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Cannabis and international growth



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How leaders in the Canadian cannabis market can use their domestic experience to expand overseas

Many cannabis producers in Canada are looking to expand to other countries to pursue growth opportunities, and to avoid getting swallowed at home by larger or faster-growing competitors. After a couple of years operating in only the second country in the world to legalize recreational cannabis, Canadian companies in this sector have an advantage and a lot to gain by bringing their experience to the international market. But they'll need to deploy the right strategies to succeed.

As federal and provincial/state-level governments around the world change their legislation governing the use of cannabis, they are also developing the international and domestic tax rules for its trade. We don't know how every jurisdiction will tax and regulate the industry, but it's clear cannabis companies need to prepare for change. This need for agility works to the advantage of Canadian companies because they're used to operating under shifting regulations.

It will take a comprehensive understanding of foreign policy and regulations to successfully expand into new jurisdictions. But with the right approach, Canadian cannabis companies can use their unique experience to build a solid foundation for international growth.

What should leaders in the Canadian cannabis industry think about when looking to expand abroad?

Three aspects should be looked at holistically, since they are evolving together and directly influence one another: tax, regulations, and financing. Establishing direct communication and coordination between all internal and external parties—the audit committee, board members, senior executives, and key stakeholders—will help producers prepare to make a confident entrance into foreign markets, even in conditions of volatility and disruption.

Tax compliance

Global taxation and regulation related to the cannabis industry have undergone a dramatic shift over the past decade, so it's useful to combine takeaways from the Canadian experience with the advice of experts who specialize in foreign jurisdictions. Most tax authorities incorporate every level of production: cultivation, production, testing, packaging, distribution, and retail within the scope of their tax regimes. This means that organizations need to stay up to date with the applicable tax rules as they prepare a strategy to ensure compliance while optimizing their supply chain. Multi-nationals also have an added layer of complexity to consider as they navigate conflicting rules between different countries.

Combine takeaways from the Canadian experience with the advice of experts who specialize in foreign jurisdictions

Given the complexity and the material impact tax can have, both the C-suite and the board should regularly review and consider legislative developments. Organizations must fully comprehend changes to the tax code, and the impact on their operations now and in the future. This requires an in-depth understanding of banking and financial regulations, and the tax regime.

Regulatory compliance

Regulations can make or break any business, but in the cannabis space, compliance becomes even more critical. As cannabinoids and cannabis use gain traction as treatments to manage chronic pain, seizures, and sleep issues, more and more governments are taking steps toward legalization. European countries, especially, are becoming more open to the potential health applications associated with cannabis. These countries are intent on ensuring public safety and responsible usage, and that shows in their nascent regulatory regimes.

While it's fundamental to look at federal or national policies around production, distribution, sales, and exports, it's just as important to look at local regulations. Where there are multiple levels of government to consider, companies will need to assess how closely aligned they are on cannabis issues. Many of these laws are in their infancy and compliance will be highly scrutinized, which will likely lead to increased audit activity. The onus will be on businesses to understand the regulations and be proactive in minimizing liability and demonstrating compliance.

As governments continue to develop their approach to cannabis, there are also opportunities for corporate leaders, as well as board members, to maintain open dialogue with policymakers. Business leaders can help legislators understand the market

In the cannabis space, compliance becomes even more critical

and offer an industry perspective, and in turn, they can better understand where regulations may be headed. By establishing best practices and procedures regarding compliance with local rules, businesses can not only minimize risk and protect their assets, but also deepen their understanding of the local market.

Financing capital

Access to capital and funding can be challenging within the highly regulated cannabis space, though it's an area that's likely to evolve as more decisions are made on the rules governing international trade and taxation. For the time being, companies need to factor future financing challenges into their strategies.

While the restrictions imposed by Canadian banks on the foreign use of funds are not insignificant, it's important to understand that lending institutions are ultimately driven by the goal of achieving both stability and global competitiveness. A sound business plan and a solid track record will go a long way toward earning trust and making it easier to secure financing.

The next step in financing is to ensure the financial plan takes all the necessary variables into account to support international expansion. This is because regulatory frameworks and rules regarding access to capital vary a great deal across different jurisdictions, and for virtually every financial offering. Company leaders should not be so focused on getting assets into the local country that they underestimate the challenges once the cash gets there.

Clarity around the applicable regulatory regime, the financial services sector's risk appetite and culture, and identifying the key stakeholders in each target jurisdiction can all help with securing capital.

Companies need to factor future financing challenges into their strategies



International expansion 101: Questions for leaders

Is our organization prepared for disruption?

Do we have organizational frameworks in place to prepare the company for setbacks or roadblocks, whether from the market or from regulatory bodies? Do we have strategies in place to manage these risks and help our company adapt quickly to shifts in policy?

Do we know something about this industry that others don't?

Is there something our company brings to the table that will help us stand out in an emerging market despite the challenges? What skills and experiences from the domestic market can we take abroad?

Does our organization have the tools to stay ahead of the curve?

Are we working with experts to understand the rapidly shifting nature of international tax? Do we have a team that actively engages with tax policymakers and can help us predict legislative developments?

Turning unique experience into a competitive advantage

Canadian companies that have overcome the odds to thrive in the domestic cannabis market have learned to run their business in compliance with new regulations, and to factor provincial and federal taxes into their supply chain. This has allowed them to remain competitive in a fast-changing market. While significant obstacles lie ahead, cannabis has the potential for new applications in medicine and continued growth in the recreational sector.

Cannabis continues to be a highly regulated and unpredictable industry, but with the right resources and support, the most complex challenges can be turned into opportunities for innovation, prosperity, and sustainable growth. For Canadian cannabis companies that have proved their mettle, there's still a great deal of value to be generated both at home and abroad, for both them and their investors.

Cannabis has the potential for new applications in medicine and continued growth in the recreational sector

Contact

Karina Lahnakoski

647-389-9277
klahnakoski@deloitte.ca

Jay Niederhoffer

416-409-3717
jniederhoffer@deloitte.ca

Jasdeep Johal

416-388-4614
jjohal@deloitte.ca

Janice Lam

416-874-3472
janilam@deloitte.ca

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