



ESSENTIAL CANNABIS

INSIGHTS

NOVEMBER 2022 VOL 5, ISSUE 8

CANNABIS LEGALIZATION UPDATE

This year's midterm elections were full of surprises, from Democrats significantly overperforming expectations across the board, to Colorado becoming just the second state to legalize psychedelic substances. One thing that wasn't surprising was the continued progress we saw on the cannabis legalization front, as five states voted on ballot propositions to legalize adult-use, and a host of pro-cannabis measures passed on the local level. While three of the five statewide measures were shot down by voters, legalization passed by convincing margins in both Missouri and Maryland. This brings the total number of states with legal cannabis to 21, plus the District of Columbia, Guam, and The Northern Marianas Islands. While election results are still being counted, we've prepared a granular overview of the newest inductees to the legal cannabis club, along with some top insights on what to expect for legalization in the coming year.

Missouri Joins the Ranks of Legal Midwestern Markets

Since the launch of medical sales in October 2020, Missouri's cannabis industry has seen strong growth. The Missouri market saw a total of ~\$210 million in medical cannabis sales in 2021, the first full year of legal sales. BDSA forecasts the market to bring in a total of ~\$370 million in total legal sales in 2022. Missouri made the move to adult-use last week with the passage of Amendment 3, the Marijuana Legalization Initiative, which opens the door for an adult-use cannabis industry and legalizes possession and home grow of up to six plants. The Amendment passed by a 53-47 margin, a convincing win for a state that has been seen as a conservative stronghold for the past few years.

The Missouri market saw a total of ~\$210 million in medical cannabis sales in 2021, the first full year of legal sales. BDSA forecasts the market to bring in a total of ~\$370 million in total legal sales in 2022.

More mature cannabis markets have struggled since the second half of 2021, plagued by illicit competition and crashing wholesale prices, but Missouri's industry has continued to see steady growth even as equivalent average retail prices have fallen ~40% between September 2021 and September 2022. This growth has been accompanied by a rapidly developing brand landscape, with BDSA Retail Sales Tracking showing that the state has seen the number of active brands in the market grow ~60% between January 2022 and September 2022.

BDSA's Cannabis Market Forecast shows adult-use sales beginning in Missouri in 2023, amounting to \$277 million that year. Regulators are expected to move expeditiously to get things up and running, with some estimating that legal sales could start as early as February 2023. By 2026, the Show-Me state's cannabis market is expected to bring in ~1.3 billion in legal cannabis sales, making Missouri a top ten contributor to US sales growth by 2026.

Adult-use Sees Resounding Win in Maryland

Maryland has seen strong growth in its medical cannabis program since the start of legal sales in late 2017. Legal medical sales totaled ~\$550 million in 2021, a ~20% increase over 2020 sales. Voters in Maryland got the chance to make their voice heard on cannabis this year as Maryland Question 4 made its way to the ballot. The ballot question, which allows possession of up to 1.5 ounces of cannabis, paves the way for adult-use sales and allows Maryland residents to grow two plants at home, passed with 65% of voters supporting the measure.

Like most mature cannabis markets, Maryland has seen retail prices fall significantly since Q3 2021. Between September 2021 and September 2022, equivalent average retail prices fell ~35% in the Maryland market. While dollar sales have stagnated, largely driven by price declines, equivalent unit sales have continued to grow, reaching an all-time high in September 2022.

BDSA forecasts adult-use sales to begin in Maryland in 2024, reaching \$215m that year. Adults will be allowed to grow and possess cannabis beginning July 1, 2023, but lawmakers will need some time to cement adult-use retail regulations — likely beginning that discussion in January 2023. The Maryland market is expected to grow to bring in ~\$1.2 billion in legal sales by 2026, barring any unexpected delays with launch or regulations.

The Maryland market is expected to grow to bring in ~\$1.2 billion in legal sales by 2026, barring any unexpected delays with launch or regulations

What's Next on The Table for Cannabis Reform?

At the time of writing, Republicans have secured a slim majority in the House, adding further challenges to the prospects for federal legalization in the next two years. That said, progress at the federal level is still possible, with the SAFE Banking Act and reforms to IRS Code 280E being the most likely targets for cannabis allies in Washington.

Perhaps a bigger story is the number of Democrats who rode the unexpected "Blue Wave" to win key state legislature races in Minnesota and Pennsylvania, giving hope that these states may see more cannabis reforms pass before 2024. Minnesota Democrats won both houses of the state legislature, giving them a trifecta in Government with the re-election of Gov. Tim Walz. Minnesota has had a limited medical cannabis program since 2015, and made big news when its legislature "accidentally" legalized THC edibles and beverages in 2022 with the passage of a bill aimed at regulating hemp-derived cannabinoids. While the 2022 bill has created one of the most interesting cannabis markets in the country, largely devoid of regulation and taxes, previous attempts to **fully** legalize have been halted by the divided government. Should Democrats prioritize cannabis issues in the coming year, it's possible that a fully fledged cannabis market could come to Minnesota within the next two years.

Pennsylvania was another state to see a sizable shift, with Democrats on track to take control of the State House for the first time since 2010. Since launching medical sales in 2018, the Pennsylvania medical market has seen strong growth, with annual legal sales passing the \$1 billion mark in 2021. While outgoing Gov. Tom Wolf and former Lt. Gov. (and soon to be US Senator) John Fetterman were tireless advocates for adult-use legalization, a divided government was a barrier to full legalization. While Republicans took control of the state Senate, a Democratic majority in the House and a cannabis friendly governor improve the state's chances of getting adult-use across the line in the coming year. BDSA expects sales to launch in 2025 and bring in ~\$500 million in adult-use sales in year one. Total legal sales in Pennsylvania are projected to reach ~\$1.6 billion in 2025 and grow to ~\$1.8 billion in 2026.

While the 2022 bill has created one of the most interesting cannabis markets in the country, largely devoid of regulation and taxes, previous attempts to fully legalize have been halted by the divided government. Should Democrats prioritize cannabis issues in the coming year, it's possible that a fully fledged cannabis market could come to Minnesota within the next two years