



DON'T MISS A BEET

Podcast Transcript

Episode: "A Look Inside the Expanding Cannabis-Infused Beverage Market With the CEO of Hillview, Producer of Hemp-Infused Seltzer Brand Kaló"

Jonathan Havens and Ken VandeVrede

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Jonathan Havens: Thank you for joining us for our food, beverage and agribusiness podcast series, "Don't Miss a Beet." My name is Jonathan Havens and I'm the co-chair of Saul Ewing Arnstein & Lehr's Food, Beverage and Agribusiness Practice as well as the firm's Cannabis Law Practice based in our Baltimore and Washington, D.C. offices. Today, I'm thrilled to be joined by Ken VandeVrede. Ken is the CEO of Hillview. Hillview is a New Jersey-based cannabis company with assets across the medical cannabis, hemp and technology segments in the space. One of Hillview's brands, Kaló, is a fast-growing hemp-infused seltzer product. Ken, thanks so much for joining us for today's episode. Ever since we first started working together several months ago, I thought you'd be an ideal guest for the podcast. Not only is Kaló up to exciting things that I know our audience would love to hear more about, but you and your family's background is pretty interesting. Can you tell us about your family's history and how that eventually led you to the cannabis space?

Ken VandeVrede: Yes, Jonathan. Thanks for having me on your show today. It's interesting. Our family's background is that we come from commercial agriculture where I'm third generation. My family has been growing commercial ag, basically vegetable plants, bedding plants, mums, orchids of the like, and our distribution channel is Walmart, Home Depot and supermarkets. So we've been in that space for over 50 years. At about 2010, as the medical cannabis and cannabis licenses were happening across the country, we moved into that space on the West Coast and really got to understand the cannabis plant from the cultivation, dispensing and manufacturing side, really getting to understand the different form factors that consumers were interested in. And we really learned a lot over that time. Fast forward to where we are today – President Trump signed a farm bill, which allowed hemp products to be brought into market. So we've done a lot of R&D on the extraction side – how do you pull the different extraction out of the hemp plant and cannabis? And we've done a lot of R&D – we have a patented process that we pull water-soluble molecules out of the hemp plant. So when we looked around the space at all these different form factors, there was really no beverage out there that tasted great, or really there was no beverages out there. So we set out a path to launch a beverage. Like I said, we come from that agriculture side with growing live plants and shipping out into distribution, so we've never moved into a beverage. This was new to us.

We've learned a lot. We've surrounded ourselves with a lot of beverage experience and we went down that path. Our extraction is very unique where the beverage is flavored with natural ingredients and when you drink it, it tastes very good. So, right place, right time, understanding the hemp plant and then that's kind of how we got into it. It was an evolution of agriculture with this new hemp/cannabis space happening over the last decade and we made a move into it. Yeah, it's been very interesting. It's been fun. It's been challenging. But it's been great.

Jonathan Havens: That's terrific. So you started to tee up some of the thesis behind Kaló. Can you talk to us, you discussed the thinking behind the product, but why do you think the market has responded so well to it? I think consumers are still finding their way through this category. There's a lot of noise. But why do you think consumers have responded so well to the product and why has it taken such a foothold?

Ken VandeVrede: That's a very interesting question. I really think it starts from the manufacturing side of cannabis or hemp. The market technologies that are out there from the beginning of when cannabis was extracted — you have butane, you have propane, you have ethyl alcohol, you have a CO2. You have all these different solvent mechanisms and technologies to extract the oil out of cannabis or hemp. Our extraction technology is an all-natural reagent that binds to the cannabinoids and all the extract that pulls out all the good stuff out of the plant. So when you look at these two different technologies: one is an oil that comes out of that hemp or cannabis plant and ours is a water-soluble. So we're getting the same thing — one in a water-soluble molecule and one in an oil molecule. But when you take an oil molecule and try to mix that with beverage — water and oil do not mix. So you always have this flavor profile or this oily taste, no matter how you mask it, no matter what kind of flavor, when you take oil and put it in a beverage, it just doesn't work. You have a hard time flavoring that where you don't have that oily aftertaste, compared to our product, which, when we flavor with a natural flavor and when we put it in a can, when you taste our product, you do not get that oily after taste. And what you're getting is very bioavailable — vitamins, minerals, and oxidants, cannabinoids and terpenes that are flowing through your stomach lining compared to an oil that's going through your liver. So the big fundamentals, why we're successful — it really is the taste profile. So people drink beverages because they like them. And our profile is very clean ingredients. The uptake is very quick and you feel good drinking our product and it's a very healthy beverage. So it's in that healthy beverage space where it's good for you — it's 15 calories, two grams of sugar, and there's a feeling from it. So that's really the big differentiator between our product and everything else that's in the market today.

Jonathan Havens: Yeah, I think something you hit on in your response is — this is a hot category and there's certainly no shortage of brands out there, but some will go to market and try to leverage the hotness of the category, but we'll forget about why consumers enjoy products in the first place. Consumers won't just consume something that's terrible unless there's something that's there for them. It needs to taste good. It needs to have some sort of a health or wellness effect. And so I think what's interesting about the approach that you all have

taken is, yes we recognize that this is a popular category, but it's not enough to just put a product out there and shove it down consumers throats, for lack of a better phrase. And so I think that flavor profile, which I can attest to, I've tried the various flavors of the products. It's very different. It does not have that filmy or kind of oily aftertaste and so that's something that I think has been a real differentiator. So, you and I talk about this all the time and when we talked to your VP of Sales, Aaron Harris, about this. Aaron is very famous for his phrase "regulatory purgatory," right? That you referenced the farm bill that got passed and signed into law at the end of 2018, which allowed hemp-derived products to be sold legally. It's no longer considered marijuana, but then of course you have FDA coming along and saying that's all well and good, but if you put CBD into an ingestible format, we view that as violative of the federal Food, Drug and Cosmetic Act. Can you talk a bit about the brand's approach and how you stay compliant? And you know what you've done to educate regulators in the market around the regulatory treatment of your product?

Ken VandeVrede: Yes. This is a very interesting question. Being in the cannabis space for about 10 years, you really get to understand not only on the THC side by a state regulatory framework as you launched medical or adult use in those particular states, but when President Trump signed a Farm Bill, this allowed hemp products and CBD products, or really hemp products, to be sold in the country. But you have just total un-clarity from the FDA level and state level of where and when and how you can put these products into market. So our approach has always been, a couple of points where I drive home to the team all the time is number one: we wanted a very good tasting product. We wanted a clean product and we wanted a good-for-you product. But then when you started looking at the regulatory framework, there is this sense of driving toward where the consumer wants to hear. You got all the noise around CBD, but we took the approach that we're going to be a hemp-infused seltzer and we're not going to make any medical claims. We're going to stay, really, a plant-based beverage and not get into the nuances of CBD because CBD was approved by GW Pharma as a drug. So we took the road of where we're going to be a hemp-infused seltzer. We're not going to make any medical claims and we're going to be a plant-based beverage. And as states put out their regulatory framework on their labels and/or as the federal government hopefully will sooner or later, we will just continue evolving our label to adhere to either what the states are doing where our products are being distributed. Or if the federal government and FDA comes out with clarity on how you need to do this and this on your label, we can adopt very quickly. So our mindset is: less is more. And as regulatory states come on, or when there are states that say, you need this on your label, we add things to the label, but we want to be very clear that we put less on our label than more. And we let the taste profile of the product do most of the selling for us because it's cans in hands and that sampling has happened. But this is something you and I talk about all the time — it's the regulatory framework is always evolving and we want to be very nimble. Our marketing team is very nimble and we're always making sure that if we've got to add or delete things on our label, we constantly do that. And that's where we need to be. Yes, it's a frustrating place, but it comes with education. We're constantly educating our distribution channels, our marketing team. So yeah, it's been frustrating.

Because it's not like we're launching a juice or an iced tea or just a water in the market. We've got regulatory label issues that we're dealing with. This is something that our team spends a ton of time on. I wish we didn't. I wish we had clarity, but we don't and we just have to stay on top of what's going on. You do a great job of helping us make sure we're doing this and this in different states, so that's where we're going.

Jonathan Havens: I appreciate that, and hey, if there weren't all these regulatory issues then maybe we wouldn't have ever gotten a chance to work together, so I'm sure you're thankful for that. So, the last thing I wanted to hit on is you talked about the regulatory treatment, the evolution and the labeling changes. I know that Kaló is entering into the marijuana side of the market, the THC side of the market, in limited states where that's available. It strikes me that in these states, it's almost easier to be a marijuana-infused beverage, a THC-infused beverage than it is to be a CBD-infused beverage, because if it's legal under state law — the state lays out what you can do, what you can't do, where you can sell, where you can't sell. It's pretty clear, there are compliance challenges to be sure, but talk a little bit about the next evolution of Kaló and the thinking there behind THC-infused beverages.

Ken VandeVrede: So taking a step back — our technology is across, hemp and cannabis, so we launched Kaló as a hemp-infused seltzer to be a national brand as distribution allows and that's what we're building. So, yes, the frustration of each individual state having their own label requirements, across the country is quite challenging. And to your point, we are moving into launching Kaló THC or Kaló cannabis-infused with five milligrams of THC, on the East Coast, in certain states, and we plan to launch in adult-use states across the country as well. But the regulatory framework for Kaló THC is simple. You follow the regulatory framework that all the products in that market have launched and you're only dealing with that state and that regulatory framework of that state. So even though it's a state-by-state launch, the regulatory framework is very clear because they lay out how you launch that product. But then you have operational issues because you have to now set up shop in each state to produce Kaló THC. So both have their pros and cons, but from a regulatory standpoint, Kaló THC is a lot clearer for our team on how to put that product in market to meet the regulations. It's been fun. It's been challenging. They both have their pros and cons, but we're excited to launch to THC. I think that's going to be a huge growth for us on moving into end of this year and also 2022. So it's exciting.

Jonathan Havens: I think stepping back for a moment, it strikes me that the patchwork of requirements in the CBD space is really harmful to the industry, not only to producers, but also to farmers. There's no outlet. There's not as big of an outlet for hemp because of all these restrictions and what you can do in the different form-factor restrictions. There's really quite a need for FDA to issue a clear policy of what can be done. Obviously they've said just don't do it, and we know what the market has done with that, which is we're going to continue to sell products unless you're going to enforce the rules — this is on the CBD side. But a national uniform policy would really benefit the industry, which I know is something that you and I have talked about before, rather than having 50 different state regimes, which is the way that it is

now. So again, it's somewhat comical that it's easier to produce a THC-infused beverage than it is a hemp-infused or a CBD-infused beverage. But, hopefully, Congress will force FDA or FDA will come to its own conclusions. However it needs to happen, just let it happen, which I think is the approach that you and I have talked about before. Ken, I told you when we started this the time was going to go very quickly. We are just about to wrap up here. I really wanted to thank you for coming and telling your story, sharing with our audience your interesting background, your family's interesting background, and some of the exciting things that Kaló was up to now and in the months ahead. So thanks so much for joining us and to our audience we hope you join us on the next episode. Thanks so much.

Ken VandeVrede: Awesome. Thanks, Jonathan, for having me.