



# ESSENTIAL CANNABIS INSIGHTS

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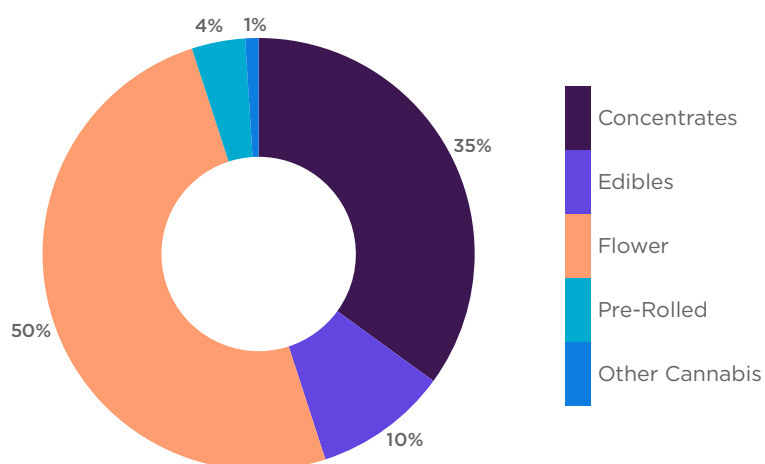
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## ARIZONA MARKET SETS NEW STANDARD FOR LAUNCH OF ADULT-USE

After passing the Smart and Safe act to legalize cannabis in November 2020, Arizona made a swift transition to an adult-use market. Adult-use sales began on January 22, 2021, with 73 of the 124 operating medical dispensaries approved for adult-use sales on that day. With sales launching just 80 days after the approval of legalization, Arizona has seen the fastest shift to adult-use of any market so far. By now all 124 existing medical

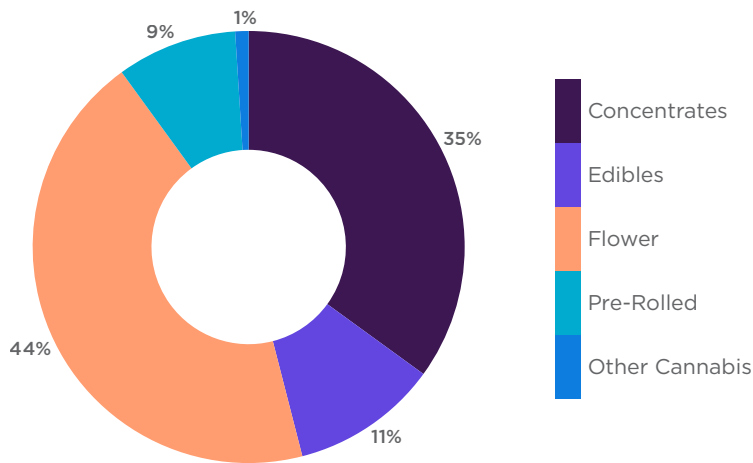
**With sales launching just 80 days after the approval of legalization, Arizona has seen the fastest shift to adult-use of any market so far**

### Share of Dollar Sales — AZ Medical



Source: BDSA Retail Sales Tracking

## Share of Dollar Sales — AZ Adult-use



Source: BDSA Retail Sales Tracking

dispensaries have been approved for adult-use sales, soon to be joined by an additional 13 adult-use stores that were issued licenses in mid-April. BDSA's April 2021 retail sales tracking data shows that Arizona has seen substantial growth with the addition of adult-use, with total sales estimated at almost \$125 million for the month. While Arizona's shift to adult-use sales has not been seamless, the groundwork laid by the state's stringently regulated medical program set the stage for the success seen in the new adult-use market, a trend that it to be expected as more new medical markets make the move to 21+ sales.

The launch of adult-use sales has been hectic for many in Arizona given the rapid shift to adult-use, with even the state's Department of Revenue admitting that the initial tax data are not fully reliable. Even with these challenges BDSA has gathered quality data on the total size of the industry in the state, which show massive growth so far in the market. Total dollar sales in Arizona were estimated at just under \$125 million in April 2021. This represents a 44% increase over sales seen in April 2020, and a 36% increase over the dollar sales total from December 2020, the last month of medical only sales. BDSA and our retail partners estimate that roughly \$53 million of the estimated \$125 million came through the adult-use channel, with medical sales contributing the other \$72 million. Total legal sales in the state are forecast to reach \$1.5 billion in 2021.

Overall product mix has not shifted much, but small shifts have been observed with the addition of adult-use sales. For example, pre-rolled joints are performing stronger in the adult-use channel compared to the medical channel, representing 9% of April adult-use sales vs. 4% of April medical sales. By contrast, flower is performing stronger in the medical channel than adult-use, with flower making up 44% of sales in the adult-use channel, compared to 50% in the medical channel.

**Total dollar sales in Arizona were estimated at just under \$125 million in April 2021. This represents a 44% increase over sales seen in April 2020, and a 36% increase over the dollar sales total from December 2020**

Arizona represents a trend seen in many newer markets that are moving to adult-use. New adult-use markets are building off the successes and challenges of other states, allowing them to launch legal sales with fewer disruptions, leading to higher sales. Also, Arizona gives us an example of a market that was able to capitalize on its robust medical infrastructure to see strong growth in the first months of adult-use sales.

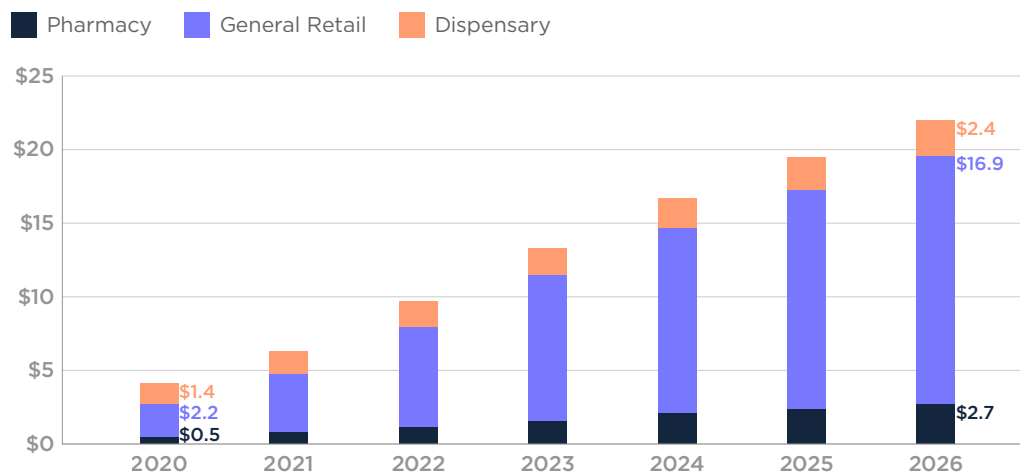
California provided a different example, one of a mature market that saw a disappointing launch to adult-use sales due to a lack of this robust infrastructure built up by a long-existing regulated market. The Golden state experienced a decline in sales with the introduction of adult-use in January 2018, with estimated monthly dollar sales falling from \$737 million in Q4 2017, to just \$452 million in Q1 2018. Much of this is to do with the unregulated medical program that left many businesses scrambling trying to meet compliance demands as the state moved to AU, leading to greatly reduced retail access and sticker shock for consumers who were unaccustomed to the new high taxes.

Regardless of the hectic nature of the launch of cannabis sales to all adults, adult-use cannabis has brought a huge boost to the already thriving Arizona market. As retail availability continues to expand in the state, BDSA expects that the adult-use channel will continue to expand its share of sales, with adult-use sales forecast to grow to \$1.3 billion in 2026 and total sales forecast to reach \$1.8 billion that year.

## US CBD SALES PASS \$4 BILLION IN 2020

BDSA's new forecast for CBD in the United States and Canada, released June 2021, estimates sales of CBD products in the US reaching just over \$4 billion in 2020, an increase of 52% over the previous year. That is a slowdown versus the 82% growth seen in 2019, but comes along with a pandemic that refocused consumer attention away from growing

### US CBD Sales (In Billions)



Source: BDSA

**BDSA's new forecast for CBD in the United States and Canada, released June 2021, estimates sales of CBD products in the US reaching just over \$4 billion in 2020, an increase of 52% over the previous year**

trends toward essentials—such as to bulk goods, frozen foods, immune supplements, and similar quarantine fare.

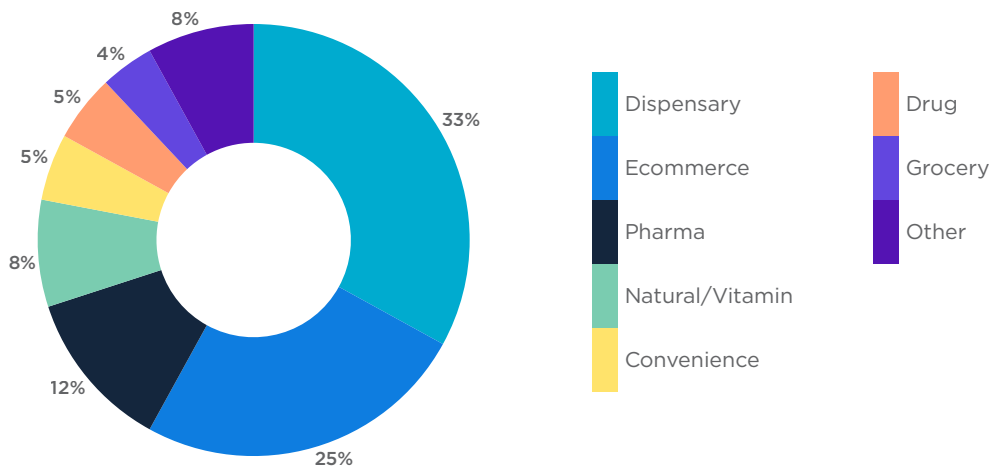
Sales of CBD products are forecast to reach \$21.9 billion in 2026, rising at a compound annual growth rate of nearly 33% over that time. Currently CBD-infused food and drink is not allowed outside of the cannabis dispensary channel but this forecast assumes the FDA will approve the substance as a legal food additive in 2022—a move that will bring tremendous interest from traditional food and beverage brands and major retailers.

Licensed cannabis dispensaries in legal cannabis states were the largest single channel for CBD sales in 2020, with \$1.4 billion (33.4%). The industry as a whole flourished in 2020, with few disruptions to operations under quarantine-related restrictions. Essential service declarations kept the vast majority of dispensaries open and sales grew strongly even under modified operations.

CBD sales via dispensaries rose as well, but at a slower rate than the overall industry (13% versus 45%). At present, dispensaries are still the primary channel for CBD sales—especially for those products that are not yet widely carried beyond the legal cannabis channel due to current FDA regulations. The channel will remain the only one allowed to carry CBD products that also include THC and other psychoactive cannabinoids, barring substantial regulatory changes.

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## Channel Share of CBD Sales, 2020



Source: BDSA

Restricted CBD-infused edible products, particularly confection, gained share versus other CBD products in dispensaries during 2020. CBD beverages increased by 46% in 2020 and confections grew by 39%. Categories such as beauty, wellness, pet, and even flower/concentrates grew across general retail channels, exerting pressure on these categories on dispensary shelves.

Ecommerce was the second-largest channel for CBD in 2020, approaching \$1 billion in sales. The channel as a whole grew at more than 40%, though estimates vary, during 2020, as quarantining consumers upped their online ordering. Ecommerce CBD sales are forecast to pass dispensary sales in 2021 to take first place, followed by dispensary, pharma, and grocery.

The pandemic took a steep toll on many forms of retail but ecommerce, grocery, drug, and other essential or “low-touch” channels fared well. Even so, sales of CBD beyond dispensary, ecommerce, and pharma were still relatively small—those three channels contributed about 70% of total sales in 2020. Edible/drinkable products bearing CBD are still scarce in general retail channels and saw minimal sales. Products that do not fall under current CBD restrictions, such as beauty and pet, grew strongly.

GW Pharmaceuticals’ Epidiolex is currently the only FDA-approved CBD pharmaceutical in the U.S. Sales of the drug reached nearly half a billion dollars in 2020. Epidiolex is allowed for the treatment of Lennox-Gastaut syndrome, Dravet syndrome, and tuberous sclerosis complex, approval for which came in 2020. Jazz Pharmaceuticals completed its acquisition of GW in May 2021. The company says it is seeking approval for additional uses of Epidiolex and two new CBD pharmaceuticals over the next few years.

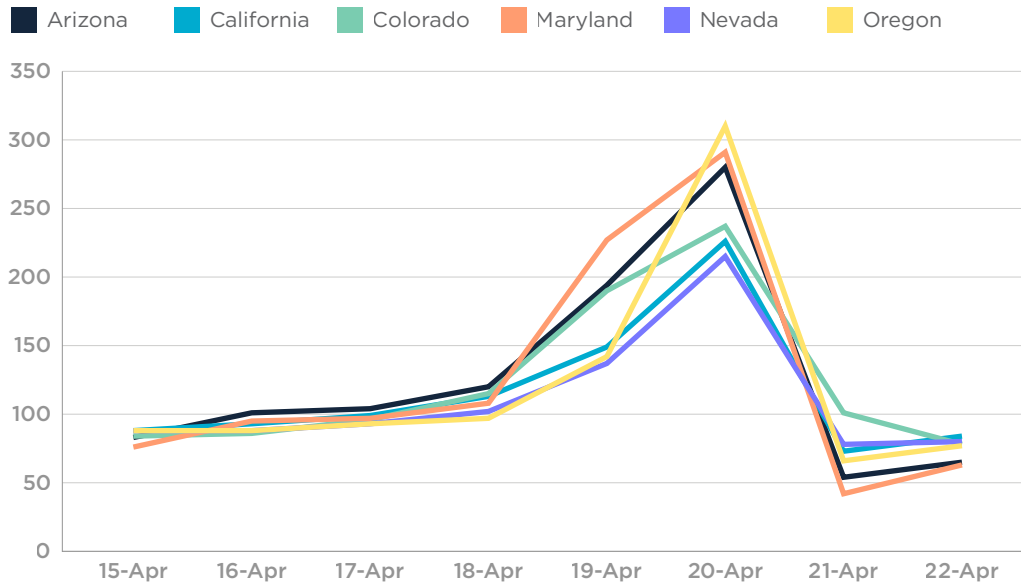
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## 4/20 RECAP

As the biggest cannabis related holiday, 420 (April 20th) usually brings with it some of the highest cannabis sales of the year. While 420 brought its usual uptick in sales in 2020, Covid-19 lockdowns did lead to slower than normal sales, as many consumers stocked up on cannabis in March when stay-at-home orders were put into place. 2021 was another story, as the holiday saw an impressive spike in daily sales across BDSA tracked markets, with some states setting new records for daily dollar sales.

In 2019, 420 fell on a Saturday, historically the second highest day of the week for cannabis sales. Dollar sales dramatically rose beginning on preceding Thursday, with dollar sales peaking on 420. The markets that saw the most dramatic spike in sales were the mature adult-use market of Oregon and the developing medical market in Maryland, though a comparable surge in sales was seen across all BDSA-tracked states.

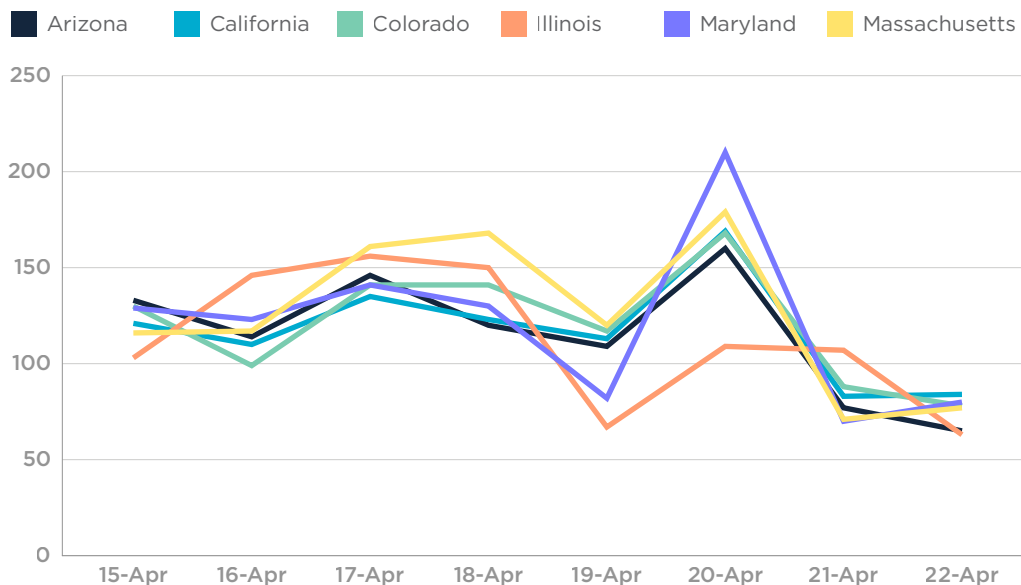
## 2019 Dollar Sales vs. Daily April Average



Source: BDSA Retail Sales Tracking

During Covid, 420 was on a Monday. Dollar sales saw a slight jump on Friday and Saturday, but the increase on the week of 420 was less dramatic than in past years. In spite of this, **most** markets still saw higher April sales in 2020 than in 2019, particularly California and Colorado.

## 2020 Dollar Sales vs. Daily April Average

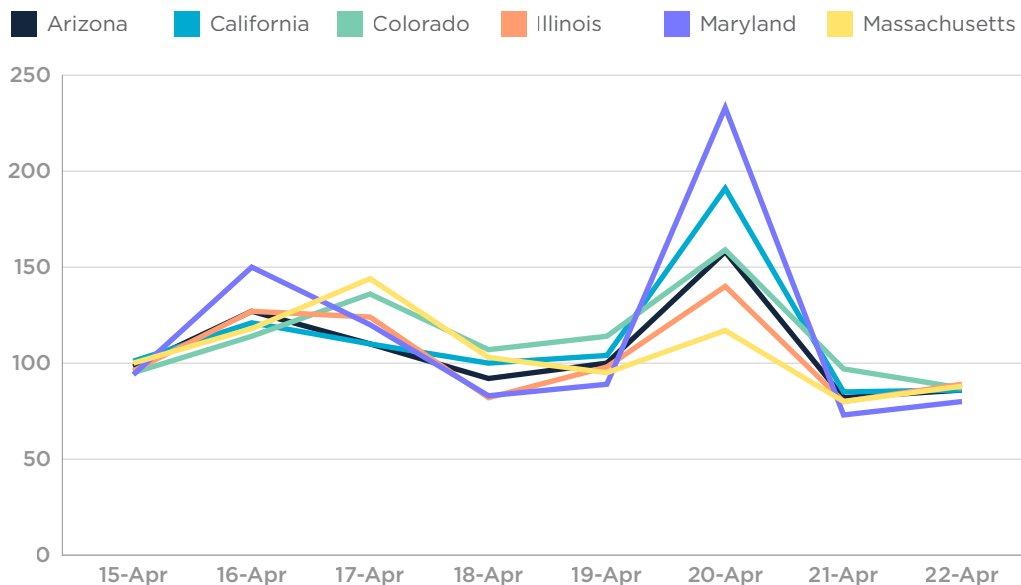


Source: BDSA Retail Sales Tracking

BDSA predicted prior to April 20th that the end of many covid restrictions and consumer confidence would make 420 a huge day for cannabis sales in 2021. Given that 420 occurred on a Tuesday, which tends to be the slowest day for cannabis sales, it was expected that sales would start to pick up the weekend before 420. BDSA did observe the uptick in sales start the Friday and Saturday before 420, but 420 itself still brought in a massive spike in sales despite being on a Tuesday.

As expected, 420 had a **much** higher impact on cannabis sales in 2021 compared to last year. April 20th saw combined cannabis sales across BDSA-tracked markets that were over 70% higher than the average daily sales number for April 2021. Furthermore, dollar sales on 420 itself were almost 39% higher than the next highest day for dollar sales in April 2021. Unit sales also spiked on 420, coinciding with a -13% drop in average retail price, suggesting that consumers took advantage of the various deals and promotions offered at retail for the holiday.

## 2021 Dollar Sales vs. Daily April Average



Source: BDSA Retail Sales Tracking

Weekend days preceding 420 also saw higher than average sales but the peak sales day differed across markets, with legacy cannabis markets such as seeing the highest sales on 420 itself, while newer markets saw comparably higher sales on the preceding Friday and Saturday. California and Oregon both set new records for daily dollar sales on 420, with sales totaling almost \$23 million in California and \$8.5 million in Oregon. Contrastingly, Massachusetts saw its highest daily dollar sales ever on April 17, 2021, with sales totaling over \$6 million for the day, dwarfing the \$5 million in sales seen on 420.

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