

THE GREENWAVE REPORT

STATE OF THE EMERGING MARIJUANA INDUSTRY CURRENT TRENDS AND PROJECTIONS

EXECUTIVE SUMMARY



Comprehensive research and financial analysis for the emerging legalized marijuana industry.

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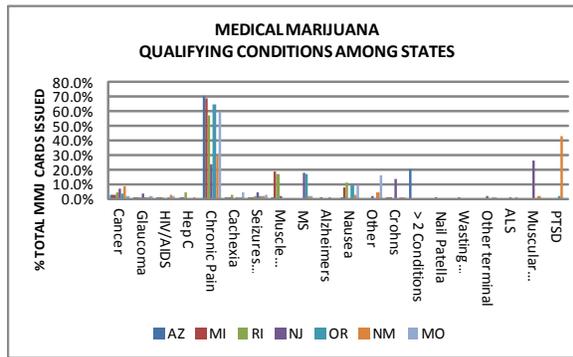
The legal marijuana industry is emerging in the United States (and globally) at a steady, though deliberate pace. Although uncertainty persists as to the nature, extent, and timing of universal legalization, we believe that change is coming, and that investment opportunities in the burgeoning marijuana industry are and will be substantial.

In this, our inaugural research report, we provide a detailed analysis, state by state, of what we believe are the essential primary criteria that are necessary for a comprehensive understanding of the market potential for the retail marijuana industry. To that end, we provide an overview of the different components of the industry, lay out our reasons why we think changes to existing federal laws are likely, and outline what we think could be the end state when full legalization does occur. Additionally, our analysis provides a first glimpse of similarities experienced in the legalized markets thus far.

Our research and analysis lead us to conclude the following:

- **Federal law will likely change, thus eliminating the current dichotomy.** The federal government's "allow for now" policies suggest that it is warming up to the idea of full legalization. Also, lawmakers on both sides of the aisle continue to push various pieces of legislation to ease current laws. What is driving this is that the medical benefits of marijuana are becoming better understood, and that politicians are becoming more mindful of the positive economic impact of legalization. Perhaps most important, public support in favor of legalization is growing.
- **The medical and adult use marijuana segments will likely merge into one substantially larger market.** If federal legalization occurs, we do not expect a bifurcated market to persist. The end state will depend largely upon how the industry is regulated and taxed. If reform takes the path of least resistance, then the medical marijuana market will be the winner. However, federal oversight of medical marijuana would preclude an easy transition. Since "chronic pain" (loosely defined), is the most common ailment among medical marijuana users, it is likely that recreational users can already purchase marijuana without great difficulty in states where medicinal use is legal. Accordingly, it can be argued that a merged market already exists in medical marijuana states. Less currently popular, but arguably providing more economic stimulus, would be a regulatory regime providing for only adult (recreational) use (Table 1).

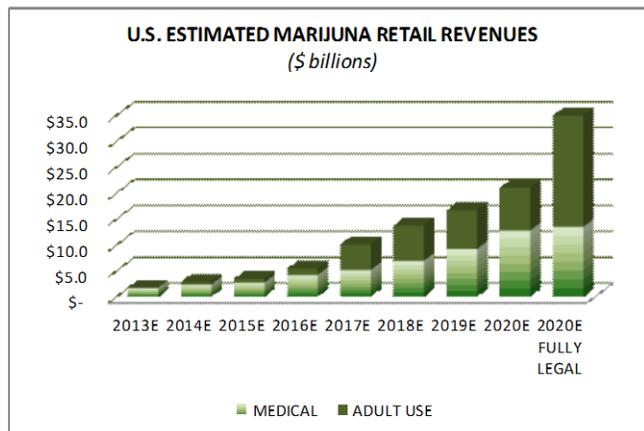
Table 1: Qualifying Medical Conditions Among States



Source: States of CO, AZ, MI, RI, NJ, OR, NM, MO; GWA estimates

- U.S. retail marijuana sales revenues could reach ~ \$35 billion/year by 2020, if full legalization occurs in all 50 States and D.C.** Our analysis provides full transparency of our revenue projections. These are determined state-by-state, for both the medical and adult use retail marijuana markets. This forecast does not suggest a terminal value but merely, what we think retail revenues (and sales and excise tax collections) could look like during the first year in which marijuana is sold legally in all 50 states and D.C. (Note that these estimates do not include the wholesale market, ancillary revenues, etc.) Alternatively, assuming the most likely progression of legalization, our revenue expectations would be approximately \$21 billion by 2020 (Table 2).

Table 2: Consolidated U.S. Estimated Marijuana Retail Revenues



Source: GWA estimates

As more and more states come on board with legalization and as the federal government shifts its course on marijuana policy, investor interest will undoubtedly intensify. Therefore, we believe now is the time to gain a better understanding of sector dynamics and prepare for the imminent changes that will open the floodgates and profoundly impact investment strategies in the marijuana industry. We firmly believe that history (i.e. the end of alcohol prohibition) is about to repeat itself. Those who educate themselves now will be best positioned to profit from the coming opportunities and will therefore have a distinct advantage over those who wait.