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POTX – Global X Cannabis ETF

GLOBAL X ETFs RESEARCH

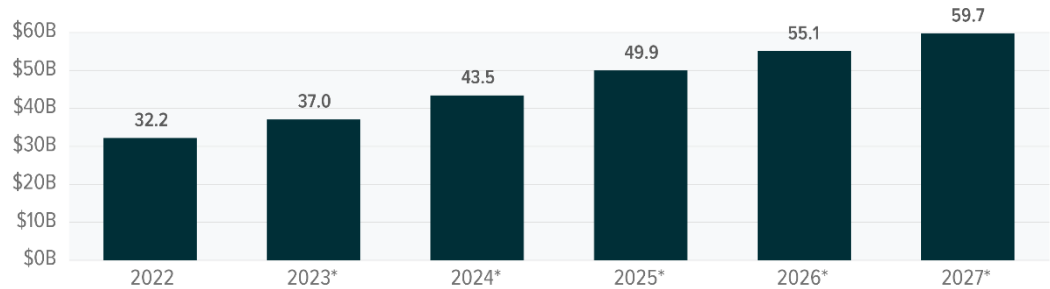
Legal Cannabis Sales Expected to Reach \$37 Billion in 2023

The cannabis sector, following a mixed regulatory response, continues to report growing adoption and sales, though delays to meaningful legislation in the US and inflationary concerns have put increased scrutiny on cannabis firms’ path to profitability.

Worldwide legal-cannabis sales are expected to rise 15%, to \$37 billion, in 2023, driven primarily by an anticipated 14% gain in the US as a result of increased adoption in legalized states or newly legal states.¹ The US market is expected to make up 81% of global cannabis sales, even without federal legalization.² The Canadian market is projected to see a 12% rise in 2023 sales, to \$4.7 billion, accounting for 12% of global sales.³ North America’s dominance should decline in the longer term, we believe, with the next wave of growth emanating from Europe.

GLOBAL CANNABIS MARKET SIZE

Source: Global X ETFs with information derived from: Bloomberg Intelligence. (2023, April 4). Canadian Cannabis Producer 1Q23: What to Watch.



*Forecast

Key Takeaways

- A large illicit market and varied regulatory landscape have been headaches for the legal cannabis industry, but adoption continues to increase, and worldwide legal-cannabis sales could rise 15%, to \$37 billion, in 2023.⁴
- Current operating conditions have cannabis companies focused on increasing efficiencies and positioning for potential legislative victories in the US.
- Internationally, supply chain dynamics continue to improve in Canada, and proposed legislation for the legal use of recreational cannabis in Germany could set the stage for broader adoption in Europe.

Canada

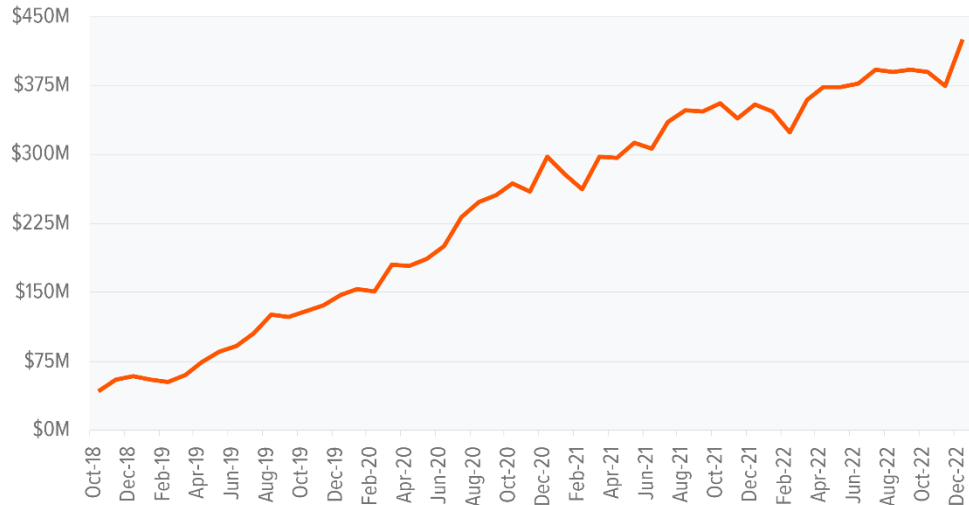
Supply chain dynamics for the legal cannabis market continue to improve in Canada, though the space remains subject to growing pains. Global legal cannabis sales are buoyed by a growing consumer base and improving distribution networks for cultivation and retailer licenses. However, in many markets, legal distributors are still competing against illicit markets. Five years after legalization, an estimated 33% of



cannabis sales in Canada still derive from the illicit market.⁵ Often, licensed participants throughout the cannabis supply chain drastically cut prices to remain competitive against unlicensed products. This dynamic leads to compressed margins and earnings. However, we believe this is a short-term hurdle and that licensed growers will likely be able to increase prices significantly in the long term, once the market is consolidated and the illicit market is less of a concern. Notwithstanding the market’s growing pains, recreational cannabis sales at licensed stores continue to rise. In 2022, Canadians purchased a total CA\$4.5 billion worth of cannabis.⁶

CANADIAN RECREATIONAL CANNABIS SALES

Source: Global X ETFs with information derived from: MJBiz. (2023, February 21). Canadian adult-use cannabis sales jump nearly 18% in 2022, hitting CA\$4.5 billion.



Canada-based suppliers are also keeping a close eye on legalization efforts abroad. Given ongoing consumer support for national legalization in the US, Canadian companies are increasingly refining their strategies to enter the US market via acquisitions. Merger and acquisition (M&A) activity has stalled in the last year or so, driven by delays to legalization in key markets. Canadian licensed producers are looking to quickly enter the US market and are prepared to ramp up Canadian production to import to the US upon legalization. Canopy Growth struck a deal in 2019 to acquire US-based Acreage Holdings if cannabis production and sale becomes federally legal in the US.⁷ Canopy announced in October 2022 it was accelerating their plans to enter the US market, with the intention for the acquisition to close by year end 2023.⁸ Tilray Brands, for its part, is focusing on consumer goods, but has noted M&A in the US market will be a priority moving forward.

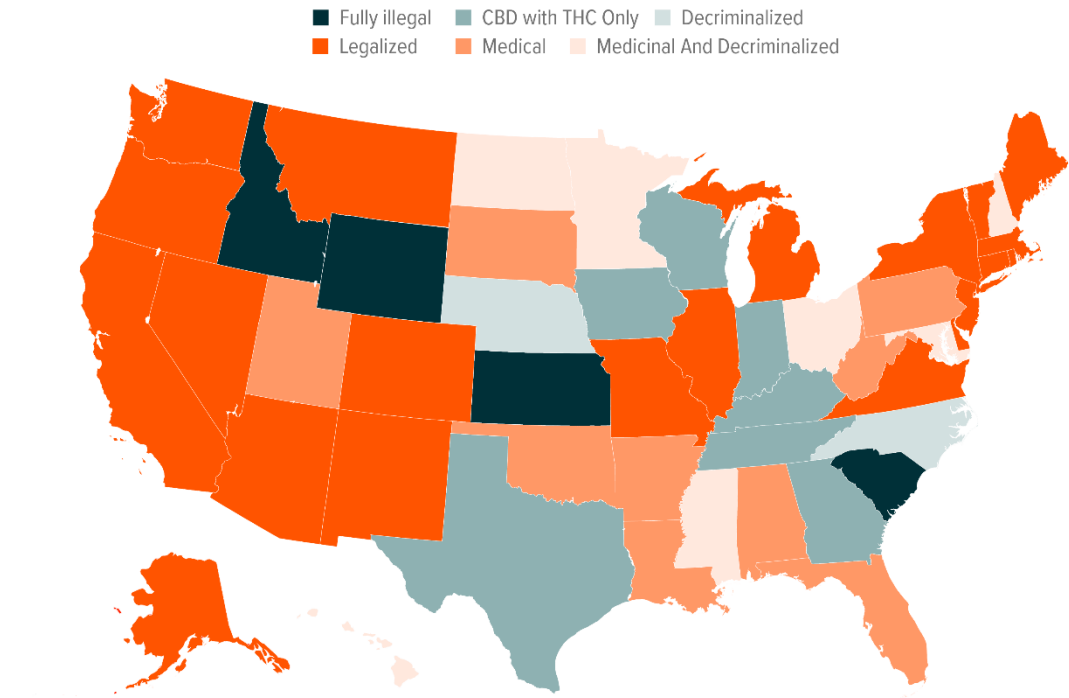
United States Market

The US cannabis market has seen marked improvement via increasing legalization of medical and/or recreational cannabis at the state level. In a recent Global X study, two thirds of survey respondents supported the legalization of cannabis at the national level.⁹ President Biden’s move in October 2022 to pardon all federal offenses of simple cannabis possession speaks to the favorable shift in both legislative and public sentiment towards cannabis and is a positive step towards solidifying the nearly \$40 billion US cannabis market. The move also clearly pointed to continuing consumer pressure to accelerate legislative efforts that have stalled in Congress. Congress re-introduced the SAFE Banking Act on April 27th, re-sparking hopes for its passage. The bill is designed to expand cannabis companies’ access to traditional banking services, which is severely limited at present because cannabis is still illegal under federal law. Bloomberg Intelligence currently places a 40% chance of its passing in 2023.¹⁰



CANNABIS LEGALITY BY STATE

Source: Global X ETFs with information derived from: DISA. (2023, April). Marijuana Legality by State.



Note: CBD (Cannabidiol), THC (Tetrahydrocannabinol).

Without federal legalization, regulatory developments at the state level are key, and we continue to follow the ramp up of the cannabis industry in newly legalized states. New Jersey launched its adult-use program in April 2022, and total sales in the populous state have increased rapidly.

NEW JERSEY: ONE YEAR AFTER RECREATIONAL LEGALIZATION

Source: Global X ETFs with information derived from: New Jersey Cannabis Regulatory Commission. Cannabis Sales Totals, October – December 2022. Accessed April 28, 2023.

NJ 2022 Sales	Medical Sales	Recreational Sales	Total
Q1 2022	\$55,838,072	-	\$55,838,072
Q2 2022	\$59,262,014	\$79,698,831	\$138,960,845
Q3 2022	\$61,138,231	\$116,572,533	\$177,710,764
Q4 2022	\$49,874,667	\$132,484,179	\$182,358,846

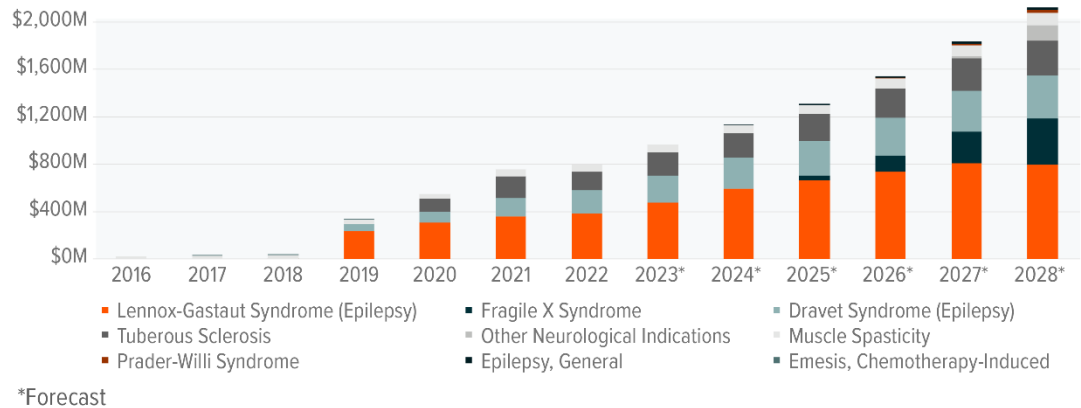
In the US, we also continue to follow the broader medical cannabis space, specifically the use of cannabinoids in FDA approved medications. The FDA has approved one cannabis-derived drug product, Epidiolex (cannabidiol), and three synthetic cannabis-related drug products: Marinol (dronabinol), Syndros (dronabinol), and Cesamet (nabilone).¹¹ Given increasing interest in the space, the agency released



updated clinical trial guidance in January 2023 for cannabis and cannabis-derived human drugs.¹² These include resources for information on quality and control status considerations, as well as methods for researchers to calculate THC differences between hemp and cannabis. The guidance is expected to play a key role in more informed clinical research for cannabis drugs, possibly paving the way for additional cannabinoid drug approvals. The number of clinical trials with cannabis to treat illnesses continues to rise, with a particular focus on treating neuropathic and chronic pain, highlighting the vast potential of cannabis in pain management over the coming years.

CANNABINOID TREATMENT MARKET SIZE BY DISEASE

Source: Global X ETFs with information derived from: Evaluate Pharma. Cannabinoid Receptor Modulator Indication Landscape. Accessed April 28, 2023.



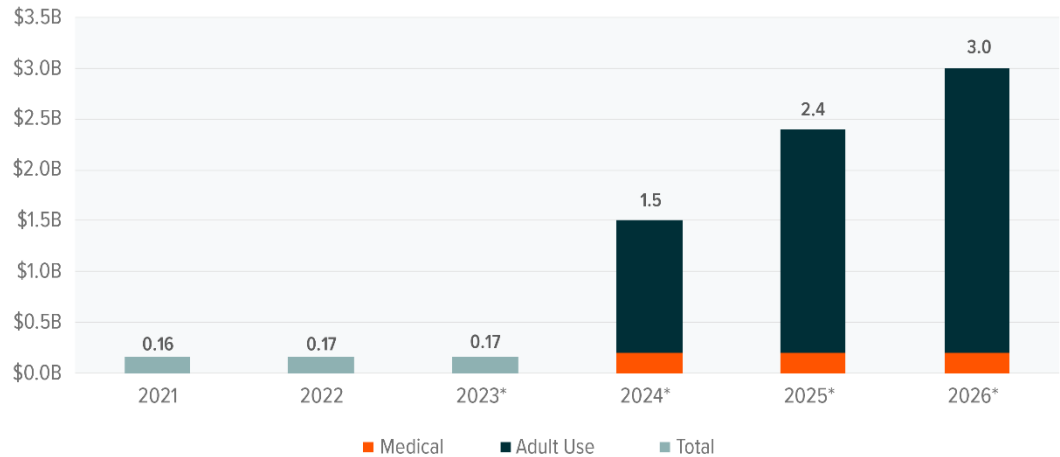
Global Expansion: The Next Frontier

The German government recently unveiled its recreational cannabis legislation plan, which would allow citizens to cultivate, possess, and consume the drug for recreational purposes.¹³ The move has been long-awaited, as Germany’s legislative strategy on cannabis is expected to set the tone for how other European countries tackle cannabis legalization. If the law passes, Germany would become the largest country by population to legalize cannabis. The proposed plan shows a pared-down version of the original blueprint published in October 2022, as Germany’s draft framework was sent to the European Commission, the EU’s executive branch, for approval to ensure compatibility with EU and global drug laws. Though Germany had to rethink some of its strategies in the revised proposal, the move will likely play a key role in driving similar legislative change across European countries, potentially bolstering global cannabis sales. Germany’s cannabis market is expected to surpass US\$3 billion in sales by 2026, assuming recreational sales are allowed in 2024.¹⁴ The European Union is working to further harmonize the European cannabis market, which we believe will play a key role in industry growth.



LEGAL CANNABIS SALES IN GERMANY

Source: Global X ETFs with information derived from: Bloomberg Intelligence. (2023, March 27). Loosening Germany's Cannabis Laws Can Ignite EU Market.



*Forecast, Assuming 2024 legalization.

Conclusion

The cannabis industry has made huge strides in recent years, and we see a potentially long runway for growth ahead. However, given the large illicit market and complicated regulatory landscape, growth is unlikely to come in a linear fashion. Proposed legislation, such as the SAFE Act in the US and a potential framework for legalization in Germany, could add support to the industry but, in the meantime, companies are likely to remain focused on driving operational efficiencies and accelerating their paths to profitability. An uptick in M&A activity could also be seen, as established cannabis firms prepare for potential legalizations.

Footnotes

1. Bloomberg Intelligence. (2023, April 4). Canadian Cannabis 1Q Pressures Will Be in Focus.
2. Ibid.
3. Ibid.
4. Ibid.
5. Toronto Sun. (2023, January 18). Drug dealers still control 33% of Canada's cannabis market despite legalization.
6. MJBiz. (2023, February 21). Canadian adult-use cannabis sales jump nearly 18% in 2022, hitting CA\$4.5 billion.
7. Canopy Growth. (2019, April 18). Canopy Growth Announces Plan to Acquire Leading U.S. Multi-State Cannabis Operator, Acreage Holdings.
8. Canopy Growth. (2022, October 25). Canopy Growth to Fast Track Entry into the U.S. Cannabis Market.
9. Global X ETFs. (2022, October 24). Global X ETFs Survey: Cannabis in Our Current Climate.
10. Bloomberg Intelligence. (2023, March 23). BI Policy Watch: Marijuana Banking.
11. US Food and Drug Administration. (2023, February 23). FDA and Cannabis: Research and Drug Approval Process.
12. US Food and Drug Administration. (2023, January 24). Cannabis and Cannabis-Derived Compounds: Quality Considerations for Clinical Research Guidance for Industry.
13. Reuters. (2023, April 12). Germany waters down plan to legalise cannabis after talks with Brussels.
14. Bloomberg Intelligence. (2023, March 27). Loosening Germany's Cannabis Laws Can Ignite EU Market.



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Investing involves risk, including the possible loss of principal. The investable universe of companies in which POTX may invest may be limited. The Fund invests in securities of companies engaged in Healthcare and Pharmaceutical sectors. These sectors can be affected by government regulations, expiring patents, rapid product obsolescence, and intense industry competition. International investments may involve risk of capital loss from unfavorable fluctuation in currency values, from differences in generally accepted accounting principles or from social, economic or political instability in other nations. POTX is non-diversified.

POTX's investments are concentrated in the cannabis industry, and the Fund may be susceptible to loss due to adverse occurrences affecting this industry. The cannabis industry is a very young, fast evolving industry with increased exposure to the risks associated with changes in applicable laws (including increased regulation, other rule changes, and related federal and state enforcement activities), as well as market developments, which may cause businesses to contract or close suddenly and negatively impact the value of securities held by the Fund. Cannabis Companies are subject to various laws and regulations that may differ at the state/local, federal and international level. These laws and regulations may significantly affect a Cannabis Company's ability to secure financing and traditional banking services, impact the market for cannabis business sales and services, and set limitations on cannabis use, production, transportation, export and storage. The possession, use and importation of marijuana remains illegal under U.S. federal law. Federal law criminalizing the use of marijuana remains enforceable notwithstanding state laws that legalize its use for medicinal and recreational purposes. This conflict creates volatility and risk for all Cannabis Companies, and any stepped-up enforcement of marijuana laws by the federal government could adversely affect the value of the Fund's investments. Given the uncertain nature of the regulation of the cannabis industry in the United States, the Fund's investment in certain entities could, under unique circumstances, raise issues under one or more of those laws, and any investigation or prosecution related to those investments could result in expense and losses to the Fund.

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