

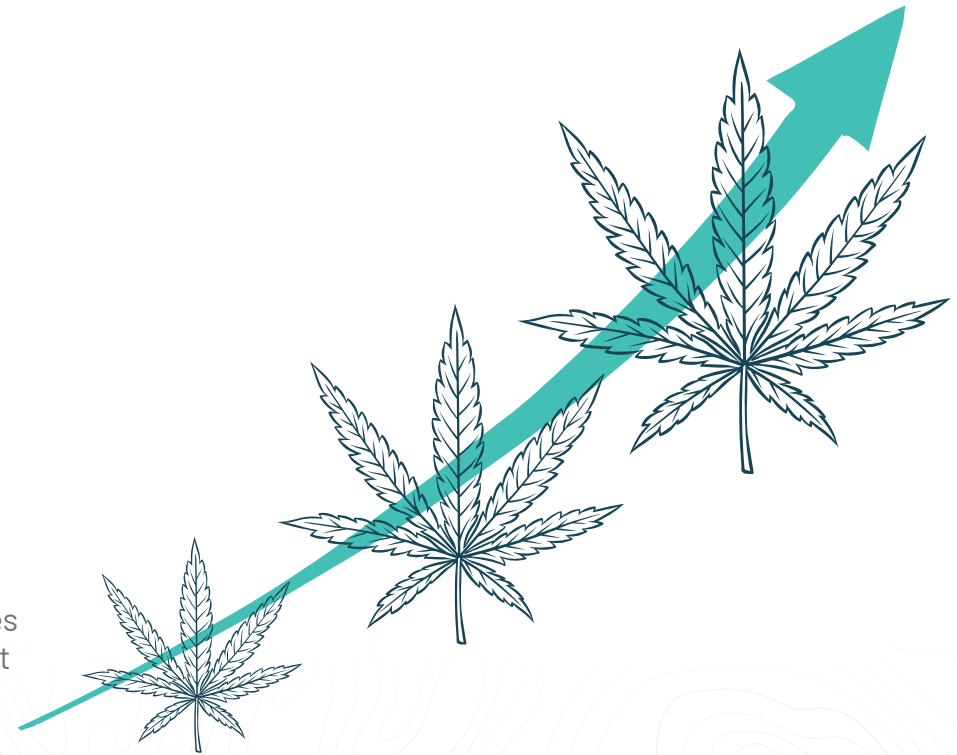
How Big of a Threat is Delta-8?



Introduction

Delta-8 THC has started to lift the little hairs on the back of the cannabis and CBD industry's necks. This fledgling psychoactive cannabinoid has been making big waves over the last two years and isn't showing any signs of slowing down. While Delta-8 continues to draw increased ire from regulatory bodies, the category has still managed to gross nearly \$2B in sales over the last two years.

Both cannabis and CBD brands find themselves at a similar crossroads. Cannabis industry leaders have called Delta-8 their biggest unacknowledged threat. Wellness-focused CBD brands also find they are losing share to the psychoactive cannabinoid. Overall, brands find themselves making some big decisions. Do they jump into the fray, do nothing and wait for it to pass, or stand on principle?



Delta-8 has grown
\$2B in **two years**

What is Delta-8 THC (delta-8-tetrahydrocannabinol)?

Delta-8 THC ("D8") was the first psychoactive cannabinoid synthesized from hemp to gain widespread attention, gaining steam toward the end of 2020. D8 is said to provide intoxicating effects similar to but milder than traditional Delta-9 THC. While it occurs naturally in small quantities, D8 products on the market today are made by chemically converting CBD into the Delta-8 molecule.

Though other cannabinoids have garnered some consumer attention, D8 remains the largest, accounting for more than 50% of market share in the cannabinoid market. Available across channels, vape products were among the earliest products to hit shelves, though now consumers can find D8 products across a variety of categories ranging from niche topical goods, to flower, and edibles.

There have been safety concerns about Delta-8 and similar products. In August 2021, the American Chemical Society published their rising concerns over Delta-8 THC. It takes a knowledgeable chemist to safely oversee the reaction that converts a CBD molecule into a THC molecule. Improper or imprecise techniques can result in high amounts of reaction byproducts, and the health effects of consuming such impurities are unknown.



Why does Delta-8 have everyone worried?

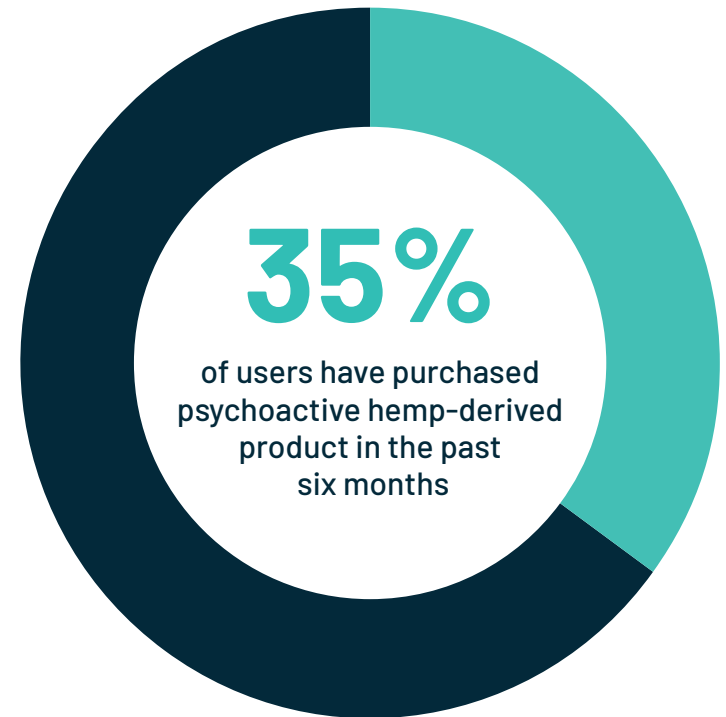
Potential negative blow-back for the entire industry

At the federal level, enforcement agencies have thus far taken a hands-off approach to regulating the category. However, this could change if the Food and Drug Administration (FDA) opts to change its act and tackle hemp head-on.

The upcoming 2023 Farm Bill brings additional concerns for its potential impact on the entire industry. This bill could introduce additional regulations on hemp-derived THC products or limit the sale of the category altogether. So, as manufacturers of Delta-8 continue to push the limits of the 2018 Farm Bill and safety concerns surrounding these products continue to go unchecked, there is increased worry that a regulatory tipping point for the industry is looming.

Competitive consumption & growing consumer interest

Competitive pressures are further alarming the Cannabis and CBD industries. There is a significant overlap between consumers of CBD, cannabis, Delta-8, and other emerging cannabinoid products. Looking at current CBD users, 35% have purchased some psychoactive hemp-derived product in the past six months. In legal THC states alone, 23% of Cannabis users say they are likely to buy Delta-8 products in the future. Consumers are interested and willing to experiment, so they may move more toward Delta-8 as time passes, especially if the price differential continues to make it more appealing.

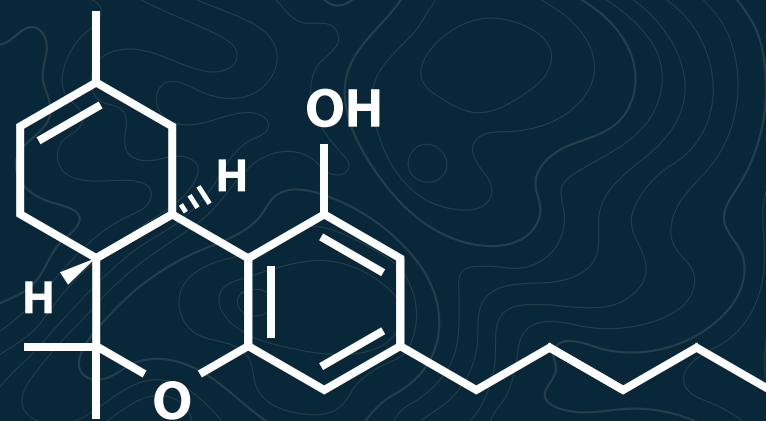


Why is Delta-8 growing in popularity?

In places where Delta-9 THC is illegal, Delta-8 has presented itself as an affordable, convenient way to experience psychoactive cannabis. Delta-8 can be bought in legal channels or delivered in the mail, offering consumers a less (legally) risky alternative to purchasing Delta-9 THC illicitly. States that most heavily restrict cannabis are seeing the most active Delta-8 markets, particularly in the South.

Many Delta-8 brands position themselves as Delta-9 products in package design and naming conventions. Shops specializing in Delta-8 even go so far as to market themselves as dispensaries, which adds significant confusion for consumers. This is true even in states where Delta-9 is legal.

If Delta-8 continues to gain popularity and build a foothold in areas where Delta-9 is restricted, legalization measures could see less popular support and grassroots fundraising, slowing progress toward full US legalization.

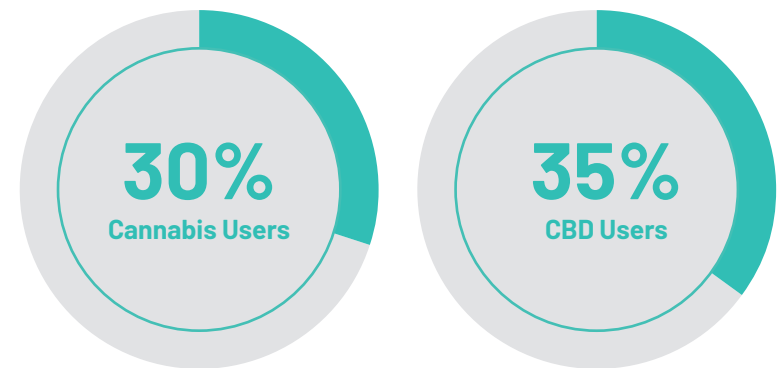


Is it stealing share?

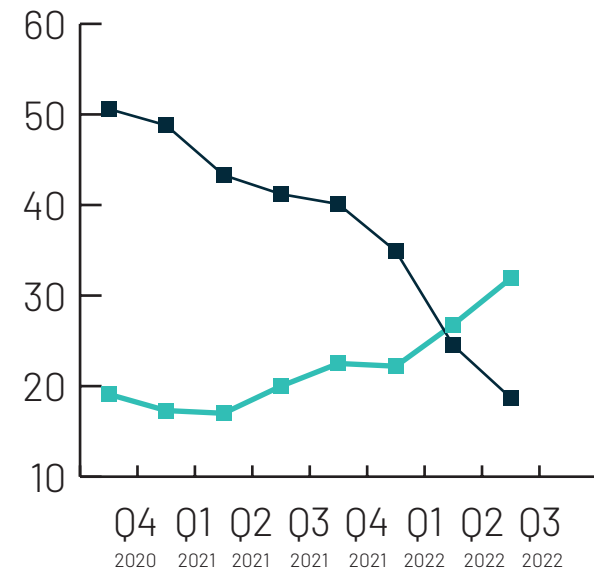
There is significant overlap across cannabinoids, though it is difficult to discern to what degree Delta-8 and emerging cannabinoids are complementary to or competing with the cannabis and CBD markets.

There already appears to be (likely intentional) confusion around Delta-8 vs. Delta-9, even in markets where Delta-9 is legal. Stores selling Delta-8 products market themselves as dispensaries and don't highlight the hemp-derived nature of the compound. These situations lead to even more difficulty in understanding how these are all playing together. Consumers are so confused that it's challenging for them to provide accurate accounts of their own use. More time and increased consumer exploration will be necessary to understand if Delta-8 is stealing share from Cannabis truly.

For the CBD market, we do see some signs through channel behavioral shifts that might offer a clue as to how Delta-8 is impacting the market. CBD purchases online have been declining since their peak in November 2020, and we've seen online purchase sharply decline since November 2021 (stated online purchase is down 53% from Q4 2021 to Q3 2022). This decline has seen an increase in Vape and Smoke Shops purchasers, a 42% increase in the same period. This channel offers consumers more exposure opportunities to hemp-derived THC products. With 64% of CBD users saying they use Cannabis at least a few times a year, these consumers are definitely open to THC and potentially shifting some consumption in that direction, especially in non-adult use THC markets.



(38% in the South) purchased some type of psychoactive hemp product.



CBD Purchase channel over time

■ Online ■ Smoke and Vape Shop

How can the industry counter?

Delta-8 and all its chemically derived, psychoactive siblings have gained traction between Farm Bill iterations. Countering their growth will be challenging and potentially not worth the effort if they burn themselves out by flying to close the sun. Today, as we look at the industries' options, there are only three true choices: beat them, join them, or ignore them.

Do you try to beat them?

No one seems to be doing this yet. It's a risky proposition to call out one area of cannabis to lift another. Some may feel that a rising tide will lift all boats, but if you choose to compete directly, you should focus your messaging on safety and testing control issues within the Hemp-derived psychoactive industry. Communicate the lack of control and testing that makes chemically derived psychoactives potentially more dangerous than naturally derived products.

Do you want to join them?

Many CBD companies are taking this route, adding Delta-8 and other similar products to their portfolios. They choose to invest in this growing area with the understanding that future legislation could entirely derail their efforts. Cannabis companies should consider if they want to invest in launching Hemp-derived Cannabinoids in non-legal THC markets to get regional brand exposure before full legalization occurs. Although this could cause confusion later, it is a way to seed the brand while regulatory and legal issues settle.

Maybe you want to ignore them?

Many companies are currently in this space and plan to continue ignoring these cannabinoids in the hope that they'll fizzle out or be taken off the board by the 2023 Farm Bill or state-level measures. The legality of Delta-8 and its siblings is on very shaky ground, and not entering the fray may be the best business decision for your brand.