

October 11, 2024

Cannabis Update: Take Tilray's (TLRY) CEO's Comment with a Grain of Salt

Despite comments during an earnings call yesterday by Tilray's (TLRY) CEO, who said with regard to the two presidential candidates and the elections that "something will happen in regards to Federal legalization, whether it's medical cannabis that will be legalized and ultimately leave it up to the states for everything else", we see little material changes for the cannabis industry after the elections beyond rescheduling it from Schedule I to Schedule III, assuming Republicans retake the Senate, which we think is very likely, or hold onto the House, which we think is less likely.

In the unlikely event that Democrats sweep the elections, we'd put the odds of the SAFER Banking Act passing around 60% next Congress. Recall that the SAFER Banking Act would create protections for financial institutions that provide services to cannabis and hemp business, making it easier for these companies to obtain banking services. In our view, even if the Democrats win the White House and control both houses of Congress, the odds of federal cannabis legalization, even for medicinal purposes, remain very low.

Senate GOP Opposition

Our bearishness on material cannabis reform beyond rescheduling derives from the anti-cannabis stances of the two candidates most likely to be chosen as the new Senate Majority Leader if the GOP wins back the Senate. Recall that the current Senate Minority Leader Mitch McConnell (R-KY) has announced that he won't run for leader next Congress.

In our view, the top two GOP candidates for the position are: 1) current Senate Minority Whip John Thune (R-SD), who has been somewhat vocal in his opposition to cannabis reform; and 2) Senator John Cornyn (R-TX), who warned the SAFER Banking Act, "would result in cannabis industry producing higher potency products that would be harmful to youth and compromise the integrity of the United States banking system."

The odds would likely improve if pro-cannabis Senator Steve Daines (R-MT) were chosen as Majority Leader, but that seems unlikely. However, even then, Senator Tim Scott (R-SC) appears primed to become the chairman of Senate Banking Committee if the GOP wins back the Senate, as the current ranking member of the committee. -

Scott was one of the Republicans who voted against the SAFER Banking Act in September 2023 during markup when it was voted out of the Banking Committee. We doubt Scott has had a change of heart since then, and we note it is difficult for the Senate leadership to go over the head of a committee chairman on almost any issue.

Joe Lieber

202-964-7473

joe.lieber@capitolpolicypartners.com

Tilray Inc (TLRY)

Price:	\$1.58
52-Week High:	\$2.97
52-Week Low:	\$1.45

Cronos Group Inc (CRON)

Price:	\$2.09
52-Week High:	\$3.14
52-Week Low:	\$1.70

Canopy Growth Corp (CGC)

Price:	\$4.00
52-Week High:	\$14.92
52-Week Low:	\$2.76

Aurora Cannabis Inc (ACB)

Price:	\$5.36
52-Week High:	\$9.35
52-Week Low:	\$2.84

Cresco Labs Inc (CRLBF)

Price:	\$1.62
52-Week High:	\$2.65
52-Week Low:	\$1.06

Things don't look any better in the House if the GOP retains control. Speaker Mike Johnson (R-LA) has been a vocal opponent of pro-cannabis legislation, including the SAFER Banking Act, and we simply doubt he'd let any material pro-cannabis legislation come to the floor.

Presidential Outcome

Maybe the worst-case scenario for the industry would be a Kamala Harris presidency coupled with a GOP Senate. Under that scenario, we'd expect the aforementioned Senate GOP leaders to dig in in opposition to the measure, whereas given Donald Trump's recent pro-cannabis comments and his sway with GOP leaders, legislation might have a fighting, if still an uphill, chance.

Of course, there are a lot of moving parts here, but much needs to go the cannabis industry's way, in our view, in order for something like the SAFER Banking Act to become law, not to mention federal legalization even for medicinal purposes.

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