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CANNABIS INTELLIGENCE BRIEFING

Canada Leads the Way on Global Cannabis Legalization

EXECUTIVE SUMMARY

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Canada Leads the Way on Global Cannabis Legalization

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The first-ever province-by-province forecast detailed in this report shows the overall Canadian cannabis market is set to grow at a CAGR of 44.4% from 2018 to 2024, reaching $5.2 billion

Letter from the Editor

Fine-Tuning the Forecast

Data is the lifeblood of business, driving strategies and informing revenue forecasts. Data from BDS Analytics' Retail Tracking in six US states, and Consumer Insights studies across the US and Canada have informed our forecasts of the Canadian market since the publication of "The State of Legal Marijuana Markets, 5th Edition," early in 2017.

Now, those consumer studies and newly released data from Statistics Canada and Health Canada have enabled the province-by-province modeling that yields the important conclusions in this report.

Our view of the market is still a very positive one: Consumer spending is forecast to grow from $569 million in 2018 to $5.2 billion in 2024. But that's a more conservative forecast than past ones in several ways.

Per-patient spending estimates previously had to rely on comparable analysis of data from BDS Analytics' retail tracking in six US states. We discounted the average per-patient annual spending levels (as high as $3,933 in Arizona and $3,634 in Colorado), but not by enough. Based on data now available for the first time from the Ottawa government, Canadian patients averaged just $1,452 in spending in 2018.

Statistics Canada's estimates suggest that the average adult-use consumer spent only $22 in 2018. That figure is forecast to grow as more stores open and limits on products and marketing are eased later this year. But given the province-level analysis in this report, it is forecast by 2024 to only reach the low end of the $500–$1,000 range already seen in some tracked US states.

Canada's simultaneous launch of different regulatory regimes in 10 provinces more than doubles the number of "laboratories of legalization" operating in North America. That should help speed the process of regulators and industry players working out what "best practices" should be in this new kind of industry.

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Disclosure

There are many companies mentioned in this report. Some of them are clients of The Arcview Group, BDS Analytics and/or their officers and employees. In some cases, the publisher's own minority stakes, warrants, or options in them. Neither Arcview nor BDS has received any compensation for coverage in this report. Since such a high percentage of companies in the sector are Arcview or BDS clients it's part of what makes them most suited to have the deepest understanding of the markets.

Methodology

The foundation of Greenedge™ data is BDS Analytics' panel of participating dispensaries who contribute daily point-of-sales data. Dispensary panels are recruited to be both statistically significant as well as representative of the makeup of dispensaries in the market. Panel recruitment is ongoing, and, whenever possible, new participating dispensaries provide historic sales data that is incorporated into the data of record. As the underlying sample increases over time, historic data also undergoes changes that could impact category mix, brand/product share and average retail prices.

Currency Notation

All references to currency in this report refer to US dollars. The exchange rate at the time of printing, 4/2/2019, was 1.33 Canadian dollars to 1 US dollar.

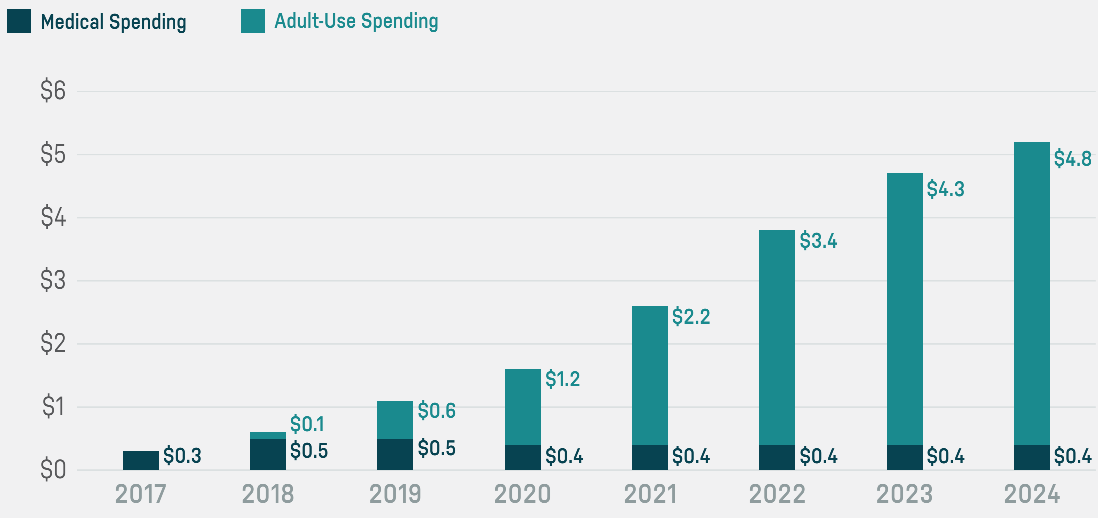
Executive Summary

Canada Breaks the Ice

Delayed to October 17 and hampered by a supply chain unprepared for millions of new customers, Canada's launch of adult-use sales only grew legal cannabis spending in the country 65% to $569 million for all of 2018. That was actually less percentage growth than the medical-only market posted in growing 84% to $330 million in 2017.

Adult-use legalization, however, unlocks enormous potential. The first-ever province-by-province forecast detailed in this report shows the overall Canadian cannabis market is set to grow at a CAGR of 44.4% from 2018 to 2024, reaching $5.2 billion. Medical cannabis is likely to remain fairly stable during that time, for reasons outlined in this report, in contrast to its meltdown in many US markets moving to adult use.

Canada Legal Spending (In Billions)



Source: Arcview Market Research/BDS Analytics

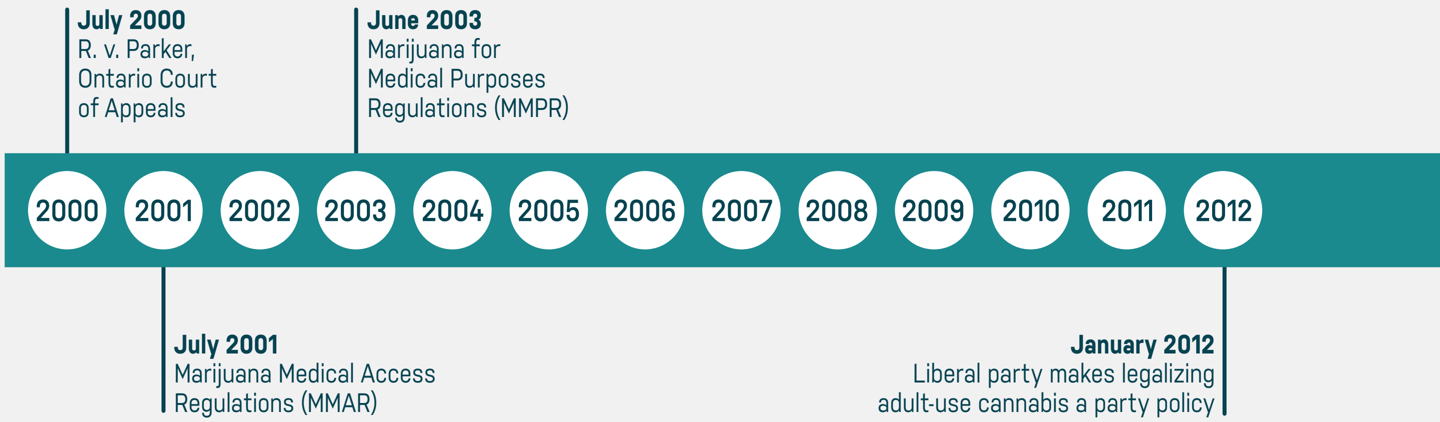
Canada has achieved a series of "worldwide firsts" regarding cannabis legalization, and the first-mover advantage those achievements have provided its companies could help the country establish a market-leading role in the long run. Canada is:

- The first country anywhere to elect a leader who publicly committed to adult-use legalization.
- The first country to see its stock exchanges list cannabis-company shares for public trading.
- The first country with a $5 billion company (market capitalization) in cannabis (Canopy Growth at the end of 2017).
- And most recently, on October 17, 2018, the first G7 country to install an adult-use regulatory regime and see stores and e-commerce sites begin selling to adults in the country.

All three branches of the federal government have played a role, from the country's Supreme Court mandating the allowance of medical cannabis in 2000, to the ascension of Justin Trudeau to prime minister November 4, 2015, to the legislature approving the adult-use regulatory regime in July, 2018.

Now, however, companies looking to capitalize on cannabis in Canada face a regulatory triple-threat, as US companies will increasingly have to deal with federal

Canada Cannabis Timeline



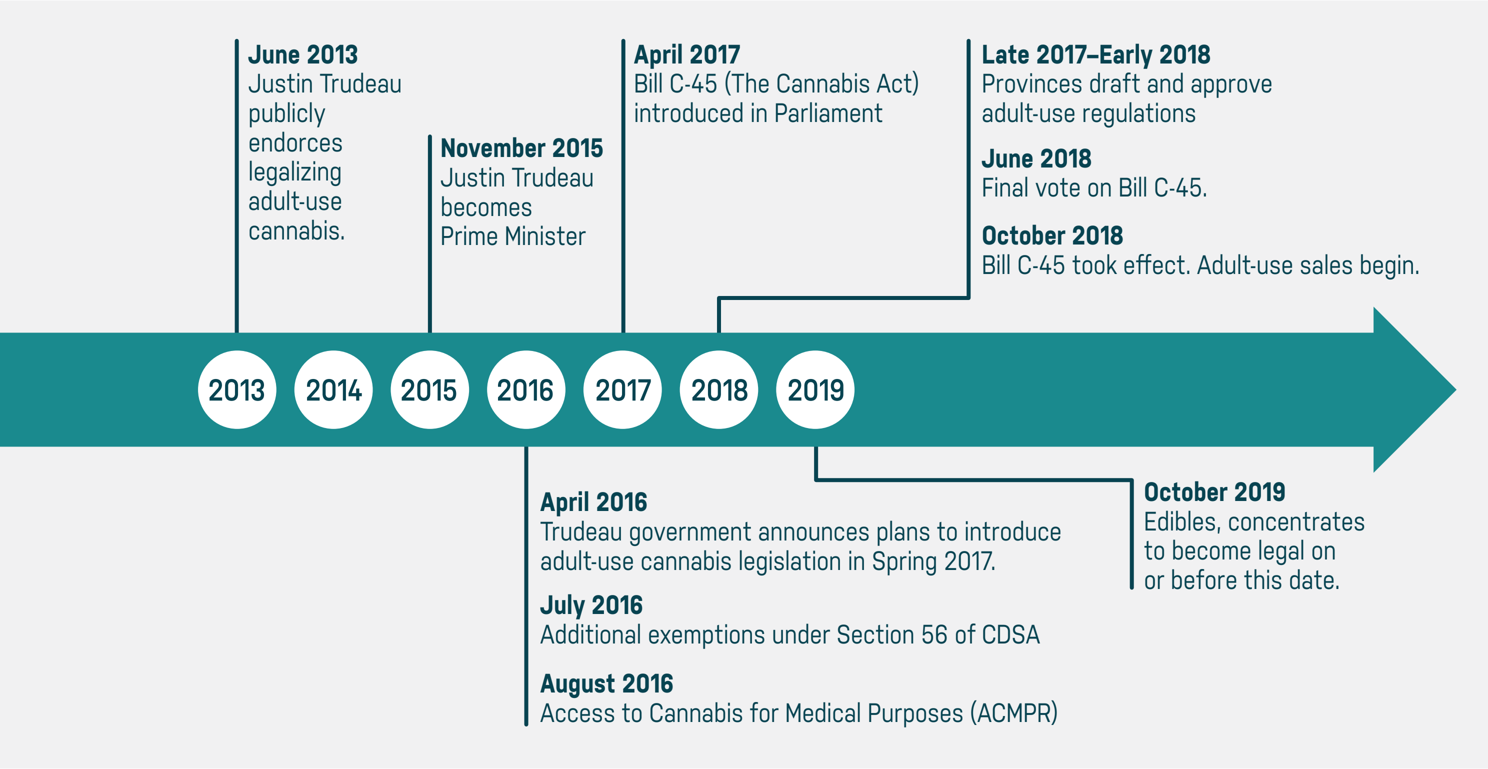
Source: Arcview Market Research/BDS Analytics, WHO prohibition crumbling. The Ottawa government generally set the rules in cultivation, product manufacturing and packaging, handed provinces control over many consumer-level issues, and gave municipalities final say over many issues.

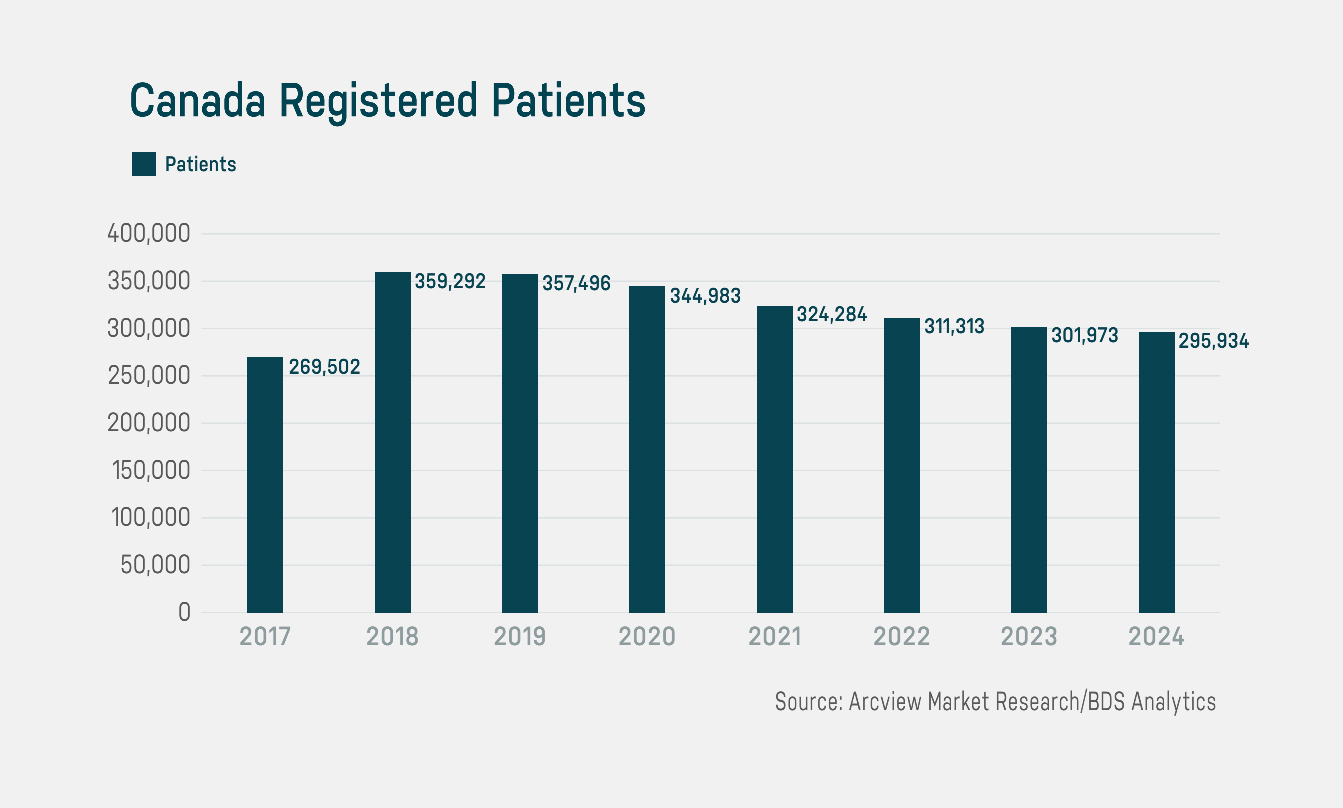
So, while the province of Alberta, for example, allows smoking cannabis in public, the province's largest city, Calgary, has banned all public use of cannabis.

The long-awaited launch of adult-use sales saw the kind of product shortages typical of the early days of adult-use sales in the six US states that preceded Canada into the adult-use era (Colorado, Washington, Oregon, Alaska, Nevada and California) or the one that followed it on November 20, 2018 (Massachusetts).

Shortages are unsurprising in Canada's case, given a jump from 359,292 patients to the nearly 29 million adults who could suddenly access cannabis legally. But the spending shortfall against expectations (including the forecast in "The State of Legal Marijuana Markets, 6th Edition; 2019 Update") was highly regional and tightly tied to provincial-level regulations that have created vast gaps in business friendliness across the provinces.

Other differences in provincial rules will have far more impact on industry revenue growth than public-usage

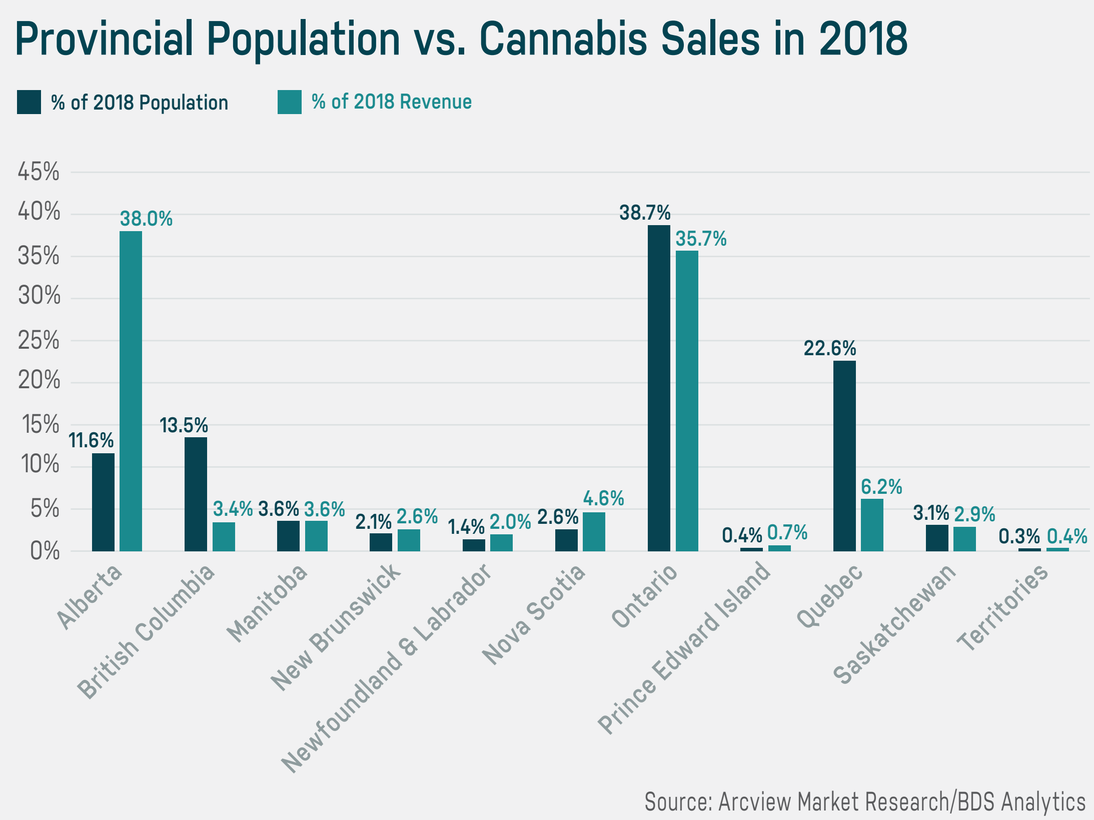




limitations, most importantly those concerning the wholesaling and retailing of cannabis. Government agencies manage wholesale and online distribution and some retail stores in some provinces. Other provinces allow privately owned stores, most importantly (in a late change of heart), Ontario, the nation's largest province.

Alberta, with a population of 4.3 million, is the fourth most populous province, but has long over-indexed in legal cannabis consumption. Patients counts are 2.5% of the population versus a national average 1%. Total spending on legal cannabis here reached nearly $217 million in 2018, accounting for 38% of total nationwide sales, more than twice its share of Canada's population. Alberta's comparatively liberal regulatory regime suggests it will rank among the fastest-growing provincial cannabis markets.

The federal government has given the provinces much leeway on personal consumption rules, and that too drives much of the difference in provincial forecast growth. So far, all provinces define an adult as either 18 or 19 years old, setting Canada up to have a much better chance than the US states—where 21 is the uniform age of majority—at truly eliminating the illicit market.



Despite some particularly onerous rules at federal, provincial and local levels, which are detailed in this report, in general, Canada has kept taxes and the regulatory cost load relatively low, at least in comparison to the least business-friendly US states like California. Limitations on non-flower product are likely to keep 2019 revenue growth modest at best, and the inefficiencies to be expected from government ownership and/or tight control of distribution will act as a brake on growth at least through the 2024 forecast window.

Still, by being the first among major world economies to move to adult-use legalization, Canada has already created the most valuable cannabis companies in the world. Whatever happens in their domestic market, the race for world domination is theirs to lose.

Canada Leads the Way on Global Cannabis Legalization

Other recently released reports from the Series include:

- Cannabis Retail: The $23 Billion Opportunity
- Cultivation: Capitalizing on a Tripling of Legal Demand
- US Legal Cannabis: Driving $40 Billion Economic Output
- The Road Map to a $57 Billion Worldwide Market
- California: The Golden Opportunity?
- Concentrates: The Hottest Product Category in Cannabis
- The Tasty Future of Cannabis Edibles
- Pharmacies vs. Dispensaries: The Future of Cannabinoids as Medicine

Additionally, subscribers to our Cannabis Intelligence Briefing Series gain access to the comprehensive, annually released *The State of Legal Marijuana Markets* book and the corresponding mid-year update.

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