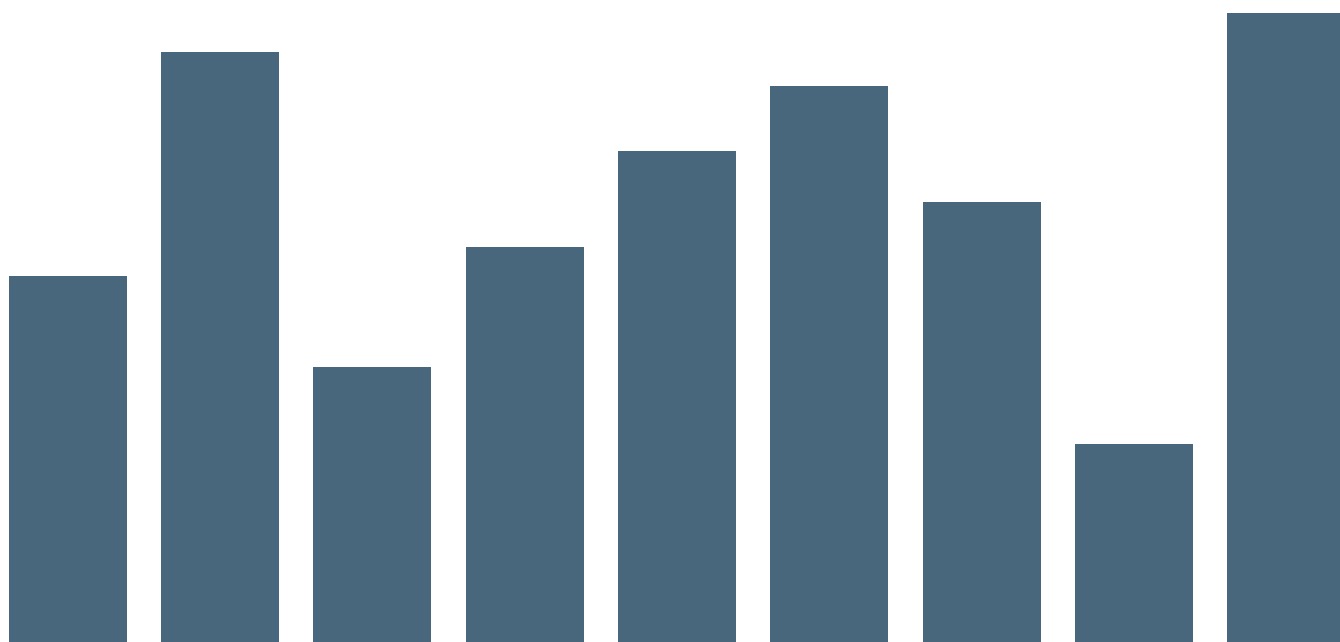


# Marijuana Business Factbook 2016

Exclusive Financial Data For Cannabusinesses & Major Investors



## Excerpt Includes:

- Letter From the Editor
- General Introduction
- Executive Summary: 12 Key Charts & Findings
- Complete Table of Contents

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## From the Editor

Welcome to the fourth edition of the Marijuana Business Factbook, produced by the research and editorial team at *Marijuana Business Daily*.

Four years ago, we set out to provide cannabis business executives, entrepreneurs and investors with an in-depth look at the marijuana industry, focusing on everything from national and state market projections to financial metrics for each sector. The inaugural Factbook was an instant success, meeting a deep need in an industry starved for data.

Since then, we've expanded the scope of our research, improved the quality of our data and delved into new areas of the cannabis industry – each and every year.

The popularity of the Factbook has grown along the way as well. It is now an indispensable tool for those running and investing in cannabis businesses as well as those hoping to get involved. In fact, we've heard from many executives who refer to it as “the cannabis bible” and carry around a dog-eared copy of the Factbook wherever they go.

If you own an older edition of the Factbook, please don't use it anymore. The marijuana industry has changed – to the tune of roughly a billion dollars in the past year alone.

Everything in this edition is new, from the charts to the data points to the state overviews to our retail sales estimates and projections. We re-researched and analyzed every bit of data. We revised our previous projections if warranted. And we've added a host of new information to help you make smart decisions, understand the market and identify opportunities.

Some of the new information you'll find within these pages:

- In-depth financial data for different operational models within each sector, such as infused products makers that perform all their own extractions vs. those that buy wholesale.
- Third-party data on wholesale cannabis pricing trends, regulatory and compliance issues, and point-of-sale transactions.
- New types of data, such as the average number of full-time vs. part-time employees, the number of states companies in each sector serve, typical mark-ups between retail and wholesale marijuana, and actual returns realized by cannabis investors.

Much of the operational data in this report stems from our annual online survey of cannabis professionals. This year's Factbook includes the responses of nearly 1,000 business owners, executives, entrepreneurs and investors. Their input helped give us a window into operational data for six key sectors of the industry: retail, cultivation, infused products, testing, ancillary technology/products and ancillary services. Additionally, survey responses serve as the backbone of an entire chapter on funding and investing.

As always, the 2016 Factbook also provides a detailed profile for each medical and recreational cannabis state (as well as Canada), covering everything from legal info and patient/customer stats to sales potential and our exclusive analysis of the business opportunities in each market.

We strive to provide realistic numbers grounded in reality, not make the industry appear bigger than it really is. We don't lobby, offer investments, provide consulting services or have any other reason to publish hype. So we present a conservative picture of the market and sales data.

As a result, our estimates for national and state-level retail marijuana revenues are often lower than many other projections out there. We believe a conservative approach will help you make sound business decisions, and we have a solid track record with our estimates despite the huge amount of uncertainty and lack of reliable data in general. In fact, most of our estimates from last year ended up being spot-on.

I'd like to thank our data analyst Becky Olson, the lead researcher/writer for the 2016 Factbook, as well as *Marijuana Business Daily* reporters John Schroyer and Omar Sacirbey for their contributions.

If you have any suggestions or want to provide feedback, please contact me at [chrisw@mjbizdaily.com](mailto:chrisw@mjbizdaily.com).

Best of luck with your cannabusiness endeavors,



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

Chris Walsh  
Managing Editor

**Note: Want to publish or use our charts and numbers somewhere else? The charts and tables in this Executive Summary are yours to use with proper attribution, as long as you don't alter them in any way.**

## INTRODUCTION

In most industries, business owners and investors have access to a wealth of financial information, benchmark data and in-depth market insight to help them make decisions, assess the competition, target new investments and tackle new opportunities. That unfortunately is not the case in the cannabis industry, where there's comparatively very little historical or market data.

Consider:

- Each state that has legalized medical or recreational marijuana tracks and reports information in different ways. Some only keep tabs on the number of registered patients, while others provide in-depth reports on tax revenues, number of licensed businesses and the amount of cannabis sold. Several states – particularly those with little or no regulations – don't track anything. No federal agencies oversee any aspect of the industry, meaning there's no official national data either. So getting any type of reliable information within and across state markets can be an immense challenge.
- Entrepreneurs can typically glean useful information by examining the filings and financial statements of publicly traded companies. However, the vast majority of cannabis companies are privately held, while most publicly traded marijuana firms are listed on the over-the-counter markets, where the reporting and disclosure requirements are light. While some insights can be gained from documents filed by publicly traded cannabis companies, these reports are generally unaudited and only represent a sliver of the marketplace.
- Tax returns for nonprofit organizations are in the public domain, and many medical dispensaries must operate in a not-for-profit manner. However, their status as such is not formally recognized by the IRS, and therefore their tax returns are not publicly available.

In short, basic metrics such as annual revenue, profit margins and monthly operating expenses for cannabis businesses are difficult to come by. This book provides exclusive data and insight into these areas, relying on information gleaned from our annual survey of cannabis professionals, our third-party data partners, and interviews with marijuana executives and experts (refer to the methodology section of the Appendix for details).

*Marijuana Business Daily* continuously evaluates opportunities to enhance the quality and accuracy of the data in this book. While our annual survey of cannabis executives still forms the backbone of the research, data-sharing partnerships with industry leaders afford the opportunity to gain detailed insights into the industry.

This year, exclusive data-sharing partnerships allowed us to provide an in-depth look at three major areas: point-of-sale transactions, wholesale cannabis pricing and regulatory compliance. *Marijuana Business Daily* would like to extend special gratitude to the following data partners for their contributions to this book:

- Adherence Compliance
- BDS Analytics
- Cannabis Benchmarks, a division of New Leaf Data Services LLC

Data from these partners is featured in chapters 1 and 3, and more information on each of these companies can be found in the Appendix.

Additionally, *Marijuana Business Daily* would like to thank the following individuals and organizations for their support in spreading the word about this year's survey of cannabis professionals and providing valuable market expertise: Kris Krane of 4Front Advisors, Beau Whitney of Golden Leaf Holdings, Denver Relief Consulting, Berkeley Patients Group, Dixie Brands, John Laub of the Las Vegas Medical Marijuana Association, MedMen and MJ Freeway.

## 5 Key Takeaways

This report is meant to serve as a detailed point of reference with specific data points and figures. However, there are larger trends and themes that emerge after sifting through the full data set of survey responses and performing the research for this book. Below is an overview of these key takeaways:

### #1 The investing floodgates are breaking

Fundraising has traditionally been extremely difficult for cannabis companies given the immense risks involved in the industry and the stigma attached to marijuana. The situation has improved markedly in recent years, however, and the dam finally appears to have burst in 2015. More outside capital than ever is now flowing to both plant-touching and ancillary businesses. The portion of new companies backed primarily with founders' own savings and debt is at its lowest point ever, 72%, while nearly half of investors in privately held companies plan to invest at least \$10 million each in 2016.

The landscape is highly competitive, and investors still have their pick of the litter. But by several indicators, the fundraising environment has improved for both cannabis companies and investors.

### #2 Shakeouts are starting to play out in certain states and sectors

As unbelievable as it may sound given how young the industry is overall, certain sectors in some states are already showing signs of approaching saturation, and winners and losers are being defined. Outdoor cultivators in particular are facing some major challenges, as only 57% of those businesses report operating at break-even or better, compared to over 80% of growers who cultivate indoors, in greenhouses or use a combination of methods.

Elsewhere, headline-grabbing, multi-state expansions by some of the industry's largest infused product makers have set the stage for the emergence of leading brands that can easily gobble up market share in new states. Twenty-four percent of infused product manufacturers already operate in at least two states. These companies will likely be the winners when the inevitable waves of consolidation eventually arrive. In other markets, fierce competition is squeezing margins and driving many businesses into loss territory, while the inevitable adoption of technology and the high cost of compliance have simply proven too much for some businesses to bear.

To be sure, the industry is still filled with many opportunities. But in some of the more mature markets, many businesses have burned big and bright, only to have already faded away.

### **#3 Demand for concentrates and edibles is reaching fever pitch**

Infused products haven't surpassed flower/dried herb in terms of sales yet from a national perspective, but they are becoming a bigger piece of the pie. At the same time, some individual retailers have already seen concentrates and edibles sales eclipse flower/dried herb revenue. On average, these products represent about 30% of total sales at present, and in some states they are posting large month-over-month increases.

It remains to be seen what portion of total sales these products will ultimately represent, but they are a critical part of the product mix for cannabis retailers, especially in recreational markets. By the same token, retailers in states that prohibit some or all of these types of products will most certainly be at a disadvantage as legalization spreads and introduces more consumers to these forms of cannabis.

### **#4 The costs to win licenses and establish operations continue to increase**

Gone are the days when plant-touching businesses could easily set up operations for \$25,000 or less. As legalization spreads to more states, the cost and complexity of doing business is increasing rapidly and doesn't show signs of letting up for now. Median total startup costs have risen for every sector in recent years, particularly on a square footage basis for retailers and wholesale cultivators.

In addition to a tendency for new states to levy increasingly large fees for operational licenses, fierce competition to win permits has also necessitated the involvement of consultants, lawyers and other expensive experts for a business to even have a shot at succeeding. But winning a license is only the first hurdle, as state regulatory requirements and restrictive local ordinances often result in large investments in land, commercial real estate, renovations, security/surveillance and other items before the business can even serve its first patient/customer. Add it all up, and you have startup costs that can easily stretch into the seven figures. Cannabis is and will continue to be one of the most highly regulated industries in the world, and the price to play is hefty.

### **#5 Existing medical/recreational states continue to tweak their programs, creating uncertainty for businesses and the industry as a whole**

Whether it's temporary regulations, tweaks to the tax structure, new rules, changes to production caps/limits, or local bans and moratoriums, operational businesses in established markets still face a high degree of volatility and uncertainty.

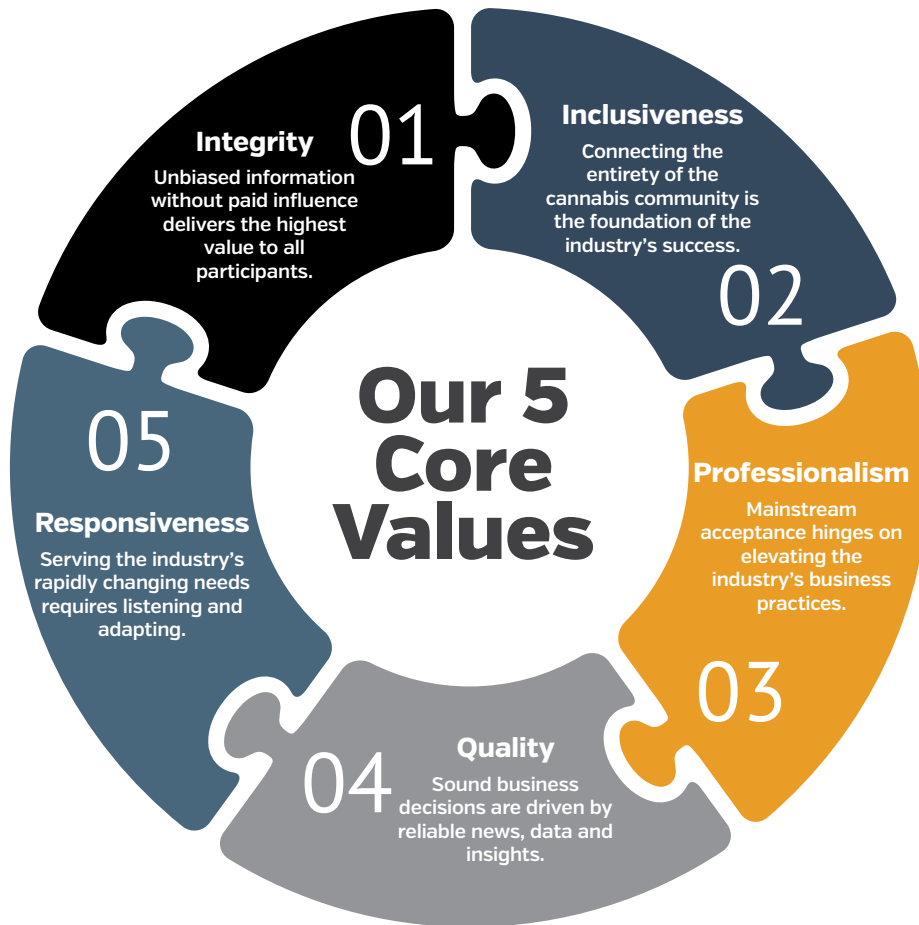
The reasons for these circumstances are largely a reflection of rapidly maturing markets that state and local governments are constantly trying to catch up with. In other cases, it's due to some states opting to treat medical/recreational marijuana as a "pilot" program or test case that needs to be rolled out in a slow and controlled manner. The net result is that in many states, a clear picture of what a fully functioning cannabis market looks like has not yet been able to emerge. On a

micro level, that creates operational and financial uncertainty for individual businesses, and on a macro level, it makes industry projections and comparisons extremely difficult.

In Chapter 2 of this report, we assign state-by-state rankings on a scale of A to F for the overall level of stability in a given market for this upcoming year. Of the 24 formally recognized MMJ/recreational state markets, 13 have been assigned a grade of C or below, demonstrating the high amount of uncertainty across the industry.

Entrepreneurs and investors evaluating new markets must be diligent about researching, understanding and staying on top of every single detailed rule, regulation and circumstance. The role cannabis businesses can and should play in informing the rulemaking process cannot be over-emphasized.

## Who's Behind This Factbook?



Founded in early 2011, *Marijuana Business Daily™* focuses solely on businesses and the investors who back them.

If you are leading or financing a cannabis-related company, we help you prosper via trusted information services and exceptional events.

Our publications have the highest business readership in the industry. Our events are sell-outs, year after year after year. And, we've been cited everywhere from

*Harvard Business Review* and the *Wall Street Journal* to *Forbes*, *Fortune* and *Fast Company*.

Do you need practical information, real-life data or industry connections to help your business grow? You'll find what you need in one of our publications, or at our national events.

We are here to help the multi-billion dollar cannabis industry prosper. Let us know how we can serve you.

**Marijuana Business Daily™**

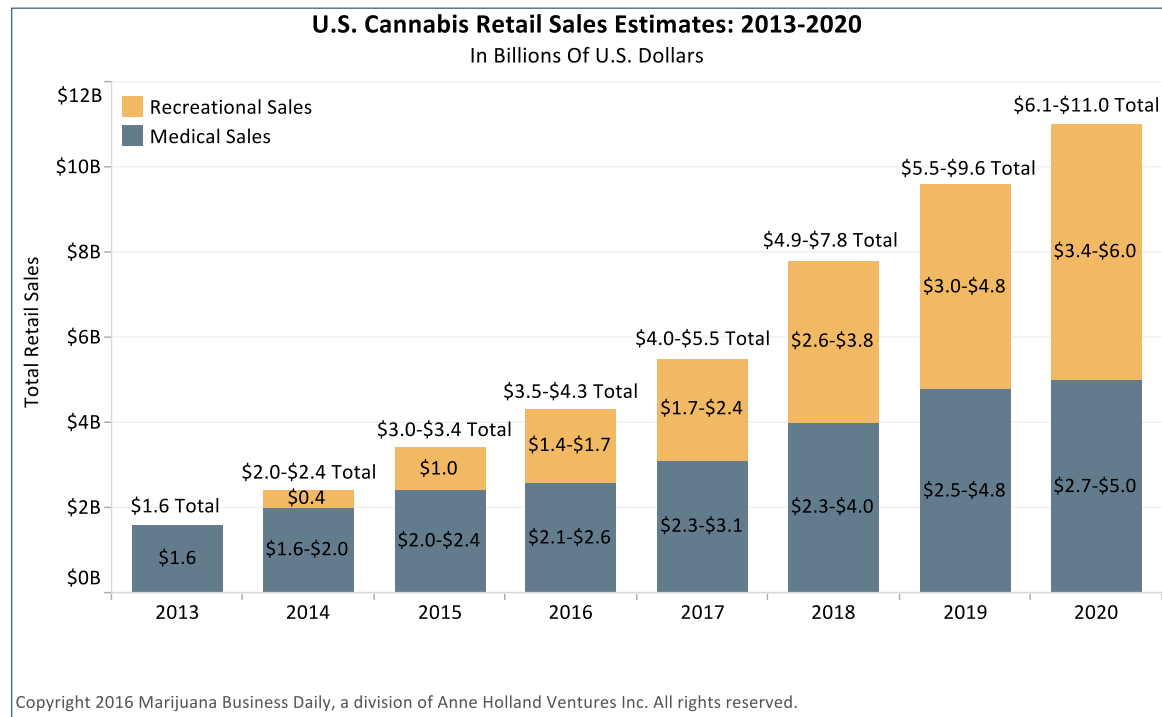
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## Executive Summary: 12 Key Charts

The U.S. marijuana industry is poised for another record-breaking year in 2016, and all signs point to massive growth in the foreseeable future.

Chart 1: U.S. Cannabis Retail Sales Estimates: 2013-2020



We estimate that retail sales of medical marijuana (MMJ) and recreational cannabis will hit between \$3.5 billion and \$4.3 billion in 2016, which amounts to year-over-year growth of 17% to 26%.

Some factors that will fuel growth this year:

- Recreational cannabis:** Sales of recreational (or “adult-use”) marijuana soared in Colorado and Washington State last year, and the trend is expected to continue in 2016. Oregon also will contribute heavily to an uptick in sales, as the state’s recreational marijuana industry is growing rapidly after its launch late in 2015. Recreational sales are still in their infancy, and at this point the sky is the limit.
- New markets:** Several states that started medical cannabis sales recently – most notably Illinois, Nevada, New York and Minnesota – will see sizable revenue spikes in 2016. A handful of new markets, including Hawaii and Maryland, also might come online late this year, helping boost industry retail revenues.
- Expansion of mature markets:** Many states that established medical cannabis programs years ago are going through a growth spurt, including Arizona, Connecticut and New Mexico. And despite chaos and uncertainty in California’s medical marijuana industry, sales could continue to grow in the nation’s single largest MMJ market.

This is just the tip of the iceberg. Total annual retail sales of medical and recreational cannabis could reach \$11 billion in 2020, posting double-digit growth each year along the way.

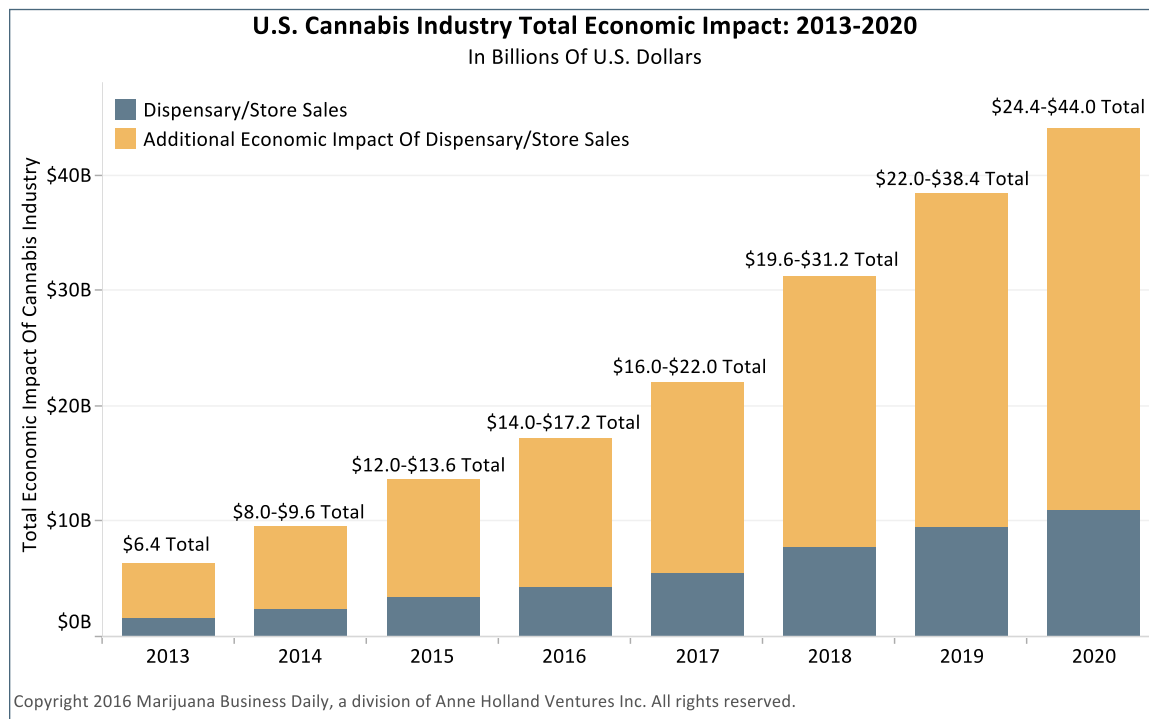
Sales of recreational cannabis could surpass those of medical marijuana as early as 2018, though MMJ revenues will continue to make up a big piece of the pie.

Note that our goal is to provide conservative, realistic financial forecasts that reflect the huge degree of uncertainty in the industry. Total cannabis sales in any given calendar year are highly dependent upon progress made, or not made, in each individual state. California in particular has a huge impact on overall sales, as it's the largest MMJ market in the country. So developments in that state can push industry revenues up or down considerably, even if the same trends aren't playing out elsewhere.

Additionally, California is the big wild card at present. The state doesn't track its medical cannabis industry closely, making it difficult to estimate how big the market is and whether it's growing or shrinking. As new information comes to light over time, it could change our estimates for California, and therefore the industry at large.

Be sure to check out Chapter 2 for a detailed analysis of each state's market and how it fits into the big picture.

Chart 2: U.S. Cannabis Industry Total Economic Impact: 2013-2020



Beyond cannabis sales at retail and the associated taxes that are collected, the industry's total economic impact is substantial.

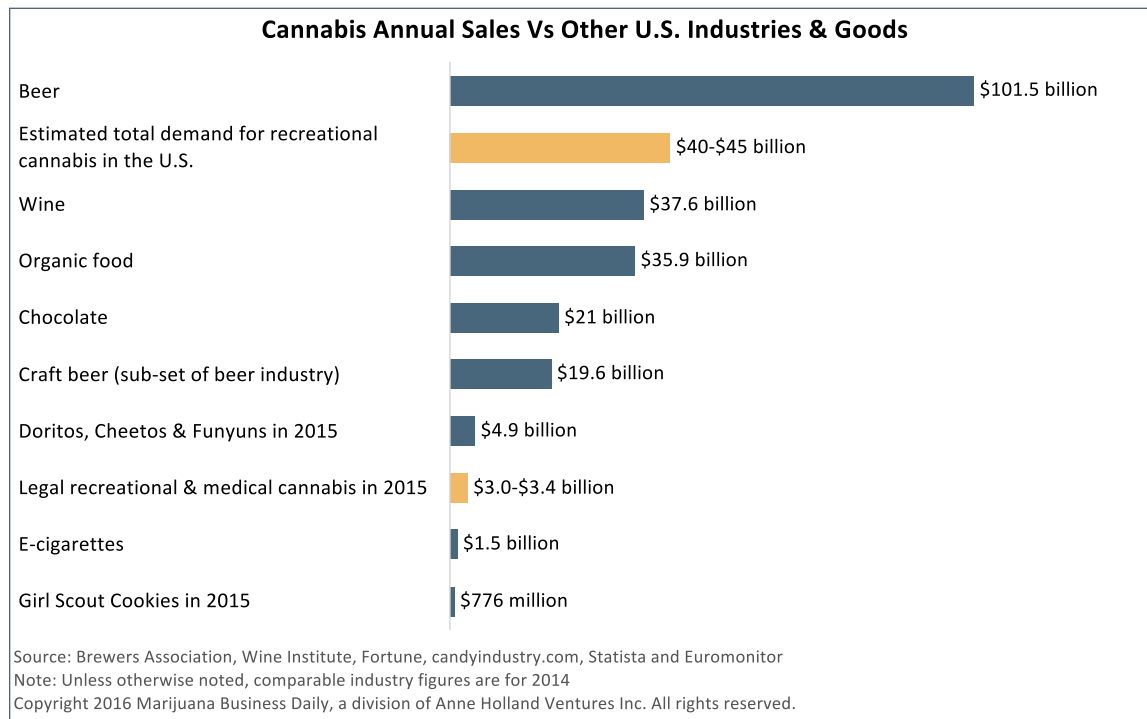
Using the concept of an economic multiplier that quantifies the "ripple effect" of an initial dollar spent at retail, we estimate the total impact of the industry on the U.S. economy based on

cannabis retail sales to be between \$14 billion and \$17.2 billion this year, and up to \$44 billion by the end of 2020.

Overall, for each dollar spent/earned by cannabis companies, an additional three dollars in economic benefit will be realized. For example, a cannabis dispensary/store makes a sale for \$100. The business then uses a portion of that money to pay an employee, who in turn uses a portion of that money to buy groceries at the local grocer, and so on – a process that creates a ripple of economic value, most of which remains in local communities. Another example: An infused products maker pays \$1,000 to a wholesale grow company, which then uses that money to buy supplies from a vendor, which then uses a portion of that money to pay employees, who then go out and spend their money in the community, etc.

This multiplier can be applied to any dollar amount of spend or revenue along the supply chain, and can also be used to demonstrate the economic contraction associated with a reduction in revenue or other expense or tax cut.

Chart 3: Cannabis Annual Sales Vs Other U.S. Industries & Goods



So how does the U.S. cannabis industry compare to other industries in terms of sales?

Last year, sales of medical and recreational cannabis (the latter of which was only legal for all of 2015 in two states) surpassed those of beloved Girl Scout Cookies, as well as domestic sales of e-cigarettes.

The total estimated annual demand for recreational cannabis alone in the United States is about \$40-\$45 billion, exceeding that of craft beer, wine and organic food. Currently, most of this value is realized on the black market and isn't taxed, hinting at the tremendous potential for this part of the industry in the future.

Chart 4: Estimated Number Of Cannabis Businesses In The U.S.: 2016

| <b>Estimated Number Of Cannabis Businesses In The U.S.: 2016</b>                                       |                 |
|--|-----------------|
| Medical Dispensaries/Recreational Stores   | 3,400 - 4,700   |
| Infused Product Manufacturers  | 900 - 1,300     |
| Wholesale Cultivators  | 2,500 - 4,500   |
| Testing Labs   | 90 - 120        |
| Ancillary Services, Technology & Products Companies  | 14,000 - 22,000 |
| <b>Plant-Touching Total: 7,000 - 11,000</b>  |                 |
| <b>Industry Total: 21,000 - 33,000</b>   |                 |
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In another measure of the cannabis industry's tremendous economic contribution, the number of companies in the industry is now in the tens of thousands, proving marijuana's very real impact on the American economy.

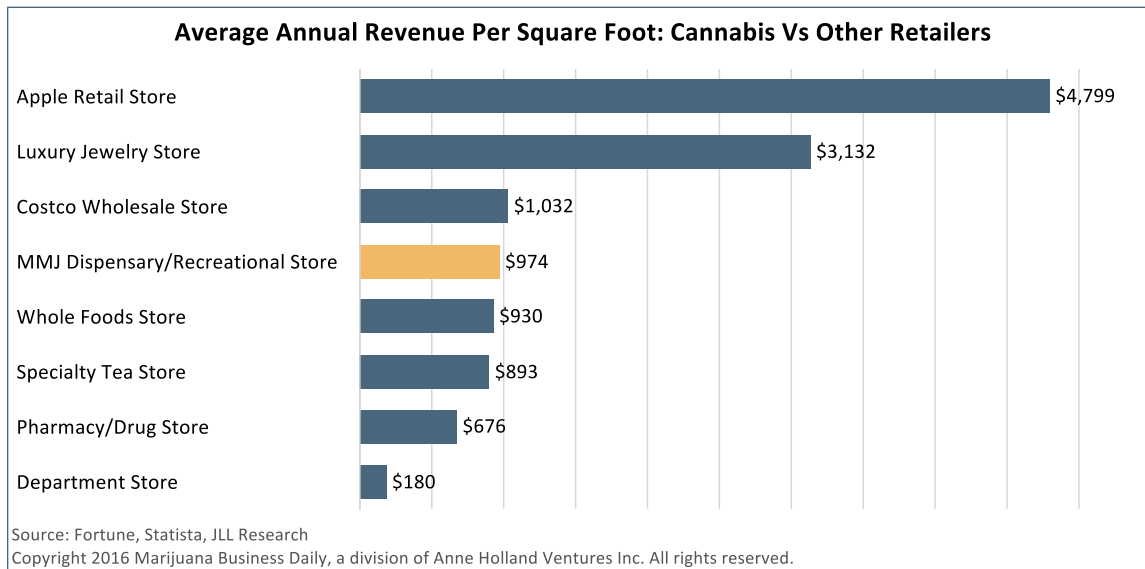
For sector-specific details on employment, look in Chapter 1. The figures in that section not only help cannabis entrepreneurs and interested observers quantify this aspect of the industry's impact, but they also provide critical benchmarks and targets for new and growing businesses.

## Data Snapshot By Sector

### Retailers

As the sector that interacts with patients and customers, medical and recreational retailers are truly the face of the industry. These businesses are at the end of the supply chain, so their financial performance is one of the more reliable indicators of demand, market size and future opportunities.

Chart 5: Average Annual Revenue Per Square Foot: Cannabis Vs Other Retailers



In large part because of rules and regulations, dispensaries and retail stores aren't packed with inventory, and each patient/customer has a one-on-one interaction with a sales associate (generally referred to as a "budtender").

Sales per square foot, therefore, are generally driven by increased customer traffic.

To that end, sales per square foot for cannabis retailers can be quite a bit higher than those for other businesses to which they are often compared, such as drug stores and department stores.

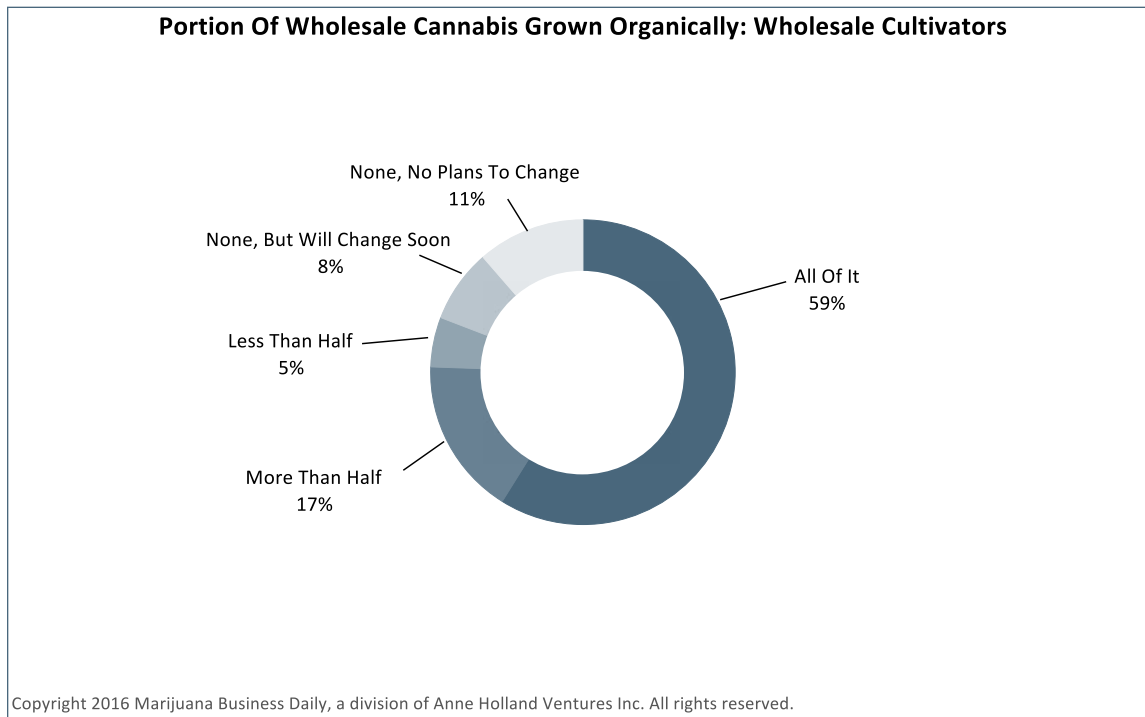
Interested in how large the typical retail space is for medical dispensaries and recreational stores? How about the portion of those businesses' monthly budgets dedicated to marketing and advertising to drive foot traffic? Find these details and more in Chapter 3.

## Cultivators

At the heart of the industry are the businesses that actually grow cannabis, whether that's vertically integrated dispensaries/stores or wholesale cultivators that sell to infused product makers and retailers.

One of the most widely discussed topics within the industry is the overall health and safety of the final product, which is almost entirely the result of cultivation practices. Use of pesticides, solvents and even nutrients with heavy metals are frequently the impetus for detailed and complex regulations.

Chart 6: Portion Of Cannabis Grown Organically: Wholesale Cultivators



So why haven't two out of five wholesale cultivators adopted all-organic growing practices? Does that affect these businesses' bottom line? What other technology and innovative practices do cannabis growers utilize, and what needs are presently unmet?

These insights (and many more related to cultivation) are in Chapter 3.

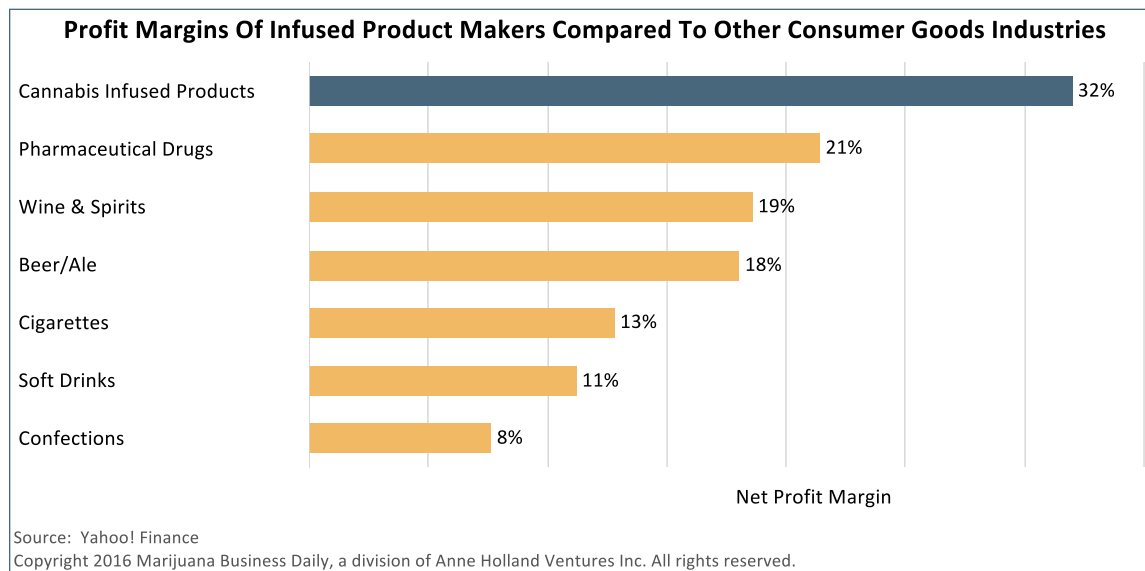
## Infused Products

Cannabis infused products – which include concentrates, edibles and topicals – have proven immensely popular in states that allow them. Based on early data out of Colorado and Washington State, where both medical and recreational markets are operational, these products account for a growing portion of overall retail sales with each passing month.

So how are infused product manufacturers faring in terms of profitability?

Quite well.

Chart 7: Profit Margins Of Infused Product Makers Compared To Other Consumer Goods Industries



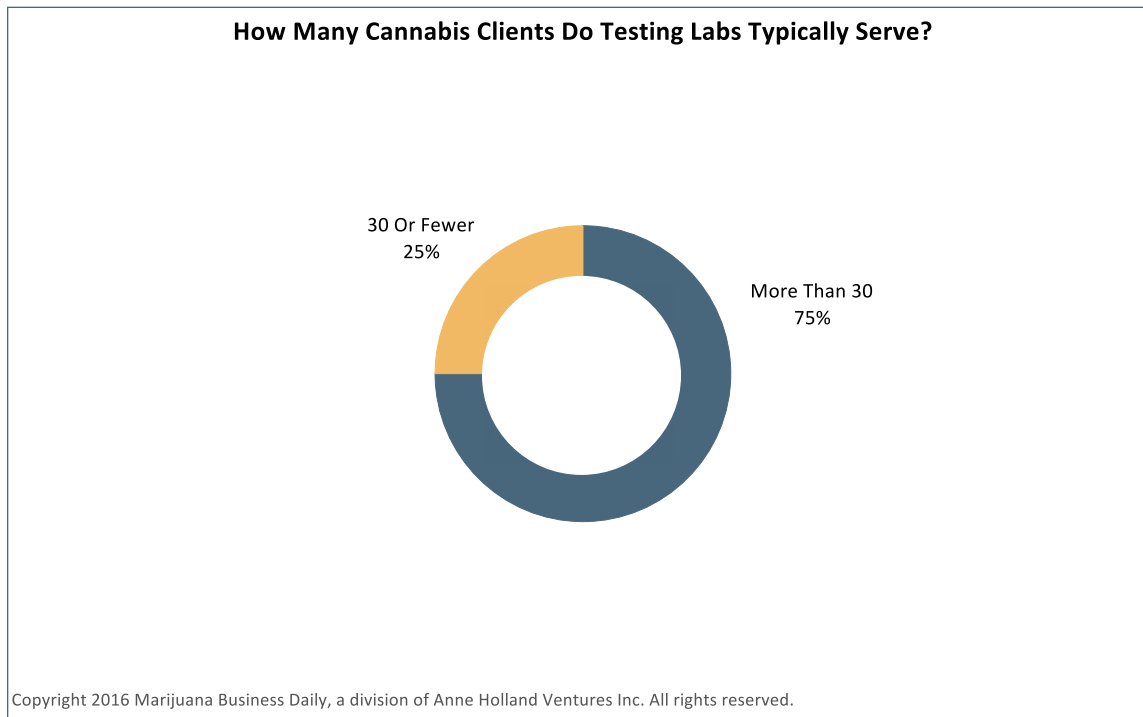
Though success and financial performance vary among states and individual companies – and certainly none yet exist on the scale of a Coors, Coca-Cola or Pfizer – infused product makers are well-positioned to build brand loyalty and expand across state lines. With profit margins like this, they also represent an area of tremendous opportunity within the industry.

Head over to Chapter 4 for detailed insights on startup costs, typical revenues, number of products manufactured and much more for businesses in this sector.

## Testing Labs

By sheer number of companies, testing labs represent the smallest major sector in the cannabis industry. However, they play a critical role both in protecting patients/consumers and furthering the legitimization of the industry. And as more states require mandatory testing (a relatively new phenomenon), labs are seeing their client lists swell.

Chart 8: How Many Cannabis Clients Do Testing Labs Typically Serve?



This sector is another area poised for rapid growth and expansion in the coming years as more states legalize medical and/or recreational cannabis and public officials increasingly tackle the health and safety considerations of commercial marijuana.

To learn more about some of the unique challenges this sector faces and get a glimpse into the financials of these businesses, be sure to check out Chapter 4.

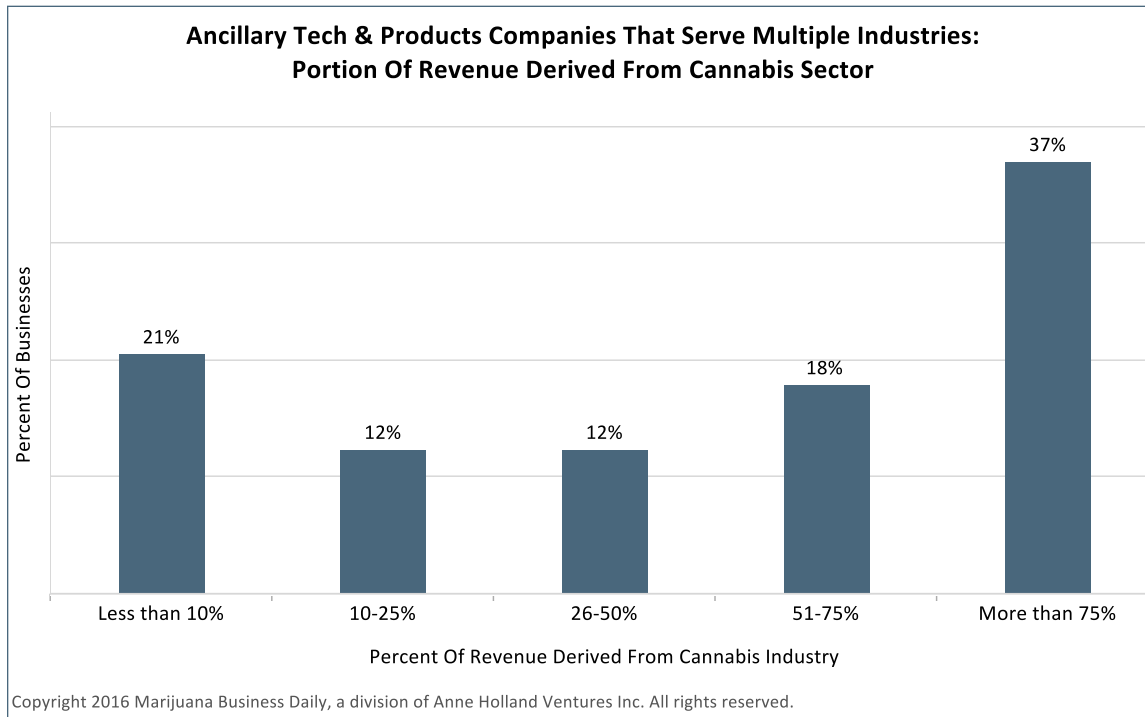
## Ancillary Firms

Retail stores and cultivation sites often come to mind first when thinking about business opportunities in the marijuana space. But a massive part of the industry revolves around ancillary companies, which provide products, technology and services to other cannabis businesses and patients/consumers.

While many ancillary companies focus solely on the marijuana market, a growing number of businesses from other industries are also dipping their toes in the cannabis arena without abandoning other markets and revenue streams.



Chart 9: Ancillary Tech & Products Companies That Serve Multiple Industries: Portion Of Revenue Derived From Cannabis Industry



Curious what portion of ancillaries exclusively serve cannabis companies? How about what specific products, technology and services they provide and what their revenue looks like? Those details and more can be explored in Chapter 4.

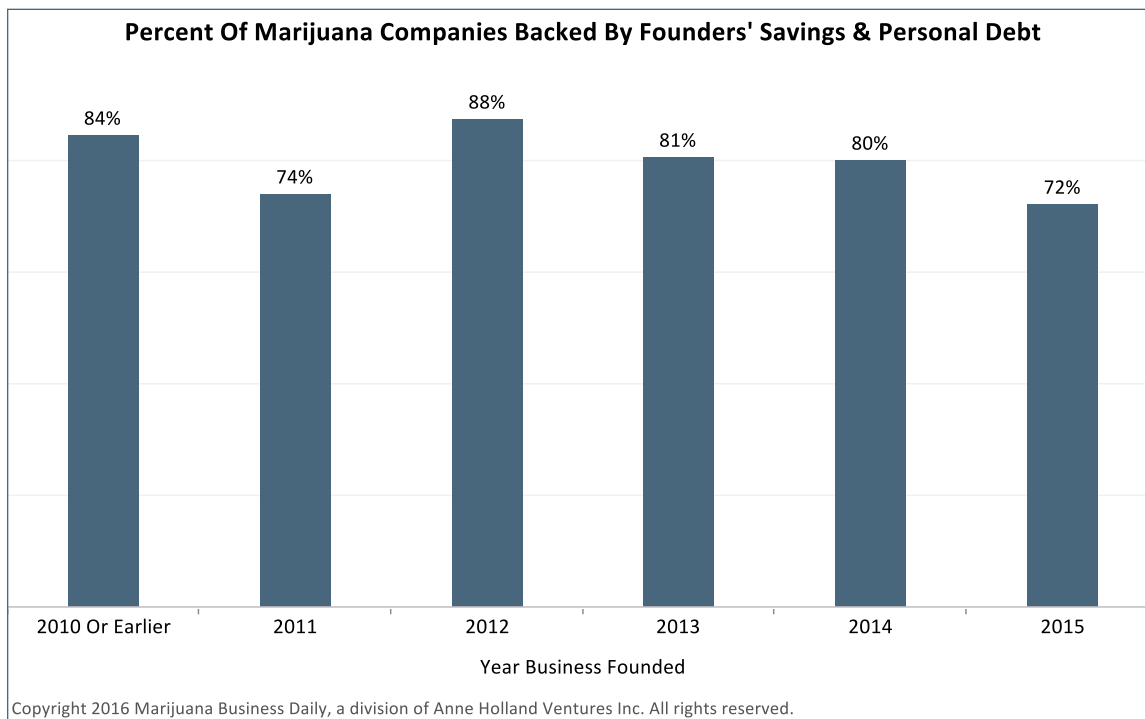
## Snapshot of Additional Data

### Financing

The cannabis industry simply would not have matured and grown so quickly without the support of the pioneering investors that have been willing to take on unprecedented levels of risk to fund marijuana companies. Still, most cannabis entrepreneurs had to bootstrap their companies, as the number of investors interested in the space was extremely low.

That's changing quickly.

Chart 10: Percent Of Marijuana Companies Backed By Founders' Savings &amp; Personal Debt



As more capital flows into the industry, fewer entrepreneurs need to rely solely on their own savings and personal debt to get started or expand.

To be sure, cannabis entrepreneurs certainly still face difficult and often debilitating hurdles in the realm of fundraising. But there's more money being pumped into the industry than ever before.

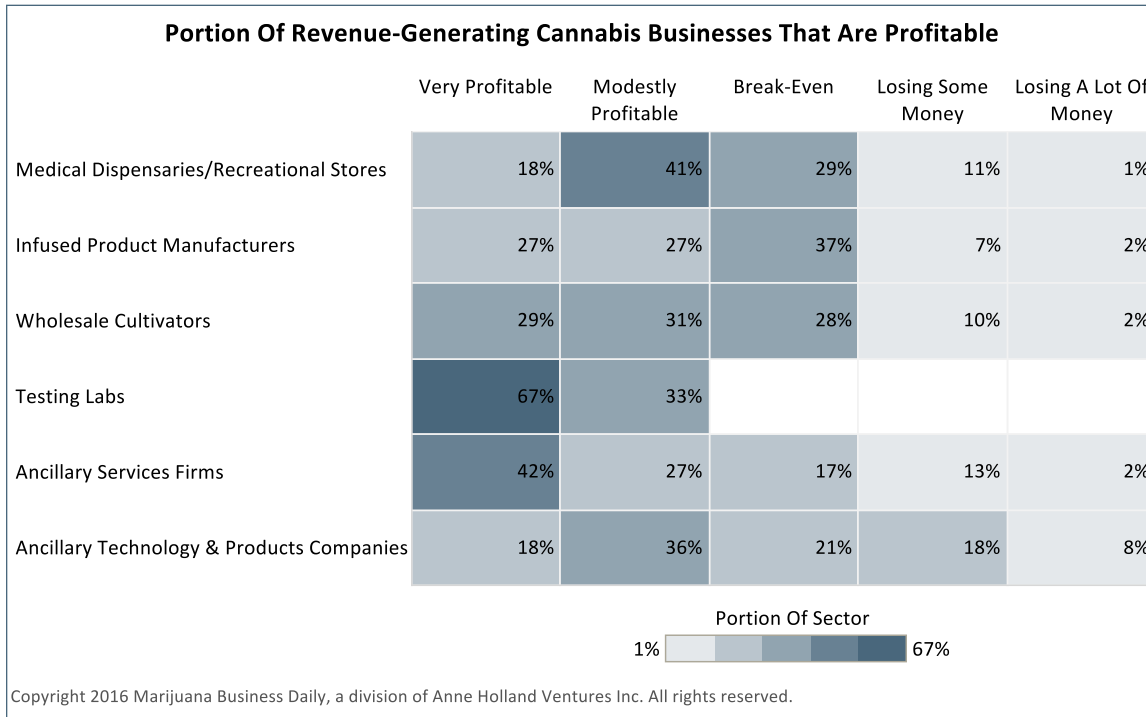
The good news for cannabis investors is that a healthy portion of marijuana businesses need external capital. Finding the true gems can be tricky, though, and at this point there's more investment capital waiting on the sidelines than great opportunities in which to deploy it. As a result, investors can still be picky for now.

Be sure to check out Chapter 5 for a complete run-down of current fundraising needs. You'll also find insight on whether cannabis investors have realized returns on that capital.

## Profitability

Despite the immense challenges and obstacles cannabis companies face every day, the underlying financials of most businesses currently generating revenue are strong. About 75% of companies in all major sectors are at least breaking even, and an impressive 20% of marijuana businesses are earning profits that would make owners in any industry envious.

Chart 11: Portion Of Revenue-Generating Cannabis Businesses That Are Profitable

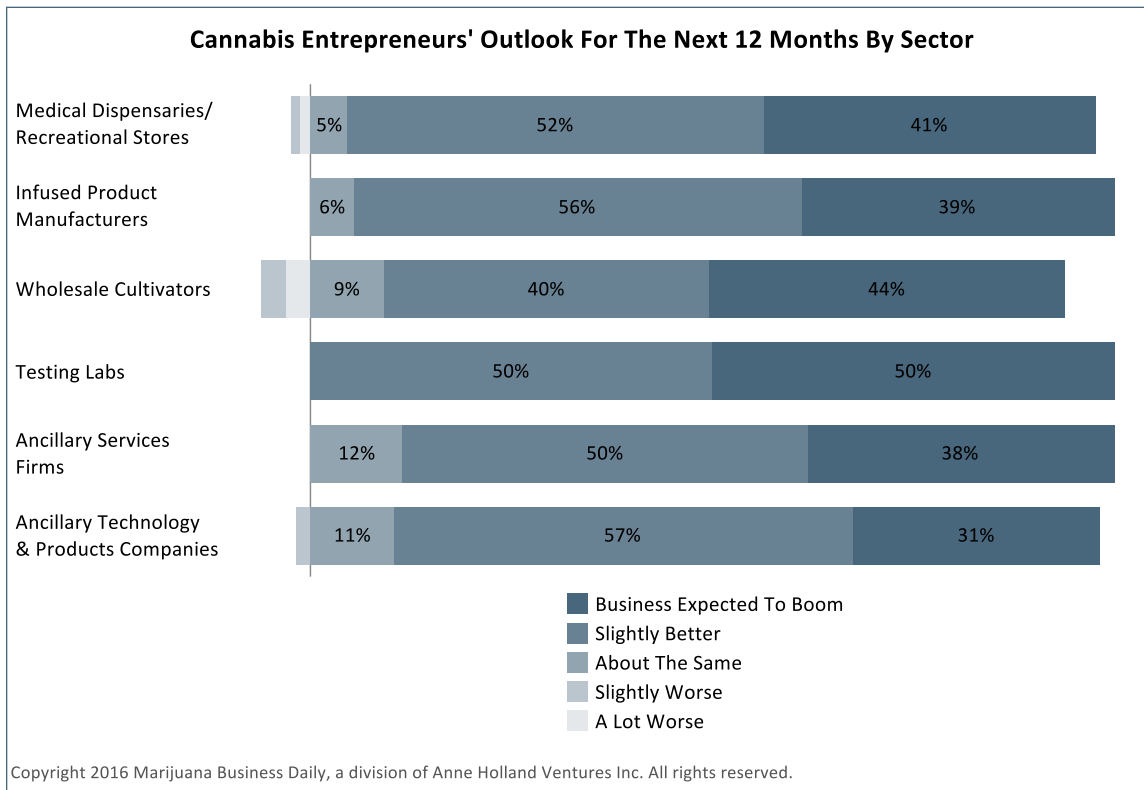


For insight on sector-specific performance and why businesses in some spaces are doing better than others, head over to chapters 3 and 4.

## Outlook

Maybe it’s youthful energy, exuberance from being involved in a once-in-a-lifetime opportunity or even pure determination to succeed. Whatever the root cause, optimism abounds in this industry.

Chart 12: Cannabis Entrepreneurs' Outlook For The Next 12 Months By Sector



There is no better place or time right now for bold moves, big bets and paradigm-shifting innovation in the cannabis industry. By leading this social and economic experiment in free markets, civil rights and legitimization of a previously underground economy, these businesses are quite literally making history. This Factbook will help you navigate your own path through the industry.

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CONNECTICUT – Medical Marijuana

DELAWARE – Medical Marijuana

HAWAII – Medical Marijuana

ILLINOIS – Medical Marijuana

MAINE – Medical Marijuana

MARYLAND – Medical Marijuana

MASSACHUSETTS – Medical Marijuana

MICHIGAN – Medical Marijuana

MINNESOTA – Medical Marijuana

MONTANA – Medical Marijuana

NEVADA – Medical Marijuana

NEW HAMPSHIRE – Medical Marijuana

NEW JERSEY – Medical Marijuana

NEW MEXICO – Medical Marijuana

NEW YORK – Medical Marijuana

OREGON – Medical Marijuana

OREGON – Recreational

RHODE ISLAND – Medical Marijuana

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WASHINGTON DC – Medical Marijuana

WASHINGTON DC – Recreational

WASHINGTON STATE – Medical Marijuana

WASHINGTON STATE – Recreational

CANADA – Medical Marijuana

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