White Paper

CANNABIS RETAIL EXPANSION

Insights, best practices, and lessons learned
from six years on the front lines of
the cannabis retail explosion

by Charlie Cain & Jackson Holder

written for Jage Media Inc.

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The following insights, best practices, and lessons learned are derived from applying traditional retail approaches to building cannabis retail brands over the last six years.

First-hand experience in the following markets:

- **US (CA, CO, NV, OR, WA)**
- **Canada (AB, BC, MB, ON, SK)**

Regulations vary dramatically by region. This document includes general strategy and practices. Recommendations may not be actionable in all markets.

The Case for Cannabis Retail

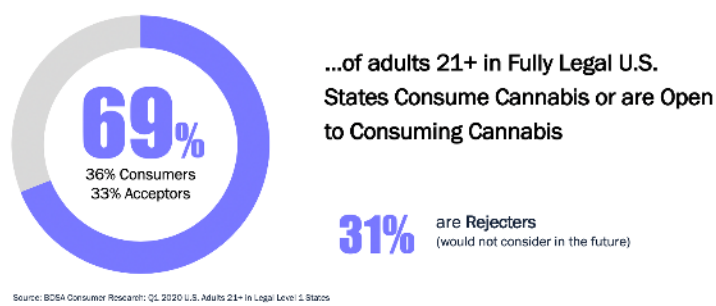
Cannabis Retail offers incredible return-on-investment for investors and entrepreneurs able to time the market and stomach the risk and regulatory complexity. The industry is high-risk and high-reward on average, but seven years after the first recreational retail store opened in Colorado, clear patterns have emerged. Today there is a proven recipe for success.

The world's largest cash crop is being legalized in the world's largest economy. Cannabis brands that achieve broad consumer awareness and loyalty will grow from startups to billion-dollar brands at historic speeds as the obstacles fall away. *Every* cannabis brand in North American is effectively a startup. Cannabis should be the greatest show on earth for the next decade. The winners in this race will be among the largest consumer brands in the world.

Opportunity Profile

Consumer demand: It's hard to imagine ANY new product or industry offering the short-term growth potential of legal cannabis. Legal revenues in the US are expected to surpass $20 billion in 2021, roughly doubling over the last three years alone! Despite meteoric growth, the legal market is still only 1/3 the size of the existing illicit market. An estimated $60 billion in US illicit cannabis sales is ripe for conversion as legalization spreads and markets mature.[1]

According to a recent survey, 69% of adults 21+ in legal US states are open to consuming cannabis, and 36% have consumed recently. (By comparison, 54% of adults report having consumed alcohol in the last six months.[2])



In addition, the legalization of cannabis and launch of retail stores is big news in any market, so cannabis retailers benefit from significant press coverage driving high public awareness of these newly legal products and retail outlets.

Barriers to competition: In most states or provinces, opening a new store requires buying an existing retail license, as no new licenses are allowed. (Canada and California are notable exceptions, though complex bureaucratic processes and municipal prohibitions still represent significant barriers to new competition in many regions.)

[1] New Frontier Data

[2] BDSA Consumer Research

In addition, all markets in the US and Canada require some combination of buffers or setbacks between cannabis retailers and some combination of the following:

- Other cannabis retailers
- Schools
- Childcare facilities
- Parks
- Transit Centers
- Rec/Community Centers
- Places of worship
- Children's arcades

These buffers, combined with local zoning restrictions, create opportunities to secure prime retail locations with limited local competition from other cannabis retailers.

Economics: Retail profitability varies dramatically: driven by regulatory variations, local market dynamics, and the operating proficiency of each retailer. That said, it's not uncommon across markets to see proficient retailers deliver per-store revenues of more than $6 million annually, with 25% EBITDA and 15% Operating Income.

In many markets, revenues are growing far faster than store counts, driving record profits among savvy retailers. Washington state hasn't granted new licenses in several years, but sales grew almost 30% last year alone.

Cannabis retailers operating successfully under the current regulatory and tax structure stand to profit even more as the market legalizes and normalizes.

IRS Section 280E prohibits cannabis businesses from taking standard business deductions (only COGS are deductible.) **For many retailers, the removal of 280E will effectively double their after-tax profitability.** The least efficient retailers will see an even greater benefit, as many are paying federal income taxes on gross margin while booking real world losses.

WA State Retail P&L Example

	Typical Retailer	Top 20% Retailer
Revenue	$ 3,000,000	$ 6,000,000
COGS	$ 1,650,000	$ 3,180,000
GROSS MARGINS	$ 1,350,000	$ 2,820,000
Occupancy	$ 130,000	$ 150,000
Store Labor	$ 456,000	$ 624,000
Marketing	$ 60,000	$ 180,000
OPEX	$ 200,000	$ 300,000
TOTAL EXPENSE	$ 846,000	$ 1,254,000
EBITDA	$ 504,000	$ 1,566,000
	16.8%	*26.1%*
Depreciation/Amortization	$ 25,000	$ 25,000
Corp. tax (under 280E)	$ 283,500	$ 592,200
OPERATING INCOME	$ 195,500	$ 948,800
	6.5%	*15.8%*
LONG TERM PROFIT POTENTIAL		
Corp tax (w/o 280E)	$ 100,590	$ 323,610
OPINC (w/o 280E)	$ 378,410	$ 1,217,390
	12.6%	*20.3%*

Retailers with strong brands are also positioned to take advantage of other forms of market normalization as they occur. Removal of consolidation limits would allow stronger brands to acquire underperforming locations. Legalization of delivery will allow the strongest brands and organizations to reach customers far beyond the footprint of their physical store locations. Relaxation of restrictions on investment and banking will drive even more investment into the best performing brands.

Risk: As stated at the outset, the incredible opportunities of this market are in part offset by unique risks.

Regulatory Risk

- An expansion in the number of available retail licenses would increase competition
- A reduction or elimination of buffers and setbacks would open new areas to cannabis retail, increasing competition
- Delivery could be allowed in more markets, increasing competition with local retailers
- Tax increases could drive sales back into the black market
- Further restrictions could be placed on cannabis marketing
- Legalization may never happen

Business Risk & Complexity

- Investors/Owners/Managers are subject to significant personal financial scrutiny (e.g. several years of tax returns and documentation of all assets, liabilities, and business interests.)
- Debt investment is difficult to collateralize given regulatory restrictions on license ownership and transfer.
- Many federally insured banks are unwilling to service property owners engaged in cannabis retail or leasing to cannabis businesses.
- Break-in/theft risk is higher than in other industries, and inventory cannot be insured.
- Regulatory violations may jeopardize license.

While the risks are real, remember that in most markets, licenses were given out by lottery and without regard for business readiness. A meaningful percentage of the cannabis businesses struggling today simply lack the relevant experience or expertise to thrive in increasingly competitive markets. An experienced team can largely mitigate operational risk. Proficient retailers in high-growth markets rarely fail.

Valuations: Across legal markets, regulations have dramatically restricted the size, reach, potential, and current value of cannabis brands. Licenses are limited; store counts are limited; access to capital is often limited; and sales across state/provincial lines are prohibited.

Retail valuations across most geographic markets hover around 1x annual revenue, with adjustments made on the margin to reflect unique strength or weakness. Returning to the WA state P&L example above, the average Washington retail store doing $3 million in revenue would be valued at $3 million, while top performers are often worth $6 million or more.

WA State Retail P&L Example	Typical Retailer	Top 20% Retailer
Revenue	$ 3,000,000	$ 6,000,000
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	12.6%	*20.3%*
Current Valuation (1x Revenue)	$ 3,000,000	$ 6,000,000
Normalized Valuation (10x EBITDA)	$ 5,040,000	$ 15,660,000

As legalization continues, and specifically once 280E is repealed and cannabis businesses are taxed as any other business, normalized valuations would apply. In traditional specialty retail markets, brands are valued with a multiple on earnings. 10x EBITDA is common, with high growth specialty retail industries often seeing multiples of 15x or even 20x EBITDA.

There is a very real opportunity to acquire retail assets pre-legalization and have them double in value (or more) over the next 3-5 years even with nominal sales growth.

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Is Your Brand Ready?

Retail is an art. It's common to see stores with similar locations, assortments, and prices drive shockingly different revenues. What is it that makes customers choose one store over others that appear so similar? When stores are competitive on the basics, customers choose based on *how the retail experience **makes them feel***. The only pot shop in town could throw a cash register on a display case and turn a handsome profit. The best stores in crowded markets have to work hard to stand out, but they are usually rewarded with 2-3x the average sales and 5-10 points of extra profit. In retail, it pays to be an artist and an innovator.

We've seen the same pattern play out consistently in new cannabis markets across North America. In the early days following legalization, curious consumers will pay 2-4 times current illicit-market prices for the variety, peace of mind, and novelty of legal weed. In this environment, even terrible retailers realize short-term profits.

As markets mature, they enter a second, more sobering phase. Rising supply drives down prices. Increased retail competition leads to discounting and margin compression. The novelty of "legal weed" fades, and the illicit market proves resilient thanks to low prices. Consumers gravitate to retailers who earn their trust by offering consistent value, inventory, and service. The performance gap widens between winners and losers. Soon the market is littered with retailers on life support, desperately searching for an investor or buyer.

A rising tide sinks boats that can't float.

Case Study: Seattle

Washington state cannabis sales in 2020 were up an incredible 30% over 2019. The top ten stores in Seattle (all in at least their third year of business) saw sales rise by more than 40%! On the other end, 33% of Seattle stores saw sales decline, with 18% declining by double digits. Even in a market with 30% overall sales growth, a third of existing retailers are facing declining sales and a crippling loss of market share.

The cannabis market is no different from any other retail market; only the pace of development is different (thanks to the size of the existing illicit market). As markets mature, customers vote with their wallets. The results aren't close. How does a cannabis retailer thrive in a competitive market? Retail winners and losers are separated by their ability to efficiently deliver on something as fundamental as it is overlooked: a compelling customer promise.

The most important measure of a retailer's readiness to expand is NOT current store revenues. **The most important indicator of future success is your ability to consistently deliver on a compelling Customer Promise.**

What is your Customer Promise?

It's common sense to suggest that happy customers drive financial success. Many retailers make the mistake of trying to delight every customer, and in doing so end up delighting no one. Successful retailers understand the importance of carefully selecting a compelling customer promise, communicating that promise clearly, tracking performance against the local competition, and consistently following through on delivery. I've toured hundreds of cannabis retailers across North America and seen the books for half of them. Retailers delivering on a compelling customer promise are rare, and often shockingly successful.

Common customer promises include: largest selection, lowest prices, highest quality, best value, deepest discounts, most convenient, exclusive products, knowledgeable staff, and best shopping experience. Even a promise to be the cannabis retailer "for people like you" can be compelling for customers who identify strongly with a consumer niche (seniors, veterans, environmentalists, social activists, medical patients, partiers, connoisseurs, etc.).

Some retailers make their customer promise explicit through marketing materials, customer communication, and brand and design choices. Others quietly live by a strong internal code that drives behavior and decision making. Even retailers that have never consciously defined their "customer promise" still communicate who they are and what they value through every choice they make about how to manage and present their business.

Unfortunately, it's also true that most cannabis retailers are unable to articulate a unique or compelling customer promise. I'm often told that a store has the "best staff" or "best assortment," but when pressed to defend that claim with evidence, the owners and managers stare back blankly. These companies have an aspiration, but no clear competitive advantage. As performance stagnates and staff loses heart, they grasp at an ever-changing menu of tactics in search of a winning strategy.

Readiness Checklist

1. Competition

Some cannabis retailers *are* clear on who they want to be, and they work hard to deliver on their promise. But the competition is often just as motivated. The only way to win in a competitive market is to be clear about where and how you intend to win, and then closely track competitive behavior to ensure that you're staying one step ahead. In a mature market where customers are familiar with local retail options, there is little value in being the store with the *second* lowest prices. You may be able get away with this in a new market, but it's just a matter of time before word spreads and your customer finds your competition. It's critical to commit to customer promises where you have the will and ability to deliver *better* than your local competition.

2. Consistency

Failing to consistently deliver on your claimed customer promise is worse than having none at all. Inconsistency destroys customer loyalty and drives away business. Even one bad experience can shake a customer's relationship with your brand and cause them to consider alternative stores. The last time I shopped at Lowe's was eight years ago. I bought a microwave at 20% off and was shocked to discover that Home Depot's regular price was even lower. Both stores are convenient to me, so I've never been back to Lowe's. They broke my trust. It's not enough to have great prices some of the time.

3. Culture

One of the more common and pervasive failures occurs when a company's culture does not match up with or support their customer promise. A retailer that claims to offer the best quality or value, but refuses to mark down stale product, they communicate to staff and customers that they're willing to trade customer satisfaction and loyalty for short term profits. A retailer that promises great customer service undermines that promise if they clear inventory by urging budtenders to "promote" unpopular products with questionable efficacy. (Both examples are the norm in this industry, not the exception.)

On the flip side, a strong culture that is aligned with your customer promise is a powerful way to ensure long term performance, employee engagement, and customer loyalty.

4. Efficiency

Efficiency is a catch-all for your ability to make the customer experience as smooth and easy as possible: easy to find, free parking, quick service, clear and informative signage, easy to shop merchandising, etc. **Efficiency in this case is not a measure of cost, but of customer experience.** Making all product information available at an in-store digital kiosk may be supremely efficient for the retailer, but it's a tremendous source of friction and frustration for a senior who just wants to talk to a real person. The opposite of efficiency is anything that creates friction or irritation in the customer's experience. If two stores have similar assortments and prices, customers will overwhelmingly choose the one that makes shopping easier for them.

A well-realized customer promise IS your competitive advantage. It will attract employees and customers who value the same things you do. Retailers who find their niche and serve it better than anyone else take the first crucial step to building an iconic brand and an enduring business.

# # #

Expansion Strategy

Retailers who already outperform the competition thanks to a compelling customer promise and strong brand are ready to expand. In the following sections we'll cover real estate strategy from a regional level, dive into the specifics of choosing a strong retail location, and then touch on the pros and cons of vertical integration.

Real Estate Strategies

First to Market

When faced with the admittedly significant obstacles to finding good real estate for cannabis, many retailers take an opportunistic approach, rushing to be "first to market" for fear that all the good opportunities will be gone quickly. This typically results in poor real estate decisions and brands spread across locations with entirely different customer bases. The only cases where we've seen the first to market strategy deliver obvious wins are those where owners sold in the very early days at the peak of irrational exuberance (and often before the business was fully operational).

It's true that some of the first stores in new markets have made incredible amounts of money in a short period of time. It's also true that in most cases, their performance has since been surpassed by better-run stores in better locations. There will always be new opportunities, and as time passes more commercial landlords become open to cannabis. Speed won't overcome bad real estate. Bad real estate will eventually lose.

Customer Promise

The best real estate available by traditional metrics (cost vs. traffic potential) may not be the best real estate for your brand and your customers. Strong retailers choose locations based on their customer promise and brand. If you're all about convenience, then gas station-anchored shopping centers in high density areas may be the obvious solution. A premium or luxury brand needs premium or luxury neighbors.

Hub-and-Spoke

Many successful retail brands follow a hub-and-spoke market strategy where centrally located flagship stores build brand equity and consumer awareness while more efficient and profitable satellite stores capture consumer demand more broadly and capitalize on your brand equity. A hub-and-spoke model in a large city allows for a large number of stores in a dense geographic area, making both staffing and marketing dramatically easier and more efficient. Most forms of marketing cost the same whether you have one store in the market or ten.

Choosing a Retail Location

I've spent the better part of 20 years sourcing small-footprint retail real estate in more than a dozen major metro areas across North America with companies ranging from startups to Starbucks. "Location" is often cited as the most important factor in retail success. In cannabis, finding great real estate is more complex, and even more important. A great location is not sufficient to guarantee success, but it is the most significant single factor.

The seven keys to success for a cannabis retail location include:

1. Visibility
2. Population
3. Traffic and Parking
4. Adjacencies
5. Size and Layout
6. Competition
7. Regulations (setbacks, buffers, and zoning)

1. Visibility

Visibility is the most efficient form of customer acquisition. According to a recent survey in states that have legalized recreational cannabis, 36% of adults 21+ are current consumers. Choosing a location with good traffic and high visibility is the most efficient way to build a customer base.

Visibility is driven by a combination of factors including:

1. Placement: a free-standing building is more visible than a corner unit, and the corner is more visible than an in-line space.
2. Frontage: the width of your store on the street matters far more than the total square footage.
3. Façade: a building where each space appears differentiated offers better visibility than one with uniform color patterns and signage.
4. Sight lines: pay attention to the visibility of a location for drivers and pedestrians from likely angles. An otherwise great location may be obscured from most traffic by trees or even a curve in the road. Depending on traffic, drivers may never see a storefront they pass every day unless it is visible from a quarter mile away.

2. Population

The size of the local population is critical to your success for obvious reasons. Less obvious may be some of the nuances to analyzing market size and potential. Pay close attention to local demographics. You can find broad demographic data by zip code for free online, including population size, age, education, income, and more. Also investigate daytime vs evening population counts. In urban areas, you may find that the daytime population is several times that of the residential base due work and traffic patterns. A good commercial real estate broker should be able to provide this data.

A best practice in retail is to build an equation to estimate the addressable market size. For example:

Local population 21+	Outside Traffic	Cannabis Consumers	Shop legal channels	Est. Market Share	Customers
30,000	+ 5,000	X 36%	X 50%	40%	= 2,520
	= 35,000	*= 12,600*	*= 6,300*	*= 2,520*	

We could continue the back-of-napkin math by estimating that each customer spends $100 per month, which would give us $3 million in annual sales (a pretty average result across many markets).

In a market with a lot of competition, you may need to split the population further. For example, does your store target the 50% of consumers who buy their groceries from the big chain store, the 25% who buy from the natural market, or the 25% who buy from the discount grocer?

3. Traffic & Parking

Traffic is a key factor in location quality and retail performance. Many cities publish traffic statistics online, and a decent commercial real estate broker should be able to provide you with vehicle and/or pedestrian traffic counts for busier roads. More important than total traffic numbers, pay close attention to the type of traffic. Consider foot traffic, vehicle traffic, and accessibility (how easy is it for vehicles coming from either direction to enter your parking lot?). Commuters are typically focused on getting from point A to point B as efficiently as possible and are less likely to stop along the way than those running errands. Tourists may or may not be great customers, but they are definitely less likely to drive regular repeat business.

Parking is the single greatest predictor of success in cannabis retail. The only scenario under which I would open a store without convenient (ideally free) parking is if there is STRONG pedestrian traffic (e.g., an urban “high-street” retail corridor). Even then, you risk being out-positioned by a store that’s easier to access. We’ve watched urban cannabis retailers fall from over $700K per month to under $200K when competing stores with free parking opened nearby. A suburban store without dedicated or easily accessible parking is almost certainly a terrible idea.

4. Adjacencies

Adjacencies refers to the other businesses surrounding your retail location. Restaurants and nightclubs attract traffic primarily on evenings and weekends. Empty storefronts nearby are more likely to attract homeless and graffiti artists. A budget pot shop in a busy gas station plaza with convenience and liquor stores is a very safe bet, but a premium cannabis retailer trying to be the Apple of cannabis may do surprisingly poorly in this same location. Similarly, pawn shops, convenience stores, and payday loan shops are poor neighbors for a cannabis retailer trying to create a premium shopping experience. When choosing a retail location, consider whether your target customer is likely to shop the other stores in your area, and whether the broader environment enhances your brand and business or distracts from it.

5. Size and Layout

Does the size and layout of the site support your intended use? The ideal size of a cannabis store depends a lot on your customer promise and planned shopping experience. In most scenarios, 1,500 to 2,500 square feet is ideal. Smaller stores force compromises (assortment size, inventory capacity, customer capacity, merchandising, staff comfort, etc.). Much larger than 2,500 square feet and you lose financial and operational efficiency, and disrupt the energy and flow of the store.

6. Competition

The final key to success for a cannabis retail location is local competition. Your primary goal as a retailer should be to become "the best" in your local market at delivering on your customer promises.

Plot on a map the logical outlines of your market. Which communities and trade areas are you a part of? How far do you reasonably expect customers to travel to frequent your store? Within your local market, where are the existing cannabis retailers, and where would zoning permit a competing retailer to open? Finally, what are the competitive differentiators and customer promises effectively delivered by your local competition? I encourage my clients not to shy away from competition, but rather to be intentional about tracking competitors and to allow that data to drive how they choose (and win) their battles.

7. Regulations (setbacks, buffers, and zoning)

The first six keys to success are universal to all retailers. Regulations at the state and federal level make finding good real estate for cannabis a surprisingly difficult task. Those same obstacles can also make well-positioned retailers extremely profitable. Most cannabis licensing regimes dictate strict setbacks or buffers, blocking off significant segments of most developed areas. In Washington state, cannabis retailers must be located at least 1,000 feet (about 3 city blocks) from schools, playgrounds, recreational centers, childcare centers, public parts, public transit centers, libraries, arcades, AND other cannabis retailers. In combination with city zoning limitations applied to all retail businesses, these regulations allow for the creation of local monopolies in select areas. It's possible to secure a position as the only cannabis retailer in a trade area. That's a competitive advantage not available to most other retail businesses.

Federal law prevents major financial institutions from providing services to the cannabis industry, and this dramatically complicates the real estate search. I've had eager landlords back out upon finding that their national bank is threatening to call *all* of their lines of credit if they lease to a cannabis business. Since most commercial landlords have multiple properties leveraged by mortgages, this obstacle dramatically limits the available real estate and complicates the search. I've had commercial realtors decline to support cannabis searches because of the degree of difficulty. That said, this space is quickly normalizing, and both the stigmas and the regulatory obstacles are falling quickly.

Vertical Integration

Vertical integration (legal in some markets) allows cannabis businesses to capture both the wholesale and retail margins on product and provides opportunities for product exclusivity and competitive differentiation. A recent survey of cannabis retailers found vertically integrated recreational retailers reporting profitability at more than twice the rate of stand-alone retailers.[3] That additional margin potential comes with the cost of significant regulatory, operational, and competitive complexity.

Continued state-by-state and eventual federal legalization is almost guaranteed, and several pieces of legislation currently under consideration would legalize cannabis commerce between states. As the regulatory environment changes, growing and processing will shift from the outskirts of major cities like Los Angeles, Seattle, and Denver to lower cost regions of the country and eventually the world. The inevitable result: a tsunami of mergers, acquisitions and bankruptcies as the thousands of small growers and brands unique to each state are suddenly exposed to national competition. As of mid-2020, five states (CA, CO, OK, OR, WA) had issued an incredible 13,000 cultivation licenses![2] Canada has issued just over 350 cultivation licenses, and consolidation is already happening there.

Over the next 5-10 years, the value and supply chains in the cannabis industry will evolve in roughly the same fashion that the broader consumer products industry has over the last two centuries. We transitioned from largely disconnected economic communities, where almost everything was made by hand locally, into today's interconnected global economy where very little is made locally. There will be thousands of winners and losers, but a few brands should emerge from this battle as the cannabis industry's version of Anheuser-Busch InBev ($134 billion market capitalization), Phillip Morris ($145 billion) or Starbucks ($138 billion).

Cultivators and Processors

If you're currently a cannabis cultivator, processor, or consumer products brand, then vertical integration might be in your best interest. Ultimately you have a choice between going horizontal (doing what you do in more places) and going vertical (owning more of the supply chain in your current market).

There is a place in the market for purists, artists, and anyone truly brilliant at their craft. Personally, I hope the best breeders, growers, extractors, and product formulators will stay

[3] Marijuana Business Daily

focused. If you have the best process for producing extracts that express the beauty of the flower, then please be a contract extractor and get rich while raising the quality of extracted products internationally.

Most cannabis businesses are not ready to be the best in the market at what they do today, and would be made stronger and more profitable by vertical integration (where allowed of course). The cannabis supply chain is guaranteed to change in dramatic and predictable ways over the next five years. Growers and product brands will be thrown into competition nationally and maybe even internationally. Many companies on the west coast in particular will be too small to compete effectively with the much larger operations currently forming on the East Coast.

Our recommendation for smaller cultivators and processors is to grow where possible, but focus on brand building over pure wholesale revenue. Those that are able to build a strong brand by consistently delivering on their customer promise should be able to adjust their supply chain as needed. Brands can grow their reach and profitability while changing where and how their product is grown, extracted, and manufactured as their business and the market grows. Make your customers happy, grow your reach, and your brand will have power and value regardless which segments of the supply chain you operate in.

Retailers

Retail offers the best risk-adjusted ROI in the cannabis market. Modern logistics put product brands and everyone in their supply chains at risk of significant additional competition come legalization. It's likely that cannabis retail will always be carefully regulated in ways that both limit the number and location of stores and prohibit e-commerce (because shipments may be received by those under 21). Even if cannabis is treated like alcohol, all markets will require licensing, and many will restrict their number and location. Even in markets with home delivery, retail stores drive the vast majority of the revenue (and can typically themselves make deliveries and thus expand their reach).

Local growth in cannabis retail competition will be limited in many if not all markets. As a result, cannabis retailers face the prospect of significant revenue growth as current consumers abandon the illicit market and public consumption continues to grow broadly.

While vertical integration does offer additional margin potential, I see only one compelling reason for a proficient retailer to vertically integrate: An inability or unwillingness to expand geographically. There's a special romance and beauty to a local small business that operates seed to sale. While these will never be giant companies, they will always have a place in the market and the hearts of consumers, much like local craft brewers with a few retail outlets.

Most retailers benefit from being a customer's trusted and independent source. A retailer in many markets can buy from a large range of growers and product brands and is free to change their assortment at will. Once you have your own product line, you lose the veil of impartiality, lose the option of simply not buying a low-quality harvest, and expose your business to risk even if the retail channel thrives.

# # #

Summary

Cannabis Retail offers incredible return-on-investment for investors and entrepreneurs able to time the market and stomach the risk and regulatory complexity. The industry is high-risk for entrepreneurs that are unprepared and underfunded, but seven years after the first recreational retail store opened in Colorado, clear patterns have emerged. Today there is a proven recipe for success.

Cannabis retailers benefit from significant short-term profit potential driven by strong demand, strict limits on competition, and dramatic sales growth. Long run, proficient retailers stand to profit even more as the market legalizes and normalizes. Legalization will bring expansion opportunities and a dramatic increase in profitability and valuations for retailers.

There is a very real opportunity to acquire retail assets pre-legalization and have them double in value (or more) over the next 3-5 years even with nominal sales growth. The potential for brands able to secure licenses in new markets organically (without acquisitions) is mouthwatering.

In summary, we believe that retail offers the best risk-adjusted ROI in the cannabis market. The incredible growth of the past seven years represents a mere 40% of current US cannabis consumption. The combination of existing demand and spreading legalization position cannabis for unrivaled growth as legalization spreads over the next 2-3 years. Will yours be the next billion-dollar cannabis brand?

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About the Authors

Since 2015 we've worked on the front lines of the legal cannabis industry, supporting growers, product manufacturers, brands, retailers, and ancillary service providers across North America as they navigate complexity and rapid growth. Prior to joining the cannabis industry, we cut our teeth in specialty retail, built startups on shoestring budgets, scaled an e-commerce business with millions in venture capital backing, and led concept development and international expansion for billion-dollar retail brands.

Realizing the true potential of a business or market opportunity requires applying the strategies and best practices appropriate for each industry and stage of growth. Whether you're developing your go-to-market strategy, optimizing existing operations, or planning for expansion, let our hands-on experience and proven methods drive your success.

Charlie Cain is a corporate entrepreneur with 20+ years' experience building brands in the e-commerce, coffee & tea, and cannabis industries. Charlie entered Cannabis in 2015 after serving as VP of Retail Operations, Concept Development, and Franchising for Starbucks. After exploring the industry as a consultant for cannabis leaders including Privateer Holdings, Tilray, and Grodan, Charlie took the helm as CEO of Seattle-based Dockside Cannabis in 2016. Voted Best Pot Shop in Seattle five out of six years, Dockside is the longest-operating Medical and Recreational Retailer in Washington State, with four stores operating around the Seattle area.

Charlie re-joined Tilray in 2018 as VP, Global Retail. There he recruited subject matter leaders from companies including Amazon, Starbucks, Microsoft, and Uber to design and build a Retail Shared Services organization to efficiently develop and support retail brands through national and international expansion. In addition to leading Tilray's company-owned retail initiatives, Charlie led Retail M&A activity across North America, conducting extensive market research, due diligence, and investment into public and private firms in the US and Canada.

Charlie currently serves as a consultant to the cannabis industry.

A Crohn's patient turned cannabis success story, **Jackson Holder** has spent the last decade obsessively trying to discover everything there is to know about the plant, humanity, and the uncountable places they intersect. Jackson is a cannabis subject matter expert, consultant, and brand strategist who has been in the legal industry since 2015. His roles in the industry have covered sales, customer service, quality assessment, purchasing, new store design, as well as data analysis, brand and marketing strategy, and product formulation. Ultimately, his passion has always been helping people understand and appreciate the beauty, complexity, and tangible good that cannabis offers the world.

From a background in fine wine, craft beer sales, and hospitality, Jackson moved from South Carolina to Washington state shortly after the legalization of recreational cannabis. He was hired by retail brand Dockside Cannabis, where he served as a budtender, procurement manager, and ultimately senior buyer for the brand, and went on to lead adult-use product strategy for Tilray's retail team, working with investment partners as well as Tilray's product and brand teams to improve their understandings of product, market, customer, and culture. He's spent the better part of the past two years in states and provinces across North America evaluating retail investment opportunities, fine-tuning his understanding of the product, brand and retail landscape.

Jackson currently serves as a marketing, branding, and formulation consultant for cultivators, producers, and retailers.