

Weed Startups Want Social Drinkers to Change Way They Get Buzzed

By **Jennifer Kaplan**
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- Sauvignon blanc infused with marijuana, pot seltzer available
- Marketers cite fewer calories than alcohol and no hangover



Enthusiasm High for Legal Pot Sales in California

Alcohol companies beware: Cannabis is coming for your customers.

Now that recreational marijuana is legal in California and seven other states, startups are vying with traditional beverage companies for the attention of consumers planning to ingest a social intoxicant. Instead of meeting after work for a drink, for example, they suggest other ways to catch a buzz with friends or co-workers. Perhaps some cannabis wine will do, or maybe pot-infused seltzer or even an old-fashioned joint -- prerolled, of course.

Toast, an Aspen, Colorado-based startup co-founded by the former chief marketing officer of Budweiser, is one of the companies taking its cues from Big Alcohol. It offers two types of cannabis cigarettes: its namesake product, which the company says is akin to a cocktail, and Toast Gold, which it compares to glass of champagne. Another line extension called Toast Reserve, due in the first quarter of this year, is billed as the marijuana version of Scotch whisky.

"Toast is designed so wherever you would think of alcoholic drinks, you would think of Toast," said Chris Burggraeve, the co-founder and former Bud executive.

It's all part of the rapidly changing way America looks at marijuana. Sixty-four percent of the U.S. population now wants to make pot legal, according to a Gallup poll released in October. California legalized recreational use on Jan. 1, meaning that one in five American adults can now eat, drink, smoke or vape however they please. The industry is expected to balloon to \$50 billion by 2026, from \$6 billion in 2016, according to Cowen & Co.

Direct Route

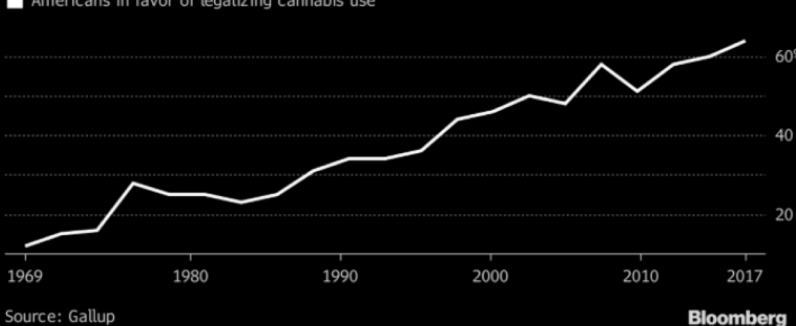
Some companies are trying to beat brewers and distillers at their own game. The Los Angeles producers behind Rebel Coast Wines have created a new namesake brand, an alcohol-free sauvignon blanc infused with cannabis.

"We're definitely focused on bringing over traditional alcohol consumers and giving them a better alternative," one with fewer calories and no hangover, said Rebel Coast co-founder Alex Howe.

Pro Pot

Support for legalized marijuana in the U.S. has increased more than fivefold since 1969

■ Americans in favor of legalizing cannabis use



The threat that cannabis poses to the \$257 billion alcohol business in North America is real, said Cowen & Co. analyst Vivien Azer, who covers both industries.

"Alcohol and cannabis are substitute social lubricants," Azer said in a research note last month. In parts of the U.S. where marijuana is legal, alcohol use has declined while pot use has gained in frequency, she said.

Some alcohol companies see value in participating in both businesses. Constellation Brands Inc., which sells Corona Mexican beer in the U.S., bought a minority stake in a Canadian pot company in October, marking the first major foray of a major drinks brand into the weed business. Other brewers and distillers, such as Molson Coors Brewing Co., Anheuser-Busch InBev NV, Diageo Plc and Pernod Ricard SA, may be examining the space as well, according to beverage industry analysts.

Potential Acquisitions

That might make companies like Toast, Lost County and Mirth Provisions targets for investment or acquisition. Longview, Washington-based Mirth makes five cannabis-infused sparkling tonics called Legal. It's expanded through licensing agreements along the West Coast and plans to enter the Colorado and Arizona markets later this quarter.

"I would suspect that these companies that have larger infrastructure in terms of distribution and manufacturing and product development, are going to be drawn toward cannabis," said Adam Stites, who founded Mirth in 2014.

That might take some time. The big brewers and distillers, for the most part, are steering clear of the Green Rush until cannabis is legal under federal law. U.S. Attorney General Jeff Sessions dealt a blow to the fledgling industry last week when he rescinded Obama-era regulations that discouraged federal prosecutors from enforcing marijuana laws in states where it's legal.

[Read more: Sessions ending Obama-era policy that ushered in legal weed](#)

In the meantime, Toast is working to become the industry's luxury standard, said Punit Seth, co-founder and chief executive officer, who previously worked at Bridgewater Associates, the world's biggest hedge fund.

"Our vision is to really mirror a world-class spirits portfolio company such as Moet Hennessy," he said.

Lower Doses

Part of that is developing a product that is consistent and not too potent for use in social settings. That's been a hurdle for cannabis companies aiming to garner a broader audience beyond the stereotypical stoner set. It's led some companies to stick largely to lower doses.

"If you go to a bar and you order a drink, there's a different experience that each alcohol provides and there's different strengths -- all very intuitive -- and we don't even think about it from a consumer standpoint," Seth said. Toast products are trying to do the same for weed. "They're dosed, they're consistent, the consumer knows exactly what they're going to feel when they have them."

Toast plans to sell its products in San Francisco in the next few weeks, once the city's stores go live. Rebel Coast wine will soon be out for delivery, and Legal is already available in California dispensaries.

Still, trying a newly legal drug -- or trying it for the first time since those college parties -- can be a daunting proposition. That's made easier by putting the product in a more familiar form, said Rebel Coast's Howe.

For new users, "this ritual that they are probably more familiar with -- a bottle of wine -- makes it a lot easier for them to learn about it and see if it is something that fits with their social occasions or their personality or their interests," he said.