this continued growth of the vape market; \$530 million of the \$650 million deal appears to hinge on Syqe securing FDA approval in the U.S. for its inhaler following clinical trials.

Rescheduling marijuana will likely involve far more FDA red tape and compliance than descheduling would.[9] Philip Morris very well may be getting a head start in that respect and signaling what's to come.

### **Big tobacco is willing to pay lots of money and is optimistic about the cannabis industry's future.**

Philip Morris may be an old and conservative company, but the people who run it have been around and know how to operate in a regulated industry. They wouldn't make this investment if they didn't believe that cannabis would be legalized nationwide in the relative short term.

Phillip Morris likely views this as an advantageous opportunity to dip its toes into the cannabis waters. There is limited downside given the requirement of FDA approval for Syqe's product, but the upside is potentially substantial.

And, if successful, this product gives Phillip Morris an opportunity to establish a leadership position in the cannabis market.

Many invest in the cannabis industry with hopes of one day earning massive returns on investment after marijuana is legalized federally, and the tobacco, pharmaceutical and alcohol industries gobble up state and multistate operators. This Philip Morris/Syqe deal likely will only strengthen those hopes.

Is Phillip Morris' foray into the cannabis space the end of the beginning of international corporations entering the cannabis space, or is it the beginning of the end?

That, it seems, will depend on the future of Syqe and whether Phillip Morris can monetize its investment. Either way, it's worth keeping tabs on, and we suspect the cannabis industry, and Phillip Morris' competitors, will be watching closely.

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[1] Philip Morris buying Israeli cannabis firm for up to \$650M, report says (mjbizdaily.com). <https://mjbizdaily.com/philip-morris-buying-israeli-cannabis-firm-for-up-to-650m-report-says/>.

[2] Id.

[3] Marijuana vapes, pre-rolls popular among US consumers seeking potency, innovation (mjbizdaily.com)/.

[4] Large, live resin vape carts leading as MJ cart sales up 172% from 2018 (mjbizdaily.com). <https://mjbizdaily.com/vaporizer-cartridge-sales-are-up-172-from-2018-with-older-consumers-opting-for-larger-carts-filled-with-live-resin/>.

[5] <https://mjbizdaily.com/philip-morris-buying-israeli-cannabis-firm-for-up-to-650m-report-says/#:~:text=Bennett%20said%20the%20move%20could,the%20medical%20cannabis%20tech%20space>.

[6] Cannabis Beverages Market Size, Share | Growth [2021-2028] (fortunebusinessinsights.com). <https://www.fortunebusinessinsights.com/industry-reports/cannabis-beverages-market-100738>.

[7] Change (May) Come at Last? Biden Announces Review of Marijuana Scheduling and Mass Pardons for Simple Marijuana Possession | Budding Trends (buddingtrendsblog.com). <https://www.buddingtrendsblog.com/2022/10/change-may-come-at-last-biden-announces-review-of-marijuana-scheduling-and-mass-pardons-for-simple-marijuana-possession/>.

[8] <https://www.buddingtrendsblog.com/2023/03/de-scheduling-vs-re-scheduling-marijuana-a-dramatic-difference/>.

[9] Id.