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SB 708 Cannabis - Legalization and Regulation

Before the Senate Finance Committee

POSITION: FAVORABLE WITH AMENDMENTS

Dear Chair Kelley, and Vice Chair Feldman:

My name is Warren Lemley, and I am president of Peake ReLeaf, a medical cannabis dispensary, located in Rockville, Maryland. We strongly support the legalization of cannabis for adults. Legalization will lead to the creation of thousands of jobs in Maryland; result in substantial increase in tax revenue; shutter the black market; and finally, and perhaps most importantly, bring economic benefits to communities of color which have been disproportionately impacted by the "war on drugs." SB 708 provides a reasonable framework for the legalization of cannabis; however, several key amendments would greatly improve the bill. We suggest the bill be amended to change the legislation in the following manner.

SUGGESTED CHANGES

THE TAX RATE:

We appreciate that the tax rate proposed in SB 708 is lower as opposed to the tax rate proposed in HB 32 but believe a flat tax rate is more beneficial than a progressive tax rate. A progressive tax rate is built on the understanding that prices decrease over time and we believe the medical industry showcases how decreasing wholesale costs are not a given. Consumers are very sensitive to the price of products and Maryland's tax rate should be set to ensure prices in the regulated market are competitive to what is available in the black market and comparable or preferably lower to the tax rates proposed in nearby jurisdictions moving toward legalization as well. A lower rate drives consumers away from the black market and to the regulated market and ensures Maryland is not denied much needed tax revenue.

REDUCE THE FEES:

The licensing fees are simply too high to ensure robust participation by all segments of society. We suggest the bill be amended to mirror the current fee structure in the medical cannabis market. To that end, growers should pay higher fees than processors and dispensaries. Dispensaries fees should be lowest because they are saddled with high overhead and have thin margins. Moreover, dispensaries are unable to write off typical business expenses. Therefore, unless properly addressed, many dispensaries may struggle financially. The initial renewal fee reflects this but the social equity fee does not. We request that the social equity fee reflects the same fee structure.

REDUCE OWNERSHIP CAPS:

Ownership caps should be the same as they are in the medical cannabis market which allows one grower license, one processing license and 4 dispensary licenses per license holder. Lower caps help protect smaller businesses from consolidation and create a more sustainable and equitable program. This in turns helps create more opportunities for entrepreneurs. We also encourage the language concerning ownership limits and the prevention of management contracts in the medical cannabis industry to be adopted for the adult use industry as well.

THE NUMBER OF PROPOSED DISPENSARY LICENSES:

Dispensaries are expensive to own and operate. As stated above, margins are thin and an overabundance of dispensaries in a concentrated area could lead to business failures. It is for this reason that we think that the proposed license cap for SB 708 is more beneficial for the long term success for dispensaries. Additionally we encourage the committee to consider ways to ensure that the dispensary licenses are spread more evenly geographically to avoid clustering of dispensaries in areas throughout the State.

AWARD UNAFFILIATED DISPENSARIES LOW TIER GROW LICENSES:

Unaffiliated and independent dispensaries struggle to maintain inventory, specifically flower, because vertically integrated licensees prioritize their own dispensaries. Awarding dispensaries low tier grow licenses would also provide market sustainability which should bring down Maryland's high wholesale costs which is the second highest in the nation. See https://www.pricingguide.leaflink.com/2020, I have attached the report below as well. Finally, allowing dispensaries to operate low tier grow licenses would provide more diverse products and reduce patient costs.

ONE REGULATORY BODY FOR BOTH ADULT USE AND MEDICAL PROGRAMS:
There should be one regulatory body for both the adult use and medical programs. This will make oversight more efficient and save the State significant costs.

SCORING FOR APPLICATIONS:
We request all license types be treated and scored similarly. Currently SB 708 details a very specific scoring system for dispensaries while leaving less specificity for other license types. We request that the scoring system be changed to reflect the same scoring system for growers and processors as the dispensaries or changing what is currently in the bill for dispensaries to match the less specific language for growers and processors.

We urge a Favorable with Amendments report.

Respectfully submitted,

Warren Lemley
President, Peake ReLeaf

The LeafLink Wholesale Cannabis Pricing Guide is a comprehensive analysis of wholesale pricing in 10 US states with legal cannabis markets. Our analysis includes average pricing across five major product categories, as well as the impact those price points have on product sales. Cannabis businesses can use the data provided here to understand how they can strategically price their products to increase sales.

ABOUT LEAFLINK

LeafLink is a tech-enabled wholesale marketplace for the cannabis industry that has revolutionized the way over 7,500 brands, distributors, and retailers across 27 North American markets manage their operations. The marketplace manages over $3 billion in annualized orders, an estimated 32% of wholesale U.S. wholesale cannabis commerce, giving us insight into the evolution of cannabis commerce and industry-wide trends.

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Methodology

DATA

We analyzed over 109,000 unique SKUs on LeafLink in this guide. The study focuses on LeafLink's top five product categories by market share (Cartridges, Concentrates, Edibles & Ingestibles, Flower, and Pre-Rolls), and examines pricing for each category on both the national and state level, as well as year-over-year (YoY) changes. Over $1.2B of wholesale orders placed through LeafLink in 2020 were used to determine the impact of pricing on sales.

UNITS OF MEASURE

The units used in this year's guide are as follows:

Cartridges: 1 gram
Concentrates: 1 gram
Edibles & Ingestibles: 1 milligram
Flower: 1 pound
Pre-Rolls: 1 gram

All SKUs analyzed were listed in the above units of measure, or converted to ensure comparability across products and markets. For example, the pricing of a Flower product listed at 0.5lb was doubled to estimate its value at 1 pound. When comparing wholesale product pricing in your state, be sure to convert the product in question to the referenced units.

GEOGRAPHIES

In this guide, we included pricing data from the following US cannabis markets: Alaska, Arizona, California, Colorado, Maryland, Michigan, Nevada, Oklahoma, Oregon, and Washington. These markets were selected based on the availability of pricing data for each of our five top product categories.

INCLUDED IN EACH STATE PROFILE:

- **Most Popular Category:** Category making up the largest percentage of 2020 Gross Merchandise Value (GMV) within the state
- **Most Competitive Category:** Category with the highest number of SKUs listed on LeafLink in that state
- **Least Competitive Category:** Category with the lowest number of SKUs listed on LeafLink in that state
- **Biggest Pricing Change Since Last Year:** Category with the greatest change in average pricing since the 2019 guide
- **Wholesale Start Date:** The month of the state's first orders on LeafLink.
- **Number of Active Retailers:** Number of retailers in the state using LeafLink at the time of publication
- **Category Pricing Rank:** How the average price for a product category in one state compares to the 9 other states included in this guide
- **Pricing Score:** The average of all Category Pricing Ranks for a given state. Closer to 1 indicates higher average pricing across categories, whereas closer to 10 indicates lower average pricing

LeafLink is live in 27 markets across the United States and Canada, but all other markets were omitted from this guide due to limited historical pricing data on the platform.

MULTI-STATE ANALYSIS

Pricing Overview

Average pricing per category varies greatly across different markets. To help you judge where a specific market falls compared to the others analyzed in this guide, we assigned a Pricing Score to each state. Pricing Scores are determined by averaging all of a state's Category Pricing Ranks, 1 being the highest, 10 being the lowest. You can find these scores in the State Profiles.

PRICING SCORE BY STATE

AK	MD	MI	NV	AZ	CA	OK	CO	WA	OR
1.2	2.6	3.2	5.0	5.4	5.6	6.4	7.4	8.8	9.2

Overall, Oregon, a mature state known for product oversaturation, had the lowest Pricing Score (9.2). Alaska, a state with exceptionally high logistics and shipping costs, had the highest Pricing Score (1.2).

You can view state-specific category pricing for each state broken into average price, lower quintile, middle quintile, and upper quintile in the State Profile sections.

The following are average wholesale price points for each of our five most popular product categories across the ten markets included in this study:

CARTRIDGES	CONCENTRATES	EDIBLES	FLOWER	PRE-ROLLS
$22.78 PER G	$17.02 PER G	$0.08 PER MG	$1,940 PER LB	$7.18 PER G

PRICING RANK: MOST TO LEAST EXPENSIVE BY STATE

← MORE EXPENSIVE — LESS EXPENSIVE →

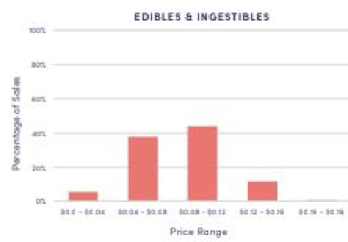
	1	2	3	4	5	6	7	8	9	10
CARTRIDGES	AK	MD	MI	AZ	NV	CA	OK	CO	OR	WA
CONCENTRATES	AK	MI	MD	OK	AZ	CA	NV	CO	OR	WA
EDIBLES & INGESTIBLES	AK	MI	NV	MD	CO	WA	CA	OK	OR	WA
FLOWER	AK	MD	MI	CA	OK	NV	AZ	WA	CO	OR
PRE-ROLLS	AZ	AK	MD	NV	CA	MI	CO	OK	OR	WA

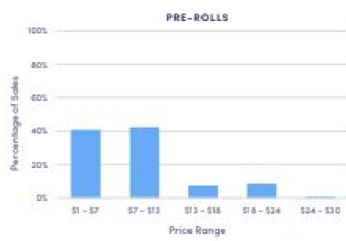
Impact of Pricing on Product Sales

MULTI-STATE ANALYSIS

In addition to average pricing, this guide examines how sales are impacted by a product's wholesale pricing. In other words, are affordable or premium priced products more popular among dispensaries? To analyze this, we looked at the total range of price points available for a given product category and divided that range into quintiles. We then looked at sales by unit and compared sales by unit for each quintile.

Overall, the impact of pricing on sales varied greatly across each category at the national level. For Concentrates and Pre-Rolls, the bottom two quintiles drove the majority of sales across each product category. For Cartridges, more than half of all products sold were priced in the second quintile. A majority of Edibles & Ingestibles products sold were priced at the middle quintile (40-60%), and very few sold were priced in the bottom or the top. Out of all categories, analyzed, Flower had the most even distribution, with no single quintile accounting for more than 30%.





UNITS OF MEASURE

Cartridges: 1 gram
Concentrates: 1 gram
Edibles & Ingestibles: 1 milligram
Flower: 1 pound
Pre-Rolls: 1 gram

For a more in depth understanding of which markets favored premium priced products or more affordable products, please see the State Profiles in the next section.

Maryland

MARYLAND PRICING OVERVIEW

Most Popular Category: Flower

Most Competitive Category: Cartridges

Least Competitive Category: Edibles & Ingestibles

Biggest Pricing Change Since Last Year: Pre-Rolls, -19% YoY

Wholesale Start Date: April 2018

Number of Active Retailers: 95

Category Pricing Rank: Consistently high pricing across most categories

PRICING SCORE: 2.6

UNITS OF MEASURE

Cartridges: 1 gram, **Concentrates:** 1 gram, **Edibles & Ingestibles:** 1 milligram, **Flower:** 1 pound, **Pre-Rolls:** 1 gram

MARYLAND PRICING ANALYSIS

	AVERAGE PRICING	LOWER QUINTILE (20%)	MEDIAN	UPPER QUINTILE (80%)	CATEGORY PRICING RANK (1 = MOST EXPENSIVE)
CARTRIDGES	$40.43	$25.00	$46.00	$52.00	2 OF 10
CONCENTRATES	$25.01	$15.00	$25.00	$30.00	3 OF 10
EDIBLES	$0.09	$0.08	$0.09	$0.09	4 OF 10
FLOWER	$3,181.27	$2,784.00	$3,243.18	$3,887.93	2 OF 10
PRE-ROLLS	$9.57	$8.00	$8.57	$10.00	3 OF 10

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Maryland

IMPACT OF PRICING ON PRODUCT SALES

- Maryland has the second highest Cartridge pricing among the states we analyzed: $40 per gram, up 16% year-over-year.
- Similarly, wholesale Flower prices are nearly the highest at $3,181 per pound, only $5 less than in Alaska. This is due to a limited number of cultivators, processors, and brands in Maryland. Recently awarded cultivation and processing licenses (October 2020) should bring additional supply online and put downward pressure on prices.