

SICPA

THE CURRENT STATE OF THE CANNABIS INDUSTRY

Presentation to: FTA Annual Meeting

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Title/Department: Business
Development Director

Company: SICPA/Meyercord

Date: June 13th , 2016

Confidentiality level: **CONFIDENTIAL**



Enabling trust

AGENDA

- 1. CANNABIS INDUSTRY – BY THE NUMBERS**
- 2. COMING SOON TO A STATE NEAR YOU**
- 3. CANNABIS MARKET – WHAT DOES IT LOOK LIKE**

SICPA/MEYERCORD REVENUE AT A GLANCE



More than **60 years of experience** providing heat-applied cigarette tax stamps to U.S. states; currently stamping in **46 states**

NASPO Class II Security Assurance Certificate issued in 2005 and **ISO 14298 certified**



Proven track-and-trace systems in CA and MA with **10+ years** of runtime success



Enables the collection of more than **\$17 billion in tax revenue** annually



Prints **12 billion tax stamps** annually



I. CANNABIS INDUSTRY – BY THE NUMBERS

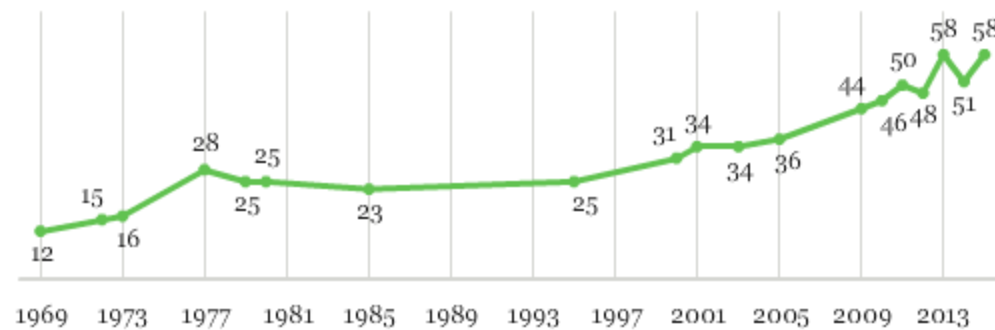
HOW DID WE GET HERE?

Support for cannabis legalization is rapidly outpacing opposition. A slim majority (58%) of Americans say the drug should be made legal, compared with 39% who want it to be illegal. Opinions have changed drastically since 1969, when Gallup first asked the question and found that just 12% favored legalizing cannabis use.

- Pew Research, April 2015

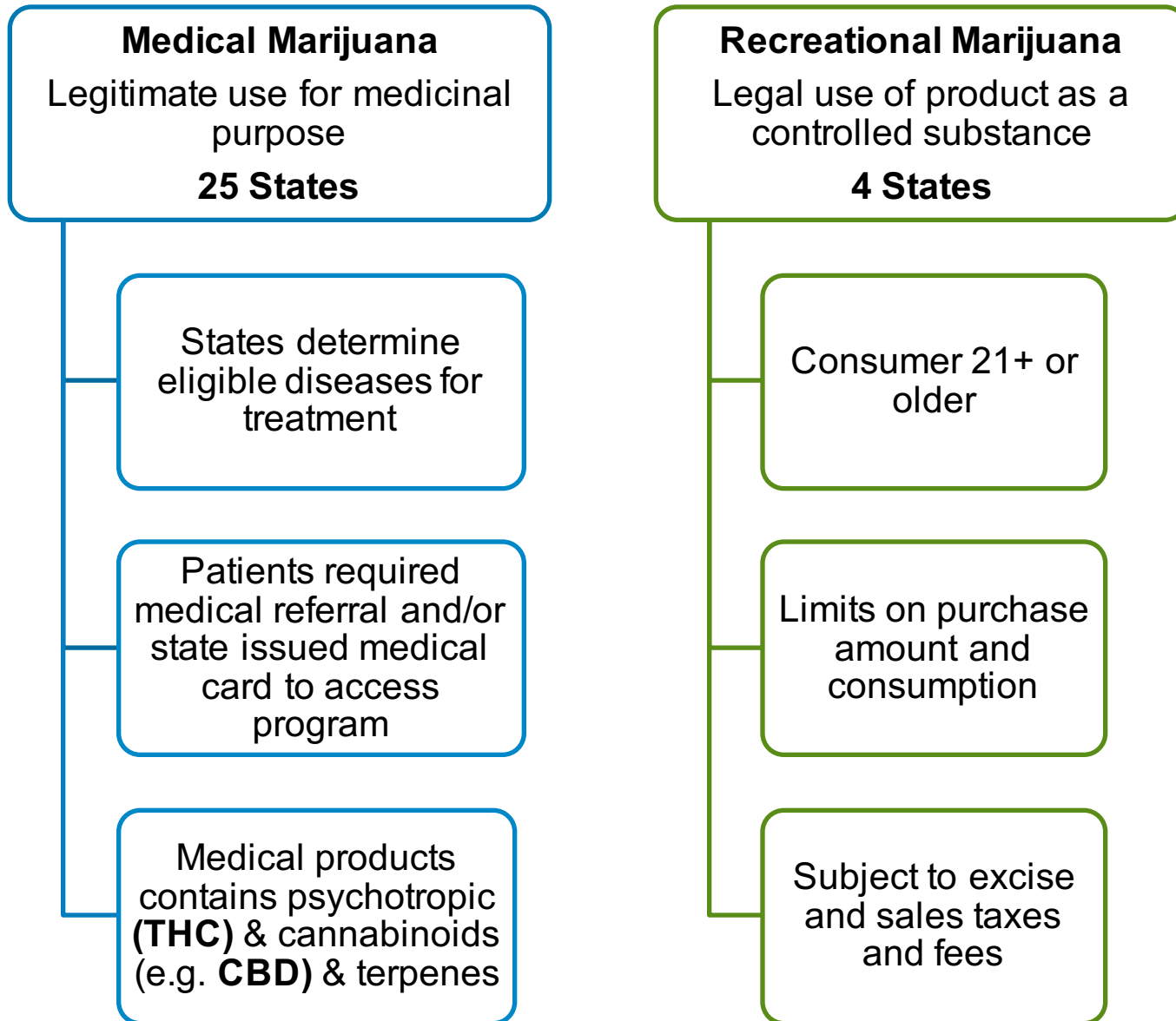
Do you think the use of marijuana should be made legal, or not?

■ % Yes, legal

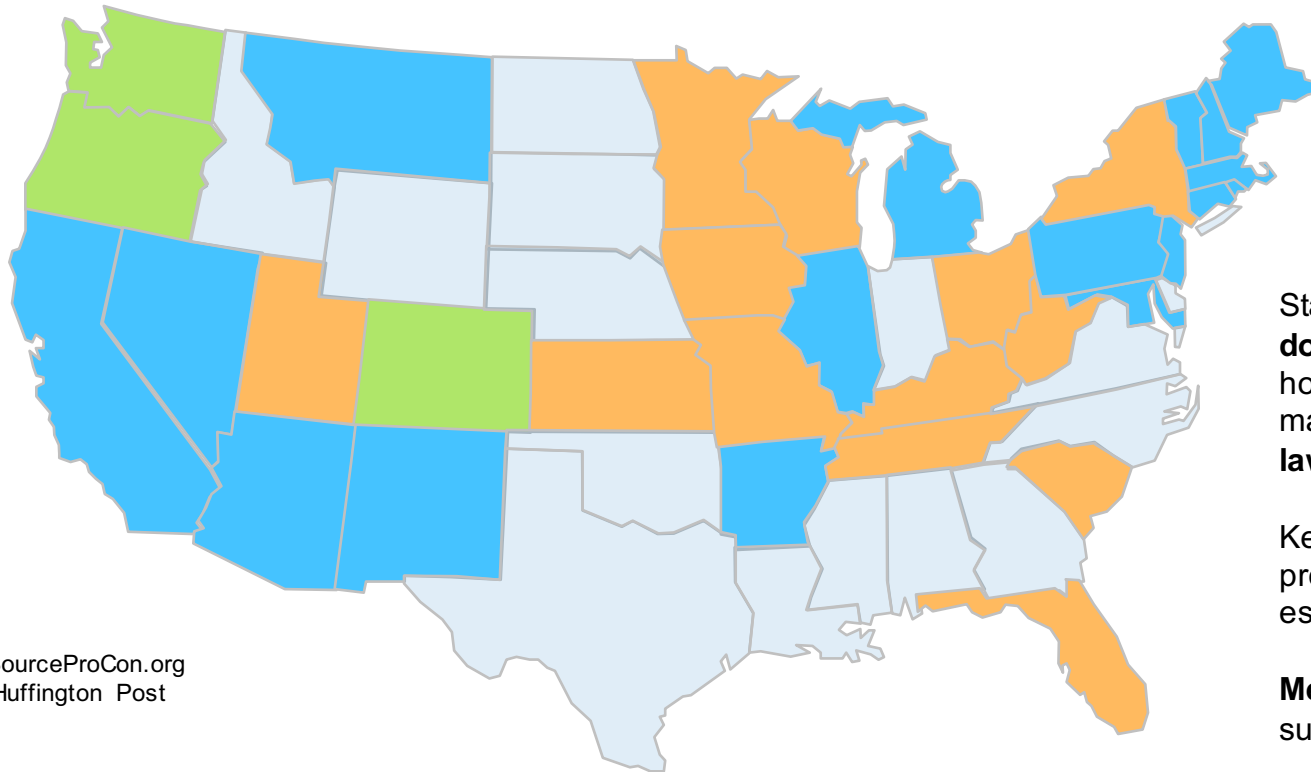


GALLUP®

Two Market Definitions: Medical and Recreational



CURRENT LANDSCAPE



*SourceProCon.org
* Huffington Post

Challenges

States with CBD programs, requires **doctor's prescription** by statute, however doctor's may not write marijuana prescriptions under **federal law**

Keeping **Medical Marijuana** programs for states that have established **recreational programs**

Medical marijuana patients may be subject to **HIPAA compliance**

- **Medical 25** (Includes: NY, CA, NV, WA, OR, CO, MN, NY, MD, CT, MA, ME, AK, RI, VT, NH, MN, PA, OH)
- **Recreational 4 states** (CO, WA, OR, AK)
- **Legislation/ballot initiatives** (Includes: FL, IA, KY, MS, MO, NC, SC, TN, UT, WI)

CANNABIS MARKET IN THE US

- Cannabis is the fastest growing industry in the U.S. bringing in \$5.6B in 2015
 - Over 17 percent increase from previous year with additional 25% growth projected in 2016 (\$6.7B in sales)*
 - Total legal market sales are estimated to be as much as \$22B by 2020*
 - Total market value of all 50 states legalizing Cannabis would top \$36.8B*
- Associated state revenues are potentially significant
 - Colorado Cannabis Sales of \$996 million in 2015 leading to \$135m in taxes and fees for the State, more than from Alcohol.
 - Washington expects > \$1 billion in Cannabis sales over the next 4 years.
 - Total market value of all 50 states legalizing Cannabis would top \$36.8B

**ArcView Market Research 'The State of Legal Marijuana', April 2015*

MARKET SIZE

- Hard to Determine
 - Since marijuana has historically been a black market activity, reliable data is difficult to generate
- Current Market is a Small Representation of Activity
 - CO estimated total market size of 242,000 lbs. in 2014
 - WA declared production of 191,000 lbs. during FY to date (July 2015-April 2016)
 - In 2009, High Intensity Drug Trafficking Report estimated 56k metric tons of net usable marijuana production in CA alone, comprising 79% of total estimated U.S. Cannabis Consumption during that time period

MARIJUANA ENVIRONMENT

All State Medical and Recreational programs exist in a legal grey area

- US DOJ Cole Memo is the basis for federal non-intervention under certain guidelines but does not restrict ability to prosecute

Under Federal Law Marijuana is a Schedule 1 controlled Substance
Narcotic with No medicinal Value

- DEA recently announced it was considering a petition for rescheduling Marijuana with decision likely in June/July 2016

Hinchey-Rohrabacher Amendment

- Legislation that prevents DEA from spending money to prevent implementation of state medical marijuana laws
- Has been passed annually since 2014 as part of Congressional budget bills
- In April, 2016 US Court of Appeals (9th circuit) ruled in favor of industry over DOJ in the Shaw/Marin case using the amendment as justification

FEDERAL LEGISLATION ON CANNABIS

- Federal legislation recognizing state medical Cannabis programs
 - H.R. 1940 Seeks to provide immunity against federal prosecution for individuals and business abiding by state laws – **In Committee**
 - H.R. 1013 – Regulate Marijuana like Alcohol removes marijuana in any form from all schedules of controlled substances – **In Committee**
 - H.R. 1014 Imposes a 10% federal excise tax (rising to 25%) on the sale of marijuana for non-medical purposes – **In Committee**
 - **H.R. 2076 – Provide marijuana businesses access to banking by providing a safe harbor to depository institutions – In Committee**
 - H.R. 262 – Exempts real property from civil forfeiture for medical marijuana-related conduct authorized by state law – **In Committee**
- Federal legislation reclassifying Cannabis on the Controlled Substances Act
 - **H.R. 1538 and S. 683 - “CARERS Act” – In Committee**
 - Bipartisan and bicameral legislation that reschedules marijuana from Schedule I to Schedule II



II. COMING SOON TO A STATE NEAR YOU

WHO'S NEXT FOR CANNABIS?

- 13 States Did Not Pass Medical Legislation or Initiatives in last year
 - Florida, Georgia, Indiana, Iowa, Kansas, Kentucky, Mississippi, Missouri, Nebraska, Tennessee, West Virginia, Wisconsin, Utah
- Continuing Significant Activity in Medical
 - PA signed Medical Marijuana Legislation on April 17, 2016
 - 3 pending legislation or ballot measures for medical marijuana
 - ▶ Florida, Louisiana, South Carolina
- Recreational Continues to be Evaluated
 - 11 States with potential Legislation or Ballot Initiatives
 - California, Maine, Arizona, Nevada considered most likely to pass
 - California recreational market would be > than all current and projected recreational states combined.

OTHER WRINKLES ON CANNABIS

- Personal Use

- Home grow allowed except WA (CO/AK 6 plants per adult, OR 4 plant per household)
- OR Household possession limited to 8 ounces, AK/CO adults possess all they grow
- AK, CO, OR adults can gift up to one ounce of cannabis

- Testing

- States setting regulations for allowable uses of pesticides, herbicides and fungicides
- Colorado Product Recall in March 2016, Denver Quarantined Six Growers in 2015

- Tax Policy

- What is the appropriate amount of taxation?
- State Rate Examples
 - ▶ Colorado – 10% rate on product using AMR, 15% tax on retail, local options
 - ▶ Washington – 37% rate at retail
 - ▶ Oregon - Temporary 25% rate at retail, will drop later this year

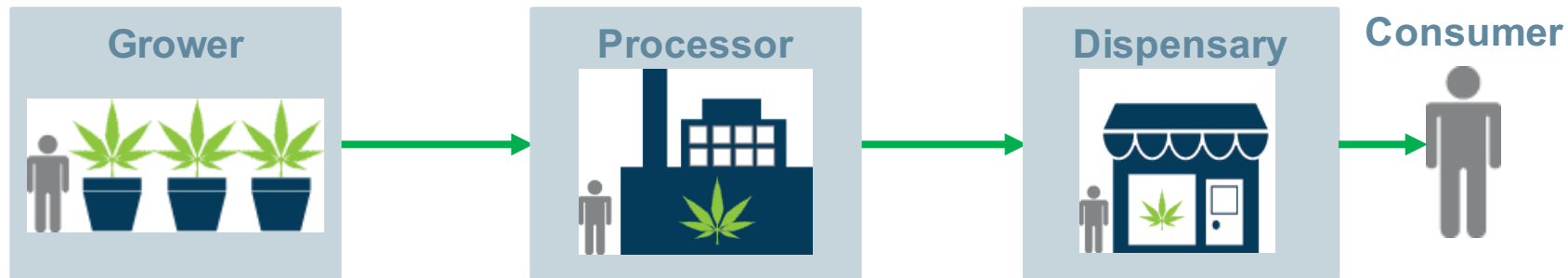
ISSUES FACING LEGAL STATES

- Issues facing legal states:
 - Black market intrusion/diversion
 - Difficulty reconciling medical cannabis with taxed recreational product
 - Unlicensed dispensaries avoiding taxes
 - Federal activity: legislation to formally recognize existing state medical programs
 - State-to-state issues: NE/OK sued CO over recreational program
 - ▶ Grievance stems from non-enforcement of federal laws
 - ▶ Supreme Court declined to hear case in March, 2016
 - Compliance with DOJ Guidelines outlined in 'Letter of Forbearance' dated October, 28, 2014
 - **Banking!, Banking!, Banking!**
 - ▶ Potentially over \$1.2 billion in cash transactions in Colorado alone
 - ▶ FinCEN Bank Secrecy Act (BSA) guidance to Financial Institutions (Feb, 2014) predicated on Cole Memo and enhanced 'Know Thy Customer' rules



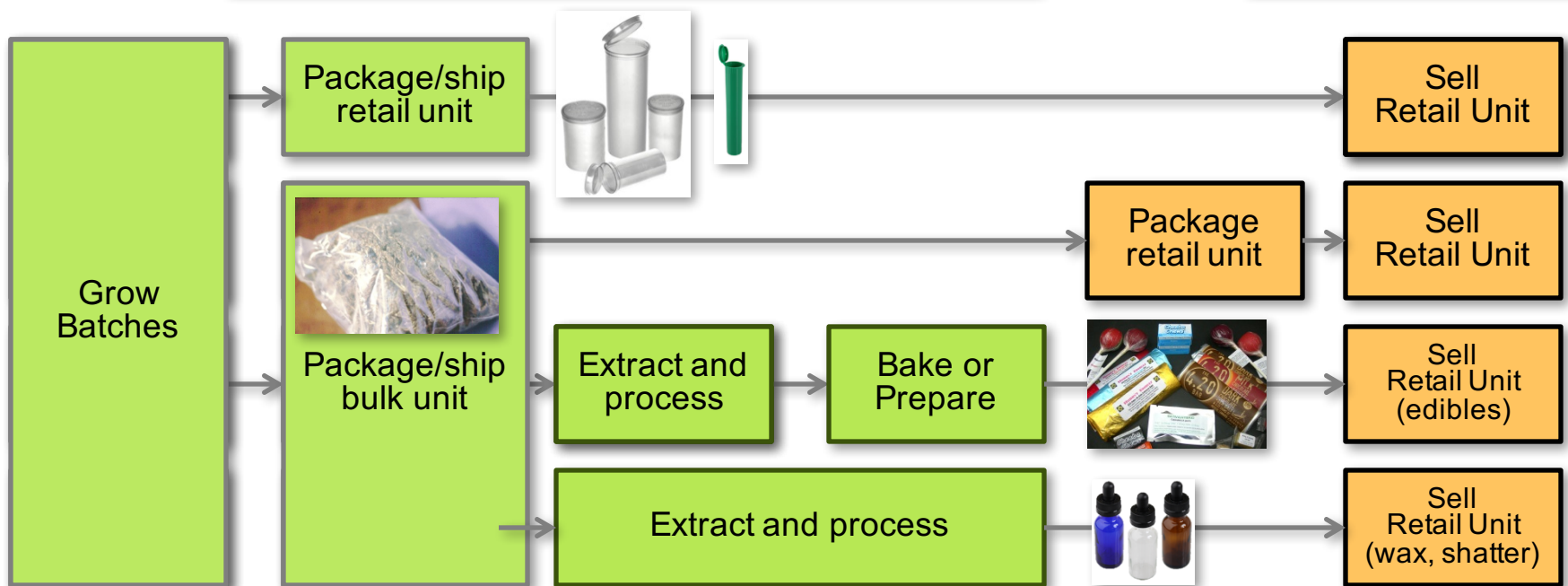
III. CANNABIS MARKET – WHAT DOES IT LOOK LIKE?

PRODUCT FLOWS



Transfer (Excise Tax)

Retail Sale (Sales Tax)



THC VS CBD

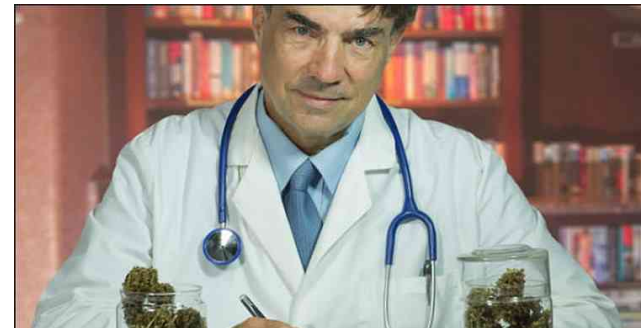
THC

- Tetrahydrocannabinol
- Principal Psychoactive Ingredient in Cannabis
- Commercially available flower is 2x to 3x more potent than what you knew in high school
- Hemp has low THC < 0.05 and 1%



CBD

- Cannabidiol
- One of 113 identified active cannabinoids in cannabis
- Considered to be the 'Medical' part of the plant, products such as Charlotte's Web are CBD focused offerings



Entourage Effect

- THC and CBD may work together more effectively
- Because research is illegal (other than MS) there are no FDA funded studies to prove the efficacy of Medical Marijuana

THE INDUSTRY IS EVOLVING

- Strong Growth of Edibles and Consumables
 - Cannabis-infused products are replacing traditional smoked products, especially among casual users.
 - Generally over 50% of the Marijuana Consumption Market
 - Much Higher THC content, up to 90 mg vs. 10-15mg in flower
 - Potential larger issues such as Food and Consumer Safety
- Transition from 'Budtending' to Consumer Mass-Market Retail
 - Industry is migrating to consumer food model where products are branded and pre-packaged
 - Model will develop similar to alcohol – mass market vs artisanal (e.g., Craft)



THANK YOU FOR YOUR ATTENTION

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