



State of the Cannabis Industry

Santa Cruz County Business Council

8/17/17



Turning Tide

National Cannabis Sales

2015 - \$5.15 Billion

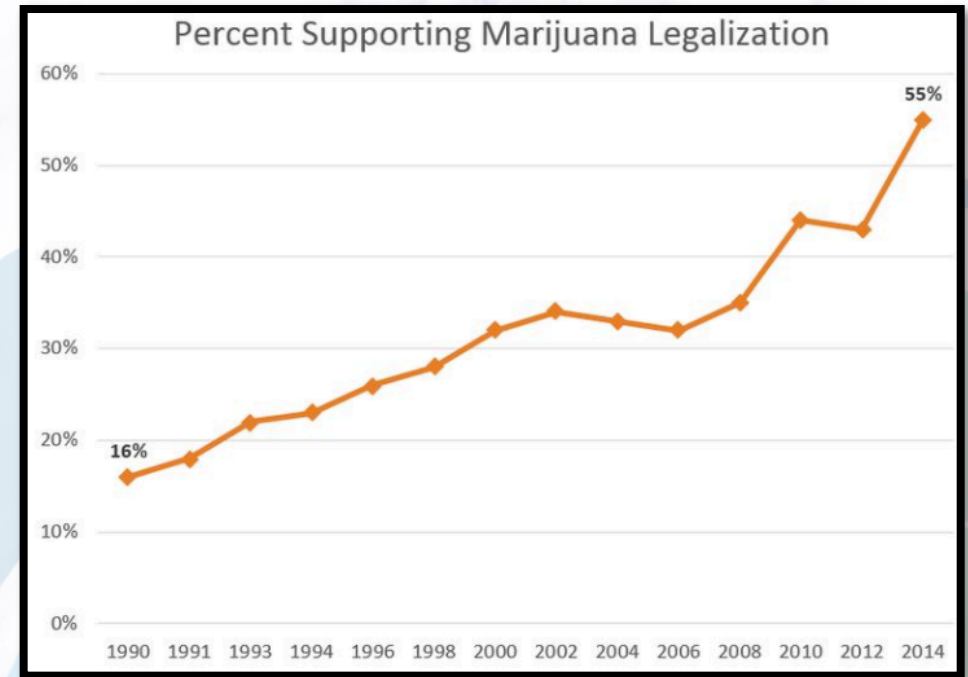
2016 - \$6.7 Billion

Projected 2021

\$20.2 Billion

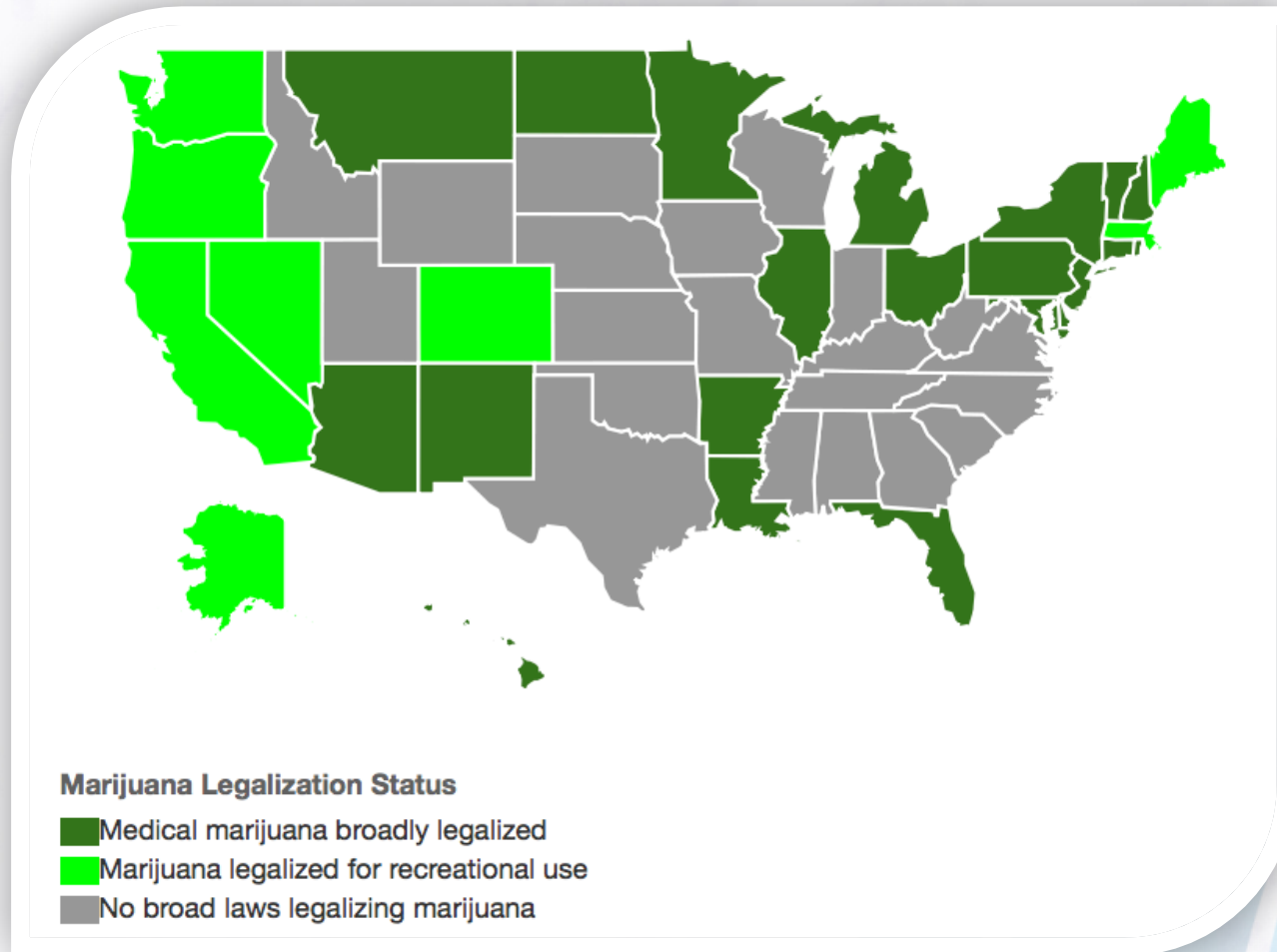
- Arcview Market Research

Americans polled on marijuana legalization
- CNN



“To put this in perspective, this industry growth is larger and faster than even the dot-com era.” - Forbes

Nationwide Legalization Status



- 29 US States +
 - Washington DC
 - Puerto Rico
 - Guam

* While the majority of US states have legalized cannabis in some form, the federal government (FDA) considers cannabis a schedule 1 substance.

California State Regulations



- 1996 - Prop. 215 passed (55%)
- 2004 - Senate Bill 420
- 2015 - Medical Cannabis Regulation and Safety Act / MCRSA
- 2016 - Prop. 64 The Adult-Use of Marijuana Act / AUMA (57%)
- 2017 - Senate Bill 94 Medicinal and Adult-Use Cannabis Regulation and Safety Act / MAUCRSA

California State Licenses



Cultivation
12 License types



Manufacturing
2 License types



Testing Laboratory
1 License type



Distributor
1 License type



Retailer
1 License type



Micro Business
1 License type

Santa Cruz Cannabis Businesses



Registered Cultivators: 760



Manufacturers: Hundreds of active local brands awaiting licenses.



Retailers: 14 active dispensaries in the County. Two additional dispensaries in the City of Santa Cruz.



Testing Facility: Santa Cruz has one analytical cannabis testing laboratory SC Labs, which services growers and businesses throughout California.

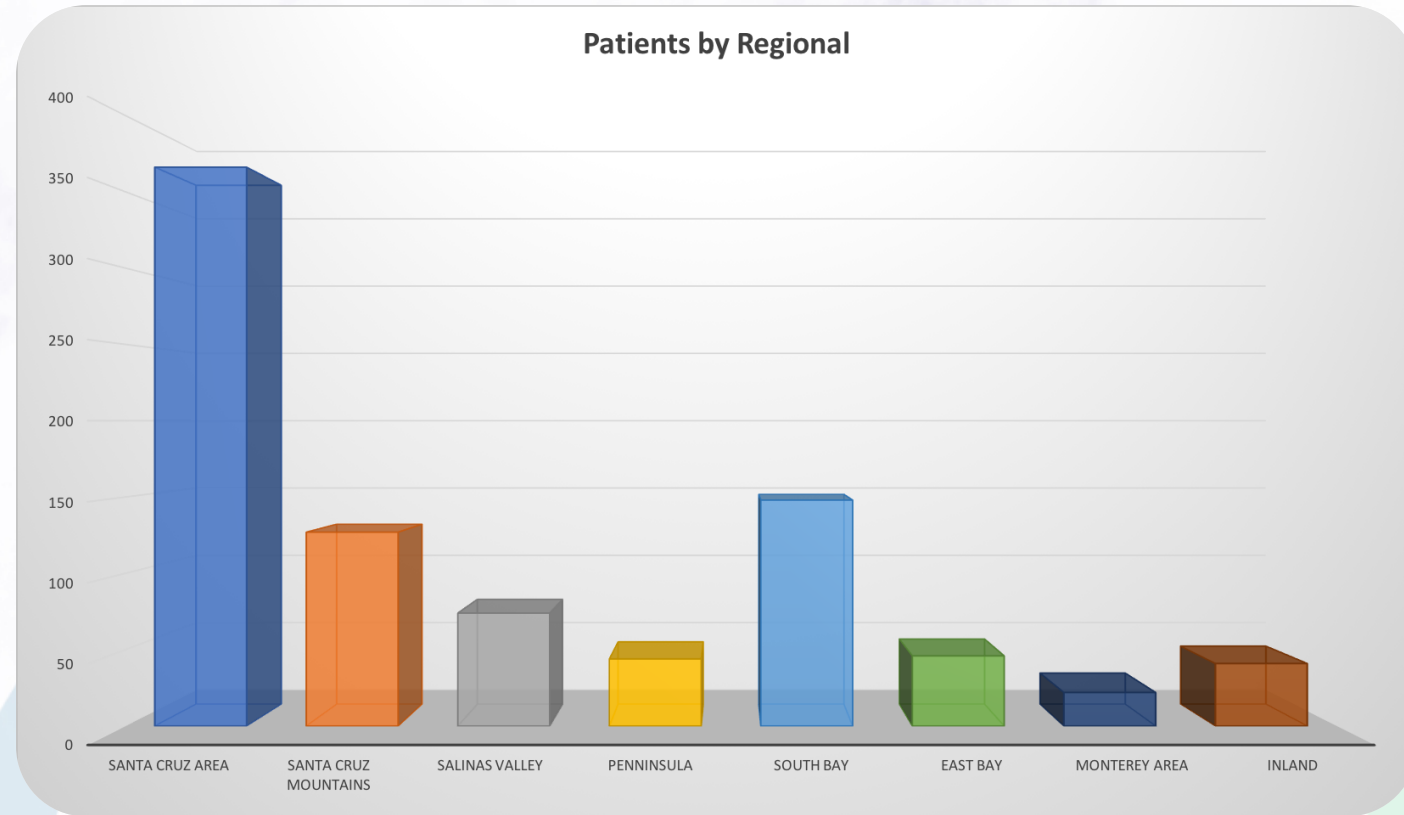
KindPeoples Collective

- Open 7 days a week since January 2014
- Currently has 40,000+ members of the collective
- Two storefront locations (City and County of Santa Cruz)
- Voted Best Dispensary 3 consecutive years
- First permitted cultivation in Santa Cruz County
- A growing staff of 83 employees



Who's buying cannabis? - Location

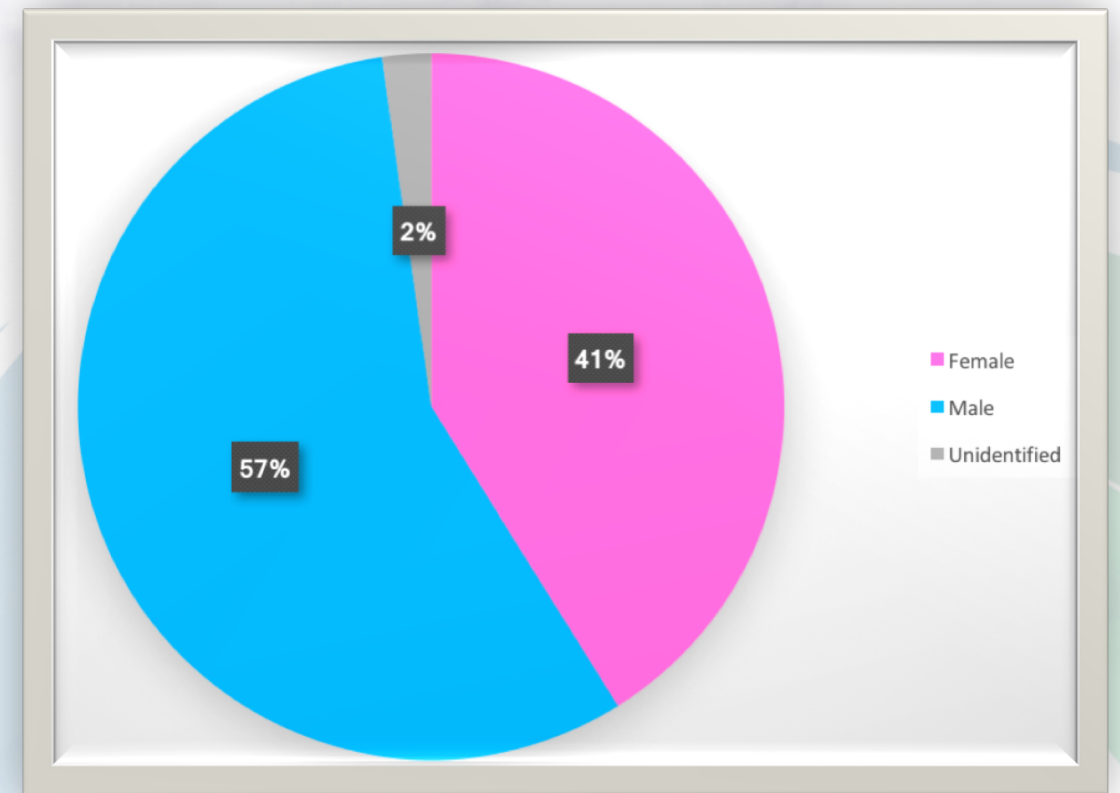
- Santa Cruz Area - 42%
- Santa Cruz mountains 15%
- Salinas valley 8%
- Peninsula 5%
- South bay 17%
- East bay 5%
- Monterey area 3%
- Inland 5%



Who's buying cannabis? - Gender

- National studies show the previously male dominated industry (69% Men – 31% Women) is moving toward a balanced market
- This change is evident in our latest data in Santa Cruz (2017)

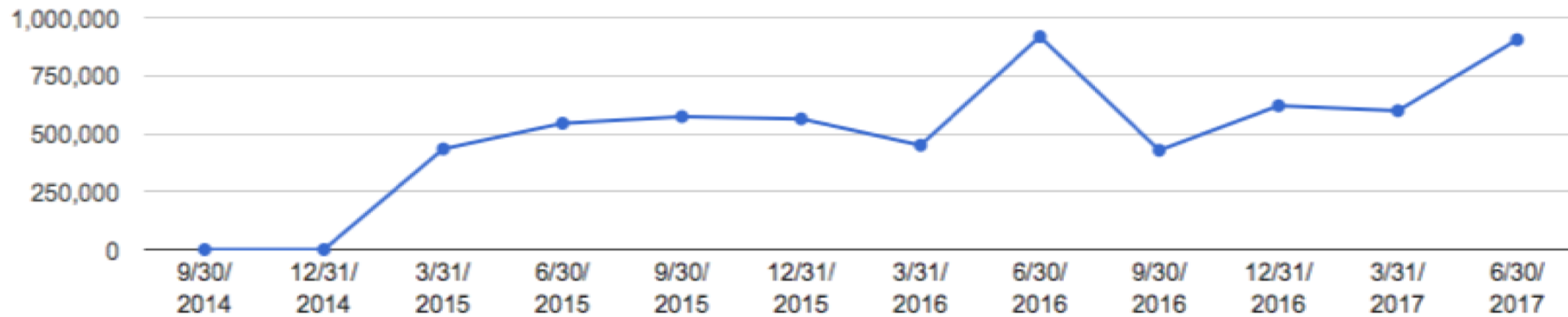
KindPeoples Gender Balance



Local, State and Federal Taxes

- 8.5% California Sales Tax
- 7% Santa Cruz County Business Tax (CBT)
- 15% California Excise Tax, at register, (1/1/2018)
- Excise tax applies to ALL cannabis sales, including medical
- 30.5% Total Taxes at the register for consumers.
- 3% State cultivation tax equivalent (\$9.25/ounce)
- IRS Tax Code Section 280E, normal business deduction not allowable.

County Cannabis Business Tax



By Object	2016-17 Actual as of 6/30/2017	2015-16 Actual	Variance from 2015-16 Actual	
COUNTY CANNABIS BUSINESS TAX	\$2,551,209 100%	\$2,504,043 100%	\$47,167 1.9%	↑ >
Total	\$2,551,209 100%	\$2,504,043 100%	\$47,167 1.9%	↑

Pushing out Black Markets

- Encourage consistent local cannabis laws across California, preventing “Dry” vs. “Wet” Counties.
- Retail outlets provide safe access to safe cannabis.
- As more states legalize, the demand illegal out-of-state markets minimizes.
- Santa Cruz has thriving businesses that lack the ability to obtain licenses. Millions of dollars of local taxes left on table each year.

Let's look to Colorado



Colorado is perceived as the closest model for California's shift from medical to adult use cannabis.

- Jan 2014 adult use begins - 30% of total revenue
- 6 months later – adult use was 50% of total revenue
- March 2017 – Adult Use increased over 250% since inception while the Medical market maintained its market share within 1%
- Colorado is on pace for \$3 Billion in combined sales in 2017
- California has approx. 7x the population of Colorado