

8TH EDITION

The State of Legal Cannabis Markets

Executive Summary

The State of Legal Cannabis Markets

8TH EDITION

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**The worldwide market will more than triple
from \$14.8 billion in 2019 to \$46.8 billion (in 2025)...
these growth forecasts establish a reasonable foundation
upon which to build a more rational business plan
in the post-correction cannabis markets**

The State of Legal Cannabis Markets

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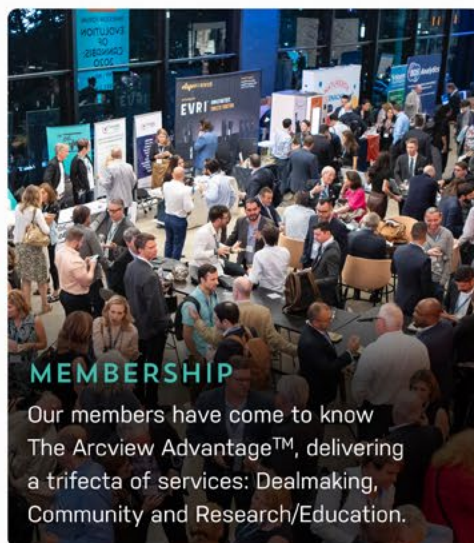
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Letter From the Publisher

Thank you for purchasing the 8th edition of “The State of the Legal Cannabis Markets.” It’s an honor to serve you through this mind-bending time in the cannabis sector.

It’s always been important to really understand the dynamics driving this industry to fully maximize your involvement in it, but as the COVID-19 response reframes the world of business and investing for so many global markets, it has put an exclamation point the value of good data and analysis.

In most places where cannabis is legal, it has been deemed an essential service in shelter-in-place orders. If you had told me ten years ago when we started Arcview, that governments would be declaring cannabis “essential” a decade later, I would have asked for a double dose of whatever you were inhaling.

At the same time, cannabis companies and many ancillary businesses are being denied access to money being made available to less essential sectors under the U.S. federal relief package.

Rapid change is common in fast-growing markets like cannabis, and that presents both enormous opportunities to make life-changing money or lose your shirt...quickly.

That’s why The Arcview Group and BDSA worked tirelessly to produce this report and keep you up to date, year-round.

Luck favors the most knowledgeable and prepared. With that in mind, good luck out there.

Be well, be free,



Troy Dayton

Founder & Chief Strategy Officer
The Arcview Group

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Legalization is Just the First Challenge

Just one year passed between cannabis stocks peaking March 21, 2019, and the first cannabis store closures due to the COVID-19 pandemic. It was a wrenching period for the industry as it found out the hard way that legalization is just the first step in building a regulated legal industry around Cannabis sativa.

But fundamental growth overcomes all, and the legal cannabis industry has that assured as long as legalization continues to gain momentum. There seems little doubt that it will since:

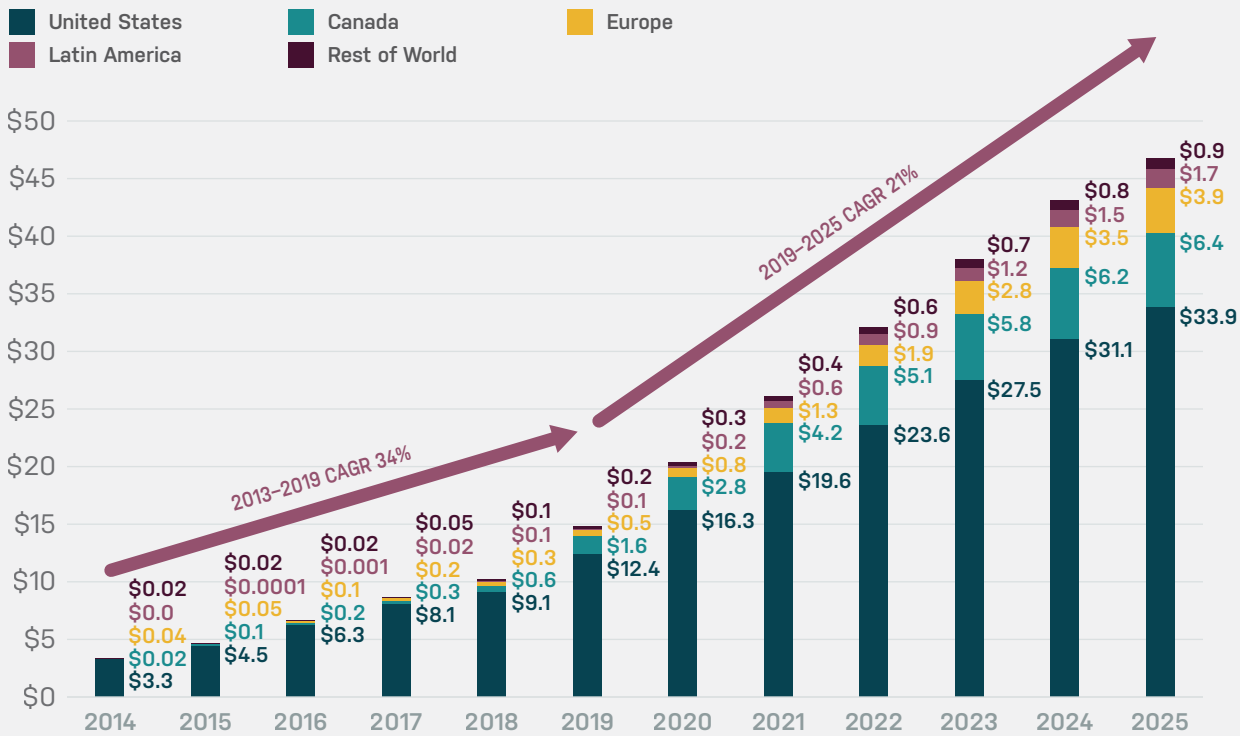
- Support for full legalization among residents of the United States passed 50% for the first time in Gallup's five-decade tracking in 2013 in the wake of Colorado and Washington voters backing it in the November 2012 election. It is now at 66%.
- More than one-quarter of American adults already consume cannabis, with 29% of respondents in BDSA's fourth-quarter Consumer Insights study saying they have consumed it in the past six months. That is more than half of the 54% who reported consuming wine, beer or spirits during the same period.

Shifting views and baseline demand are the key drivers of the remarkable 34.3% compound annual growth rate (CAGR) the global legal cannabis industry has seen between 2013 (the last of the all-medical years), when spending was just \$3.3 billion, and 2019 (the sixth year of the adult-use era) when it hit \$14.8 billion.

Growth in 2019 alone was 46.1%, a dramatic reacceleration after industry growth slipped to just 15.8% in 2018 as the two largest single markets in California and Canada struggled in their initial 2018 adult-use rollouts. California's operators continued to find it challenging to compete with an illicit market that lacks their heavy tax and regulatory load. Revenue there grew just 18.4% in 2019.

Canada's market fared much better as total revenue jumped from \$582 million in 2018 to \$1.6 billion (see chapter 4 "Canada"). Several U.S. states also showed enormous growth. Emerging adult-use states like Nevada, Massachusetts and Michigan posted some of the biggest growth percentages; but so did medical-only states like Illinois, Oklahoma and New York as store penetration expanded across those markets.

Legal Cannabis Worldwide: \$46.8 Billion in 2025



Source: Arcview Market Research/BDSA

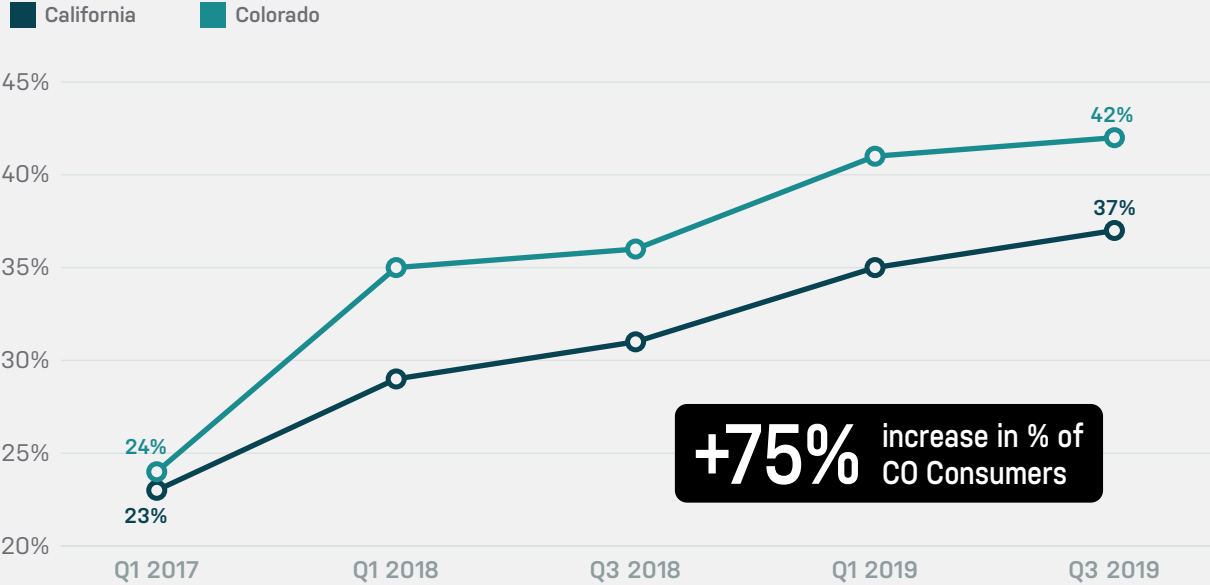
The Future: More Rapid Growth

Arcview Market Research and BDSA now forecast worldwide spending to grow 38% to \$20.4 billion in 2020, meaning global legal cannabis spending will have doubled in two years. A second wave of growth is being driven in legal states by the fact that the percentage of consuming adults typically goes up post-legalization. Both California (+61%) and Colorado (+75%) have seen substantial gains in the percentage of adults consuming since the first quarter of 2017, according to BDSA Consumer Insights studies. They consume for

recreational and social reasons (71%), or health and medical reasons (63%). Thirty-two percent say they do both.

The lion’s share of total global spending remains in illicit channels. Even at \$14.8 billion in legal sales in 2019, just 7% of an estimated \$214-billion worldwide cannabis market is conducted through legal channels. In the U.S., even some of the markets that have had legal adult-use sales for five years or more still

Percent of Adults 21+ Consuming Cannabis



Note: U.S. adults 21+ in Legal Level 1 States, 3Q19.
Source: BDSA Consumer Insights

see 30%-50% of sales go to the illicit pipeline. And, of course, in markets that have not even legalized medical cannabis, 100% of sales occurred in untaxed and unregulated illicit channels.

The U.S. had been poised make great strides against illicit sales in 2020. Eleven states had petition drives underway to put legalization ballot measures before voters Nov. 3, including efforts in the Deep South and Great Plains where little progress had previously been seen. COVID-19 quarantines may leave as few as four states able to vote to legalize medical or adult-use sales, with South Dakota to vote on both. Several legislative

processes to legalize also have been deferred due to shelter-in-place orders (see chapter 1 “Legal Cannabis in the 2020s”).

The declaration of cannabis as an “essential service” amid the COVID-19 pandemic was an historic moment for the industry. It is a clear signal of how dramatically the status of cannabis has changed in the last decade. That, in turn, suggests that legalization efforts will continue once quarantines are lifted, perhaps with newfound support from state officials looking to fill enormous budget shortfalls from the recession that started abruptly in March.

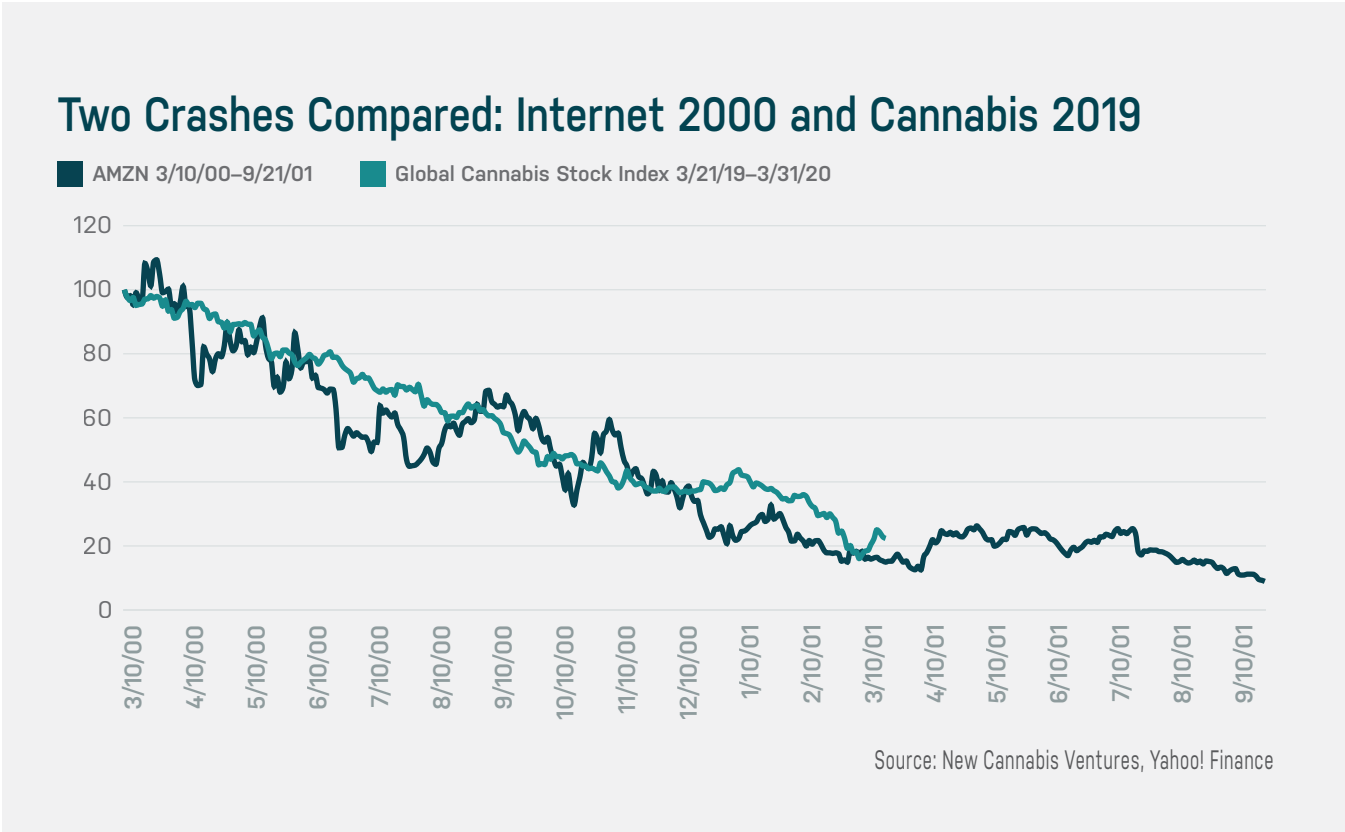
Arcview Market Research and BDSA forecast that all U.S. states will have medical cannabis by 2025, and nearly half will have adult-use legalization. The U.S. and Canada, then, will be the chief drivers of worldwide legal cannabis spending growth, with worldwide legal cannabis spending growing at a 21% CAGR over the next six years to \$46.8 billion in revenue in 2025 (see chapter 3 “Forecast”).

The Cannabis Crash of 2019

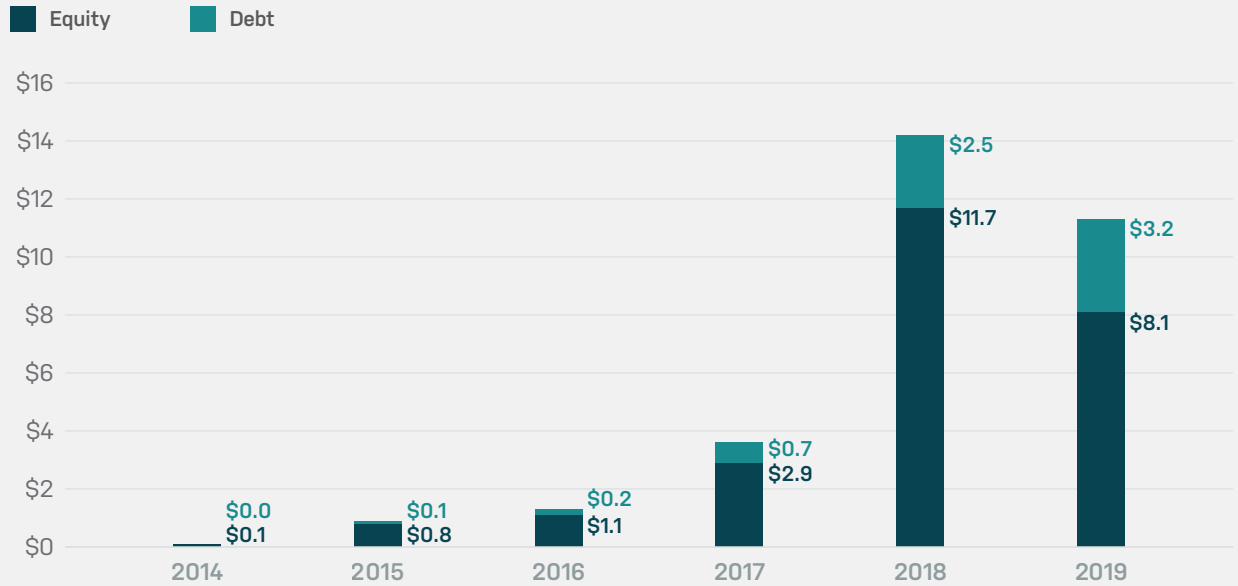
Exceptional growth, however, was not enough to save public cannabis stocks from one of the worst routs any sector has seen since the dot-com crash of 2000 (see

chapter 2 “Investment”). New Cannabis Ventures’ Global Cannabis Stock Index peaked March 21, 2019, almost 19 years to the day after the tech-heavy NASDAQ Average peaked March 10, 2000. At that point, the top five Canadian licensed producers sported a combined market cap of \$48 billion and the top five American multistate operators were valued at a combined \$15.4 billion. Both the internet and cannabis sectors then suffered 80% one-year declines.

The fact that Amazon’s stock—now one of the most valuable in the world—survived that previous boom-bust cycle does not solve the immediate crisis for



Viridian Capital Advisors
Annual Capital Raised (In Billions)



Source: Viridian Capital Advisors

cannabis companies, which has been intensified by the COVID-19-inspired bear market that mauled all equities in March 2020. Few cannabis companies have ever turned a profit, hence were wholly reliant on new capital coming in to sustain existing operations, much less expand.

Now, companies are essentially having to dust off their 2017 playbooks from before Canada opened up the public equity market to them. A flood of public offerings

extended the pool of available investors well beyond the private offices and venture firms willing to invest in companies that “touched the plant” while under the shadow of federal prohibition. In 2018, more money was raised for cannabis companies, private and public, than in all prior years combined, as tracked by Viridian Capital Advisors Deal Tracker. The pace continued into the first half of 2019, but fourth-quarter raises were down 89% from the record \$8.1 billion raised in fourth-quarter 2018.

Spotting the Opportunities Ahead

Not every cannabis company will have Amazon's success surviving the storm and going on to dominate a whole new global industry. But some will, likely those that best spot and capitalize on near-term regional opportunities to break even and then use the earnings to expand from that base. To that end, this 8th Edition of "The State of Legal Cannabis Markets" provides in-depth guides to the regulatory and market situations in the key U.S. states, Canadian provinces and countries outside North America.

U.S. states have been classified into six groups based on the legal cannabis program (medical or adult-use) expected to be in effect in each market in 2025, coupled with the launch date of that program ("mature markets" launched pre-2017, "emerging markets" prior to 2020, and "new markets" launching in the future). The typology throws light on which markets might be the most attractive for different types of businesses, depending on their financial resources and overall strategies.

There are many surprises and counterintuitive findings that only a comprehensive research effort such as the one undertaken for this 8th edition could uncover. They include:

- The success of Oklahoma's experiment in free-market medical regulations and the sudden acceleration in the long-languishing Florida, New York and New Jersey markets (see chapter 5 "United States").
- The patchwork of Canadian provincial approaches that still allowed for a near tripling of revenue in the country's first full year of adult-use sales.
- The doubling of German spending and the first stirrings of sleeping giants of Mexico and the United Kingdom (see chapter 6 "International").

It adds up to a compelling case: When the world emerges from sheltering in place, the legal cannabis industry will be one of its great hopes for driving renewed economic growth.



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Letter From the Editor

It is hard to compete with a low-cost alternative.

That economic truism was a recurring theme as we reviewed trends in legal cannabis in the last year for this 8th edition of “The State of Legal Cannabis Markets”. Legal sales will surely supplant illicit sales someday (though it took decades for bootlegging to go away after alcohol prohibition ended in 1937). Here are some of the challenges regulated cannabis faces in trying to supplant the legacy business:

Regulation and taxes matter: Both California and Canada struggled in early 2019 to recover from disappointing adult-use launches in 2018, as legal operators in both markets found it tough to compete with extralegal operators given high tax rates and tight regulatory regimes.

Cap tables matter: Going public with no profits left cannabis companies susceptible to investors’ growing recognition that supplanting the existing pipeline will take some time. That left managements scrambling for financing, even though their ultimate source of capital, consumer spending on legal cannabis products, grew 46% worldwide in 2019

The economy matters: The certainty of a recession—and uncertainty about its severity or duration—prompted a general stock sell-off in March. Personal bankruptcies and unemployment will make long-time cannabis consumers even more reluctant to pay a premium for the privilege of buying legally.

That said, it’s an ill wind that brings nobody good. Some positives for legal cannabis:

Cheap pastimes do well in recessions, as movie theaters did in the Great Depression and Netflix did in the Great Recession. Even when the government doesn’t order everybody to stay home, people do it anyway when times are tough. And even legal cannabis is cheaper than transcontinental travel.

Some of local government’s key tax supports—retail and hospitality taxes—are already crumbling. Cash-starved states and municipalities could well legalize quicker than they otherwise would have to plug those budget holes.

Finally, granting cannabis stores essential-service status in stay-at-home regimes was the strongest sign yet that regulators and industry can work together more effectively in the future. They share a common goal, after all: making regulated cannabis companies a key driver of economic growth, jobs and tax revenue.



Tom Adams
 Editor in Chief
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 Managing Director
 BDSA



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