BDS ANALYTICS' Top Ten Cannabis Market Trends for 2019

Presented by:

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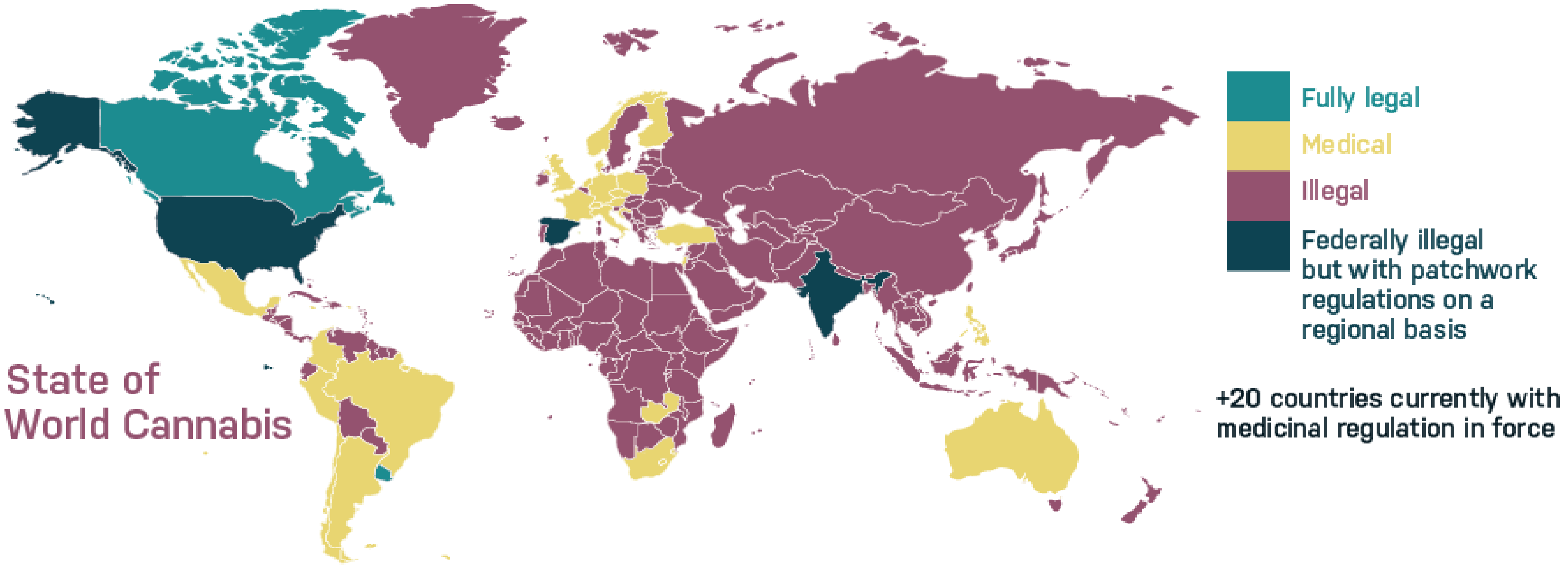
BDS Analytics

			Grade
1	Consumers Drive Evolution	Consumers will drive R&D, as well as product and brand proliferation.	
2	Affordability Arrives	Prices will decline	
3	Brand Surge	Brands will take market share	
4	Consumers Demand Variety	Best brands will offer new product lines	
5	Novel Newbies	New consumers will want new products	
6	Beyond the Bong	Alternative delivery systems will rise	
7	Form Follows Function	Specific applications will grow – sleep, taste, energy	
8	All Praise the Nibblers	Edibles with less wallop	
9	Marketing for Mood	More moody products	
10	Legal Leads to Luxe	Affluent consumers will support premium brands	

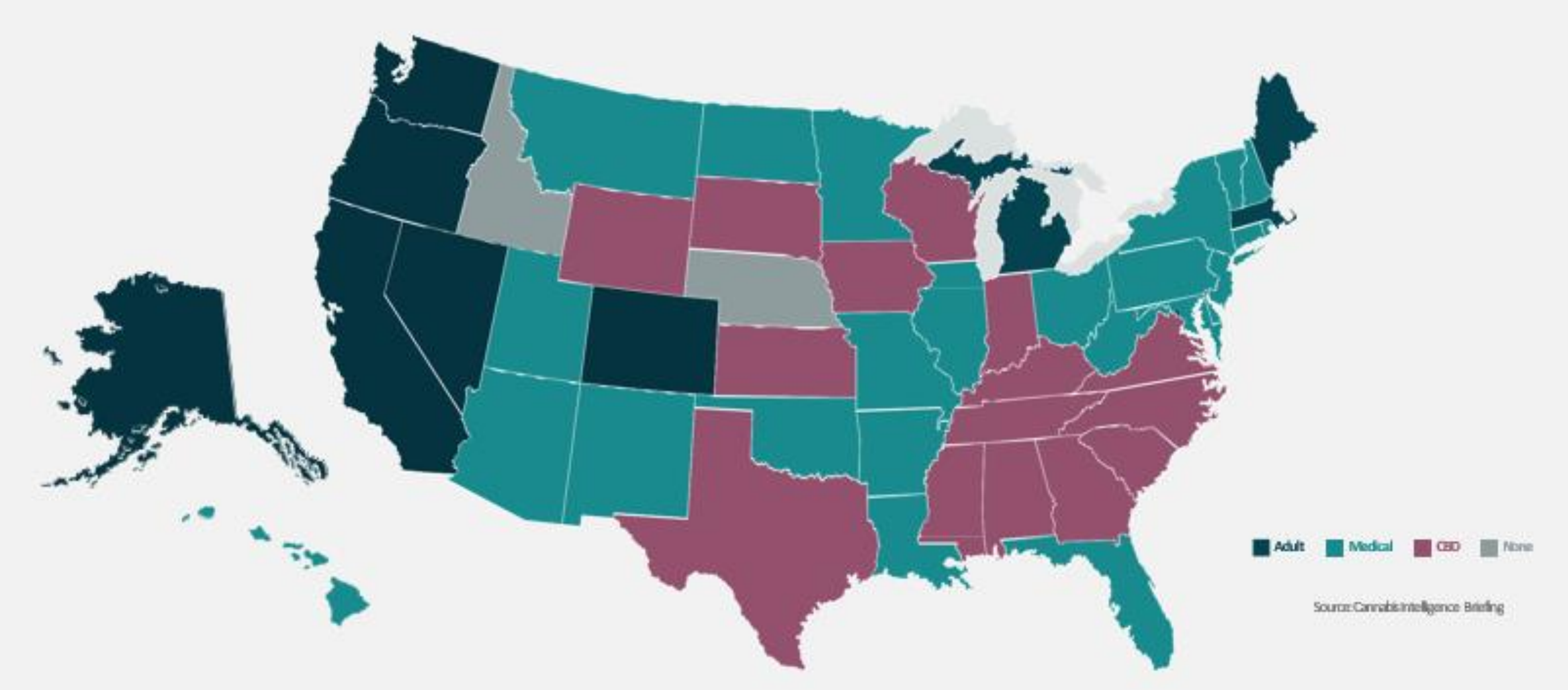
2018 PREDICTIONS

https://bdsanalytics.com/bds-analytics-top-10-cannabis-market-trends-2018/

The State of Legal Marijuana Markets: Prohibition is Ending

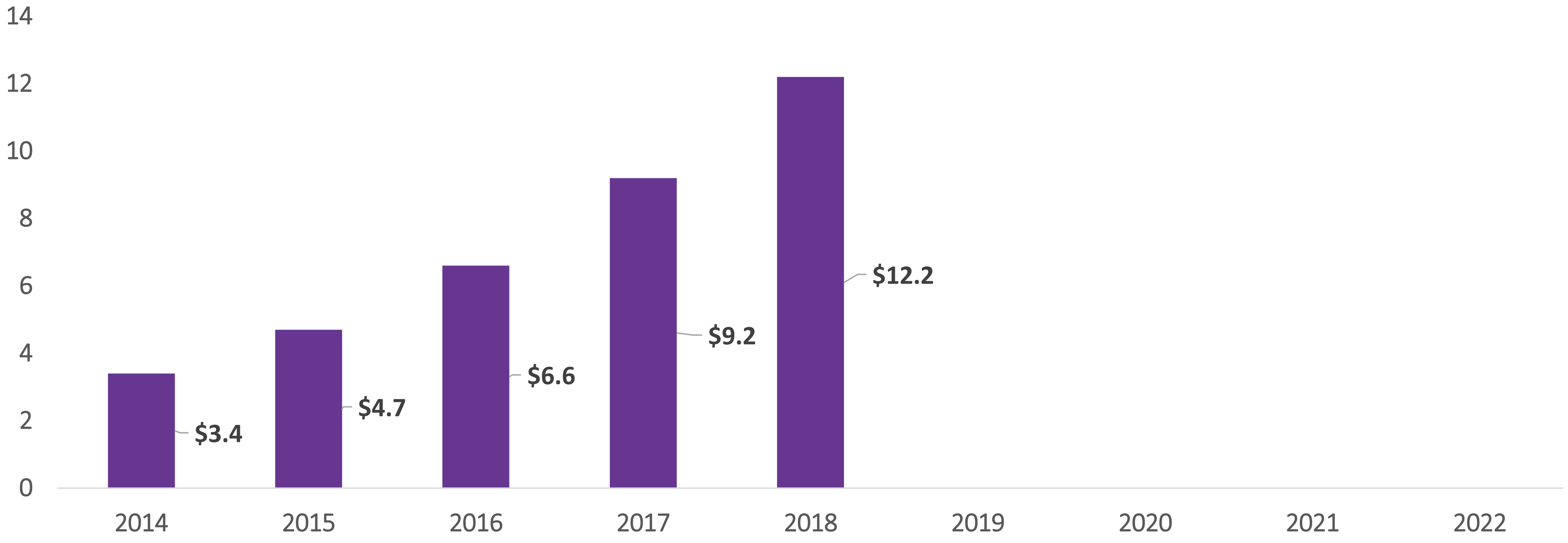


2018 Second Best Year for Legalization Ever in U.S.



The legal global industry has grown at a 38% 4 year CAGR to $12B

Historic Global Legal Cannabis Spending ($USD Billions)



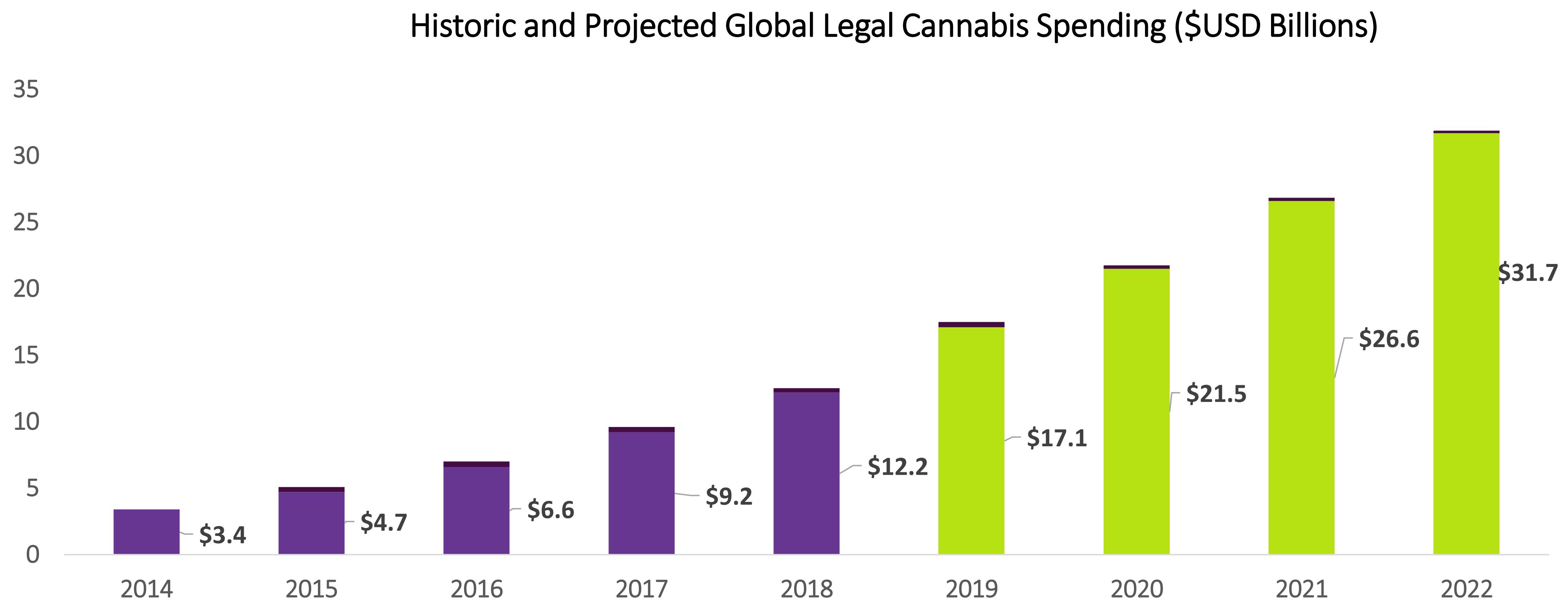
Growth: **38%** **40%** **39%** **33%**

Source: Arcview & BDS Analytics Cannabis Intelligence Briefing

Published by: ARCVIEW Market Research

In partnership with: BDS Analytics

We project a 26% CAGR for the next 4 years to $32 Billion



Growth: **38%** **40%** **39%** **33%** **39%** **26%** **24%** **19%**

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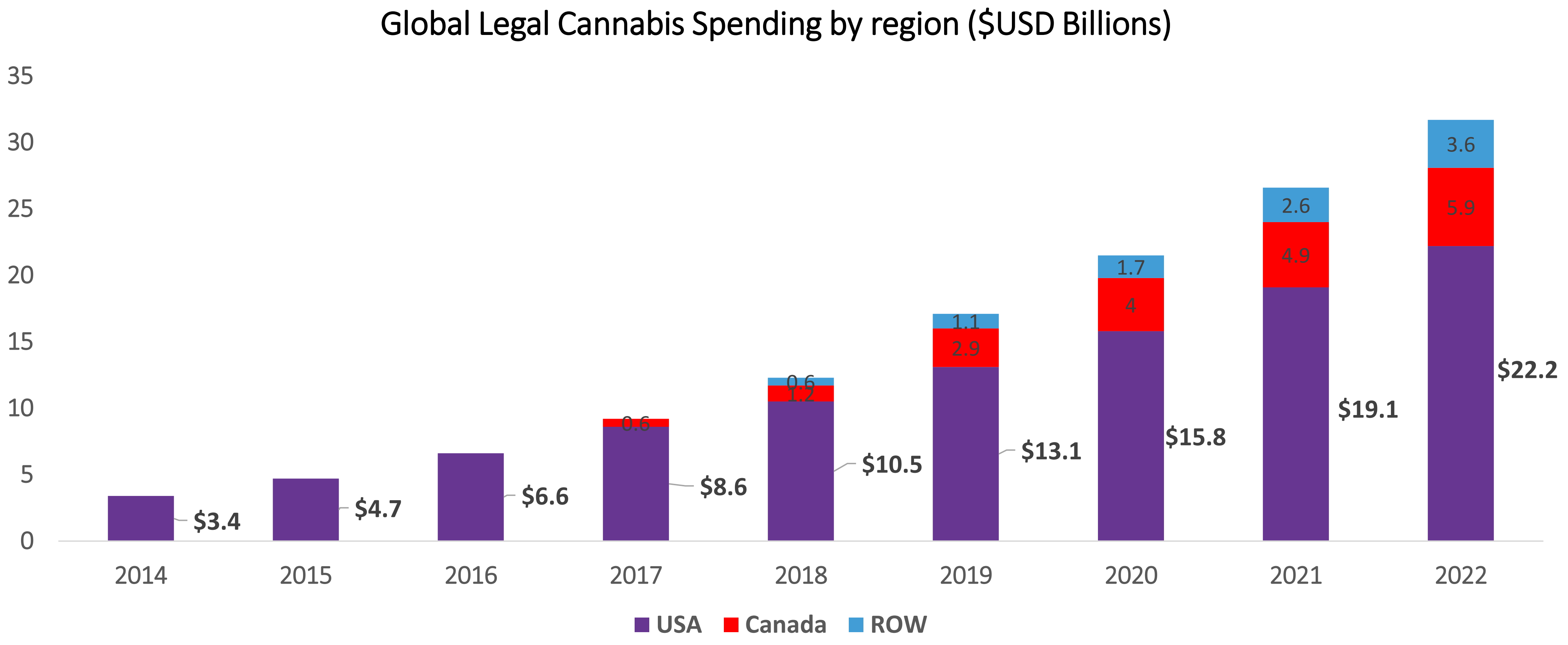
The USA will continue to be the world's largest market



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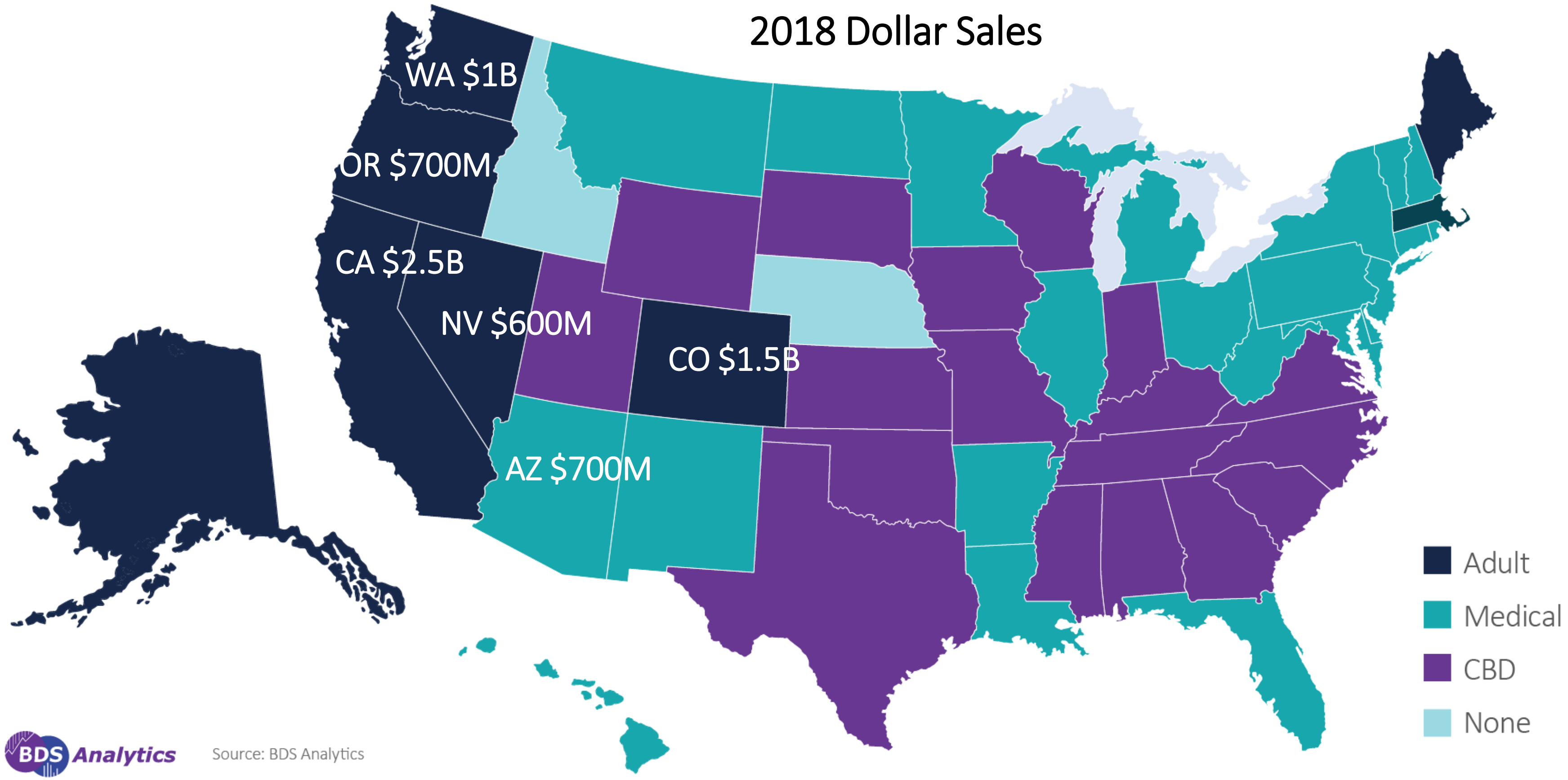
Although the top six markets account for 2/3 of USA 2018 dollar sales, it's no longer a "Western State" phenomenon



Up and Coming Major States:
- FL
- MA
- MI
- NY?
- NJ?

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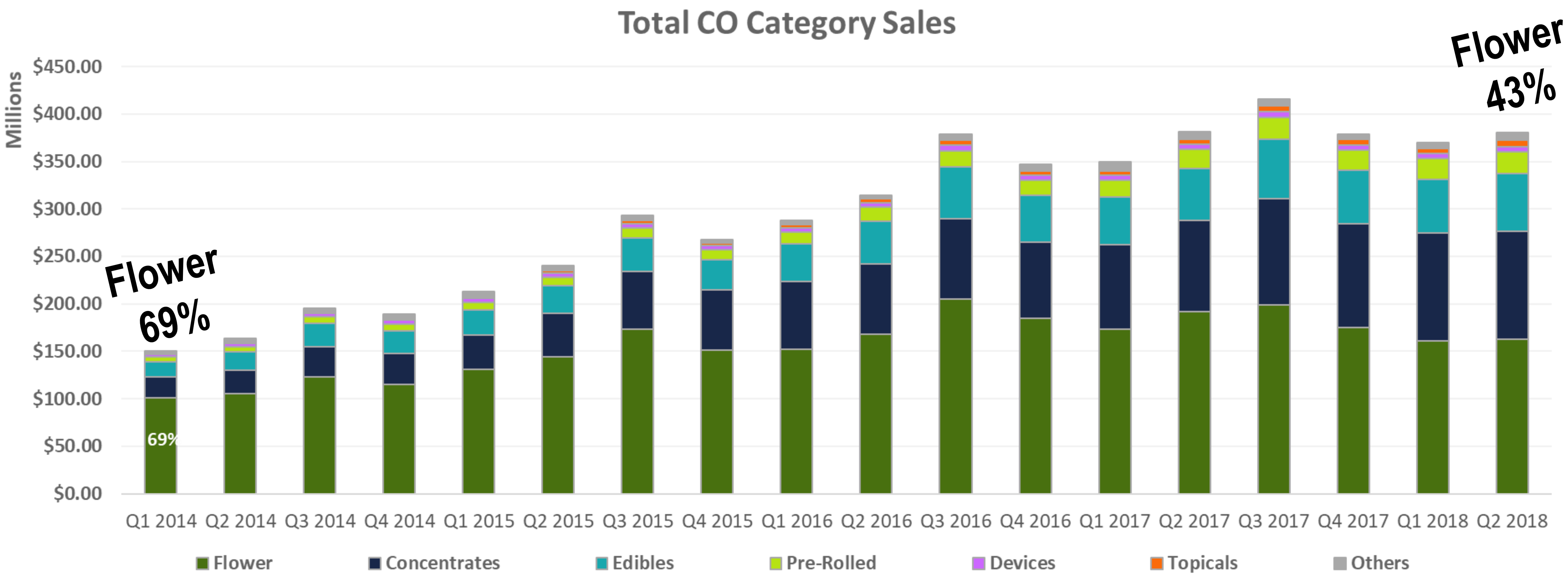
Legal Cannabis is…

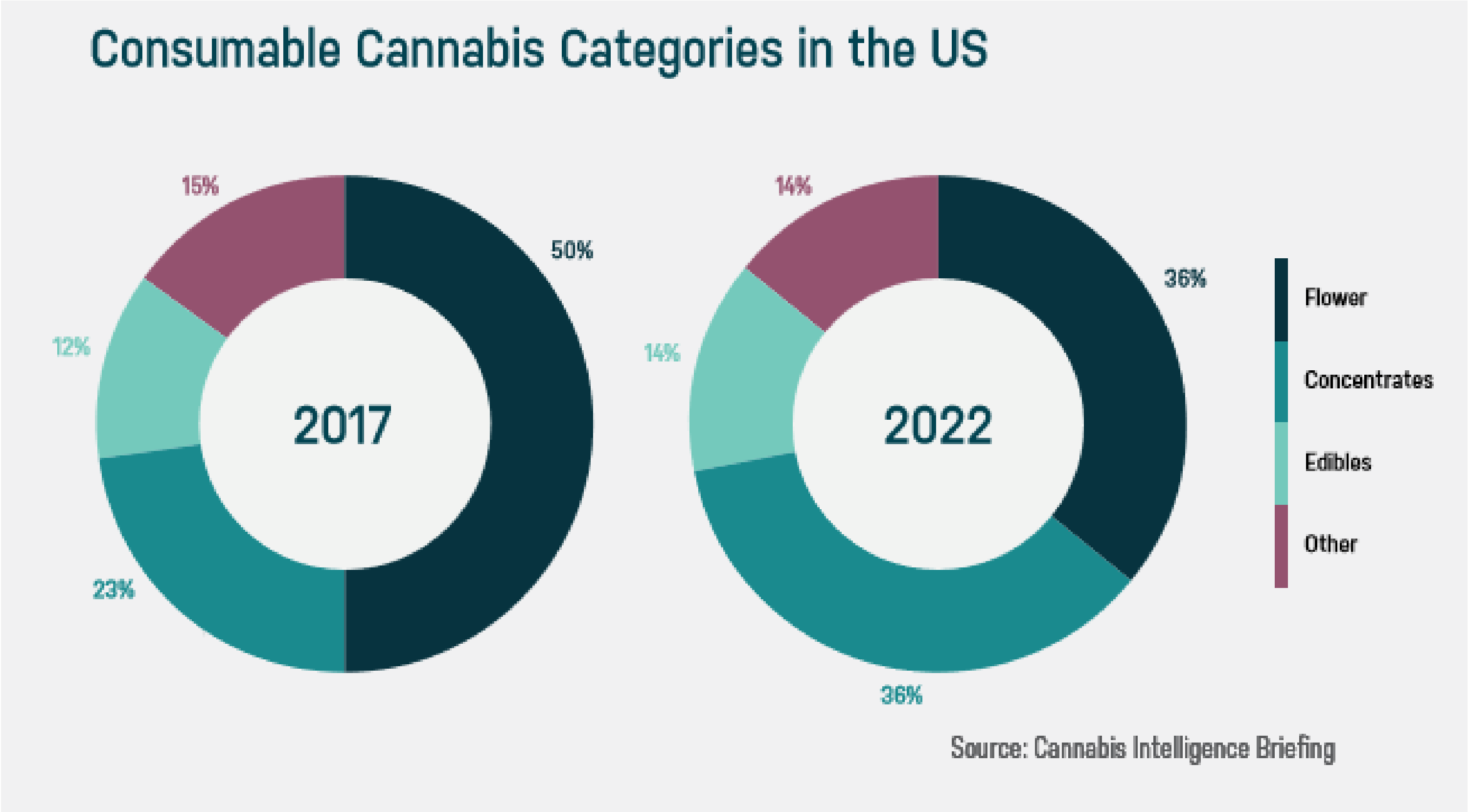
Evolving

Market share is shifting, as seen in Colorado over the past 4+ years



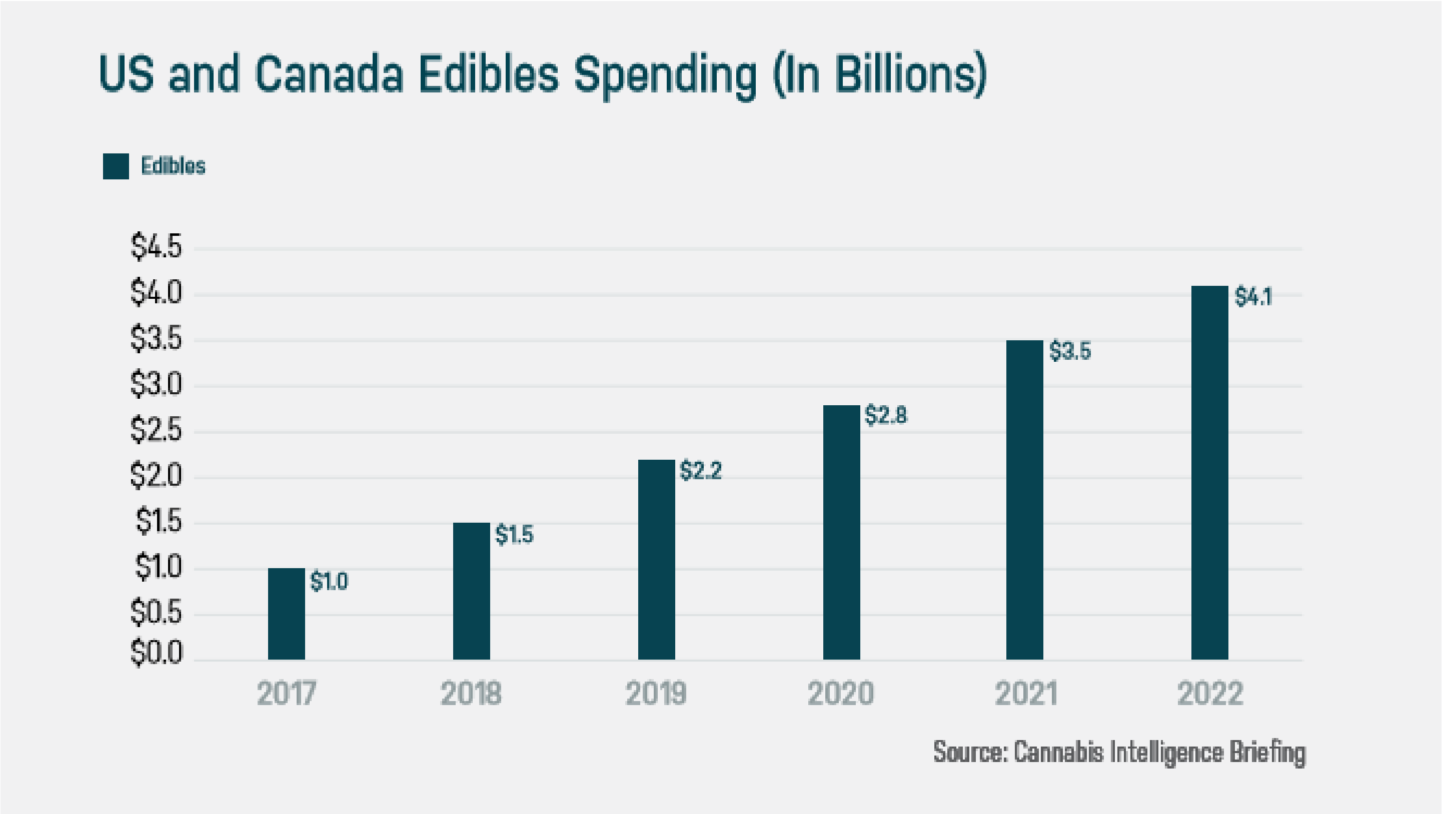
*BDS Analytics GreenEdge POS Retail Data

Across the total US, this trend will continue



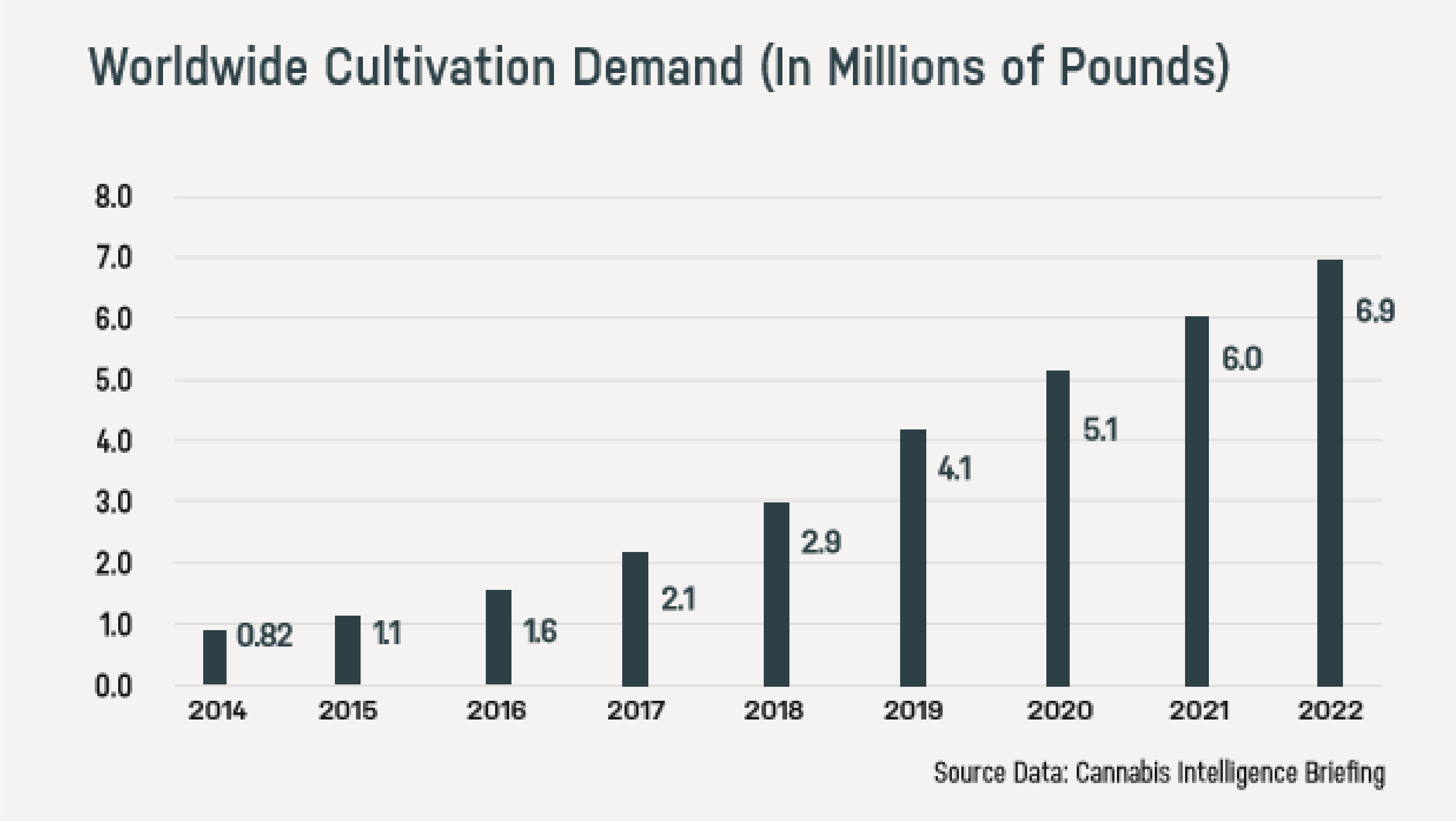
Source: Acrview & BDS Analytics Cannabis Intelligence Briefing

With Concentrates and Edibles to see continual growth and market share gains in outyears



Source: Acrview & BDS Analytics Cannabis Intelligence Briefing

But flower is not dead



Source: Acrview & BDS Analytics Cannabis Intelligence Briefing

Now what?

BDS Analytics’ Crystal Ball

BDS ANALYTICS' 2019 Cannabis Market Trends

In no particular order…
Out and About—SOCIAL CONSUMPTION EMERGES
Drink Me—THE RISE OF BEVERAGES
Boom(ers) Baby—THE AGING CONSUMER
Blurred Lines—REC or Med…*it doesn't matter!*
THE Cannabinoid *(for now)*—CBD CBD CBD
All in the Name—BRANDS FURTHER SOLIDIFIED
Ease—CONVENIENCE IS KING
In Control—GROWTH OF CONSISTENT, LOW-DOSE, DIALED
Discerning Tastes—REFOCUS ON THE CORE
Value Equation—DECLINING PRICES

OUT AND ABOUT

Social Consumption Emerges

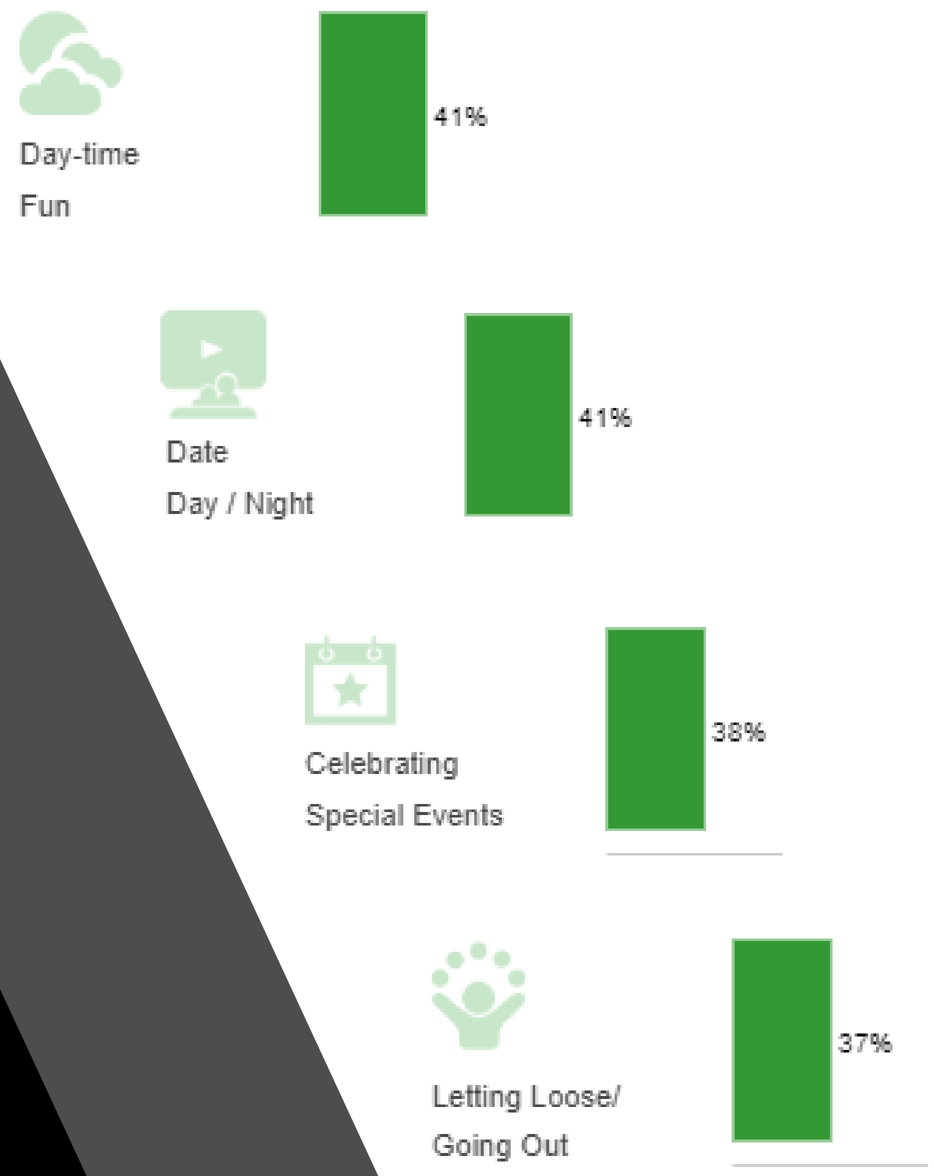
71%
Consume for Social/Recreational Purposes

32% consume BEFORE getting together with others

28% attend a public event (concert, sporting event, etc.) after consuming

18% consume in public places

Social Occasions are already relevant

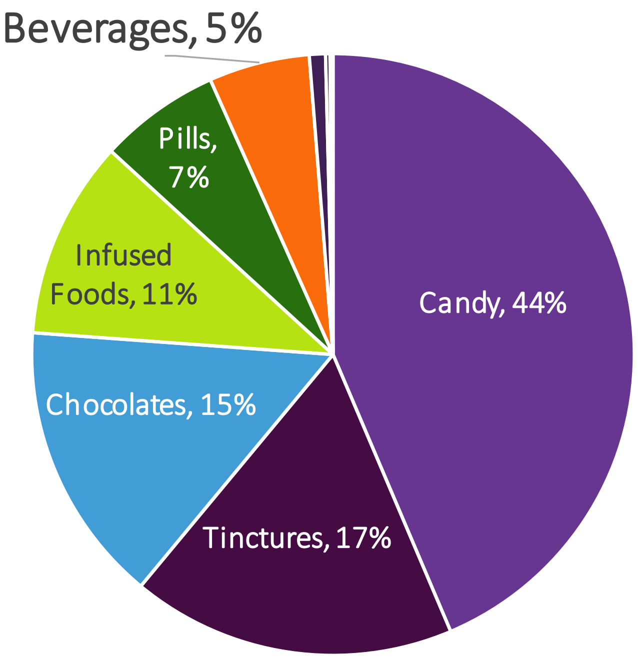


DRINK ME

The Rise of Beverages

Cannabis Beverages: a small, yet growing portion of Edibles

2018 YTD Tracked Edible Sales: $612M* (15% of total sales)



2022 TOTAL US

BDS Analytics' Projections

Edibles: $3.4B

Beverages: $374M**

*BDS Analytics Retail Sales Tracking Data: AZ, CA, CO, OR

**Beverage projection is preliminary and may change in the coming months with additional research and modeling

BOOM(ers) BABY

The Aging Consumer

BOOMERS:
An important and growing segment, BUT they do not fit “neatly” in a box

67% of Boomer Consumers consume for Health/Medical Reasons

Boomers are SIGNIFICANTLY <u>MORE</u>…

- Medically Motivated
- Likely to consume to replace Rx/OTC
- Likely to want to ease aches/pains

59% of Boomer Consumers consume for Social/Rec Reasons

BUT they also want to…

<u>RELAX</u>

UNWIND

AND HAVE FUN

BLURRED LINES

Rec or Med…it doesn’t matter!

Majority agree with some form of legalization

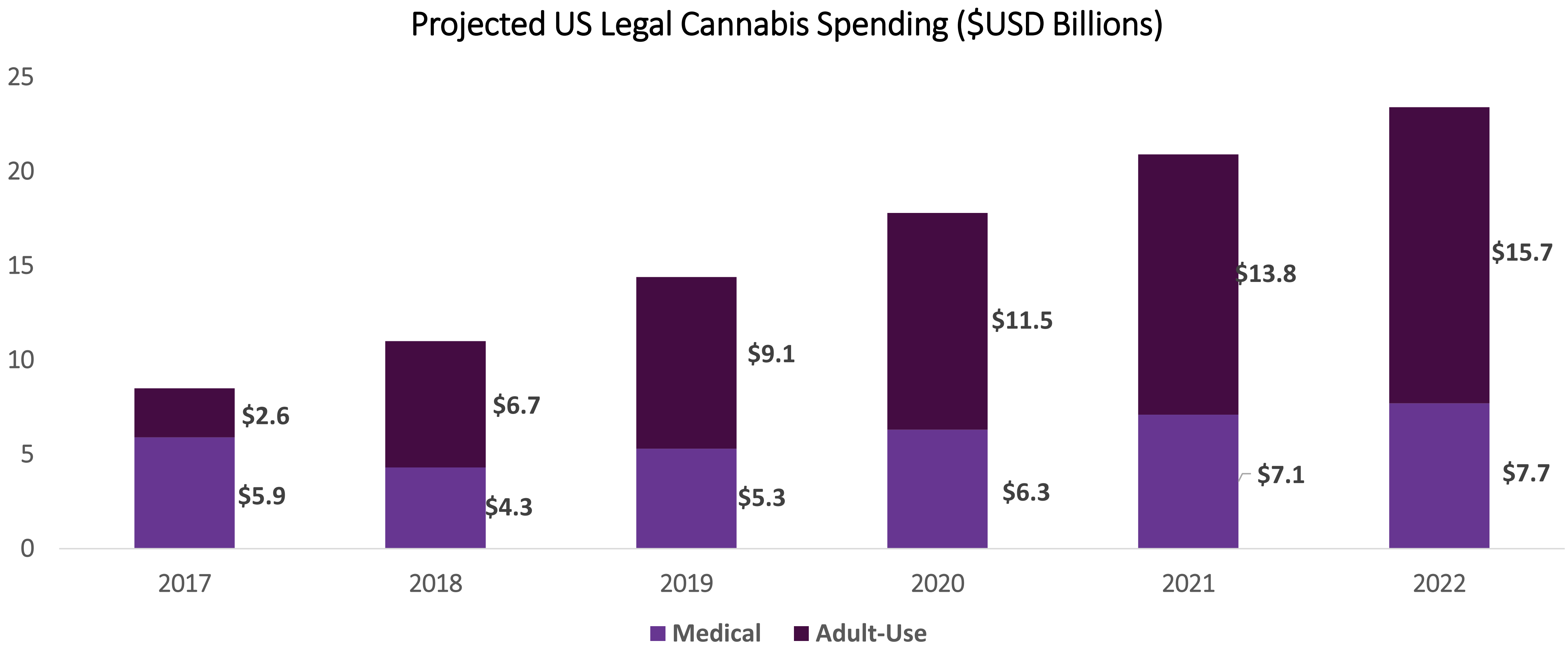
~80% of US and CAN adults agree there should be **some form of legal marijuana usage**

64% in US
88% Consumers in Med/Adult States
57% in CAN

agree marijuana **has medical benefits**

BDS Analyt ner Research: S adults 21 adults 18+

In our *conservative* models, Adult Use sales drive growth in US and CAN



Source: Acrview & BDS Analytics Cannabis Intelligence Briefing

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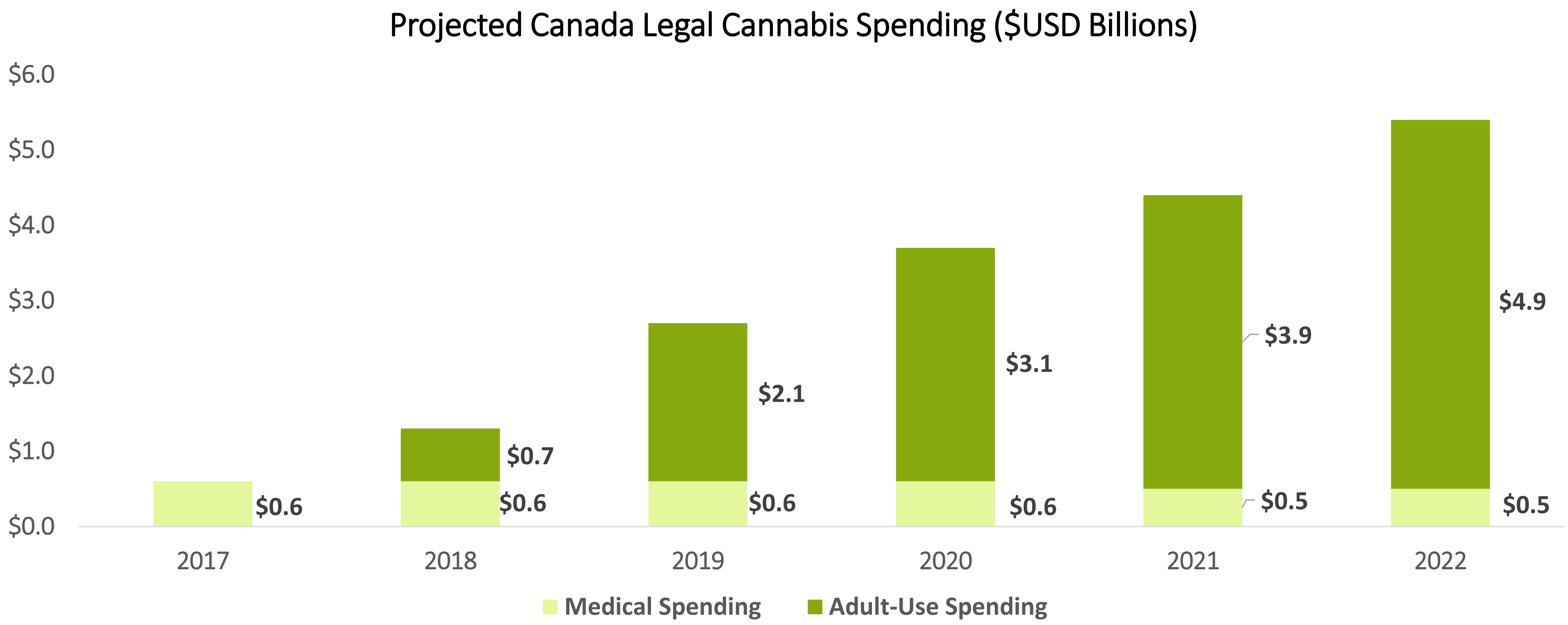
AND Canada will grow to $5.4B by 2022, with most coming from Adult Use

More conservative than some are forecasting because of limitations like no extracts, potency limits, government ran/operated, etc. As restrictions are lifted, the market size will grow



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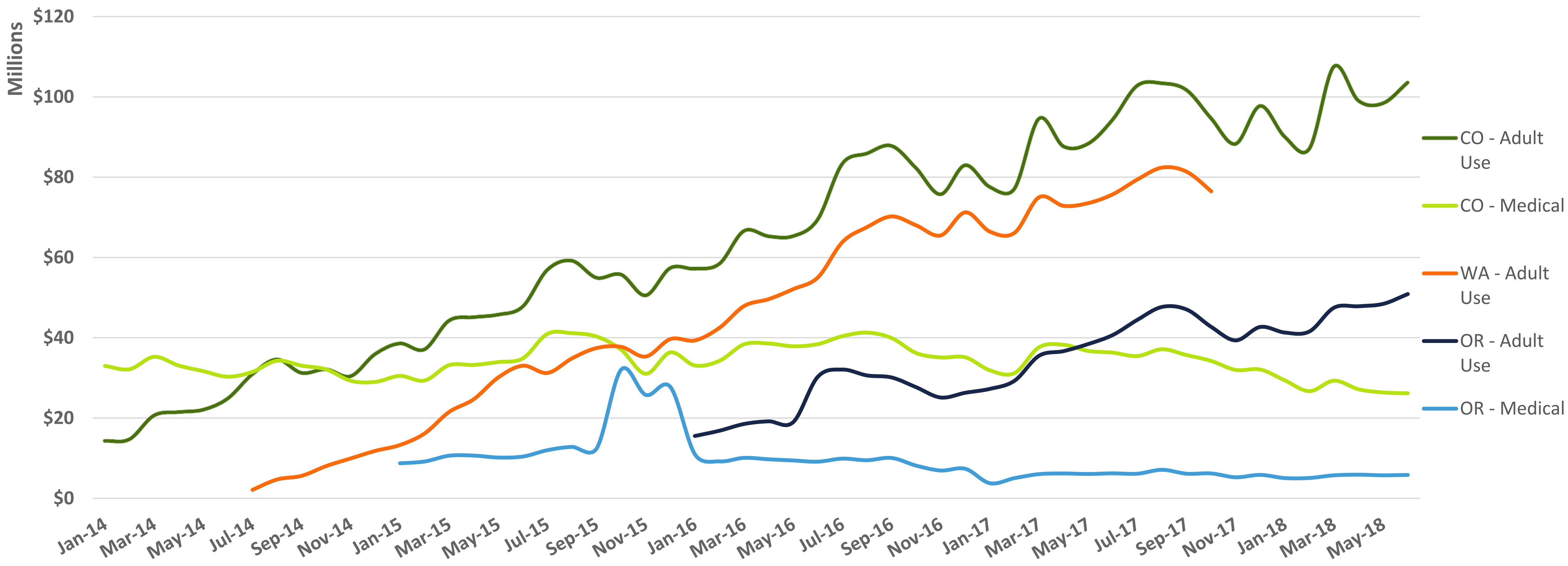
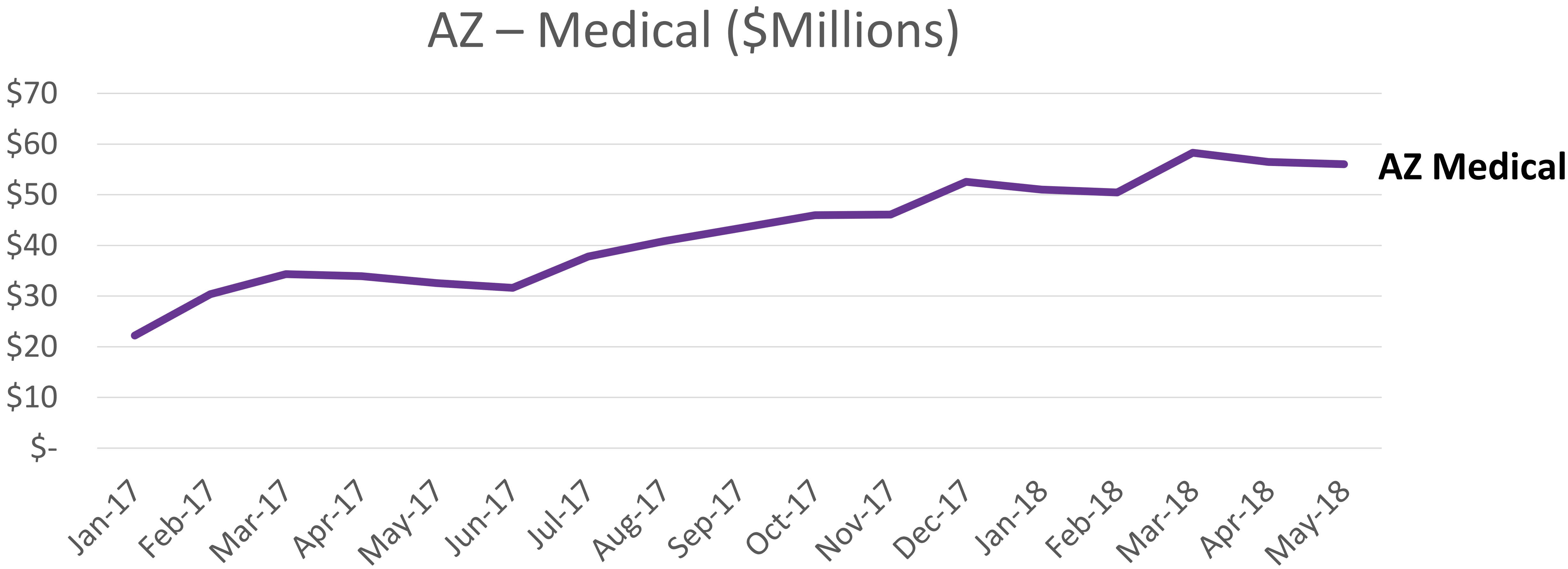
Spectacular growth of Adult Use markets since opening



*BDS Analytics GreenEdge POS Retail Data

BDS Analytics

Medical Markets thrive in the absence of an Adult Use market



*BDS Analytics GreenEdge POS Retail Data

BUT looking at Medical Channels vs. Adult Use Channels is not that simple

71% **Recreational & Social**

56% **Health or Medical**

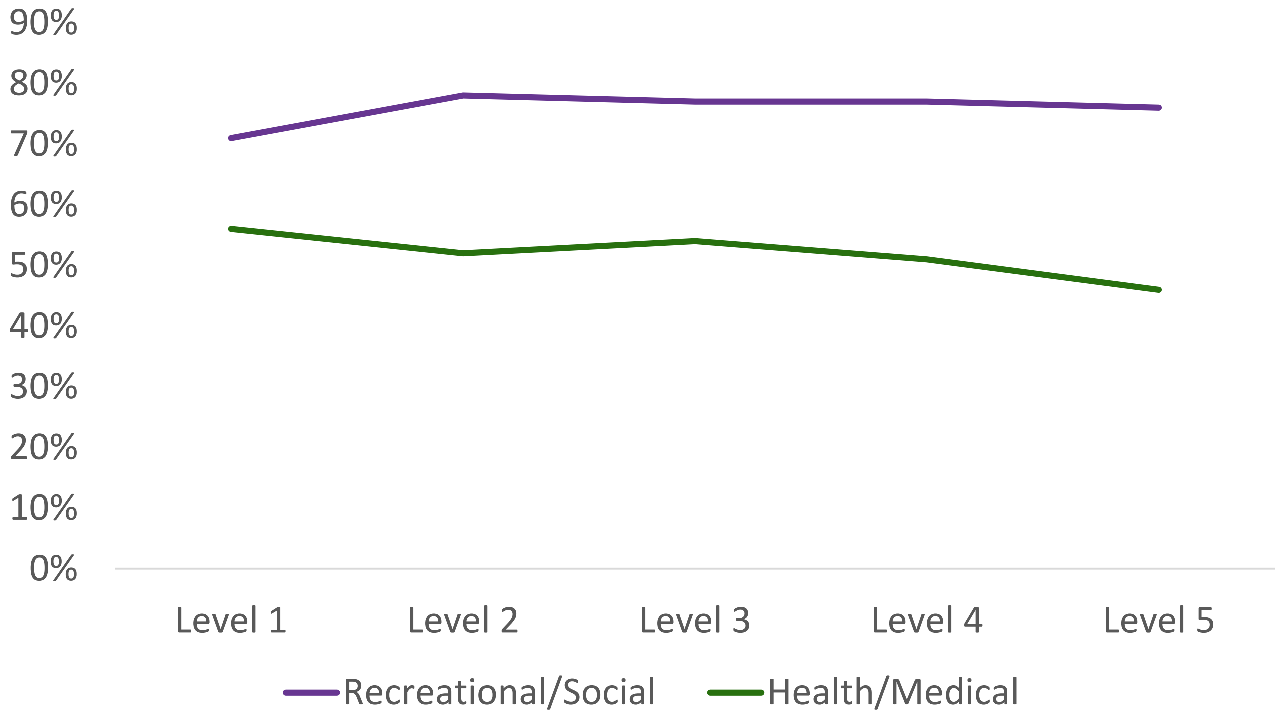
33% US Consumers

28% CAN Consumers

Consume **for both Recreational & Social AND Health or Medical reasons**

BDS Analytics Consumer Research across Cannabis Consumers: US adults 21+ in Legal Level 1 States and 18+ Total Canada

The more open the market, the more products, education, de-stigmatization and greater acceptance of health or medical cannabis use "for me"



MED/ADULT STATES
PAST 6 MONTHS

RESTRICTED STATES
PAST 2 YEARS

Base: US, Q3 2018

Even among Pain Management Cannabis Consumers, consumption is multi-faceted

58% of past 6 month Consumers are

PAIN MANAGEMENT CONSUMERS

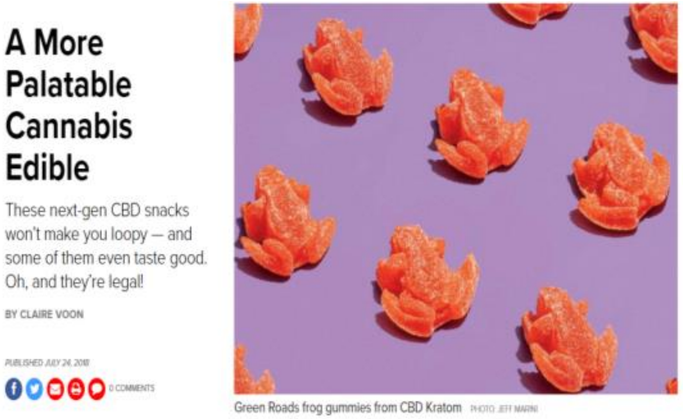
Recreational & Social
73% Pain Management Consumers

Health or Medical
66% Pain Management Consumers

Quality of Life
46% Pain Management Consumers

Base: US Level 1 and 2 States, Q1 2018

It is NOT just about THC—CBD is exploding



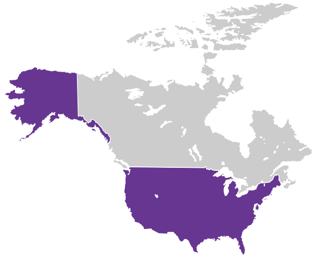
BDS Analytics

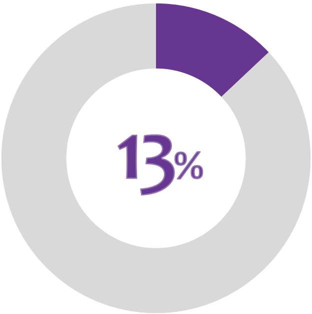
THE Cannabinoid

CBD CBD CBD CBD CBD CBD

Consumption of non-psychoactive Hemp/CBD is much more prevalent among cannabis consumers

% of Adults who have consumed non-psychoactive hemp/CBD





% of who have consumed Hemp/CBD Products By Consumer Type

Rejecter	Acceptor	Consumer
1%	9%	39%▲
1%	3%	33%▲

Q3 2018

C11H. Which of the following products containing non-psychoactive hemp, hemp extracts, CBD, or cannabis terpenes have you consumed?
BASE: Based on weighted completes of adults living in Canada
Based on weighted completes of adults living in the US

▲ Indicates significantly higher at 95% CI

In the US, non-psychoactive hemp/CBD product purchasing largely falls in ingestibles (or edibles) and topicals

Top Categories Purchased (outside of dispensaries):

Ingestibles: 53%
- Oils, Tinctures
- Food
- Pills, capsules, tablets
- Supplements/Vitamins
- Beverages

Topicals: 24%
- Creams, balms, salves
- Beauty Care
- Skin Care
- Patches

Inhalables: 11%

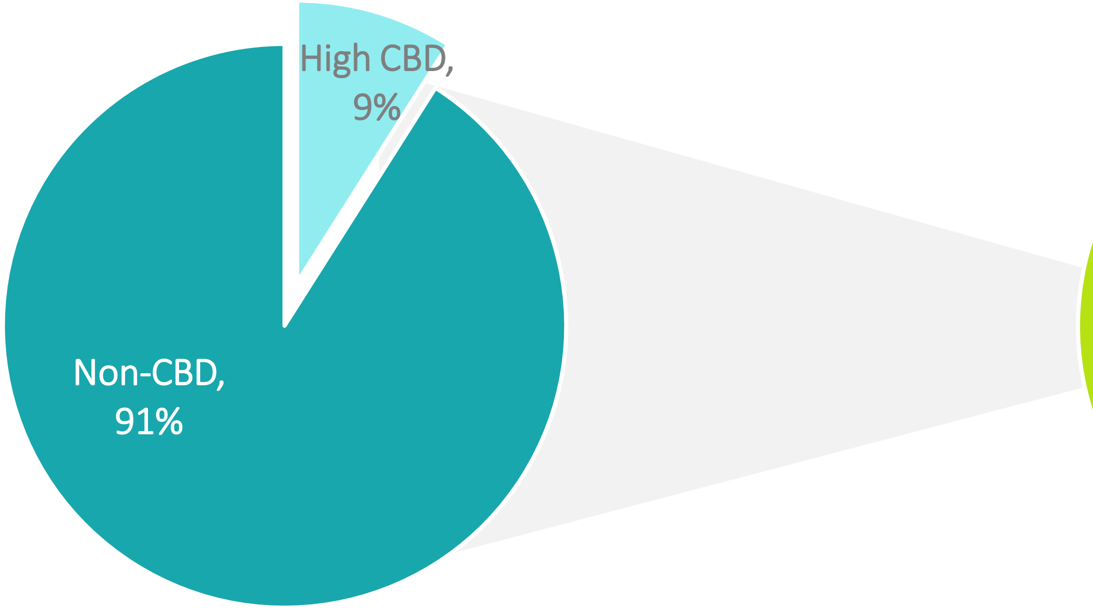
Other: 12%

Base: Total US and Total CAN, Q3 2018

What we see in consumer claimed purchasing in the general market mirrors regulated dispensary channel dollar sales

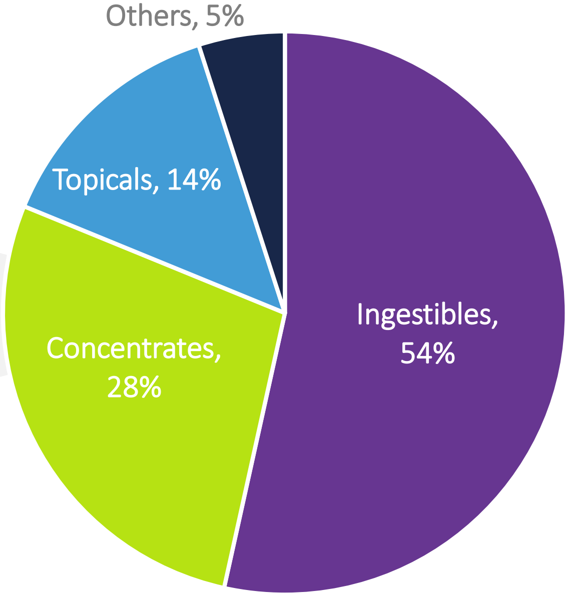
The dispensary channel AND shoppers are a lead indicator of where the CBD market will go

ALL BDS ANALYTICS' TRACKED DISPENSARY CHANNEL 2018



Up from 5% in 2017

DISPENSARY CHANNEL HIGH CBD MARKET SHARE 2018

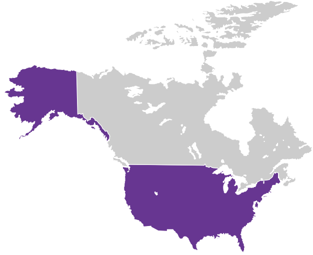


BDS Analytics 2018 YTD (through Oct) GreenEdge Retail Sales Data
*TOTAL DOLLAR SALES 2018 AZ, CA, CO, OR

Consumer education is needed

How much do you agree or disagree that…?

There are no differences in the effects of CBD or THC



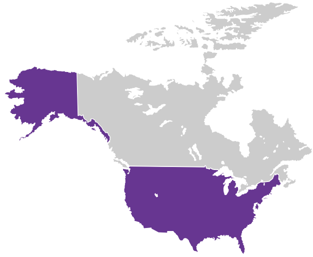
69%

incorrect or do not know

69%

incorrect or do not know

Any product containing hemp will cause effects such as feeling high, relaxed, sleepy, etc.



66%

incorrect or do not know

65%

incorrect or do not know

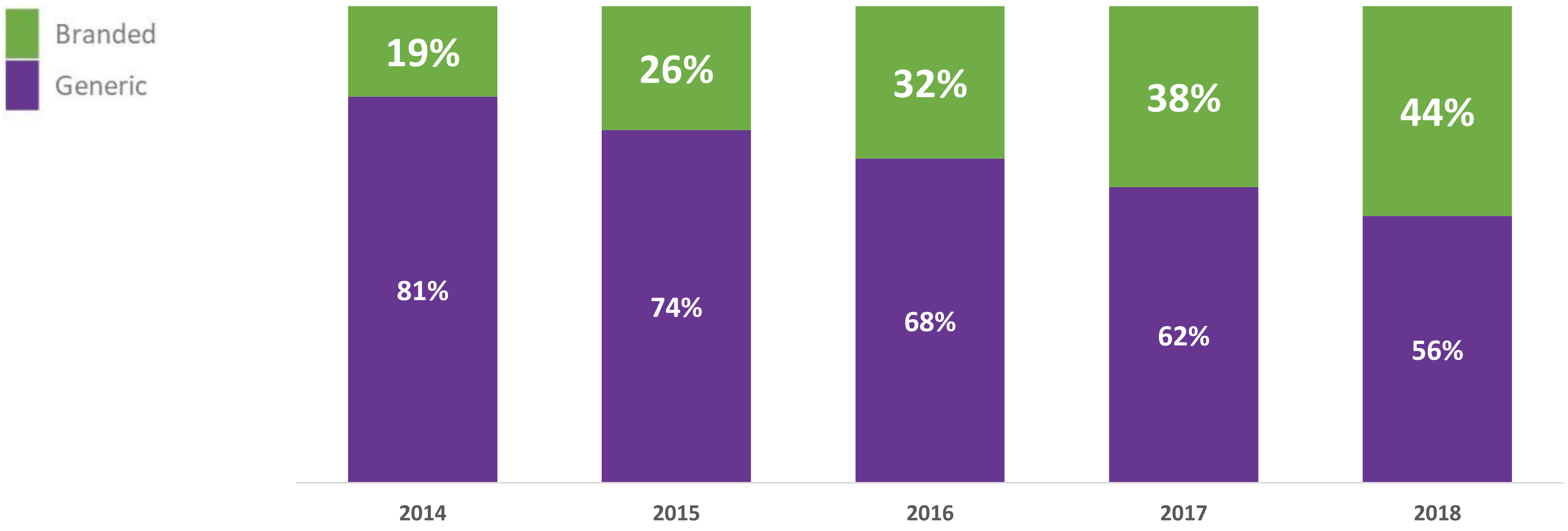
Base: Total US and Total CAN, Q3 2018

ALL IN A NAME

Brands Further Solidified

Branded products continue to see tremendous growth—~45% of sales

Colorado Cannabis Retail Dollar Sales
Branded vs. Generic Products



*BDS Analytics GreenEdge POS Retail Data

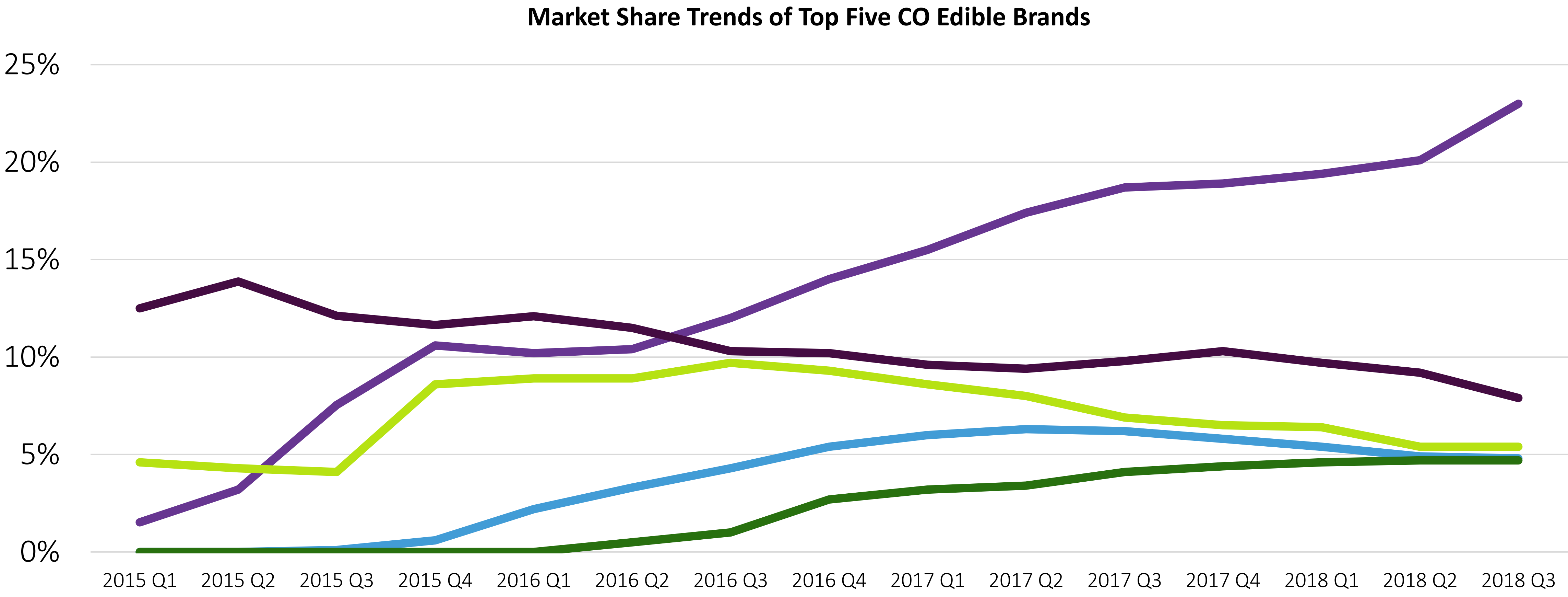
Branded products continue to see tremendous growth—~45% of sales

Colorado Cannabis Retail Dollar Sales
Branded vs. Generic Products

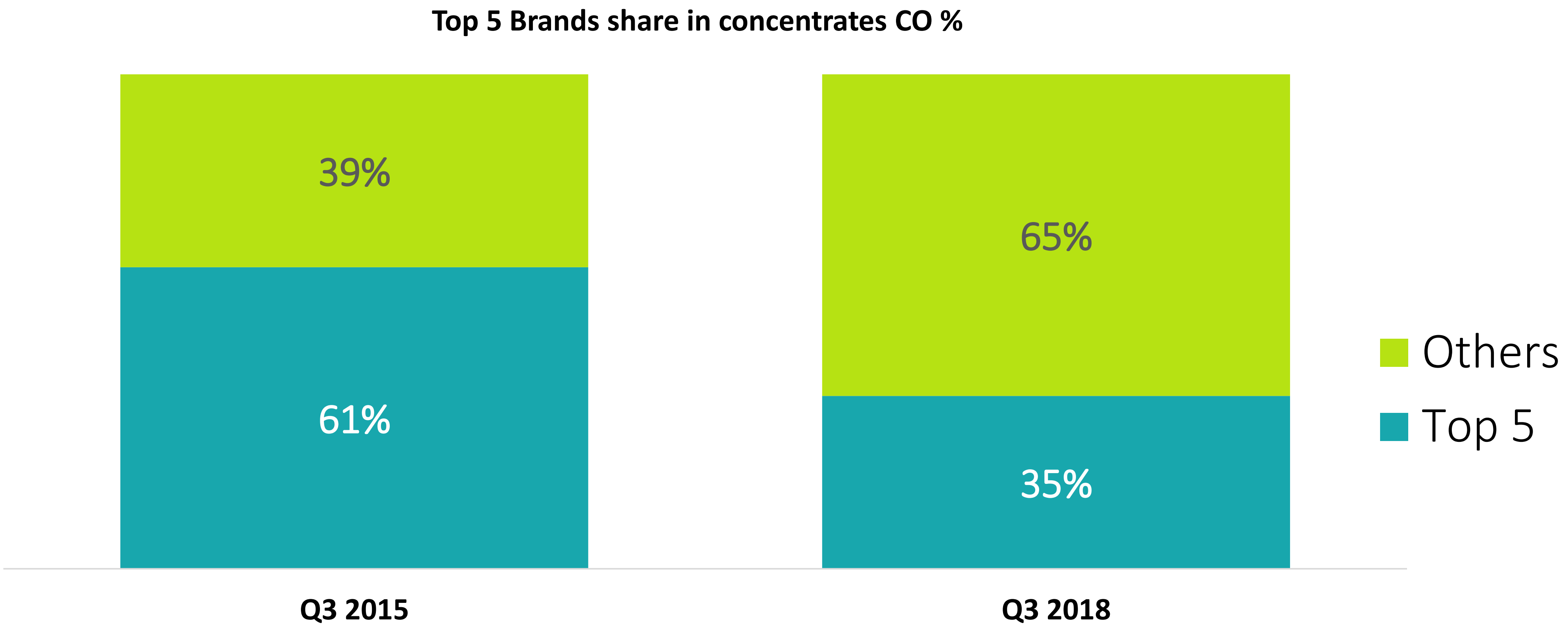
COLORADO EDIBLE SALES:
96% BRANDED

*BDS Analytics GreenEdge POS Retail Data

Some brands take the express route to the top



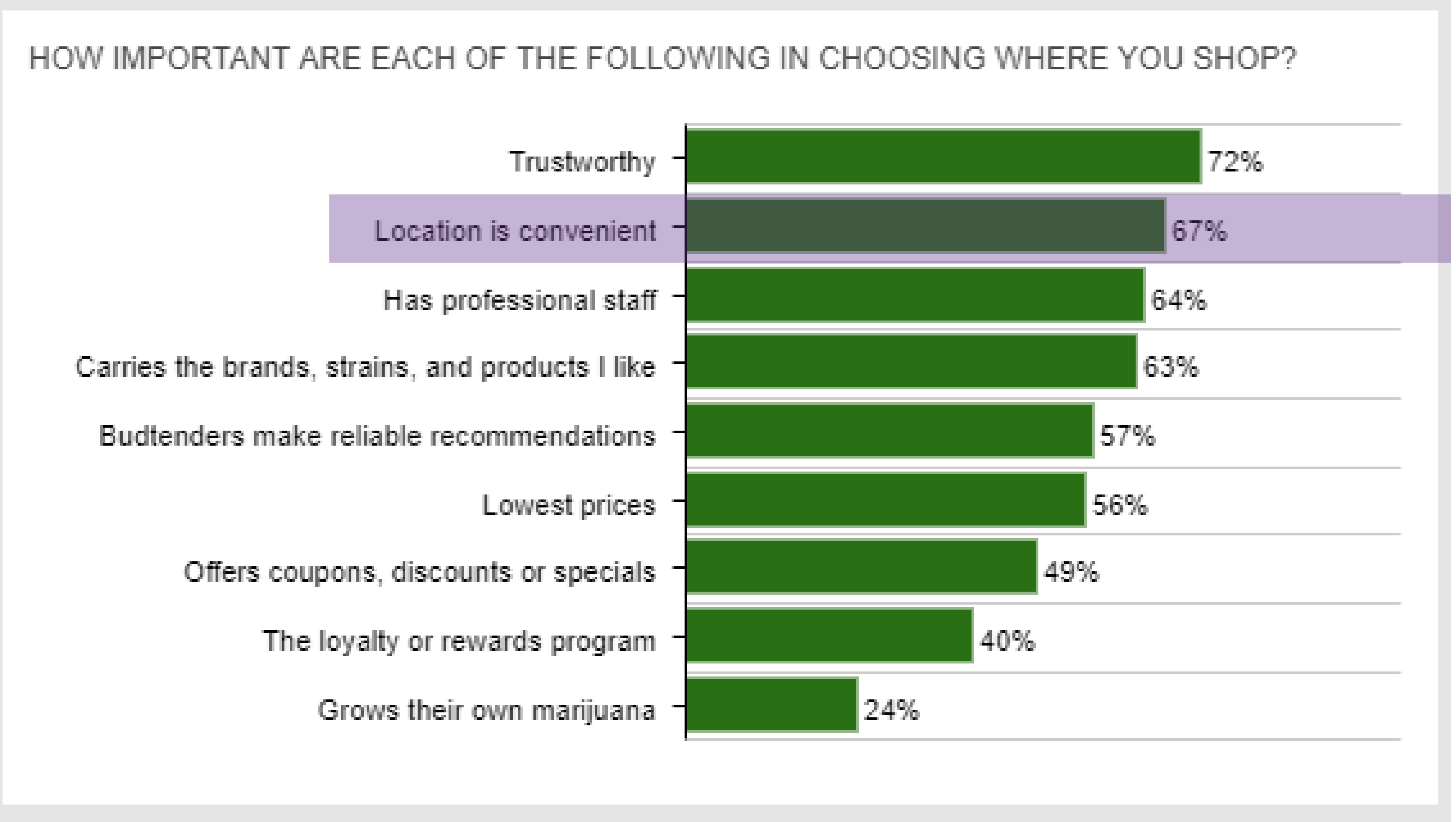
The battle is on for brand share leadership



EASE

Convenience is King

Location is key when choosing a dispensary



50%

are LARGELY influenced by the convenience of the consumption form when choosing a product

...qualifying as a top 5 influencer

THUS DOLLAR SALES....

VAPE	+67%
EDIBLES	+28%

The ULTIMATE Convenience:
Delivery matters across all industries; Cannabis is no different

IN CONTROL

Growth of Consistent, Low-Dose, Dialed

33% of Edibles Consumers prefer Low-Dose (<10mg)

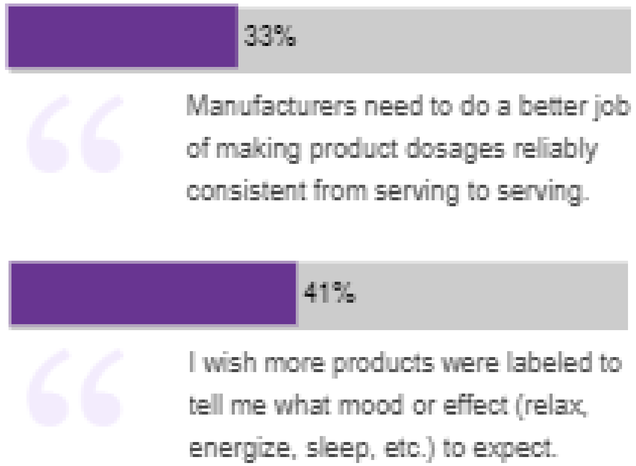
Micro (<2.5mg):	+108%
Low (>2.5, <10):	+71%
Edibles:	*+28%*

40% of Edibles Consumers have chosen products based on CBD content
…of these, 27% PREFER 10:1 or HIGHER

High CBD:	+67%

Consistency AND trust matter; Consumers want a good experience

Among Consumers…



Top Hurdles Among Non-Consumers…

#1:

It does not fit my lifestyle

#2:

I don't like how it makes me feel

Consumers are STRONGLY influenced by familiarity/recommendations…

It is something I have used before (60%),
Friend/Family Recommendation (45%), Budtender Recommendation (41%)

DISCERNING TASTES

Refocus on the Core


Willing to Spend MORE for Quality
Keep up with the LATEST Technology
Care that Products are LOCALLY Grown
Prefer LOCAL, NATURAL, ORGANIC, SOCIAL INTERSTED Brands
DISCERNING consumers are influencers, early adopters, and lead indicators

More likely to be influenced by…

Processing Method, Terpenes, Additional Cannabinoids, Growing Methods, Where Grown, Natural/Organic, Packaging

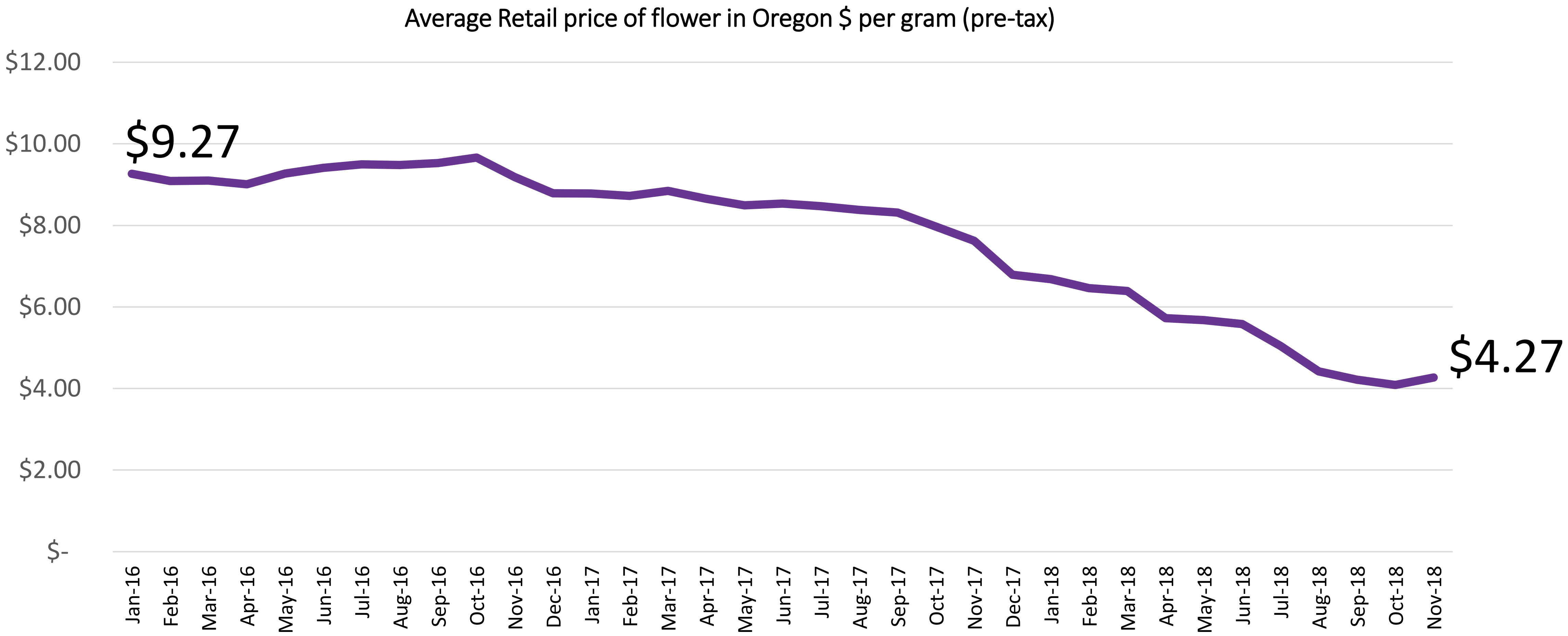
DISCERNING consumers are influencers, early adopters, and lead indicators

VALUE EQUATION

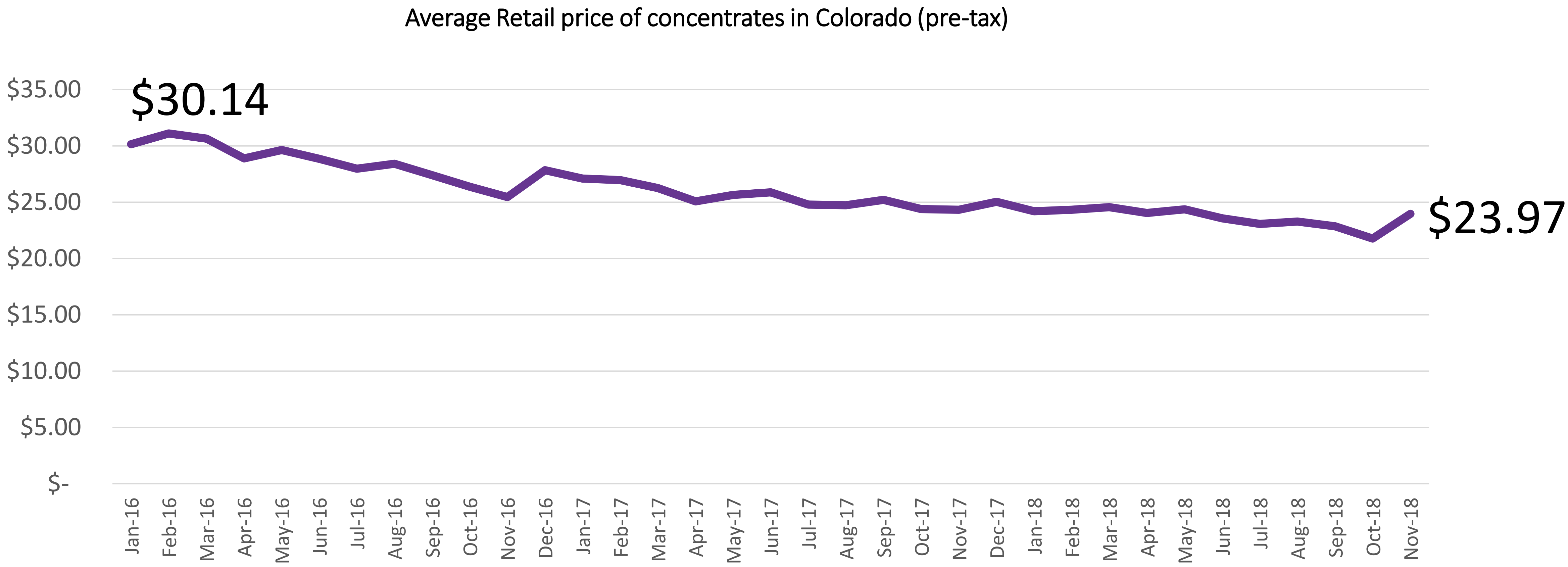
Declining Prices

Price is *still* the #1 driver of consumer product choice

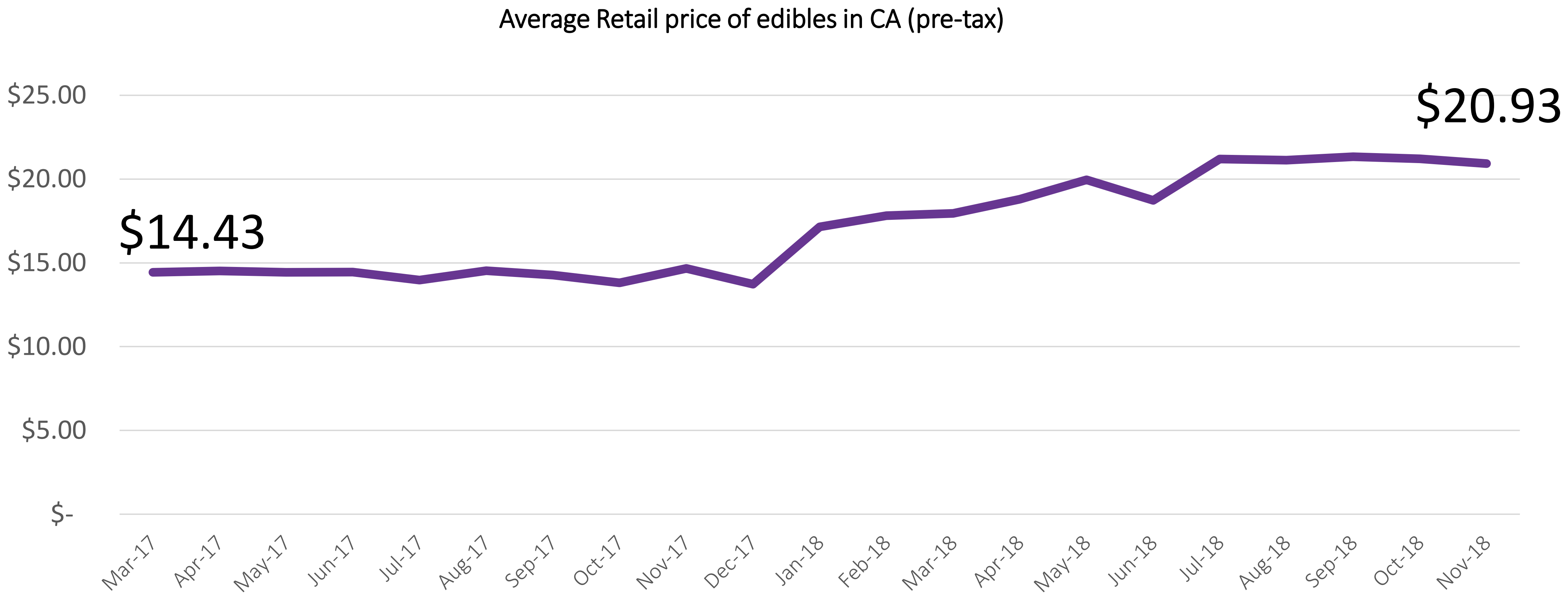
Oregon has seen steady declines in flower price per gram



All category prices have steadily decreased in CO –concentrates down 2% in 3 years



But in California the already high prices continued to rise and actually rose faster after January 1, 2018.



BONUS

Fewer, Bigger, Better (???)

Consolidation

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Discerning Tastes—REFOCUS ON THE CORE
Value Equation—DECLINING PRICES

It's a New Game: What does that mean for your business?

Presented by:

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