

Cannabis Firms Seek Survival in Beer and Hemp as Status Shifts

Tilray Brands Inc's Big Bet on Legal Cannabis Shifts Focus to Alcohol Market

Tilray Brands Inc's ambitious push into the legal cannabis market is facing significant hurdles, forcing the company to pivot towards the alcohol sector it once aimed to disrupt. The long-anticipated easing of U.S. cannabis laws, known as rescheduling, remains months away, leaving cannabis companies like Tilray grappling with stringent restrictions due to marijuana's classification alongside drugs like LSD and heroin.

Diversification Amidst Regulatory Delays

As the rescheduling of cannabis remains uncertain, cannabis companies are increasingly turning to alternative businesses to sustain their operations. Tilray, which had envisioned capturing market share from brewers, distillers, and wineries, is now relying heavily on the alcohol market. In the fiscal quarter ending in May, Tilray's alcohol sales soared to \$76.7 million, surpassing its cannabis revenue for the first time. This marks a notable shift in Tilray's revenue streams, underscoring the challenges the company faces in the cannabis sector.

"Cannabis operators in the U.S. are doing everything they can to generate cash flow and bridge until we get rescheduling," said Scott Fortune, managing director at Roth MKM. "If we don't get rescheduling, we'll see further elimination and consolidation of many retailers, brands, and operators within the industry."

Renewed Optimism for Legal Change

Optimism for a shift in U.S. cannabis policy grew this year when the Drug Enforcement Administration (DEA) began reviewing the drug's status. President Joe Biden expressed support for the change in May, and cannabis stocks experienced a boost after former President Donald Trump voiced support for reclassifying cannabis from a Schedule I to a Schedule III substance.

Darren Weiss, president of Verano Holdings Corp., expressed confidence in a positive outcome, stating, "I am as close to 100 percent confident that we will get a positive decision as I could reasonably be." If the rescheduling proceeds, it could eliminate burdensome taxes and potentially ease regulatory hurdles, offering significant financial relief and improved access to financial services for cannabis businesses.

Strategic Shifts and Market Challenges

Despite the potential for rescheduling, Tilray's diversification into the alcohol market reflects broader industry trends as companies seek to insulate themselves from regulatory uncertainty. Tilray has acquired at least 12 U.S.-based breweries, including four craft breweries from Molson Coors Beverage Co. last month. However, the alcohol market faces its own challenges, including declining interest among younger consumers. A 2023 survey found that only about half of 18- to 25-year-olds drank alcohol in the past month,

down from 60 percent in 2014.

Tilray CEO Irwin Simon remains optimistic about leveraging the distribution networks of acquired booze brands, stating, “My objective is how do we make beer cool to drink.” However, some investors are skeptical about the viability of this strategy. Emily Paxhia, managing partner of Poseidon Investment Management, questioned whether Tilray’s alcohol brands could counteract declining revenue trends.

Embracing Hemp and Other Alternatives

In addition to alcohol, cannabis companies are exploring hemp-based products as an alternative revenue stream. Canopy Growth Corp., through its subsidiary Wana, recently launched its first intoxicating hemp product, capitalizing on a legal loophole in the Farm Bill. Hemp, used to make edibles and drinks, can be legally sold and shipped nationwide, offering a promising avenue for growth.

“The risk of not doing something is far greater than the risk of getting involved,” said Joe Hodas, president of Wana. With Canopy Growth’s market value shrinking significantly in recent years, the move into hemp reflects a strategic effort to adapt and survive.

Curaleaf Holdings Inc. also sees potential in hemp, with CEO Boris Jordan expecting his company’s drink business to generate \$100 million annually by the end of 2025. The ability to centralize manufacturing and ship hemp products interstate provides a more streamlined approach compared to state-by-state cannabis supply chains.

Industry Outlook and Wall Street’s Bet

Despite the industry’s challenges, Wall Street remains optimistic about a potential revival. Analysts have issued just one sell rating among 68 recommendations for five major cannabis companies, with target prices suggesting an average return of 96 percent. This comes after the sector’s shares plummeted about 69 percent over the past three years.

The ongoing diversification efforts, coupled with hopes for regulatory change, have led investors to bet on a rebound in the cannabis industry. As companies like Tilray adapt their strategies, the future of cannabis remains closely tied to the evolving regulatory landscape and shifting market dynamics.

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