

ESSENTIAL CANNABIS INSIGHTS



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PENNSYLVANIA'S CANNABIS MARKET: BATTLE OF THE CANNABIS MSOs

The fifth most populous state in the country, Pennsylvania is well known for its rabid sports fans, Yeungling beer, Amish country and... now cannabis? With the launch of Retail Sales Tracking for Pennsylvania, BDSA would like to take a minute to profile the quickly growing cannabis market in the Keystone State, highlighting some of the parallels between Pennsylvania's medical market and the robust adult-use markets of Massachusetts and Illinois. While there are regulatory differences that separate the Pennsylvania market from Massachusetts and Illinois, all three states have been home to robust, comprehensively regulated medical programs, and have become battlegrounds for the biggest multistate operators (MSO's) in the country.

Medical sales launched in Pennsylvania in February 2018, and the market has seen swift growth since the start of legal sales, in contrast to many other young medical markets. 2 years after the launch of sales, patient counts had grown to over 300,000, far exceeding the states initial projections. By July 2021, Pennsylvania's program had 128 active dispensaries serving a total of 418,000 patients, roughly 3% of the state's total population.

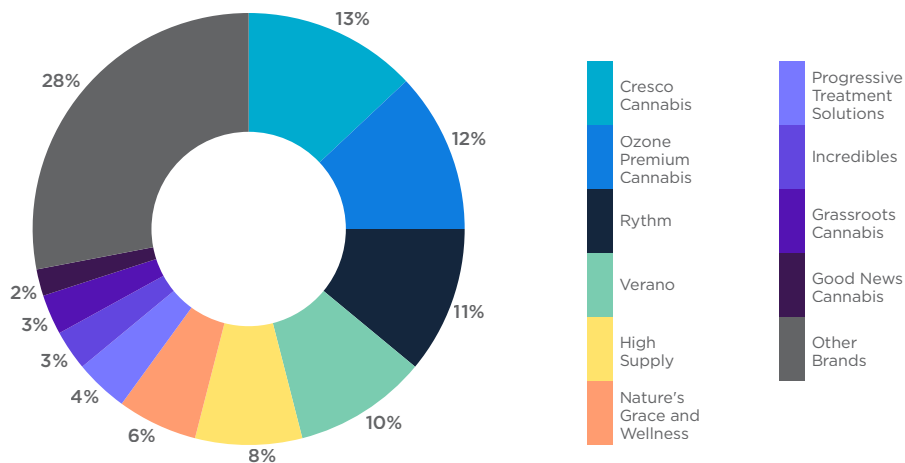
While Pennsylvania has a wide range of qualifying conditions, including PTSD and chronic pain, the market restricts edible products to pills only. The lack of most edible products has led to a dominance of inhalable products in the PA market. Concentrates are particularly popular, bringing in over 50% of dollar sales in 2021 so far. Flower is just behind concentrates with about 45% of dollar sales, with other products such as sublinguals, topicals and pills bringing in only a small share.

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Since the market's inception, the state's medical program has been regulated by the Pennsylvania Department of Health, which has enabled strong growth despite relatively stringent restrictions. Unlike other large medical-only markets, such as Florida, Pennsylvania does not mandate vertical integration, but the state has capped the number of dispensary licenses at 50, with each licensee being permitted to open three retail locations. While retailer caps can lead to high profitability for those who score a coveted permit, they also put a premium on these licenses for those looking to launch operations in the market.

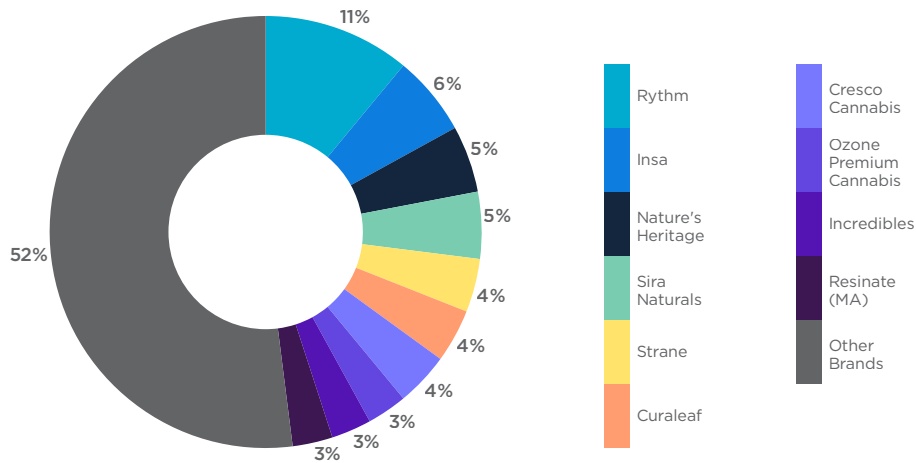
This situation has also played out in Massachusetts and Illinois, which both have capped the number of licenses to be issued. Multistate operators have already capitalized on the high barrier to entry in Illinois, with Chicago-based Cresco Labs having successfully acquired 10 dispensary licenses in the state. Ascend Wellness Holdings (AWH) and Green Thumb Industries (GTI) have also heavily invested in expanding their retail footprint in Illinois, with 8 retailers owned by AWH already in operation, and GTI having established 7 different retail storefronts. Then, when you look at the top performing brands in IL, it is not surprising to see the brands owned by these operators dominating. Cresco Cannabis (Cresco Labs flower brand) makes up 13% of branded dollar sales in Q2 2021, according to BDSA's Retail Sales Tracking. Ozone (AWH), Rhythm (GTI), Verano (Verano's flower), High Supply (Cresco Labs), Incredibles (GTI), Grassroots (Curaleaf) are all MSO brands that dominate the top 10 in Illinois.

IL Share of Branded \$ Sales: Q2 2021



Source: BDSA Retail Sales Tracking

MA Share of Branded \$ Sales: Q2 2021

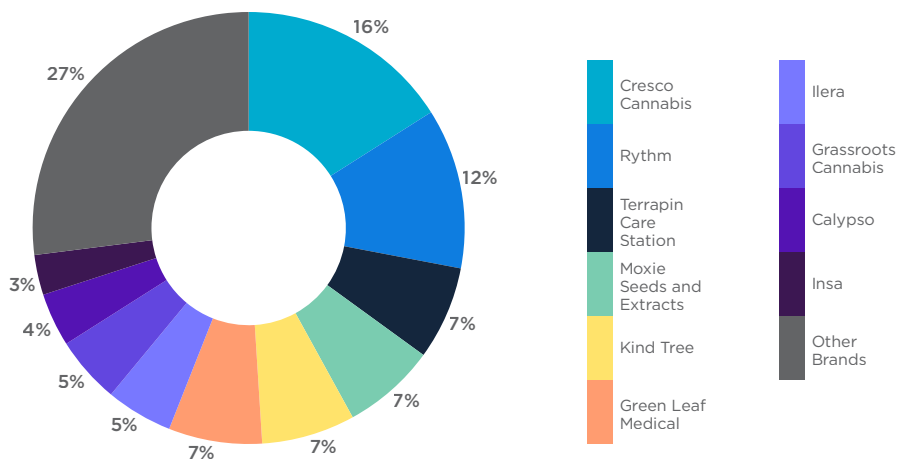


Source: BDSA Retail Sales Tracking

In Massachusetts, Illinois-Based Green Thumb Industries has also pursued several mergers and acquisitions that are already paying off. GTI-owned brand Rythm brought in over 11% of branded dollar sales in Q2 2021, more than any other brand in the state.

This consolidation of legal cannabis sales by MSO's has been even more pronounced in Pennsylvania's thriving medical market. This can clearly be seen by the distribution of licenses among some of the largest MSOs have in state, especially when considering the license cap which limits the number of retail storefronts to 150.

PA Share of Branded \$ Sales: May 2021



Source: BDSA Retail Sales Tracking

As of late-July 2021, Harvest Inc., an MSO with retail locations in Arizona, California, Florida and Maryland, has already established 11 retail storefronts the Pennsylvania market. Harvest's retail reach is expected to see continued growth given the company's upcoming merger with Trulieve. Cresco labs already has four active retail locations in the state as of June 2021, helping Cresco's portfolio of brands take a dominant position in the market. The Cresco Cannabis brand brought in a 16% share of branded dollar sales in Q2 2021. Green Thumb Industries has also established a strong foothold in Pennsylvania, with 16 retail locations under their RISE group of dispensaries as of last month, driving their brand Rythm to be the second-ranked brand in the state with a 12% share of branded dollar sales in Q2 2021. As Pennsylvania moves closer and closer to adult-use legalization, top MSO's in the state are set to be in a commanding position when cannabis sales open to the general public.

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