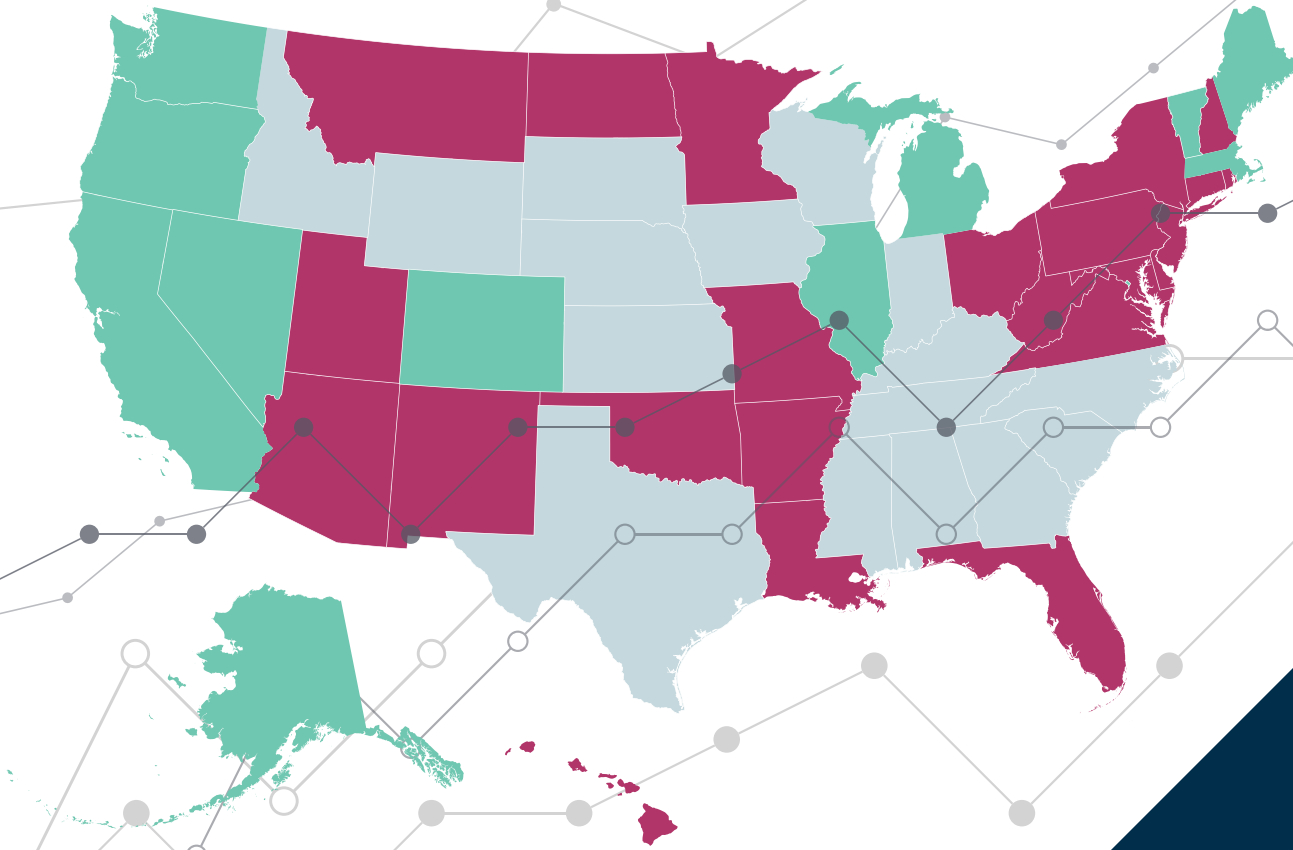


THE U.S. CANNABIS REPORT

2020-2021
INDUSTRY OUTLOOK



EXECUTIVE SUMMARY

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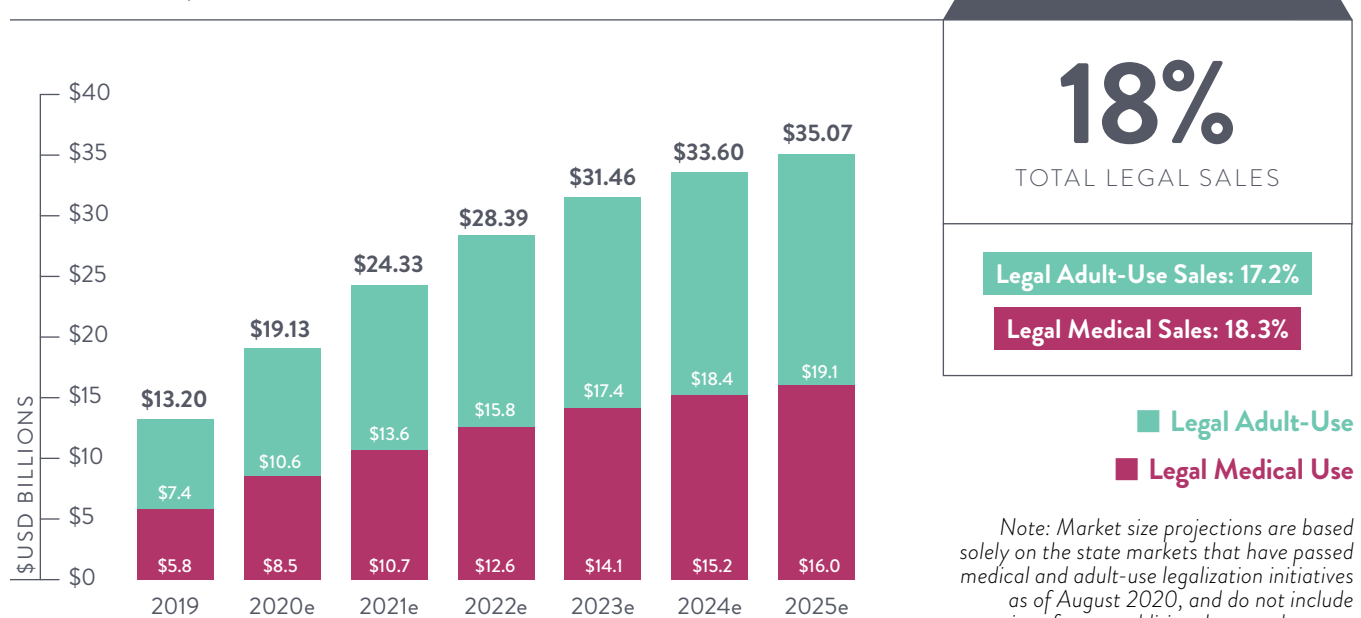
THE U.S. CANNABIS REPORT: 2020-2021 Industry Outlook provides New Frontier Data's latest perspective on the transformational growth of the legal cannabis industry. Featuring the most refined sales forecast methodology that we have built to date, analysis of the key trends shaping the industry's evolution, and a review of the influence of market-specific regulations and evolving consumer behavior on the sector's performance, this report delivers fresh insights into the accelerating growth of legal cannabis in the United States.

Market Growth Exceeds Expectations

The legal cannabis market was worth an estimated \$13.2 billion in 2019, and is expected to reach \$19.1 billion in annual sales in 2020. Fueled by strong consumer demand, annual legal sales are projected to grow at a compound annual growth rate (CAGR) of 18%, to reach more than \$35 billion by 2025.

In states where it is currently legal, annual sales of medical cannabis are projected to grow at an 18% CAGR through 2025, from \$5.8 billion in 2019 to an estimated \$16 billion by 2025. During the same period, adult-use sales are projected to grow at a 17% CAGR, from \$7.4 billion to \$19.1 billion.

Growth of the U.S. Legal Cannabis Industry
2019-2025 est. (\$USD billions)



Note: Market size projections are based solely on the state markets that have passed medical and adult-use legalization initiatives as of August 2020, and do not include assumptions for any additional states that may pass legalization measures in the future.

Source: New Frontier Data

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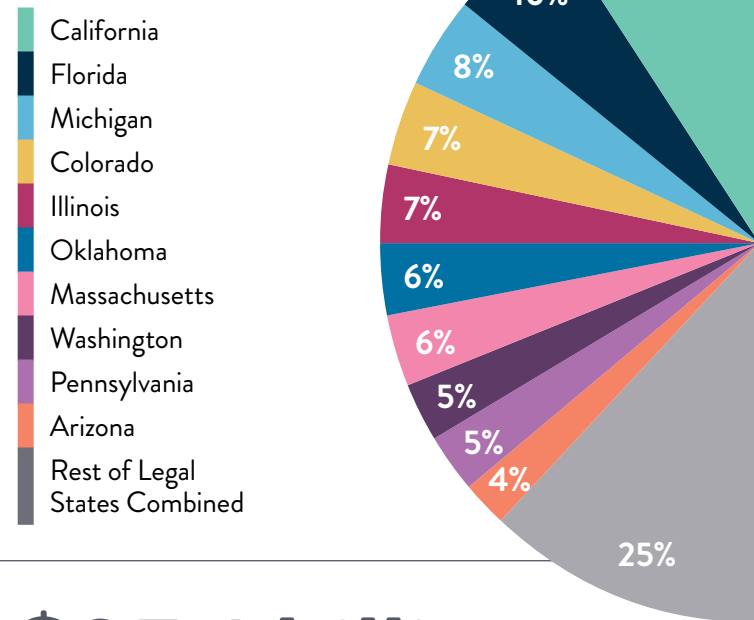


The industry expansion is fueled by convergent forces, including:

- The addition of new legal markets as more states reform their cannabis laws;
- Sustained growth in demand in legal states as consumers make the transition from the unregulated market to the legal one; and
- Increased cannabis consumption as the public recognition of cannabis’ expansive therapeutic value grows, and cannabis is diversified for varying medical and wellness uses.

While competitive forces and economies of scale should continue to drive down both wholesale and retail prices, continued growth in consumer demand will ensure sustained positive market growth through 2025. Furthermore, strong demand for value-added products (i.e., vapes, concentrates, edibles, and topicals) will expectedly buoy prices as those products have held their premium pricing better than flower. By 2025, New Frontier Data projects the largest state markets for legal cannabis to be California, Florida, Michigan, Colorado, and Illinois.

Legal Market Share by 2025



\$35.1 billion

2025 EST. TOTAL U.S. LEGAL MARKET

Note: "Rest of Legal States Combined" includes annual revenue projections for 25 states with operating legal cannabis markets. All share calculations are based on combined legal sales in both existing medical and adult-use markets.

Source: New Frontier Data

NOTE: Projections are based solely on the state markets that passed medical and adult-use legalization initiatives as of August 2020, and do not include assumptions for any additional states which may pass legalization measures before 2025. Projections do not include assumptions about potential changes to federal policy before 2025. It remains conceivable that there could be passage of sweeping changes in federal cannabis laws within the next decade, including the rescheduling of cannabis from its current status as a Schedule I substance – i.e., included among the ranks of the most dangerous drugs – to Schedule II or III status, or potentially a complete descheduling, which would bring cannabis regulations more closely aligned to those for alcohol. However, unpredictability in any timing of changes to federal policy, coupled with uncertainty about changes to laws, preclude accurate prediction of the potential market size for cannabis under federal legalization before 2025.

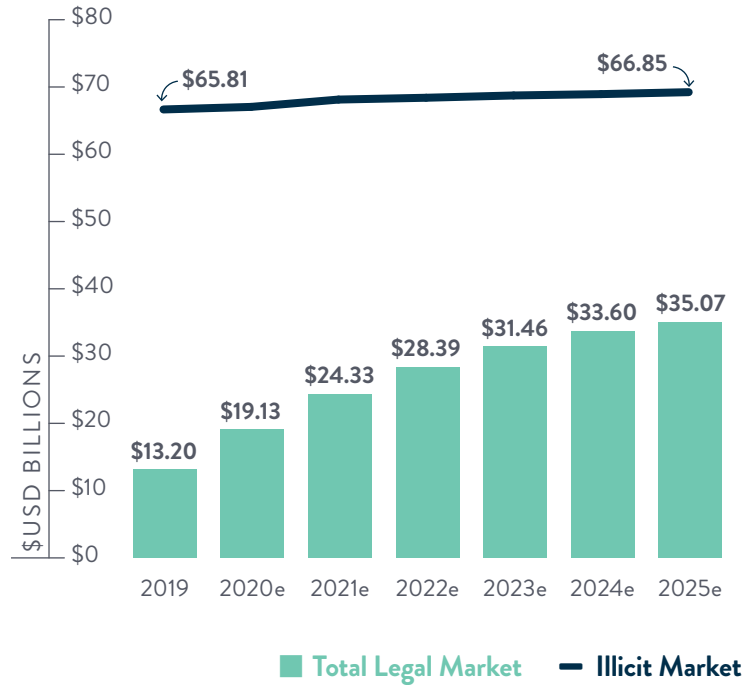


Growth in Illicit Markets Eroded by Legalization

Despite strong performances seen in legal state markets, the illicit market will serve the majority of national demand, given that most consumers still live either in medical-only markets, or in states with no legalized cannabis. And despite cannabis' broad illegality, the total number of frequent (past-month) cannabis consumers in the U.S. is expected to grow by roughly 4% per year over the next six years, reaching an estimated 37 million consumers by the year 2025 (i.e., 14% of the U.S. population).

Among states having no medical or adult-use cannabis sales in place, Texas, North Carolina, and Georgia currently represent the three largest unregulated state markets, worth a combined \$8.3 billion in estimated illicit can-

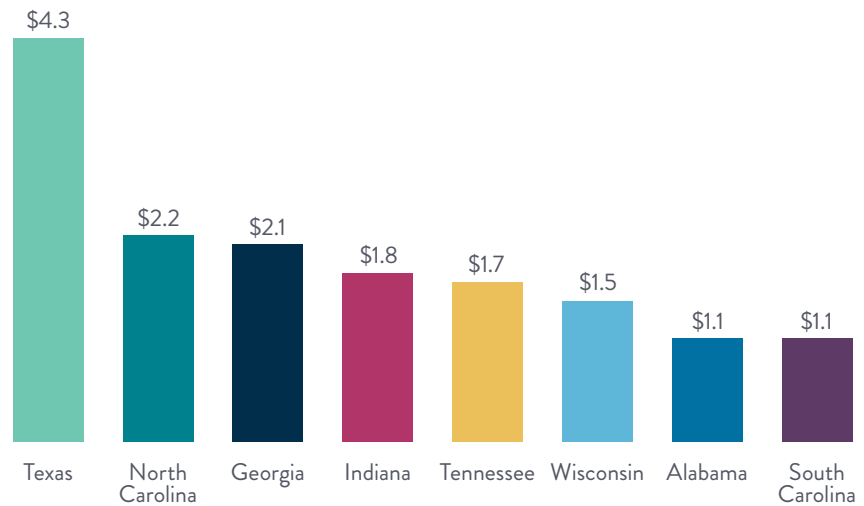
Legal vs. Illicit Cannabis Sales
2019-2025 est. (\$USD billions)



\$16 billion

COMBINED ANNUAL SALES OF CANNABIS IN 8 LARGEST ILIICIT STATES

Largest Estimated Illicit Markets in 2020 (in States with No Cannabis Legalization)
Annual Illicit Market Spending (\$USD billions)



All charts, source: New Frontier Data

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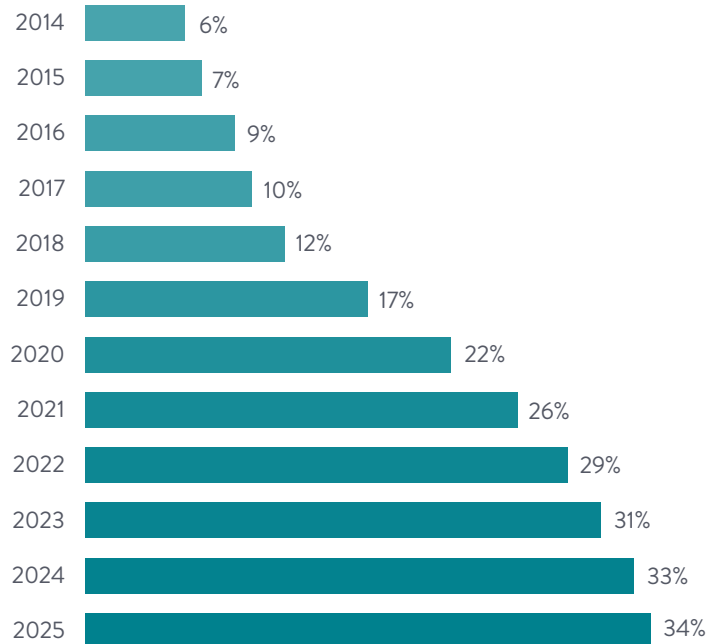
nabis sales in 2019. Without action to legalize cannabis, the combined illicit market in those three states is projected to be worth roughly \$8.6 billion in 2020, rising to an estimated \$9.8 billion by 2025.

If a key objective of legalization is to disrupt illicit markets, that end is being achieved in those states where cannabis is legal. Even with continued growth in the number of cannabis consumers nationally, both legal medical and adult-use markets are projected to increasingly erode the proportion of demand met by illicit sources. In 2019, while an estimated 17% of U.S. cannabis sales were believed legal, New Frontier Data estimates that by 2025 more than one-third (34%) of total annual cannabis demand across the country will be met by legal purchases in regulated marketplaces.

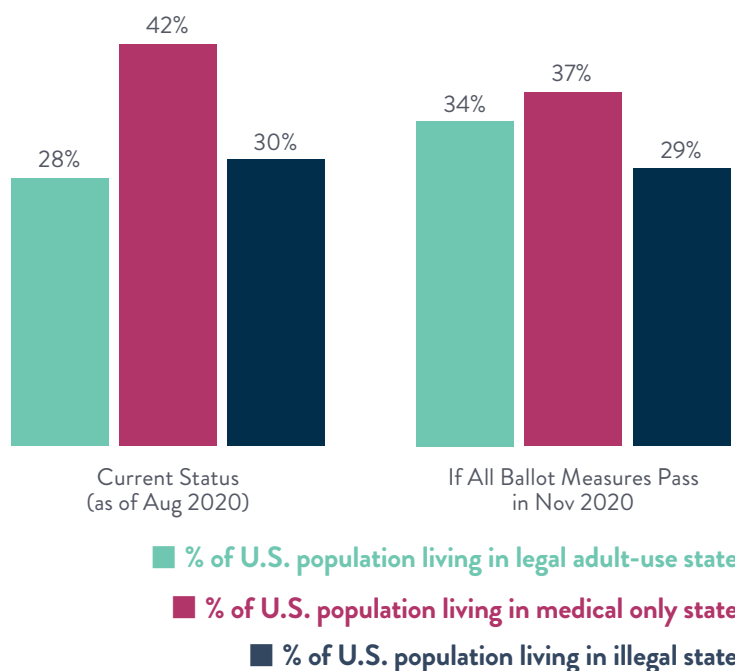
Cannabis Legalization Initiatives in 2020 Could Add Significantly to Total Legal Cannabis Market

Currently, five states will hold referenda whether to legalize medical or adult-use cannabis in the November 2020 elections. The potential new adult-use states includes New Jersey (where passage would have monumental implications, given potential for legal access by consumers drawn from major populations centers including New York City and Philadelphia), Arizona (a legal medical state that fell just short of legalizing adult-use cannabis in the 2016 election), and South Dakota

Percentage of Total U.S. Cannabis Demand Met via Legal Sources



% of Americans Living in Legal States



All charts, source: New Frontier Data

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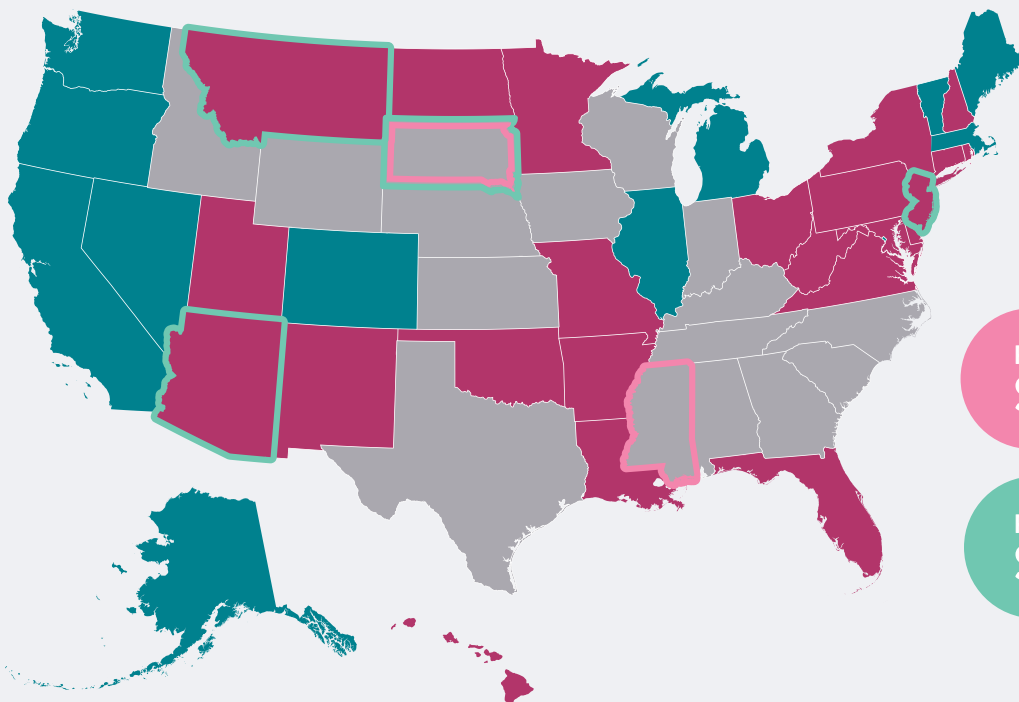


(the first state to propose legalizing programs for both medical and adult-use during the same election cycle). The potential new medical markets include Mississippi and Montana.

If all five states in question pass their initiatives and legalize programs, they could collectively add another projected \$3.3 billion in combined annual sales revenue to the legal U.S. market by their fourth years of operation.

Legalization in those markets would not only generate significant new revenues, but also fundamentally reshape the status of cannabis in the U.S. It would mark the first time that more Americans would be living in states with legal adult-use access than in states where cannabis remained completely prohibited (i.e., 34% residing in legalized adult-use states, vs. 29% in states where illegal).

Potential Additional Annual Revenues from States Currently Debating New Cannabis Laws



\$3.3 billion
 Total Potential Revenue by 4th Year of Operation

Potential Annual Medical Revenue: **\$87 million**

Potential Annual Adult-Use Revenue: **\$3.2 billion**

■ Current Adult-Use ■ Current Medical Use Only ■ Potential Adult-Use / Medical Use ■ Potential Medical Use

Source: New Frontier Data

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Legal Market Expansion Presents Growth Opportunities, New Challenges

Additional regulatory, social, economic, and investment trends discussed in *The U.S. Cannabis Report: 2020-2021 Industry Outlook* include:

- The U.S. total addressable market and factors driving growth in the population of cannabis consumers;
- The growing support for fully legal cannabis among adults;
- The surge in retail sales fueled by social and economic disruptions caused by the COVID-19 pandemic;
- Evolution of consumer product preferences in a market with increasingly diversified product options;
- Continued expansion of medical cannabis programs nationally, including analysis of the qualifying conditions which are driving the greatest growth in patient participation, and a deep dive into Oklahoma's unique and outperforming medical market;
- Hemp, CBD, and overall growth in demand for minor cannabinoids as consumer awareness grows and scientific research continues;
- Lessons from the first six full years of legal cannabis in Colorado;
- Revised tax revenues altering the forecast for California's legal market;
- Analysis of the critical roles of licensing policy and consumer retail access in program growth;
- How different regulatory structures have shaped the interplay of medical and adult-use programs in the states where both are legal;
- The impact of accelerating consolidation and rise of multistate operators on the national market's future growth;
- Strong capital inflow into cannabis as a catalyst for the growing scale of merger and acquisition activity;
- An evolving national debate on cannabis prohibition enforcement within the broader calls for criminal justice reform, including analysis of disparities in policing and civil asset forfeiture; and
- A discussion of the federal action on cannabis that is often at odds with the accelerating shift in public attitudes.

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