



Crossing the Mississippi

U.S. Cannabis Market

2019 Report



Introduction

Over the past few years, recreational cannabis has entered the mainstream across much of the Western half of the United States. The rise of legal markets in Colorado, Nevada and Arizona has put pressure on other states around the country to pass recreational cannabis laws of their own, broaden their medical programs, or at the very least, develop some sort of cannabis infrastructure. Through 2023, Brightfield Group estimates that the total U.S. Cannabis market could reach \$22.7 billion.

So, will that growth continue to be driven primarily by West Coast behemoths?

While the West Coast were the pioneers in cannabis legalization, they also experienced their pitfalls. Loose restrictions on licenses led to a massive flood of businesses, rapidly oversaturating the market and creating confusion for lawmakers and customers alike. The East Coast and Midwest, however, were watching this all play out and as a result, took a different approach.

These regions saw heavier restrictions on licenses for dispensaries, significantly increasing the value of new businesses as it required more capital to get off the ground. Some of the largest acquisitions and partnerships across the cannabis vertical have taken place in the Midwest and East Coast due to the higher financial incentive. The higher costs to access limited licenses has pushed investment firms and business owners to pool resources and become significantly more vertically integrated than their West Coast counterparts. Legitimate businesses have grown at a faster rate in these regions because of this consolidation. It has also become much harder for smaller firms to keep their doors open when competing with multi-state operators (MSOs) bolstered by extensive capital and, in some cases, strong existing brand reputations.

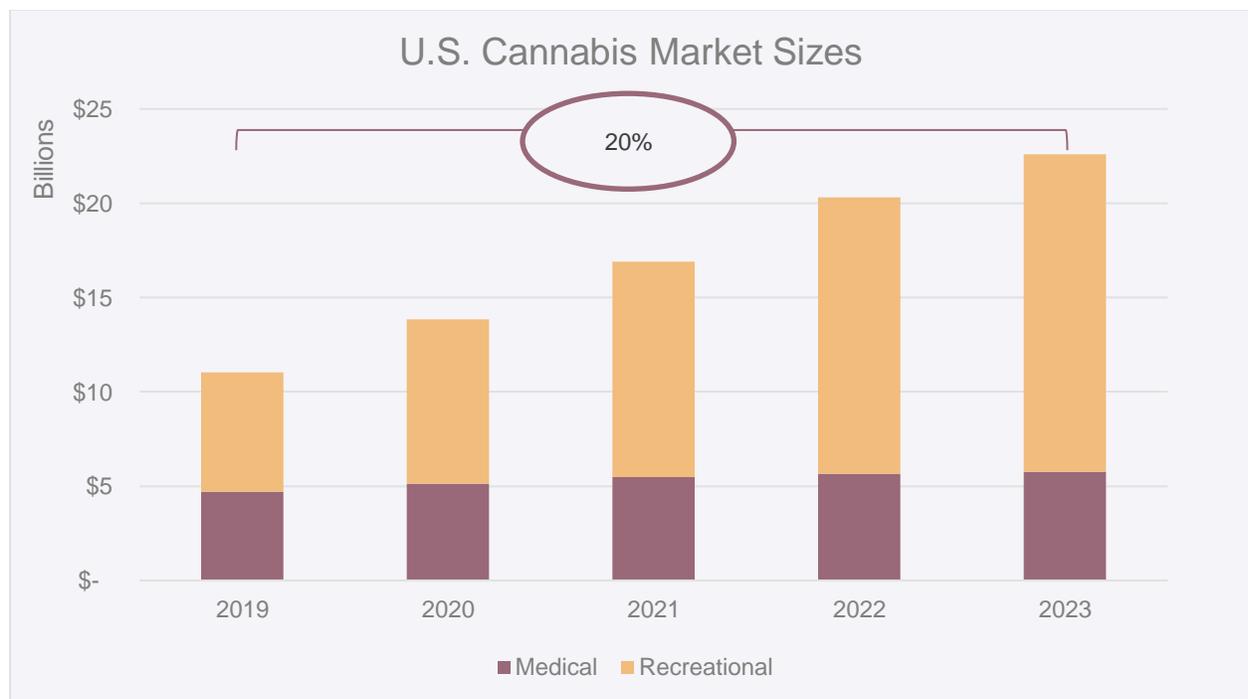
Current market leaders Colorado, Oregon, and Washington comprise 42% of total U.S. sales, while emerging eastern states Illinois, Massachusetts, Michigan, New Jersey and New York register only 11%. While California has often been the most recognized state for cannabis use in the past, their regulation mishaps and underwhelming program roll-outs have left them with much less market share. By 2023, eastern markets will make up 34% of the total U.S. market while the western originators will lose over 20 points of market share, dropping to 20% of total sales.

How is the U.S. Cannabis Market Expected to Grow?

The total U.S. cannabis market is expected to reach \$22.7 billion in 2023, with a compound annual growth rate (CAGR) of 20% from 2019 to 2023. The majority of growth will be driven by recreational sales, particularly from newly-opened, fast-growing states in the Midwest and on the East Coast.

With more states moving to legalize recreational cannabis via ballot instead of referendum, increased momentum is expected for legalization in the coming years. At present, seven states permit legal recreational cannabis sales, and that number is expected to grow to 16 by 2023. These new additions will include populous Midwestern and Eastern states Michigan, Illinois, New York and New Jersey.

New medical markets will also open, with the total number of states with active medical markets growing from 28 at present to 35 in 2023.



What Does the Regulatory Landscape Look Like?

2019's evolving political and regulatory environment will greatly impact the future direction of the cannabis industry at large. The STATES Act and other incremental changes at the Federal level are expected to be enacted, gradually eliminating some of the most severe challenges businesses face in the industry, including access to banking, tax deductions and legal possession protections.

On a state level, the first states to legalize cannabis (California, Colorado) were through voter referendum, but there now appears to be support for legalization through legislative action, though ballot initiatives will continue to be an important tactic for legalization. The table below summarizes the current and expected future legislative action or ballot initiatives regarding legalization of recreational cannabis.

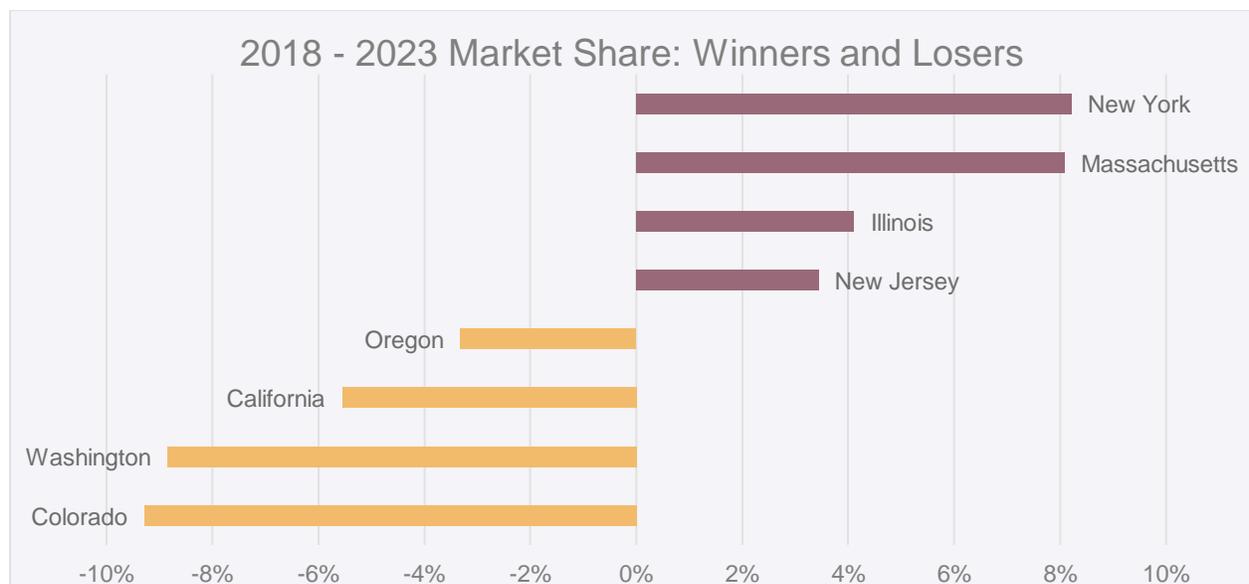
	Legalization Year	Sales Beginning	Background
California	2016	2018	2016 Adult Use of Marijuana Act passed, allowing sales in 2018
Massachusetts	2016	2018	Ballot Question 4 passed, retail opened in Nov. 2018
Nevada	2016	2017	Ballot initiative passed in Nov. 2016 with sales starting in July 2017
Michigan	2018	2020	Prop 1 passage led to rule changes, opening sales in 2020
Connecticut	2019*	2021	Legislation likely due to newly elected Gov. Lamont
Illinois	2019*	2020	Legislation likely due to newly elected Gov. Pritzker
Maine	2019*	2020	Legislation in drafting stage prior to legislative session closure
New York	2019*	2021	Gov. Cuomo reverses stance and pushes regulation change
Vermont	2019*	2022	Personal use in 2018 amended with sales legislation pending in 2019
Arizona	2020*	2022	Ballot initiative likely after bill stalled in legislature
New Jersey	2020*	2021	Bill died in legislature, moving question to 2020 ballot
New Mexico	2020*	2021	Bill stalled in Senate, Gov. Grisham moving issue to 2020 agenda

*Anticipated

How do the East and West Compare?

While California has been fumbling with a regulatory nightmare and growth rates slow to low single digits in existing recreational markets, many of the more populous markets along the East Coast and in the Midwest are scaling dramatically in size and offer much greater long-term potential as legal and entry barriers begin to soften.

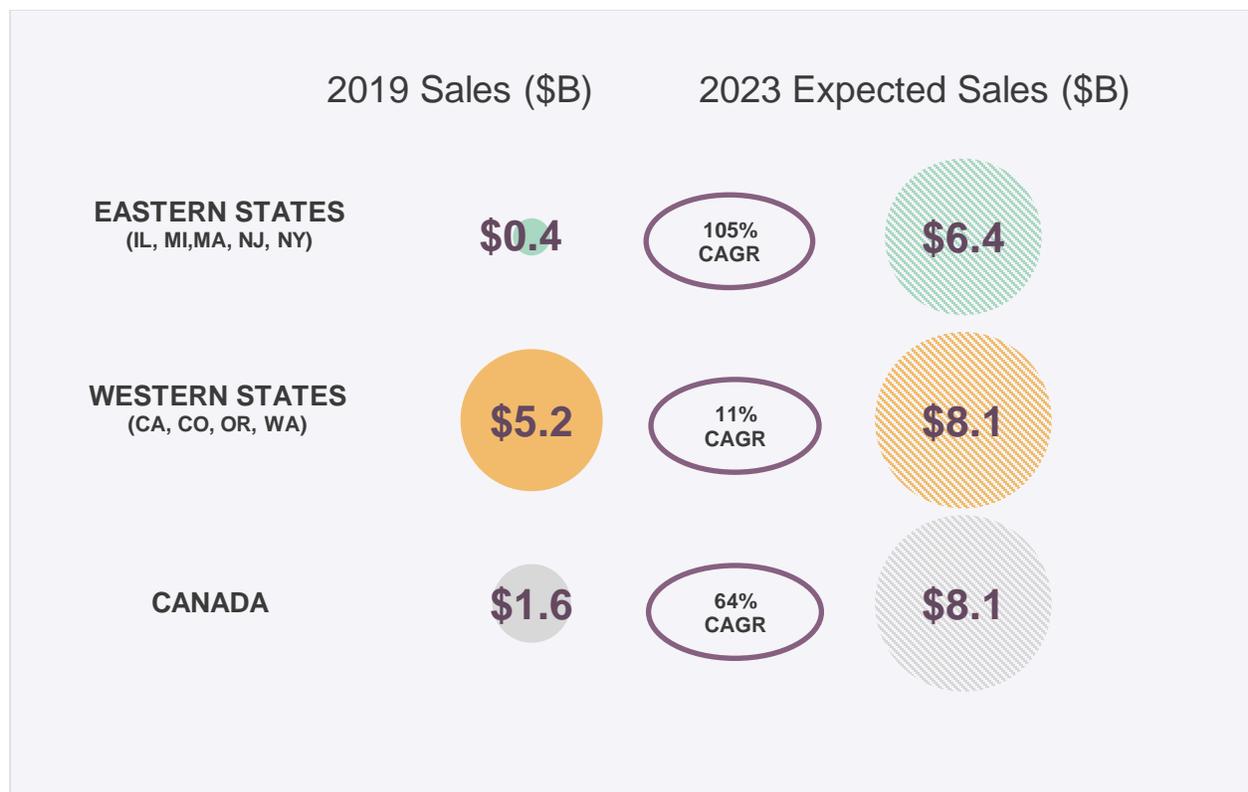
At present, none of the top five markets are east of the Mississippi. By 2023, two of the top three markets will be on the east coast with Massachusetts and New York commanding a combined 20% of the total U.S. market. California will continue its position atop the industry. However, eastern states are poised to take share from the early-adopters in the West. By 2023, emerging eastern states Illinois, Massachusetts, Michigan, New Jersey and New York will comprise 34% of the total U.S. market, while Oregon, Washington and Colorado will steadily lose their commanding lead, dwindling to 20% market share over the same period.



Will This Impact Canada's Rec Market?

The much-hyped opening of Canada's recreational cannabis market in 2018 was hampered by supply shortages, regulatory hiccups and tight marketing restrictions, leading to disappointing sales in 2018. Meanwhile, slowing patient growth will lead to strong deceleration of the country's medical market through 2023. With the likely addition of edibles to the offering of legal product types in 2019, growth will accelerate in the short-term. However, long-term prospects in the country are limited compared to the U.S. due to the relatively small size of the Canadian population and the likelihood of continued marketing restrictions and tight commercial regulations.

As emerging eastern states steal share in the U.S., they will also draw attention away from the Canadian cannabis market. Illinois, Michigan, Massachusetts, New Jersey and New York will together see a CAGR of 105% from 2019 to 2023 in recreational sales as their programs go live, nearly doubling Canada's 64% CAGR over the same period.



What Does the Business Landscape Look Like Now?

As markets open in the eastern U.S., regulations favoring a smaller number of players have given rise to Multi-State Operators (MSOs) comprised of chains of large, vertically-integrated cannabis operations, usually anchored in the eastern part of the country. MSOs are taking advantage of this changing landscape to grow larger, either by applying for permits in new markets or using acquisitions of local players to enter new states.

Below is a summary of some of the recent M&A activity by a few of the largest MSOs in the industry today:

HARVEST

MSO and vertically-integrated cannabis company with one of the largest and deepest footprints in the U.S.



GTI has nine manufacturing facilities and licenses for 72 retail locations across nine highly-regulated U.S. markets.

cresco

Grower, processor and retailer operating across the US, focusing on highly regulated markets with strong potential.

Verano Brands	37 retail licenses in 11 states covering over 150 million Americans along with ownership of ZenLeaf retail brand	CBx	Intellectual property, including all technology, methodologies, trademarks and formulations	MedMar	Dispensary chain in Illinois
CannaPharmacy	Cultivation, manufacturing, and retail in Pennsylvania, Delaware, New Jersey, and Maryland	Success Holding Company	Los Angeles-based luxury brand Beboe	Origin House	More than 50 brands in over 500 California retail dispensaries
Falcon International	Access to vertical operations and 80% of retail outlets in California	Advanced Grow Labs	Connecticut medical cultivation and processing, share in West Haven dispensary	VidaCann Ltd.	Vertically integrated Florida license, up to 20 retail locations, cultivation and processing facility
San Felasco Nurseries	Dispensary license and MMTC in Florida with up to 25 locations	Integral Associates	Nevada's Top Cannabis Operator with three Las Vegas locations, 54k ft. ² grow facility, cultivation and processing facility		

About Brightfield

We are a predictive market intelligence firm focused on the legal CBD and Cannabis industries. Our analytic solutions leverage data from millions of sources, enabling our customers to get the most holistic view possible while drilling down into the fine details. We provide comprehensive, up-to-date, and actionable insights that turn the best of academia, data science and research into long-term business growth.

Our Methodology

Traditional market research companies cannot operate in the world we live in today. Data needs to be accessed from multiple sources, in real-time, and provide companies with meaningful insights relevant to their business goals.

Our proprietary AI technology leverages machine learning and natural language processing algorithms combined with social listening to gain in-depth insights on consumer consumption behaviors, purchase patterns, motivators, personality attributes, and social media engagement.

We scan the internet for thousands of publicly available data points. Digital menus, published financial documents, regulatory updates, and sales data are monitored by our team for relevancy and accuracy around the clock.

Our analysts and researchers have degrees in global policy, qualitative research, data science, and psychology, bringing forth a best-in-class academic approach to data collection. We conduct thousands of interviews with real people across our data partnership network, encompassing the entire industry landscape.

To learn more about our in-depth Consumer Exploration and Market Insights solutions, [please click here.](#)