

The State of Legal Cannabis Markets

Executive Summary

2020
UPDATE

7th Edition

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Debby Goldsberry, Executive Director, Magnolia Wellness



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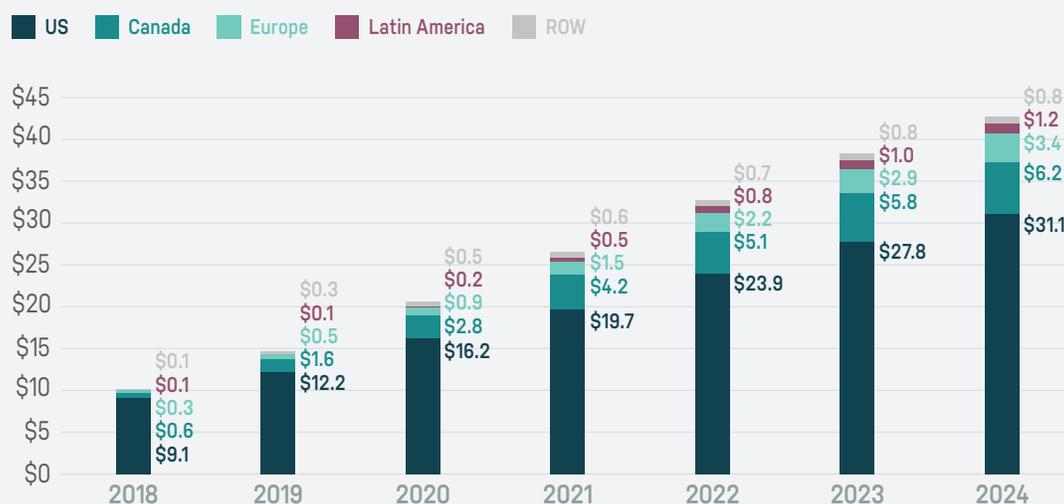
Legal Cannabis Growth Revives in 2019

The worldwide legal cannabis industry generated an estimated \$14.9 billion in 2019, up 45.7% from 2018, which saw just 17% growth to \$10.2 billion. That estimate is in line with the \$14.9 billion Arcview Market Research and BDS Analytics forecast in June 2019 in “The State of Legal Cannabis Markets, 7th Edition” (SOLCM), to which

this report is an update (“2020 Update”), though some of the components have changed as markets evolved over the latter half of the year.

That 2018 growth rate of 17%, enviable in any other industry, was the lowest rate of growth the legal cannabis

Global Spending by Region (In Billions)



Source: Arcview Market Research/BDS Analytics

industry had experienced since BDS Analytics launched its retail sales tracking service in 2014 and then partnered with Arcview Market Research to build the forecast model behind the annual SOLCM report. That slowdown can be laid largely to the difficulties seen in California, the world's largest legal cannabis market, as it transitioned from a loosely regulated medical-only market to a strictly regulated and heavily taxed adult-use market.

California's hiccup and the slow start of adult-use sales in Canada caused us to be somewhat conservative in our SOLCM forecast of 24.4% compound annual growth rate (CAGR) to \$40.6 billion in 2024, now revised to 26.9% growth to \$42.7 billion by that year. As detailed in this "2020 Update," strong 2019 results in Florida, Massachusetts and other significant population centers—and explosive growth in modestly sized, but politically important, Oklahoma—prompted at least minor changes in 15 U.S. states' forecasts.

Just as the decade of the 2010s ended, two major Midwestern states joined the ranks of adult-use cannabis markets, Michigan on Dec. 1, 2019 and Illinois on Jan. 1, 2020.

What Success Looks Like

The U.S. forecast is built around a new classification of the states by the launch date of the legal cannabis program in effect by 2024. Adult-use states at that point will include the following:

- **Mature adult-use:** states like Colorado and Washington that launched adult-use programs prior to January 2017; on track to grow at a 5.8% CAGR 2018-2024 and to represent 15% of the 2024 market.

- **Emerging adult-use:** states like California, Nevada and Massachusetts that launched programs between January 2017 and January 2020; forecast to grow at a 20.8% CAGR and to generate 41% of U.S. legal revenue in 2024.
- **New adult-use:** states like Arizona, New York and Florida, and territories like Guam, for whom program start dates were forecast (in consultation with the Marijuana Policy Project) before 2024; forecast to grow at a 39% CAGR from their 2018 medical-only bases to become 32% of the 2024 market.
- **Mature medical:** long-time medical states Hawaii, Minnesota, Montana and New Hampshire, not expected to go to adult-use by 2024; forecast to see the slowest growth (a 16.7% CAGR) and be just 2% of U.S. sales in 2024.
- **Emerging medical:** states that legalized medical between January 2017 and January 2020 such as Arkansas, Oklahoma and Pennsylvania; forecast to grow fastest of all from low 2018 bases (52.5% CAGR) and become 5% of the 2024 market.
- **New medical:** 19 states and the U.S. Virgin Islands, with no legal revenue in 2018; expected to go medical before 2024 when they will represent 5% of sales.

Internationally, a whole new route to legalization opened up in Mexico when the country's supreme court ordered the legislative branch to approve, and hence the executive branch to implement, adult-use legalization in 2018. Legislators bought themselves a six-month extension in November 2019. But judicially mandated legalization

could represent a whole new model from the traditional one in which voters have had to use the initiative process—or in more recent cases, political pressure—to force legislators to legalize. If successful, the adult-use change in Mexico would make it co-leader with Germany’s medical-only market in driving total legal sales outside of the U.S. and Canada from \$517 million in 2018 to \$5.4 billion in 2024 at a 47.7% CAGR.

A Big Year for Cannabis Everywhere Except Washington and Wall Street

While patients from Munich to Mexico City were finally getting relief with medical cannabis and adults across North America were rushing to take advantage of the crumbling of prohibition, the industry also suffered through the sudden neglect of its issues in Washington. Congress failed to enact what had looked like promising reforms in June, while the FDA made it clear that it will not be rushed into clearing the way for CBD ingestibles to appear outside the pharmaceutical channel—except, of course, in state-legal dispensaries where it has no say in the matter.

Far more consequential, and a bigger threat to the kind of future revenue growth forecast here, was the souring of many on cannabis investments. After driving stocks, as tracked in New Cannabis Ventures’ Global Cannabis Stock Index, to a 57% gain in the first quarter of 2019, investors pulled the rip cord after an April 22 peak, leading to a 58% decline by year’s end. The New Cannabis Ventures index was just down a net 34% in a year in which the S&P 500 gained 29%.

The declines eased in December, and by mid-January, the lines forming on the streets of a freezing Chicago in the early weeks of adult-use legalization there had sparked a modest recovery on Wall Street. While valuations of public cannabis stocks may indeed have gotten ahead of themselves in the wake of Canada making history in October 2018 by legitimizing legal cannabis on the world stage, the subsequent sell-off looks extreme from the midpoint of a two-year period in which a \$10.2 billion 2018 market appears on track to more than double to \$20.7 billion in 2020.

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**Consumer spending on legal cannabis
worldwide grew by an estimated 45.7%
to \$14.9 billion in 2019**

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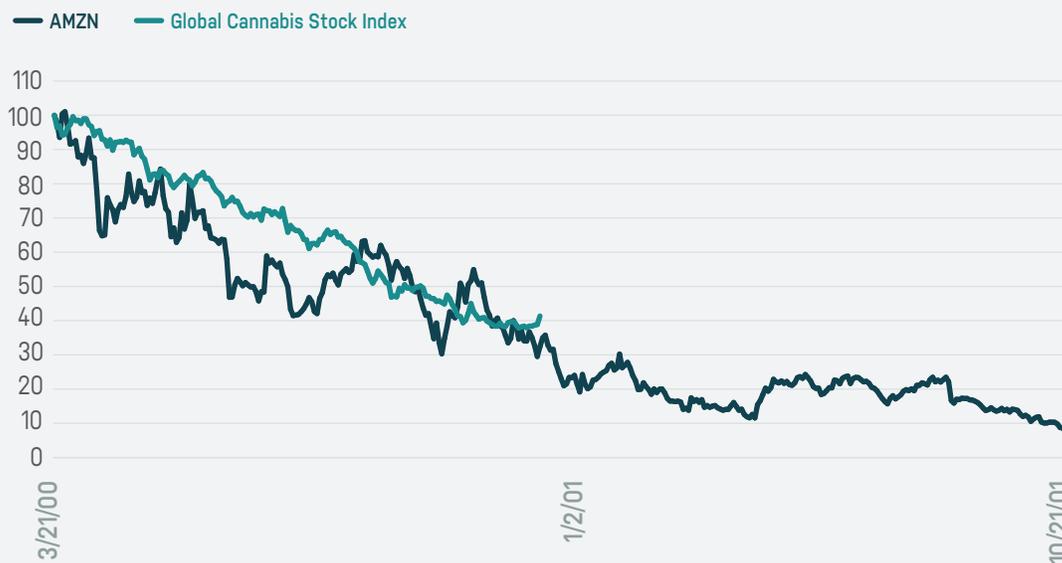
Letter From the Editor

Hindsight is always 20/20, of course, making it easy today to see that cannabis public stocks were overvalued in April 2019, when several had market caps bigger than the total consumer spending in the worldwide legal market. It was reminiscent of the 2000 peak of the dot-com mania, as was the subsequent deflation. Then as now, fear of missing out on a new consumer

phenomenon of obviously immense potential created billions of dollars of wealth on paper.

In both cases, just as the actual consumer marketplace shifted into overdrive, Wall Street bailed (U.S. e-commerce spending jumped 94% in 2000, for example, U.S. legal cannabis 34% in 2019). In the case of internet

The 2000 Dot.com Crash vs. Cannabis 2019



Source: New Cannabis Ventures

stocks, hindsight shows the dot-com crash was a huge buying opportunity for investors with patience. Will the same prove true for cannabis stocks?

A comparison of New Cannabis Venture's Global Cannabis Stock Index to the post-peak history of Amazon shares (as a proxy for internet stocks) shows there are reasons for caution. First, it should be noted, not every company survives such trauma in the capital markets: Amazon lived through its 78% drop in 2000; Webvan and eToys did not. Furthermore, Amazon went on to post a subsequent 46% decline as the 2001 recession set in, before bottoming late that year.

So, it took nerves of steel to hang on: Amazon's shares only returned to their March 21, 2000, high of \$72.38/share

on June 5, 2007. But anybody able to pick Jeff Bezos out of the Y2K wreckage as "Most Likely to Succeed" has been amply rewarded: Amazon closed out 2019 at \$1,847.84/share. Similar tales will undoubtedly be told, with 20/20 hindsight, about the "cannabis crash of 2019."



Tom Adams

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