

Now We Know What Californians Are Smoking

What's Hot and What's Not in the World's Largest Cannabis Market



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Californians and Cannabis

Californians have always gone their own way compared to the rest of the United States — and often the rest of the country ends up following the Golden State's lead.

Cannabis in California is no different; this trend-setting behemoth — the sixth largest economy in the world, with 39.25 million residents — was the first in the nation to allow cannabis to be sold legally, in medical dispensaries, more than 20 years ago. During the past decade, many states have followed California's foray into legal cannabis, first with medical sales and, beginning in 2014 in Colorado and Washington, with sales of cannabis to adults 21 years of age or older.

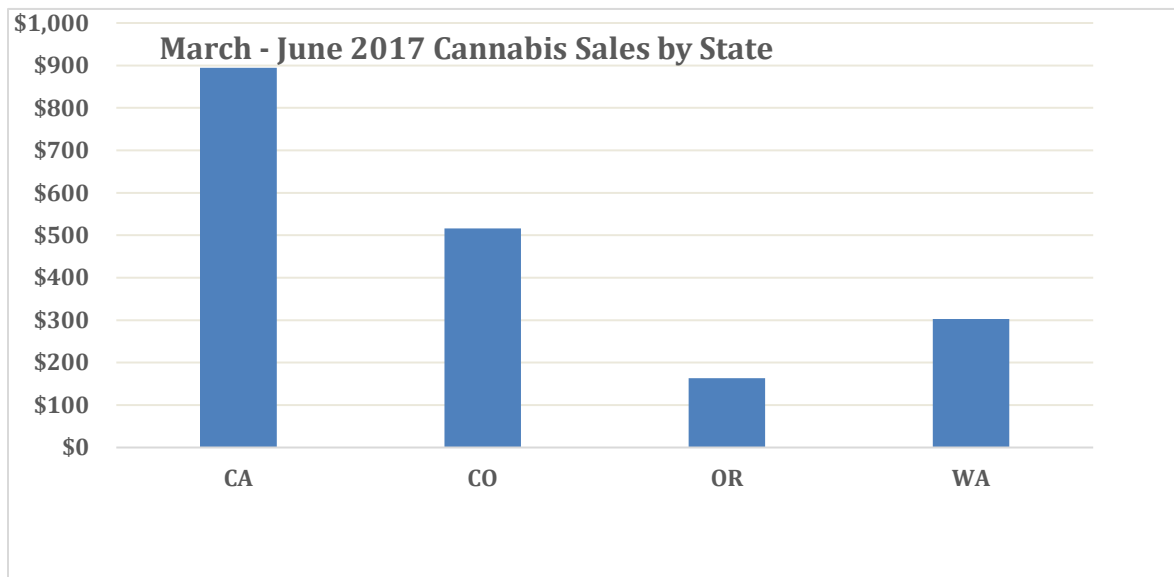
California remains a medical-only state until 2018, but during its 20 years of legal cannabis sales the nature of the retail and consumer experience has evolved. Today, on the cusp of its entrance into recreational sales, California more closely resembles the recreational retail environments in states like Colorado, Washington, and Oregon than the cannabis markets in the country's 20+ medical-only states.

BDS Analytics' comprehensive data analysis reveals fascinating facts and trends about California and legal cannabis.

In many ways, consumer preferences and retail trends in California mirror cannabis activities in Colorado, Washington and Oregon, the other mature and significant cannabis states. But just as Californians went their own way 20 years ago when they began permitting sales of cannabis in medical shops, they also follow their own collective muse when it comes to cannabis.

Key Numbers

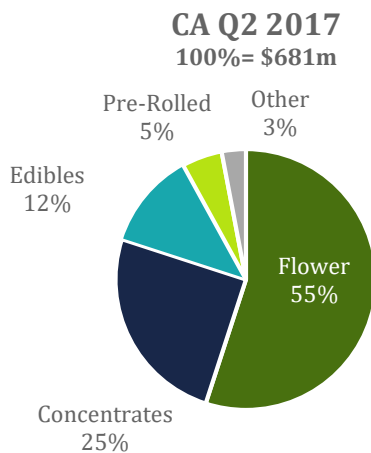
California's regulatory regime, for the time being, still only allows those holding state-issued medical cannabis cards to legally purchase cannabis. But that hasn't stopped sales in the state from eclipsing the other states with recreational sales.



In the four months of March through June of 2017, CA state dispensaries sold \$894.85 million worth of cannabis products (annualized to \$2.68 billion), compared to \$516.39 million in Colorado's robust cannabis marketplace, \$163.07 million in Oregon, and \$302.77 million in Washington.

In fact, sales in California represent about 34 percent of legal sales in the United States. In comparison, combined sales in Colorado, Washington and Oregon represent 41 percent of U.S. sales.

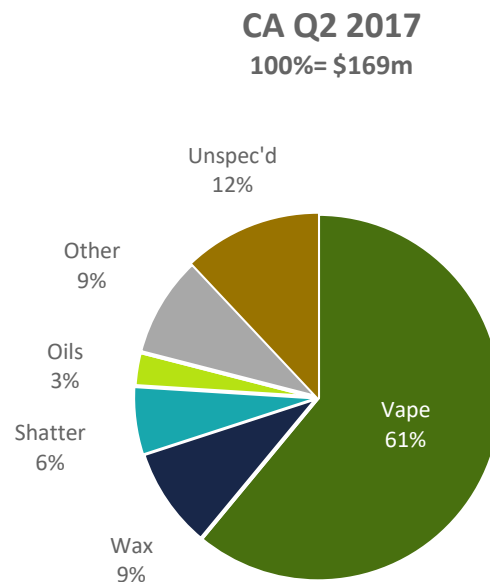
What Do Californians Buy?



Californians spend most of their dollars (55 percent) on flower. Concentrates, the next largest slice of the cannabis pie, captures 25 percent of the market. Edibles, with 12 percent, come in third. Pre-rolled joints grab 5 percent of the market, and non-THC items like apparel and devices represent much smaller slivers of the marketplace.

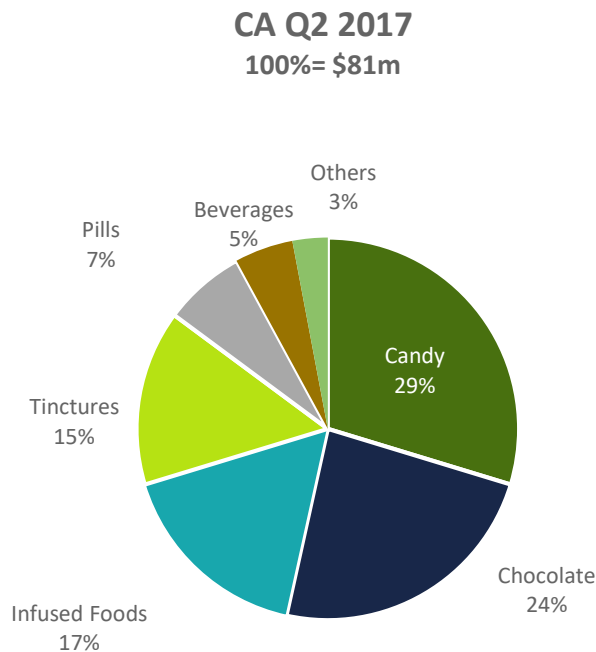
Concentrates

The booming concentrates market in California generated \$169 million in sales in the 2nd quarter of 2017. The category is dominated by vape pens, which capture a hefty 61 percent of dollars sold. Dabable forms of concentrates like shatter and wax, which are popular in other states (especially in Colorado), do not come close to vape sales — wax capture 9 percent of the market, and shatter 6 percent.



Edibles

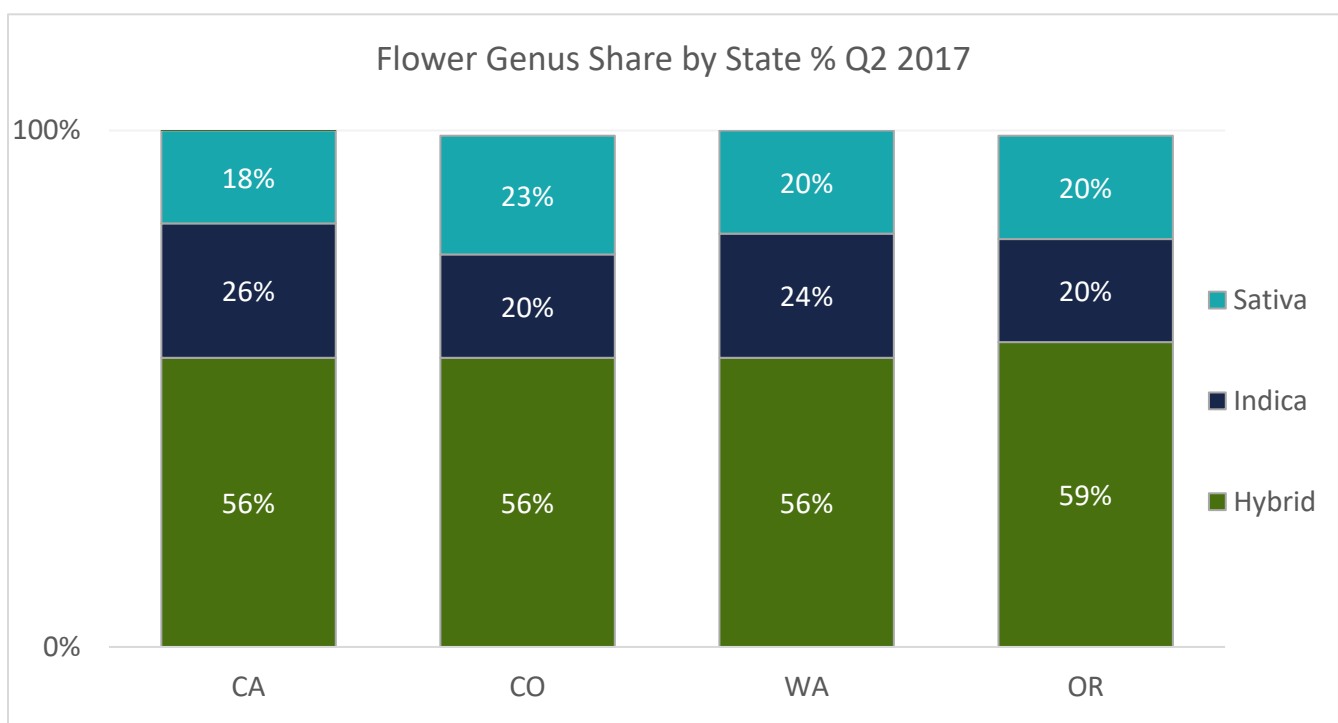
California dispensaries and delivery services generated over \$81 million in sales from cannabis edibles 2nd quarter of 2017. Californians prefer candy, like gummies and hard candy, to other forms of edibles. Candy commands 29 percent of the edibles market in California, with chocolates coming in second at 24 percent, infused foods at 17 percent, tinctures at 15 percent, pills at 7 percent and beverages at 5 percent. The top-selling edible in California? The mighty gummy, which captures 19 percent of the edibles market and a whopping 65 percent of the candy market. The second most popular candy product in California, more popular than hard candy, is caramels.



Flower/Strains

With 55 percent market share and \$375 million in sales in the 2nd quarter of 2017, Flower is the most popular product at California dispensaries. Flower is a term about as descriptive as “wine” — just as wine can mean Syrah, Cremant du Jura, port and thousands of other things, “flower,” too, is broken down into thousands of strains. BDS Analytics, for example, tracks sales of 13,000 uniquely named strains, with more added every month.

California tracks other states when it comes to the strain it crowns as king — Blue Dream. The rest of the top 10 features familiar strains to flower enthusiasts in other states, including Girl Scout Cookies, Sour Diesel, Jack Herer, Gorilla Glue #4 and OG Kush.



Californians do stand out, compared to Coloradans, Washingtonians and Oregonians, for their love of the indica genus of cannabis. Preferences in all states, including California, are evenly divided between the two styles. But indica's popularity in California is more pronounced than in other states.

Flower prices are higher in California than in Oregon, Colorado or Washington. The average retail price for a gram of flower sold at California dispensaries was \$9.03 (pre-tax) in the 2nd quarter of 2017. In contrast, the average gram sold in CO, OR, and WA combined was \$5.96 over the same period.

Topicals

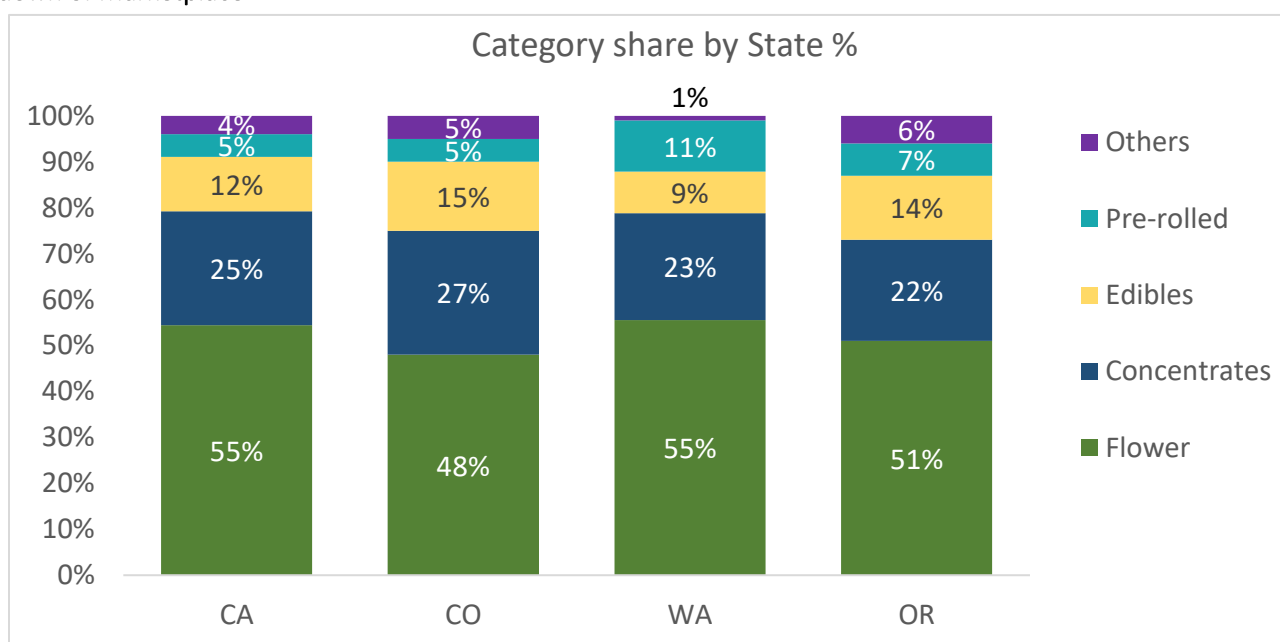
The world of cannabis products that are applied, rather than ingested, is not large — topicals capture less than 1 percent of the California market. In the 2nd quarter of 2017, Balms and salves capture 49 percent of the topicals sales in CA, followed by patches (5 percent), creams (20 percent) and a variety of other products.

How California Consumers Differ from Consumers in Other States

California was the first state to permit legal sales of cannabis through medical dispensaries, but Colorado was the first in the nation to open cannabis sales to all adults 21 years or older. Recreational sales in Colorado began on Jan. 1, 2014, and recreational sales started in Washington State just six months later. In 2015 Oregon launched recreational sales for flower, and last year the state permitted sales of all cannabis products, including concentrates and edibles, through recreational shops.

These states have a head-start on California with recreational sales. As referenced earlier, California's cannabis landscape today resembles a recreational marketplace more so than a medical one; a situation that is probably connected to the state's lack of consistent regulation, as well as the scale of the market and its ability to support major brands. Whether California's embrace of recreational sales, and implementation of a statewide regulatory framework will shift consumer and retail trends remains to be seen. But for now, we find clear differences, as well as similarities, between California consumers and those in other states.

Breakdown of Marketplace



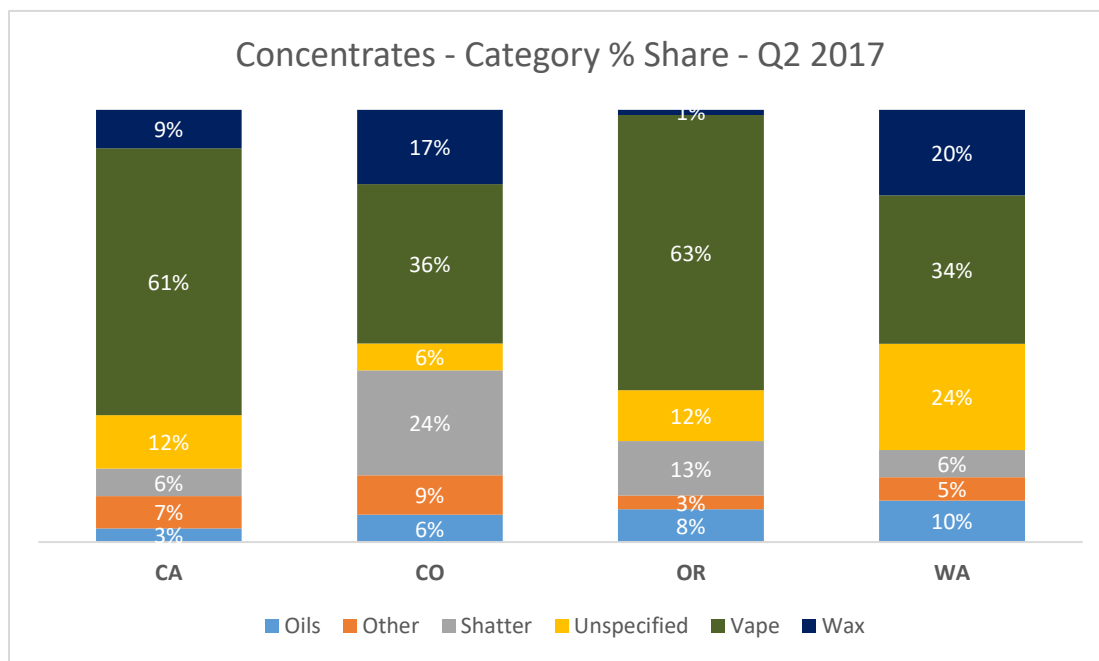
Californians divide their cannabis pie into 55 percent for flower, 25 percent for concentrates, 12 percent for edibles and 5 percent for pre-rolls in the 2nd quarter of 2017 (with the rest a grab-bag of much smaller categories). Consumers in other states slice their pie differently. One of the most interesting landmarks from the 30,000 foot view of the different markets is the prominence of concentrates in the medical-only Golden State.

When recreational sales began in Colorado, flower captured a profound chunk of the market. During 2014, flower sales represented 65 percent of all cannabis sales, and concentrates captured just 13 percent. In the 2nd quarter of 2017, however, flower sales captured 48 percent of the CO market. Since recreational sales started, flower's possession of market share steadily declined in CO, as sales of concentrates grew at a faster rate. In the first half of 2017, concentrates owned 27 percent of the market, edibles 15 percent, and pre-rolls 5 percent.

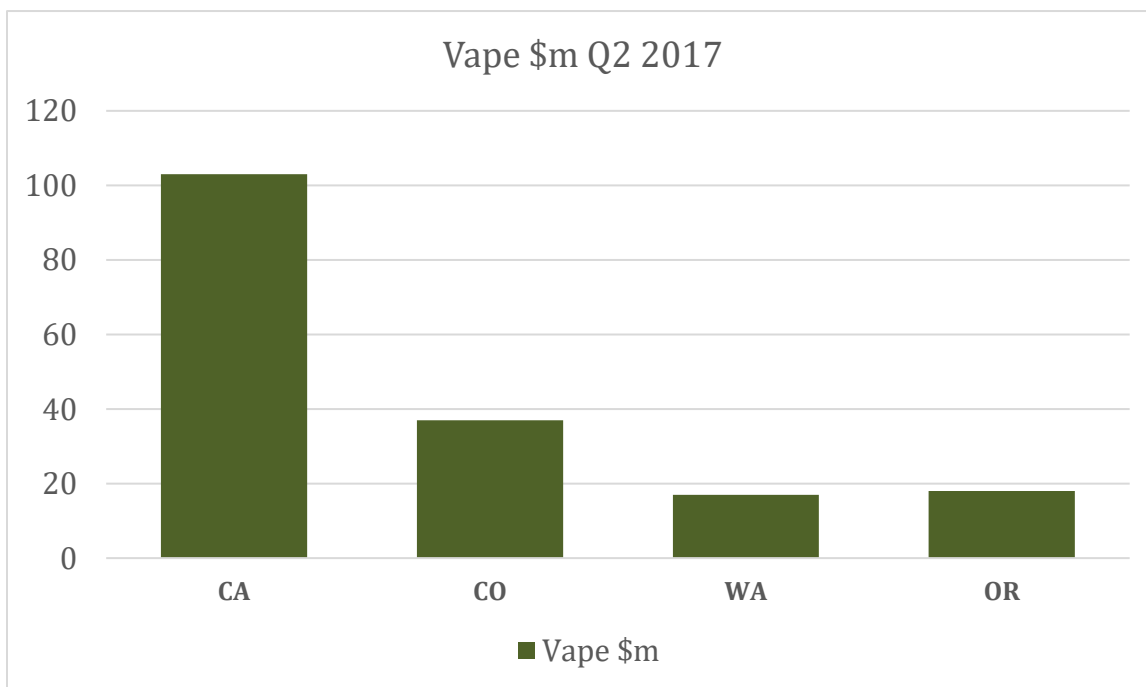
Washingtonians spent 56 percent of their dollars so far this year on flower, 23 percent on concentrates, 9 percent on edibles and 11 percent on per-rolls, more than double the percentage in both California and Colorado.

In Oregon, flower captured 51 percent of the cannabis market in the 2nd quarter of 2017, with concentrates grabbing 22 percent, edibles 13 percent and pre-rolls 7 percent.

Californians Have Gone Ape for Vapes



Vapes—including both cartridges and closed-loop disposable pens, that are pre-filled with THC concentrate for vaping (this category always involves THC; it does not count just vaporizing devices without THC products)—command 60 percent of California's concentrates market (\$13102.4 million—in the 2nd quarter of 2017). This means California's vape market is already three times bigger than the next largest State:



In Colorado, the market share for vapes is significantly smaller than in California—it captured 36 percent of concentrate sales in Colorado in the 2nd quarter of 2017, with shatter grabbing 24 percent, wax 17 percent, live resin 7 percent and oils 6 percent. Washingtonians are even less enthusiastic about vapes, which capture 34 percent of the Evergreen State's concentrates market. But California's neighbor Oregon is also nuts for vapes.

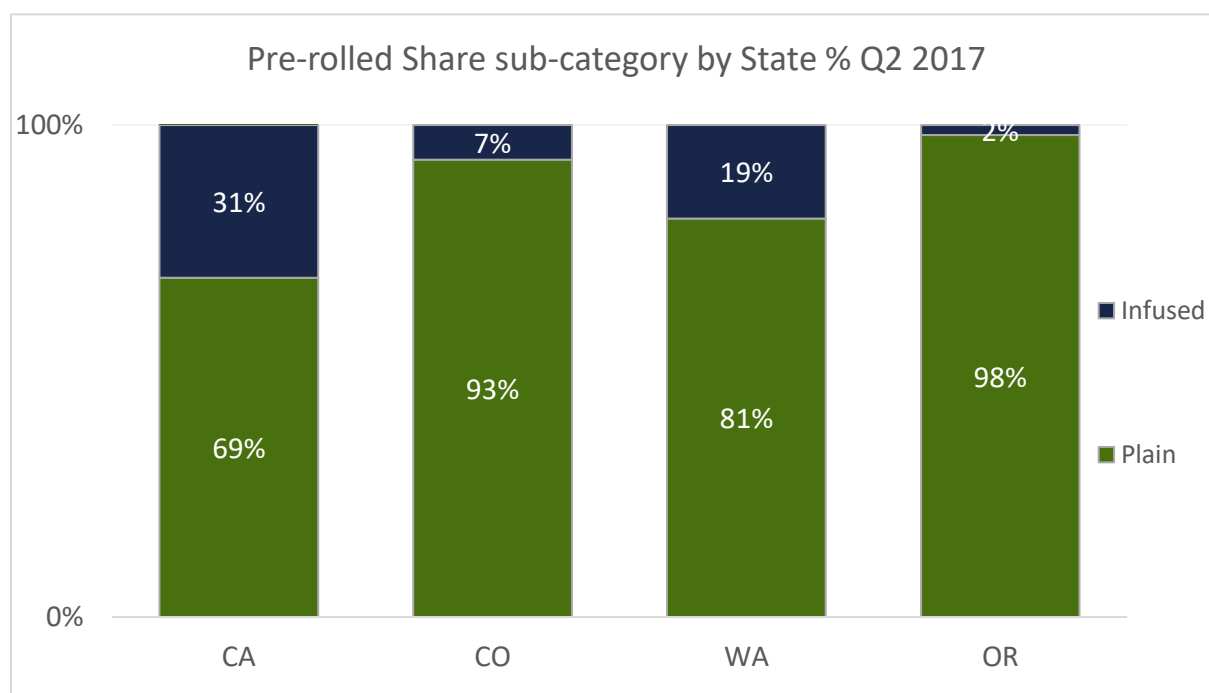
In the Beaver State, vapes control 63 percent of the concentrates market, albeit sales over the comparable period were just \$17.9 million.

Californians are Enthused about Infused

Pre-rolled joints capture 5 percent of the California cannabis market, which is roughly in line with Colorado and Oregon (in Washington, however, pre-rolls represent 11 percent of the market).

But Californians stand far apart from the other states when it comes to infused pre-rolls — joints that come with an extra THC boost from concentrates like oil, keef, caviar and hash. In California, the pricier infused pre-rolls (averaging \$14.08 per joint, compared to \$5.12 for joints without the added oomph) command 31 percent of the market.

Coloradans, on the other hand, only buy enough infused pre-rolls to capture 7 percent of the pre-roll market. In Oregon, infused pre-rolls share is down to 2 percent. Washingtonians are more receptive of infused pre-rolls — they capture 19 percent of the market. Still, California love for infused pre-rolls far exceeds the ardor shown by Evergreen Staters.



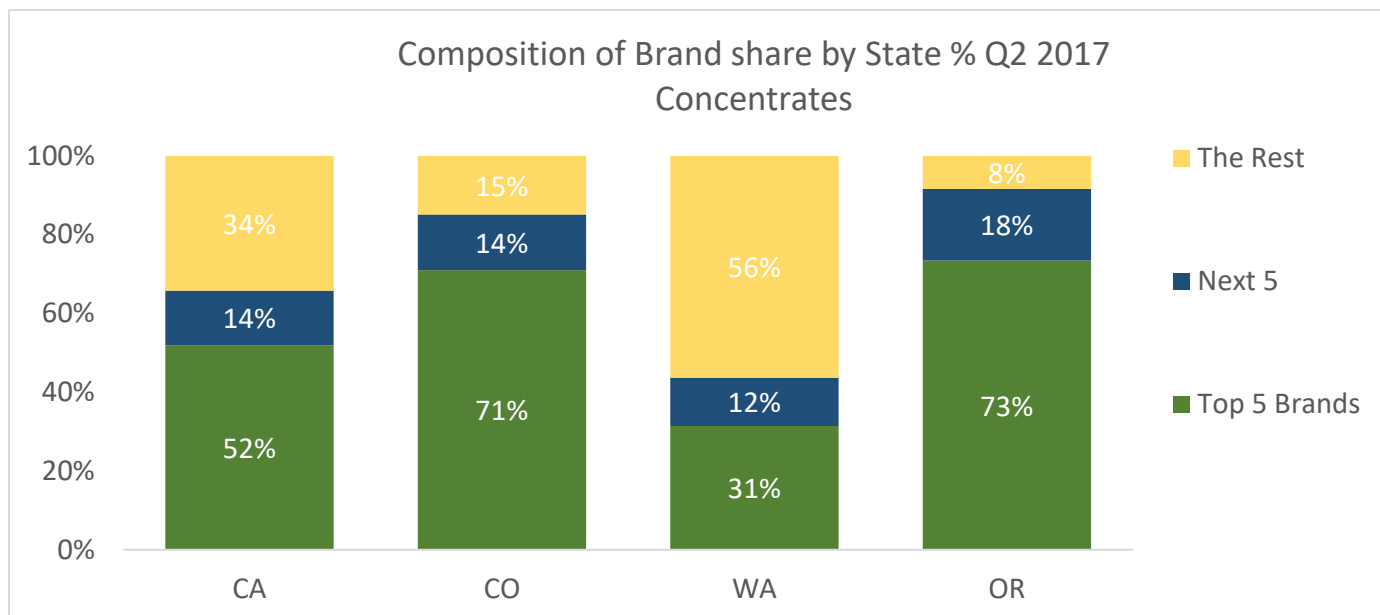
Infused Love Goes Beyond Pre-Rolls

We know Golden Staters have fully embraced infusing their pre-rolled joints with concentrates, but Californians stand out, too, for their enthusiasm for infused foods. Consumers spend enough on THC-infused brownies, cookies, nut butters and a wilderness of other foods to elevate the category to 17 percent of the edibles marketplace. In Oregon, on the other hand, infused foods represent just 5 percent of the market, and in Colorado infused foods capture just 8 percent. Washingtonians are more keen, where spending lifts infused foods to 12 percent. California remains the pot brownie capital of the country.

Brand Share Concentration

The cannabis marketplace is about much more than storefronts and flower. A bulk of the commercial activity in the fast-growing industry revolves around brands that manufacture brownies, gummies, vape pens, long-acting patches and much more. Even flower now supports brands.

The relationship between brands and marketplace consolidation varies between states — in some states, relatively few brands have managed to wrest control of big chunks of the marketplace, while in others brand concentration of marketplace control is less pronounced.



Consider the concentrates market. This brand-heavy portion of the cannabis market supports hundreds of brands between Colorado, Washington, Oregon and California. But in some states, just a handful of brands have sewn-up significant parts of the market. In Oregon, the top 5 brands control 73 percent of the market, and the top 10 own 91 percent of the market. The ratios are similar in Colorado, where the top five brands control 71 percent of the market and the top 10 possess 85 percent.

The situation is reversed in Washington, where the top five brands control only 31 percent of the market and the top 10 just 43 percent. That leaves 56 percent of the market still open for smaller concentrates manufacturers and newcomers.

California's size, combined with a lack of regulation and ease of entry created an ultra-competitive landscape, resulting in an incredibly crowded market. In the Golden State, the top five brands control 52 percent of the concentrates market, while the top 10 drive sales that amount to 66 percent of the market. A long tail of smaller brands contributes to the other 34 percent of the CA concentrates market.

Within edibles, the ratios between brands and market share are fairly similar between the states. In terms of top-five brands, they control 53 percent of the edibles marketplace in Oregon, 49 percent in Colorado, 42 percent in Washington and 42 percent in California.

