

## US Cannabis Industry

October 8, 2020

### VT legalizes REC sales – A possible harbinger

Yesterday, the Gov. of VT (Republican) allowed the state's REC sales bill to become law without his signature with REC sales expected to start at the latest May 2022. This comes after cannabis was decriminalized two years ago without an associated framework to allow sales. Currently, CURA is the only company under coverage that benefits from a VT REC market. Further details below.

**Large tourist population could boost market.** Currently, the VT MED market size is not material given the state's small population of 0.6m. However, VT benefits from significant tourism with 13m visitors annually generating \$2.8b in annual spending on lodging, food and drink, goods and services. Assuming all municipalities opt-in and a penetration rate increase similar to IL, we believe VT's REC market could generate retail sales of \$800m-1b.

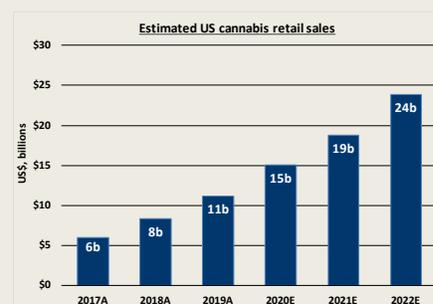
**Vertical integration is allowed.** VT's REC program includes individual license categories: cultivator (with small cultivators being preferred vs large-scale), wholesaler, product manufacturer, retailer, testing lab, and integrated licenses (includes all above-licensed activities) which are reserved only for the existing five MED cannabis operators. New applicants can choose to have any or all (except integrated) of the licenses, but only one per category, with each operator able to have only location per category including one REC store. Hence, VT's REC program allows for vertical integration to take place, making it attractive for well-capitalized companies.

**Existing operators have first-mover advantage.** Timing for the new REC licenses being awarded begins mid-2022 with applications for integrated licenses from five existing MED cannabis companies and small (AKA craft) cultivators first to be accepted on or before April 1, 2022 with licenses awarded on or before May 1, 2022. Subsequent licenses for individual categories are expected to be awarded on or before June 2022 with the important individual store licenses awarded on or before Oct. 2022. Hence, with a delay of likely 6-12 months—or more for new cultivators—to begin operations, we believe existing MED companies have an early-mover advantage.

**Bottom line.** We are encouraged that the VT legislature has put together a framework for REC sales in the state, after two years of failed attempts. In our view, motivation to get this bill passed into law has likely been spurred by COVID-related spending and nearby states having successfully converted to REC (MA, ME) or looking to convert to REC (NJ, NY, CT). This could be even further evidenced by the Gov's decision not to veto the bill (vetoed cannabis bills in the past) and to abstain from signing it, signaling his lack of political support and potential reluctance to legalize REC sales. Hence, we believe VT REC sales legalization could be a harbinger of further REC conversions in the Northeast.

#### Synopsis:

The US cannabis sector currently has ~35 states with legal access to either medical or recreational-use cannabis. Similar to Canada, the US cannabis sector allows investors to leverage the strong, secular growth trends which are characteristic of the legalization of cannabis, except in end-markets which are ~5x–10x larger. In aggregate, we project sales from currently legal US states to grow by a CAGR of ~30% over the next three years to reach ~US\$24b.



Source: Stifel GMP

The US cannabis industry is highly fragmented due in part to restrictions on interstate trade, and historical challenges to access capital. This results in a competitive supply environment overall, but also a robust M&A opportunity for well-capitalized, experienced industry players.

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