

A hand is shown holding a credit card over a black payment terminal. To the right of the terminal are three clear glass jars filled with green cannabis buds. The background is a blurred indoor setting with warm lighting.

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The Revitalization of the Cannabis Industry

SPECIAL
REPORT



Despite the growing pains suffered as a result of the 2018 and 2019 “weed bubble”, as well as the challenges faced due to COVID-19, the cannabis industry is thriving. In this special report, we’ll look at key drivers behind the revitalization in 2020, as well as issues that could have a positive impact on the cannabis industry moving forward.

THE 2020 ELECTION

One of the key issues on the table regarding the cannabis industry and the 2020 election is the possible rescheduling of cannabis. According to several news sources like [New Jersey Cannabis Insider](#), [Global News.com](#) and [Reason.com](#), the Democratic Party is considering the possible reclassifying of cannabis to a Schedule II drug, rather than its current Schedule I status, which is the same as heroin. This would essentially decriminalize the drug and make it easier to expand cannabis research. Other proposals that could affect the ballot include expanding further the legalization of cannabis for medical use and allowing states to decide individually whether to legalize the drug for recreational purposes.

States selling cannabis are not only experiencing an increase in sales revenue, but also an increase in tax revenues.

EXCISE AND SALES TAX INCENTIVES

Findings in an [Institute on Taxation and Economic Policy report](#) showed that tax revenue data from the eight states that permit legal sales of adult-use cannabis jumped a whopping 33% in 2019 compared to the previous year. But although many states have already legalized the sale of cannabis, there are still municipalities within these states that have not. States selling cannabis are not only experiencing an increase in sales revenue, but also an increase in tax revenues. This has new cities actively considering legal cannabis sales in the hope of experiencing a drop in their own tax revenue. However, experts warn that while cannabis regulation could pull in new revenue – estimates put the market at \$60 billion – the benefit to states won’t be immediate as cannabis policy development and regulation remains a complex issue.



THE REBIRTH OF CANNABIS COMPANIES AND SUBSECTORS

American cannabis companies are experiencing strong revenue growth in the third quarter of 2020. A good example is the [New Cannabis Ventures Global Cannabis Stock Index](#), which leaped from its 13.5% slot at the end of March to 34.5% at the end of July. In addition, industry sub-sectors such as pharmaceuticals, nutraceuticals and other ancillary products and services have also delivered a stronger-than-average performance, which has been leading multi-state operators. Since the lows in early March, stocks in the top four sub-sectors in terms of market cap are up between 234% and 279% in Q3 – far outpacing the index, which is up about 102% since March 18. As of August 18, the top sub-sectors in terms of market cap included [Cresco Labs](#), [Curaleaf Holdings](#), [Green Thumb Industries](#) and [Trulieve](#).

“As we move into 2021, product demand, expanded legalization and the possibility of a more favorable federal regulatory environment will likely continue to be key contributors to the strong revenue growth in cannabis stocks,” says TJ Frost, VP & U.S. Segment Leader, HUB International Limited. “We are pleased to see that most states are classifying cannabis business as essential during these trying times, allowing patients to continue receiving their medicine while also creating jobs for many who have potentially lost them due to COVID.”

GROWTH AMID COVID-19

Despite some initial volatility from mid-March panic buying and a subsequent short-term drop off, cannabis sales during the pandemic remain strong. Deemed essential in most states where the drug is legal, cannabis operators have been resilient to COVID-19's economic downturn and are even benefiting from the surge in demand.

This increase in demand has led many cannabis operations to consider expanding to improve scale in order to keep pace with the growth. And, with several of the largest multi-state operators having exposure to Arizona and New Jersey, both states will likely see new ballot initiatives that could expand that demand even further. In addition, legalization in New Jersey could spur New York, Connecticut and Pennsylvania to also legalize.



Cannabis operators have been resilient to COVID-19's economic downturn and are even benefiting from the surge in demand.

According to a survey by [Marijuana Business Daily](#), medical marijuana markets nationwide have significantly increased during the pandemic, primarily driven by:

- » More cannabis retailers offering online orders and curbside pickup.
- » Larger-than-normal online orders.
- » In-store shoppers buying cannabis products in larger quantities.

PRODUCT DIVERSIFICATION WITH NEW 'BEYOND-THE-LEAF INITIATIVES'

This year has many cannabis operations expanding product lines to meet the growing demand of consumers. Referred to as “beyond-the-leaf initiatives,” these lines have helped many companies to better weather the economic downturn. A good example of this initiative would be [Canada's Canopy Growth](#), the planet's biggest cannabis company. Despite the fall in recreational cannabis sales in 2019, the Canadian-based operation experienced stronger-than-expected growth in Q2 of this year at 22%, and with sales 62% higher than in Q1.

From edibles to concentrates and cannabis topicals, the interest in CBD products is growing.



This will likely continue to increase as more companies introduce their own brands of CBD products into the market. Some examples of the beyond-the-leaf initiatives Canopy Growth launched to bring in higher earnings included:

- ✔ **Cannabis-infused beverages:** This year's distribution of new CBD-infused sparkling water and sports drinks resulted in more than twice its normal production in July. In fact, the market for cannabis-infused drinks is expected to rise to an estimated [\\$4 billion by 2024](#).
- ✔ **U.S. online CBD shop:** Earlier this year, Canopy Growth launched its new U.S. online shop for CBD products that includes oils, soft gels and cosmetic skin treatments.
- ✔ **A partnership with Martha Stewart:** Canopy Growth is working with Martha Stewart on developing a brand-new line of hemp-derived animal health products that is expected to launch before the end of the year.

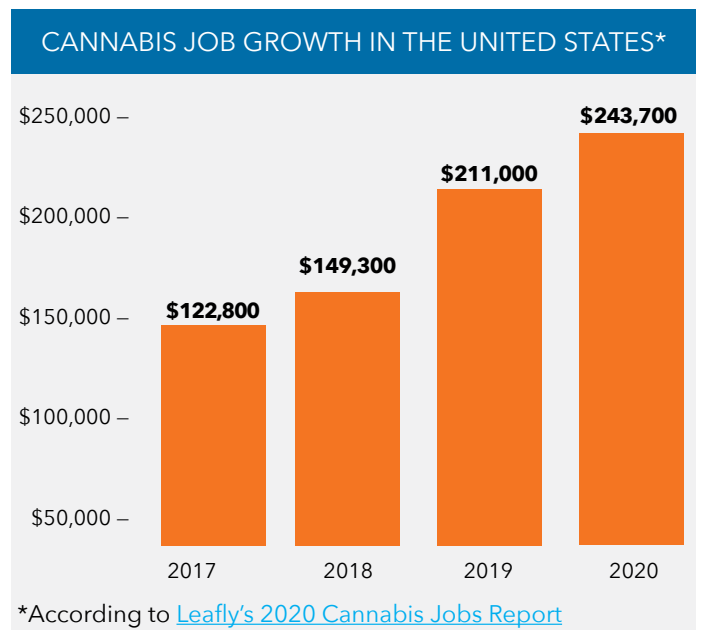
CANNABIS INDUSTRY JOBS SOAR

In January, the legal cannabis industry supported 243,700 full-time jobs in America – a 15% annual increase that is a clear indication of the industry's continuing expansion, even during a rough year. Over the past 12 months, the industry has created 33,700 new jobs nationwide, making legal cannabis the fastest-growing industry in America, according to [Leafly's 2020 Cannabis Jobs Report](#). Despite massive job losses in 2020, California remains America's biggest legal cannabis employer with 39,804 industry jobs, followed by Colorado at 34,705, Washington at 23,756 and Oregon at 18,274. The \$10.73 billion legal cannabis industry continues to be our nation's single greatest creator of jobs, growing at a rate faster than any other industry over the past four years. "As cannabis markets develop differently each state, so will the various job types," said Frost. "This will include a variety

of ancillary markets opening up and creating even more job opportunities, such as cannabis-specific delivery drivers, marketers, equipment retailers, security services, attorneys and realtors – to name just a few."

Moving forward, the Leafly report revealed a number of potential hot spots in several states for growth in cannabis jobs, including:

- » Illinois and Michigan, where the expansion of adult-use sales will likely spur an immediate uptick in hiring.
- » Missouri, where 192 medical marijuana dispensaries are expected to open in the coming year, providing hundreds of new positions for qualified staff.



- » California municipalities, where cannabis operations that were previously banned have started to open up this year, as the jobs, tax revenue and public health benefits of a regulated industry became visible.

» Smaller markets such as Vermont, Maine and Washington, D.C., which had previously legalized cannabis without allowing sales, are now working toward getting regulated stores open in 2020 and beyond.

At NutraRisk, a division of Worldwide Facilities, we have in-depth knowledge of the cannabis and nutraceutical industries with insurance programs to cover a wide range of business types and target markets.

To learn more about our Cannabis and Nutraceutical markets and programs, contact an expert below.

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