

Annual Marijuana Business **FACTBOOK**

Exclusive market, financial and
operational data for cannabis
businesses and investors

2018 | 6th Edition

Excerpt Includes:

- Editor's Letter
- Overview & Insights
- 5 Critical Chart Previews
& Key Takeaways

Executive Summary

Letter From the Editor

Growing Up

A big round of applause for the marijuana industry: It has successfully navigated childhood and now stands at the doorstep of adolescence.

When the first major wave of cannabis businesses set up shop nearly a decade ago, many companies operated in the absence of statewide regulations. The stigma surrounding the industry was strong, and the stereotypes often rang true. Cannabis evangelists and longtime operators in the black market dominated the business landscape. Barriers to entry were low, as long as you were willing to risk going to jail. And competition was an afterthought: Simply opening the doors of a business was often enough to guarantee near-term success.

Today, the industry's opportunities, challenges and overall makeup are strikingly different.

Consider:

- The implementation of statewide regulations this year in the last remaining holdouts – California, Michigan and Montana – officially closes the chapter on the industry's Wild West past and brings the entire industry into the modern age.
- The vast majority of the U.S. population supports medical marijuana, and more than 50% now back recreational legalization. The stigma and stereotypes are eroding quickly.
- Seasoned entrepreneurs and executives are entering the industry at a rapid clip, helping professionalize the sector but also contributing to increased competitiveness across the board.
- Businesses are increasingly facing the same types of competitive pressure that companies in mainstream corporate America experience. As a result, they're having to up their game in many ways, such as implementing new technologies, landing more money, striking partnerships and upgrading their facilities. Those that don't, or can't, are falling behind and even going out of business.

- The industry will generate an estimated \$8 billion to \$10 billion in retail sales this year, up from roughly \$1 billion in 2011. But the pace of growth is slowing in some key markets, including Colorado and Washington state, and consolidation is materializing in several regions.

Our sixth annual Marijuana Business Factbook highlights this ongoing evolution and offers indications of what lies ahead, painting a picture of an industry that has grown up quickly but is still feeling its way along.

While the industry's overall progress in recent years is a huge achievement for a sector that rose meteorically from the shadows of the black market, the real growing pains are about to kick in. The next phase of the industry's life cycle will involve continued growth, business maturation, rapid change and increased professionalism. It will also usher in a host of new challenges and lead to some casualties.

This report will give you a deeper understanding of these trends and the overall cannabis landscape today so you can effectively navigate the opportunities and challenges that lie ahead – and position your business for long-term success.

Best,



A handwritten signature in black ink that reads "Chris Walsh". The signature is fluid and cursive, with a long horizontal flourish at the end.

Chris Walsh

Vice President, Marijuana Business Daily

Insights from each section:

For the cannabis professional with questions, this Factbook provides lots of answers. You need to understand the major trends in every sector of the industry, and our data findings – paired with survey responses from more than 900 professionals – reveal what the future of cannabis holds. In this Factbook, you can look forward to:

- Retail sales data that reveals major trends in this growing industry
 - Economic impact projections and employment figures are optimistic for the future of the industry, BUT...
 - Our exclusive reports on obstacles and challenges highlight major shifts in priorities and concerns – are vertically integrated businesses going to dominate the industry?
- 100 pages dedicated to new data on medical and recreational markets
 - Sales, regulations and business opportunities vary widely on a state-by-state basis.
 - Breakdowns of state-level regulations and legislation are also included.
- New information showing why recreational growth is slowing in maturing markets
 - Surveys support how this trend impacts sales as more states legalize.
 - Compared to other established consumer markets, like alcohol, cannabis is still growing rapidly.
- Key financial and operational benchmark data for each segment of the cannabis industry
 - We've added more charts and analysis this year to further explore one of the more modern cannabis business models – vertical integration.
 - See what unique challenges each sector faces when it comes to turning a profit.
 - Some business segments saw rapid growth paired with sustained profit ... others are barely breaking even.
- Responses from ancillary businesses indicating which big changes are on the horizon
 - There's a distinct need for expansion of ancillary services and products as the cannabis market grows.
- A detailed look at the funding and investment climate in the cannabis industry, answering questions such as:
 - Where are the sources of startup capital coming from?
 - What are investor returns?
 - Where can I find data on current and future investments?

Factbook Overview

The marijuana industry is growing more competitive and complex with each passing year. In the early days of legal cannabis sales, running a profitable marijuana company was often a matter of getting the business off the ground and opening the doors. By now, however, the landscape has changed. Explosive sales growth has drawn scores of entrepreneurs, executives and investors into the cannabis space, considerably raising the level of sophistication within the marijuana industry and making it harder for companies to turn a profit. Increasingly, business owners are looking for reliable, actionable data to drive decisions, assess the competition, target investments and tackle new opportunities.

But basic financial and operational data about companies operating in the marijuana industry leaves much to be desired. Most plant-touching companies in the marijuana industry are privately held, and the few that are publicly traded in the United States are listed on over-the-counter markets, where reporting and disclosure requirements are light.

In cases where financial data is made available, it's often of little value – not applicable in an industry where rules and regulations at state and local levels cause business models and competitive environments to vary drastically between markets.

Even within markets, the structure and size of marijuana companies runs the gamut: from a single mom-and-pop dispensary generating \$200,000 in annual revenue to the large, multimillion-dollar retail chains running commercial-scale grow facilities and operating dozens of stores.

Disparities in company size, business structure and market conditions present major challenges for entrepreneurs that want to learn more about the financial realities of running a company in the marijuana industry.

Information is becoming more widely available at the state level. Most states provide monthly reports covering the number of patients registered in their medical marijuana programs along with breakdowns of the conditions patients are using MMJ to treat. Several states now provide detailed information on MMJ sales and/or consumption.

While this represents a major improvement from previous years, data provided in a vacuum lacks the context to be truly meaningful.

This report helps fill that void, providing exclusive financial data for businesses in all major sectors of the marijuana industry, accompanied with nuanced analysis to put the information in perspective and presented in a framework that allows for meaningful distinctions between markets and across business types.

In charts detailing especially critical aspects of cannabis business operations, like annual revenue and startup costs, a range of collected responses better reflects the realities of the unique, state-by-state nature of the marijuana industry.

The lion's share of financial and operational data in this report stems from our annual online survey of cannabis professionals. This year's Factbook considers the responses of more than 900 business owners, executives, entrepreneurs and investors. Their input helped give us a window into operational data for the main sectors of the industry: cultivation, infused products, retail, testing, ancillary products and services, and investing.

We also utilize data-sharing partnerships with reputable firms in the industry, allowing us to provide an in-depth look at two major areas: point-of-sale transactions and wholesale cannabis pricing. *Marijuana Business Daily* would like to extend special gratitude to the following data partners for their contributions to this book:

- The Brightfield Group, a full-service market research firm focused on the legal cannabis industry.
- Cannabis Benchmarks, a division of New Leaf Data Services, which tracks wholesale medical and recreational cannabis prices across the United States.
- Headset, which provides business intelligence and analytics services for marijuana companies.

Data from these partners is featured in chapters 2, 3 and 5, and more information on each of these companies can be found in the Appendix.

Additionally, *Marijuana Business Daily* would like to thank the following organizations for their support in spreading the word about this year's survey of cannabis professionals:

Grodan, BioTrackTHC, Cova, MJardin Group, Baker, Dixie Elixirs, Apeks Supercritical, SIVA Enterprises, Quantum 9, Surna, CanopyBoulder, Canna Angels and Poseidon Asset Management.

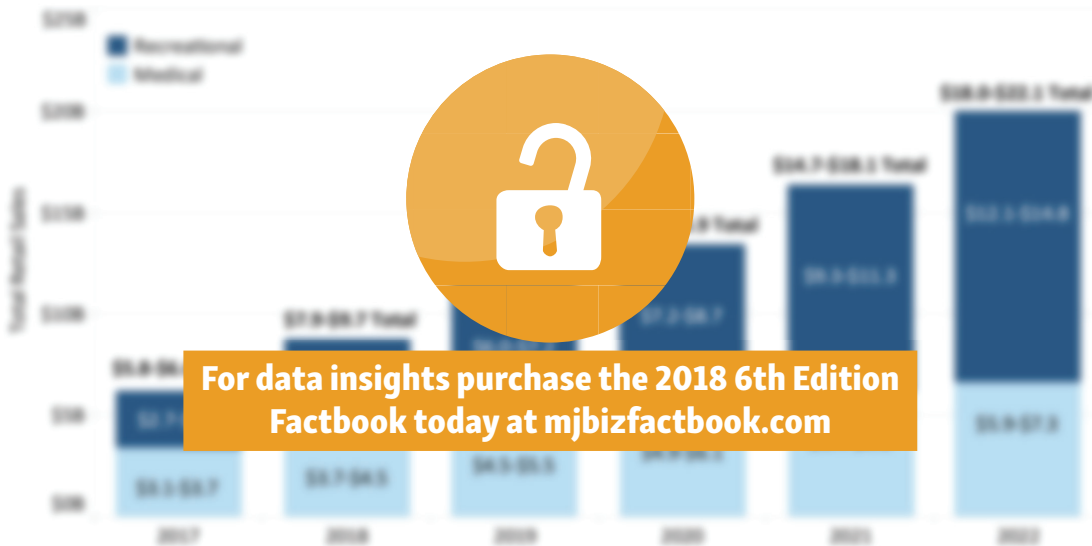
5 Critical Charts to Consider in 2018

1 Retail on the Rise: U.S. cannabis sales projections through 2022

Annual cannabis retail sales continue to grow year-over-year as new markets emerge and more states legalize medical and recreational marijuana. Sales in 2018 are projected to increase by roughly 50% from 2017, on pace to reach \$8 billion-\$10 billion by the end of the year.

By 2022, we project annual retail marijuana sales in the United States could top \$20 billion, which would represent more than a 200% increase from 2017.

U.S. Cannabis Retail Sales Estimates: 2017 - 2022
(In Billions Of U.S. Dollars)



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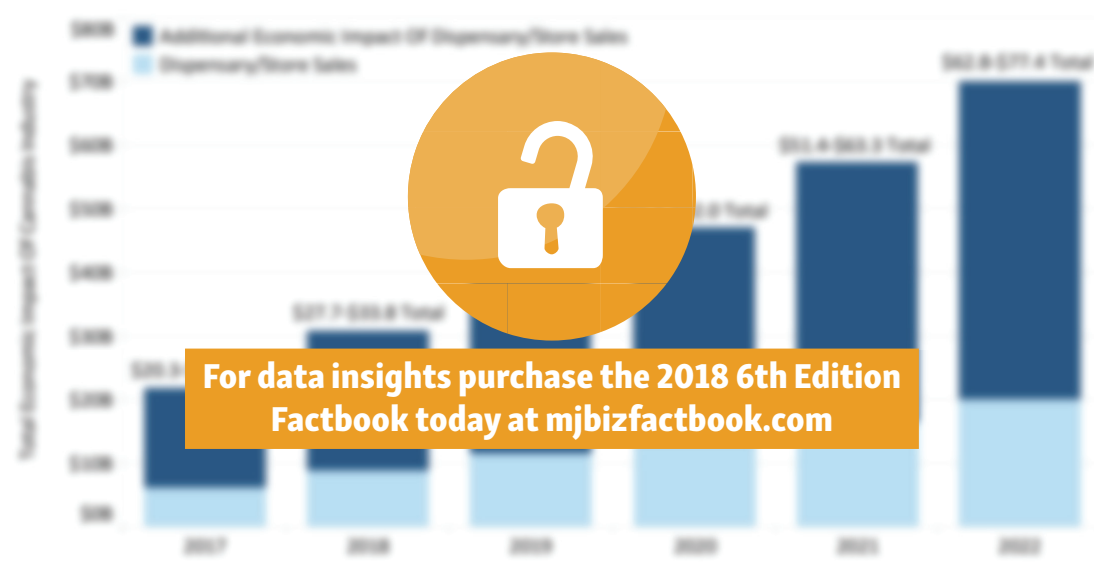
2 The Big Picture: A look at the impact of cannabis on the U.S. economy

The marijuana industry will create an estimated \$28 billion-\$34 billion economic impact in 2018. By 2022, that could soar past \$75 billion annually.

Estimates for the industry’s economic impact are based on retail marijuana sales and incorporate a multiplier of 3.5. So, for every \$1 consumers or patients spend at dispensaries or rec stores, another \$2.50 in economic benefit is created in cities, states and nationwide.

The overall economic impact includes a host of factors, including the launch of new businesses, marijuana companies collectively paying hundreds of millions in state and local taxes, tourists visiting recreational states and spending money to legally consume cannabis, and MJ employees circulating their earnings back into the economy via personal spending and taxes.

U.S. Cannabis Industry Total Economic Impact: 2017 - 2022
(In Billions Of U.S. Dollars)



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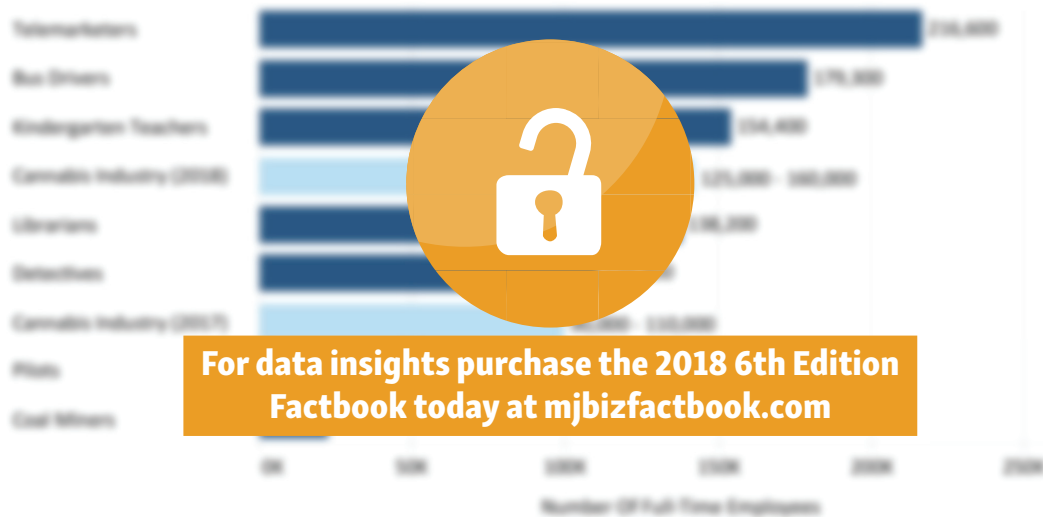
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3 Cannabis Employees: Estimating the number of people working in cannabis

The cannabis sector currently employs an estimated 125,000-160,000 full-time workers. These figures consist primarily of workers directly employed by cannabis businesses – such as budtenders and extraction technicians – as well as employees from ancillary companies that generate a sizable portion of their revenue from the marijuana industry.

To put this in perspective, there are potentially more full-time marijuana industry workers than there are librarians or kindergarten teachers throughout the country – and over six times the number of coal miners in the United States.

**Number Of Full-Time Workers In The Cannabis Industry:
Employment Comparisons To Mainstream Professions**



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Note: Cannabis industry employment figures calculated using number of full-time equivalent workers that support the marijuana industry.
Source: U.S. Bureau of Labor Statistics Employment Projections, 2014-2024. Projections include both full- and part-time workers.
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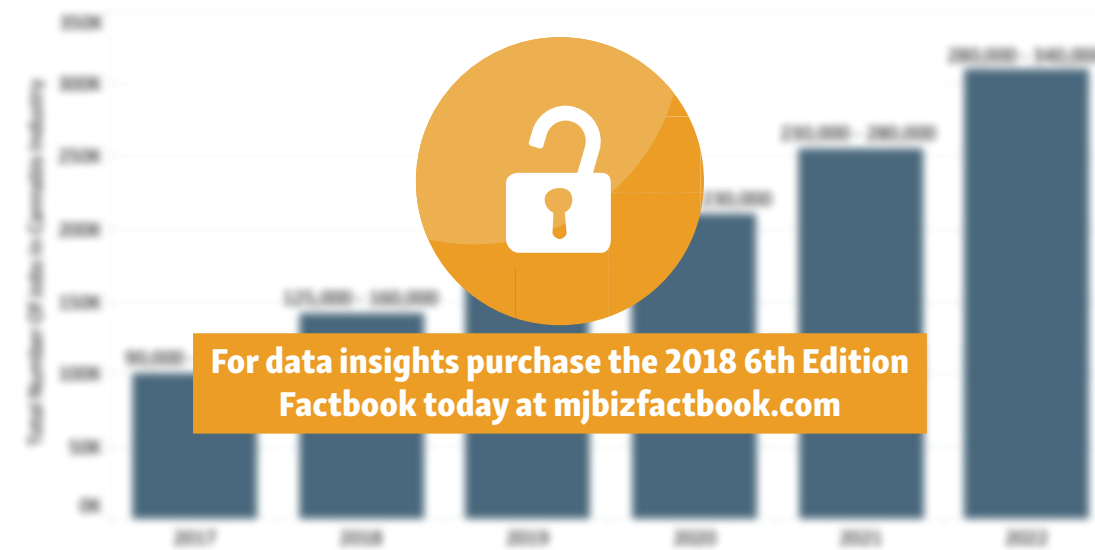
4 Job Security: Adding more full-time jobs through 2022

Compared to other burgeoning industries, the number of full-time jobs in the cannabis industry is growing at a rapid-fire pace. The industry is projected to add as many as 340,000 full-time jobs by 2022. This reflects an estimated growth of 21% per year, significantly higher than official estimates for other industries and professions.

For example, employment across the entire U.S. health-care industry is expected to grow 2% annually, while the number of solar panel installers is projected to grow by 7% each year.

Although sales growth in some mature markets is beginning to slow, lucrative MMJ markets in states like Pennsylvania, Florida and Maryland are just getting started. Our estimates also account for the fact that more states will likely legalize medical and recreational marijuana in the coming years, another major driver of job growth that will have a positive effect on the economy as employees spend their earnings on goods and services at local, state and federal levels.

U.S. Cannabis Industry Full-Time Employment Estimates: 2017 - 2022



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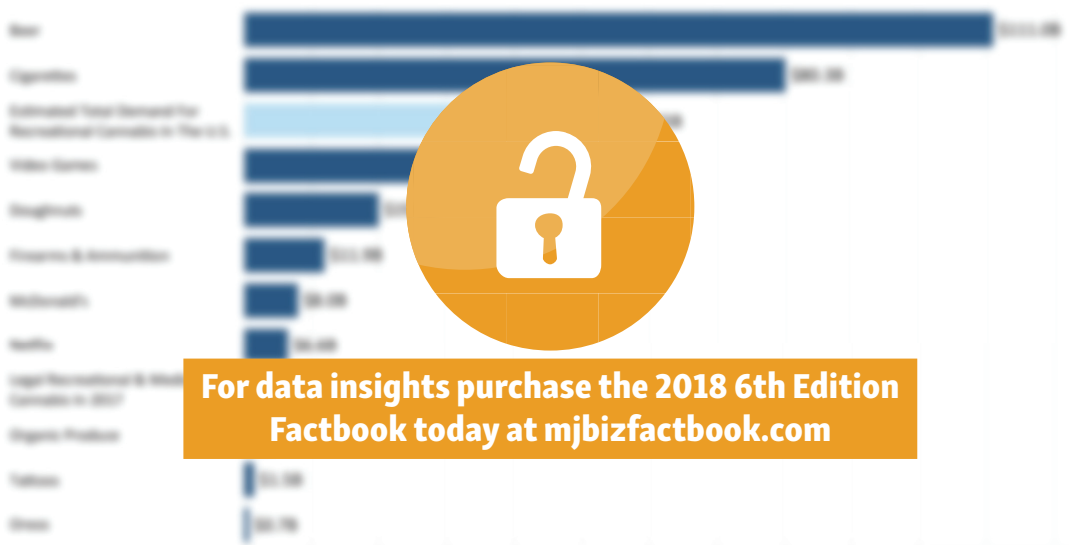
Note: Cannabis industry employment figures calculated using number of full-time equivalent workers that support the marijuana industry. Copyright 2018 Marijuana Business Daily, a division of Anne Holland Ventures Inc. All rights reserved.

5 In Perspective: Defining revenue and monetizing the demand for cannabis

In 2017, sales of medical and recreational cannabis in the United States were nearly nine times higher than Oreo cookies and almost on par with Americans’ collective spending on Netflix subscriptions. With the addition of California’s recreational market sales in 2018, cannabis sales could easily eclipse McDonald’s annual U.S. revenue.

Total demand for marijuana in the United States, including the black market, is around \$52.5 billion, according to estimates. If the federal government legalized marijuana nationwide, sales might start out around that level but would likely rise as cannabis gained mainstream acceptance and the market evolved. Eventually, marijuana could surpass cigarette sales – with the potential to rival beer in terms of overall sales.

Annual U.S. Cannabis Sales Vs. Other Industries & Goods



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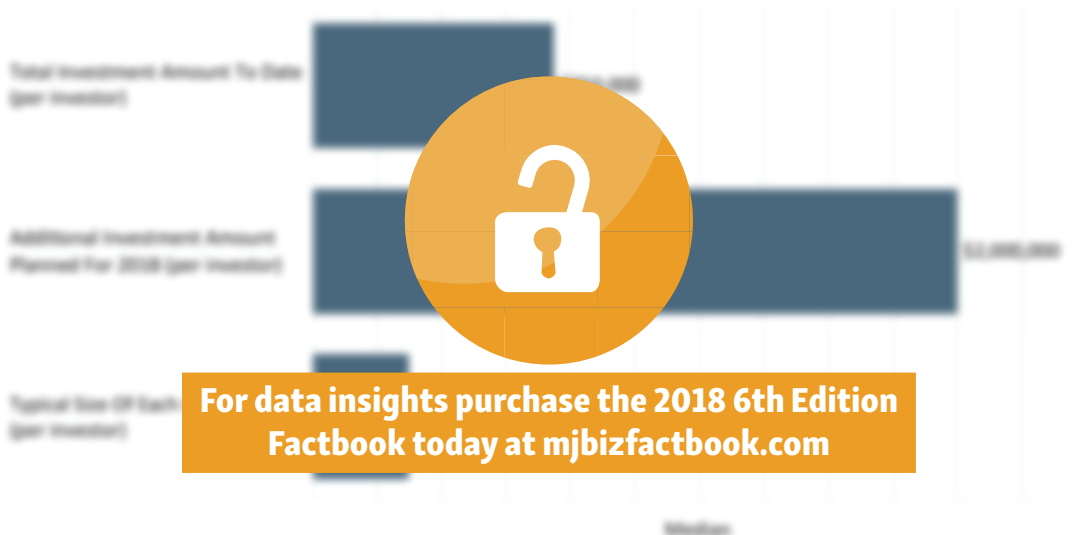
5 Key Takeaways

1 Investors doubling down

Investors plan to provide more than twice as much capital to cannabis businesses in 2018 than in all previous years combined.

Many investors surveyed plan to deploy upwards of \$2 million to cannabis businesses in 2018, with several survey participants intending to provide over \$30 million in funding to marijuana companies this year. This level of investment in the cannabis industry has become more common as businesses demand more capital.

Cannabis Industry Investors: Typical Investment Amount To Date, Additional Investment Amount Planned For 2018 & Size Of Each Investment



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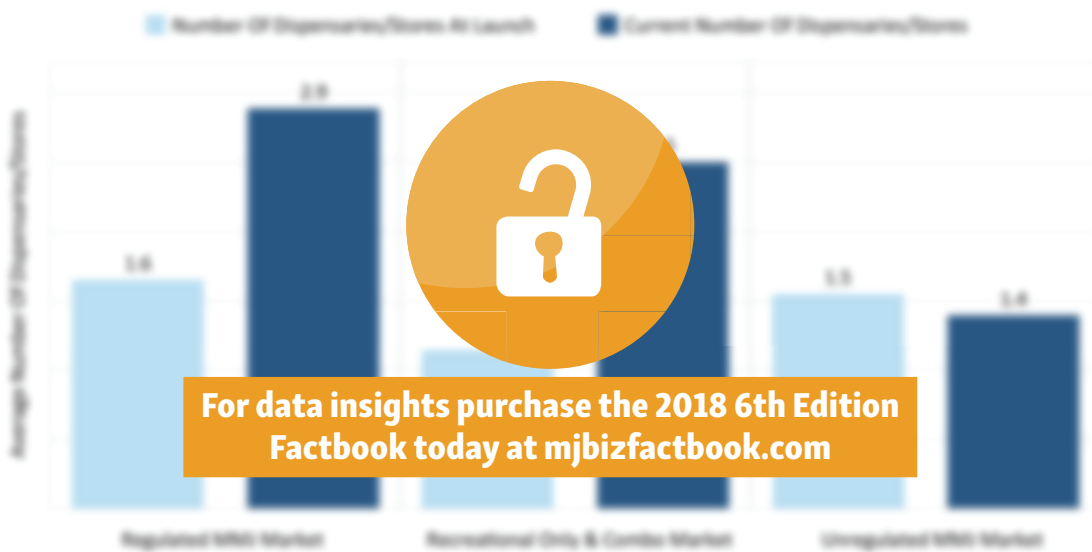
Until 2018, the average cannabis investor had sunk about \$750,000 total into the cannabis industry. But this year many investors are ready to dig deeper into their pockets and spend millions on industry advancements. We examine the signals investors are seeing in cannabis that is driving them to spend even more this year.

2 Vertical integrators seeking market domination

Vertically integrated companies are inherently designed to add locations in a sustainable and profitable manner over time. Businesses have implemented standard operating procedures around opening new stores and have team members devoted to the licensing and application process.

With tight control over their own supply chains and the ability to leverage economies of scale, these retailers can profitably sell products at lower prices than smaller, independent competitors.

Vertically Integrated Retailers: Number Of Dispensaries/Stores At Launch Compared With Current Number Of Dispensaries/Stores



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What will it mean for profits if your business isn't vertically integrated? With more leverage and higher profit margins, vertical integration is becoming more than just a niche in retail business models.

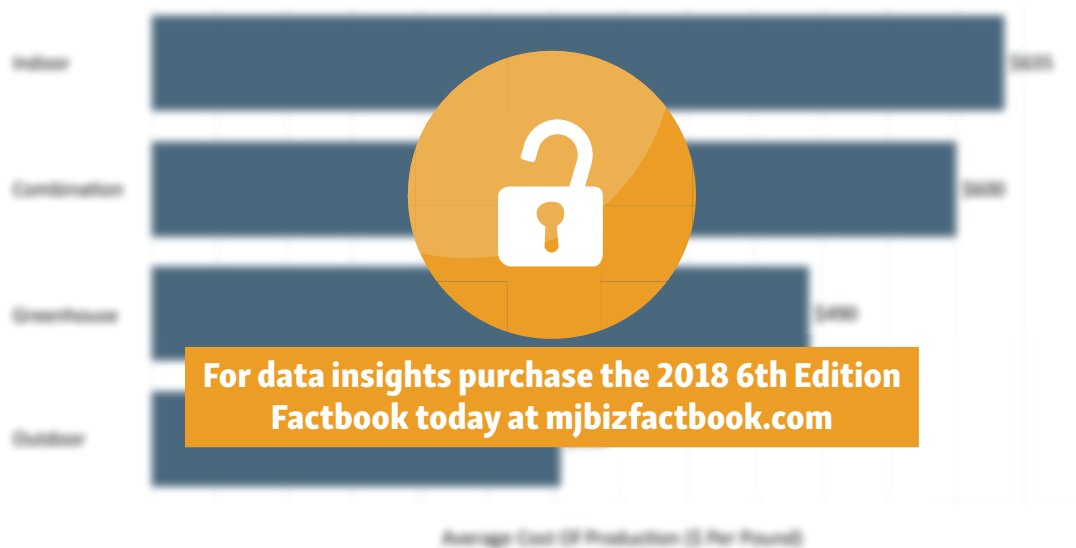
3 Is the future dimming for indoor grows?

Profit margins for energy-intensive indoor grow operations have been shrinking, while prices for cannabis cultivated in more efficient greenhouses are approaching – and in some cases surpassing – indoor-grown cannabis.

Producing a pound of indoor-grown flower costs about 30% more than flower grown in a greenhouse. The disparity is even greater when compared to flower grown outdoors, where production costs are less than half those faced by indoor cultivators. Several established cultivators have moved production into greenhouses based solely on economics – a trend more businesses are likely to follow.

The ability for greenhouse growers to receive equal or greater prices in the wholesale market with substantially lower production costs has called into question the long-term viability of growing indoors.

Wholesale Cultivators: How Much Does It Cost Your Business To Produce One Pound Of Marijuana?



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Greenhouses and outdoor grows reduce costs – can your indoor grow afford to compete? Niche consumers are even willing to pay top dollar for greenhouse- and outdoor-grown flower, so what will indoor cultivators do to keep up?

4 Infused product companies expanding across multiple states

A growing number of infused product companies are developing into national brands.

Relative to other plant-touching sectors of the marijuana industry, infused product manufacturers can easily expand their operations across state lines. Many growth-minded infused product companies are pursuing aggressive expansion strategies with licensing agreements and partnerships to bring their brands into new markets.

The goal for many infused product manufacturers is to grow into large, dominant brands that become household names with patients and consumers.

**Infused Product Manufacturers Based In California, Colorado, Oregon & Washington:
Portion That Sell Products In More Than One U.S. State**



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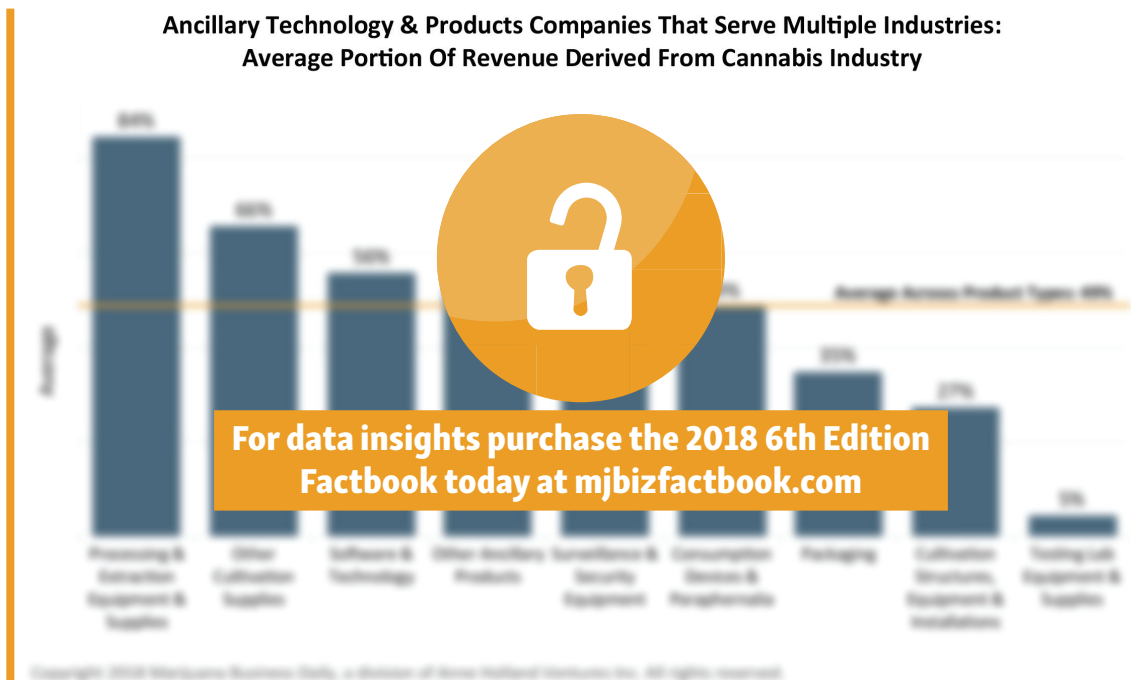
Niche infused products are finding ways to go national. Whether or not you are licensed in multiple markets, how do you ensure your products become a household name?

5 Cannabis innovation forces ancillary groups to specialize

Across the ancillary products and technology sector, just over 40% of companies serve the marijuana industry exclusively. For ancillary groups that serve multiple industries, revenue generated from marijuana companies accounts for roughly half their total annual sales.

The rapid pace of innovation in the cultivation and processing sectors of the cannabis industry is driving equipment and materials to become more specialized. Core product offerings for many companies that serve these market segments now target marijuana businesses specifically, even though they launched outside the cannabis industry.

Ancillary services firms typically bring in less than \$200,000 in total annual revenue, so the rapid emergence and growth of the cannabis industry gives entrepreneurs a significant opportunity to expand their businesses.



For ancillary companies serving the cannabis industry, rapid growth in the space means a boom in revenue for marijuana-related products and services. Even ancillary groups that were founded to serve different industries are gravitating toward becoming cannabis-exclusive as demand for specialized products and services grows.

2018 Factbook Table of Contents - Overview

Chapter 1: National Cannabis Industry Facts, Figures & Trends

Chapter 2: State-By-State: Legal Overview, Market Data and Outlook

Chapter 3: Wholesale Cultivators

Chapter 4: Infused Product Manufacturers

Chapter 5: Stand-Alone & Vertically Integrated Medical Marijuana Dispensaries
& Retail Stores

Chapter 6: Testing Labs & Ancillary Firms

Chapter 7: Cannabis Business Funding & Investing

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Annual Marijuana Business

FACTBOOK

MJBizDaily brings you the 6th edition of The Annual Marijuana Business Factbook featuring over 300 pages of all-new and exclusive data, financial benchmarks, and information necessary to navigate the marijuana industry.

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