

CANNABIS INTELLIGENCE BRIEFING

The Roadmap to a \$57 Billion Worldwide Market

Executive Summary

The Road Map to a \$57 Billion Worldwide Market

PUBLISHED BY



ARCVIEW
Market Research

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**By the end of the forecast period,
adult-use spending will be more than
twice that of medical spending**

Letter From the Editor

Dear Colleagues,

Adult-use legalization in California and Canada may have gotten all the ink in 2017, but from a worldwide perspective, the legalization of medical use by Germany in April may prove to be the bigger news. If North America's past is prologue, seriously ill Germans will benefit from a broad range of medical cannabis uses, none of the worst fears of prohibitionists will be realized, and expansion of the right to consume cannabis to all adults will follow in due course.

Germany's initiative should inspire the rest of Europe, with its population of over a half billion, to institute their own medical-use laws or liberalize existing, but highly restrictive, ones. The expansion of medical cannabis markets can be expected to lead to broader public acceptance, setting the stage for the eventual move to adult-use legalization, in a pattern that is likely to repeat itself across much of the globe in subsequent years.

In North America, California's medical cannabis market is already the largest in the world, and the start of adult-use retail sales on January 1, 2018 is forecast to bring total legal sales to \$3.7B. Total legal spending in Canada, boosted by the beginning of adult-use sales on July 1, 2018, is forecast to quickly surpass Colorado to become No.2 by 2019. Between them, the two giant fully legal markets will represent 41% of worldwide spending in 2019 (the first full year in which both will be fully legal) and will still make up nearly one quarter of worldwide spending 10 years out in 2027. Throw in the other US states, and you've got \$47 billion of the worldwide \$57 billion market in 2027 in those two adult-use leaders.

But of course, a mere 5% of the world's 7.6 billion humans live in Canada (37 million) and the United States (322 million). Of the other 95%, only Uruguay's three million people have access to adult-use retail sales, and there is no indication that other countries will be ready to move in that direction soon.

Hence, legalization for medical use will be the whole ball-game in most of the world for the foreseeable future, and Germany's move to allow cannabis sales in pharmacies is huge. There are medical programs elsewhere, of course, (at least 26 countries or territories in 2017, as outlined in this report) but they tend to be in tiny markets and/or be limited to true pharmaceuticals prescribed by doctors in pill form. In contrast, a fairly broad list of conditions will qualify 82 million Germans to buy cannabis flower and other CBD and THC products at 20,000 pharmacies, with insurers mandated to cover the cost. It's a model that we forecast will drive the world market, excluding the United States and Canada, to grow at 35% annually to \$10.5 billion by 2027, as a key part of the \$57 billion overall market.



Tom Adams
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ACKNOWLEDGEMENTS

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Arcview Market Research in partnership with BDS Analytics

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The Road to a \$57 Billion Worldwide Cannabis Market

The legalization and regulation of cannabis sales is a trend that is spreading around the globe. In the last decade, many countries either loosened regulations to expand their existing medical markets or established new medical programs. Uruguay, Canada, and some states in the US have even pushed past medical markets and are operating, or about to launch, regulated adult-use markets.

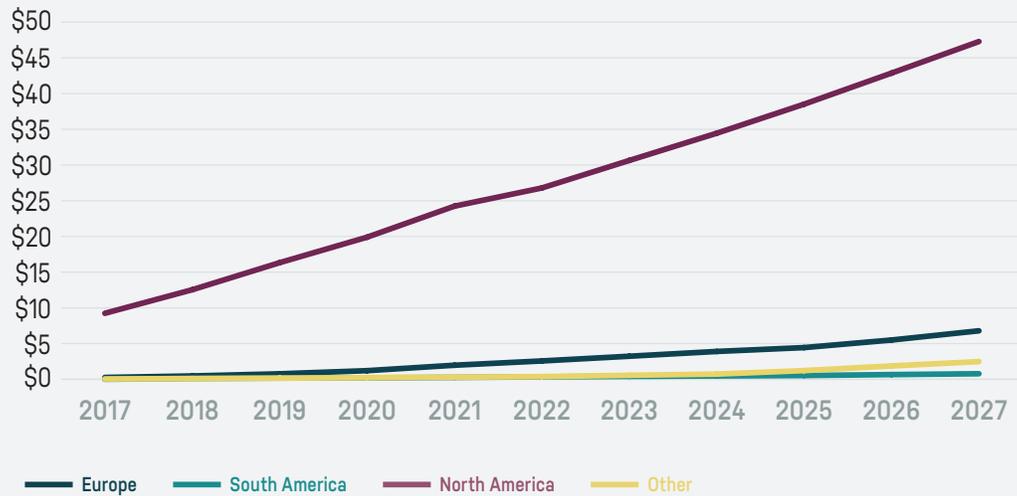
Regional trends are coming into focus. South America has some of the most liberal medical programs and is the home of the first federally legal adult-use market in the world. Europe has much stricter medical markets with potentially major markets like France and the United Kingdom (UK) making only a handful of cannabis-based medicines available to a small number of patients. North America is by far the world leader in legal cannabis spending, despite cannabis still being federally illegal in the United States. Canada's move to be the first industrialized country with a fully legal

cannabis market means North America will hold the top position for the next decade and beyond. Outside of Europe, South and North America, there are a few other countries contributing to legal spending; some of these smaller markets represent the biggest growth opportunities for investors.

On a regional basis, North America is expected to continue to represent the largest spending volume throughout

South America has some of the most liberal medical programs and is the home of the first federally legal adult-use market in the world

Worldwide Legal Spending by Continent (In Billions)



Source: Cannabis Intelligence Briefing

the forecast period, growing from \$9.2 billion in 2017 to \$47.3 billion in 2027, at a compound annual growth rate (CAGR) of 18%; the massive size of the market will keep growth rates relatively low. The largest growth is expected to occur within the Rest of World (RoW) markets where spending is forecast to grow from \$52 million in 2017 to \$2.5 billion in 2027 for a CAGR of 47%. Both Europe and South America will see impressive gains over the forecast period with CAGRs of 39% and 24% respectively.

Prohibition Partners, a leading research firm with expertise in European markets, partnered with the Cannabis Intelligence Briefing team to help put market size estimates in perspective. And in Europe it is clear: Despite impressive market growth, spending will fall well

shy of potential in the region. Switzerland's \$320 million in spending in 2027 is projected to capture the largest percent of market potential – 20% of the \$1.6 billion potential projected by Prohibition Partners.

The overwhelming majority of developing international markets are medical-only, and the early years of the forecast period reflect that, with medical spending comprising 70%, 63%, and 54% of total legal spending in 2017-2019 respective-

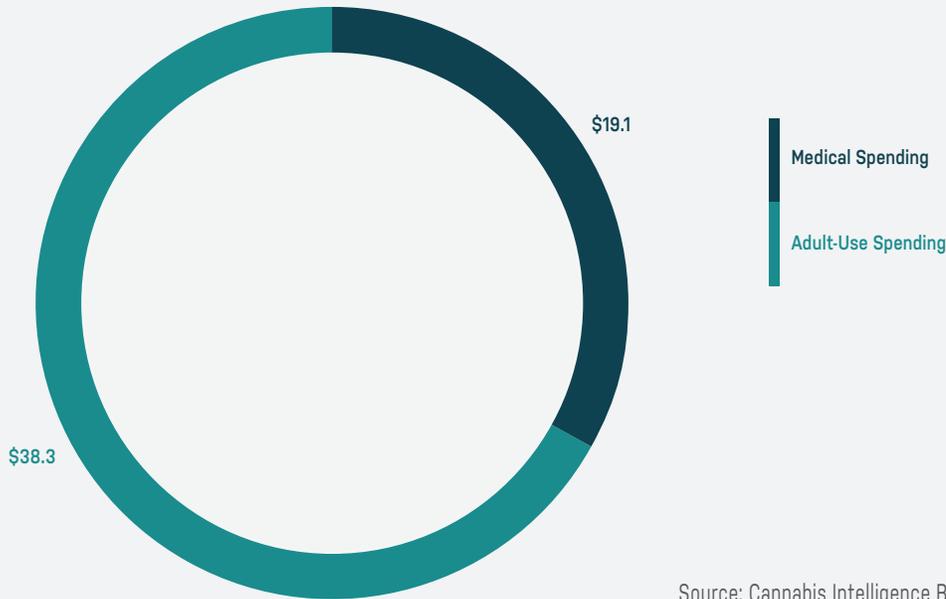
In Europe it is clear: Despite impressive market growth, spending will fall well shy of potential in the region

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2027 Medical vs. Adult Worldwide Legal Spending (In Billions)



Source: Cannabis Intelligence Briefing

ly. Medical spending will continue to grow through the end of the period, even with adult-use markets gaining momentum. In addition to overall growth being driven by expansion in individual contributing markets, a large portion of international medical spending will be covered by health insurance, encouraging patients to continue getting cannabis in the medical market even when legal adult-use consumption is an option.

Even with the broadening of medical programs around the globe and the continued growth in medical sales, adult-use spending is expected to outpace medical-only markets beginning in 2020. That same year, adult-use spending is

expected to comprise 53% of the \$21.6 billion total. By the end of the forecast period, adult-use spending will be more than twice that of medical spending.

This report details several key markets that we expect to drive legal

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spending. Germany has made strides to position itself at the top of European legal markets, and we expect that it will remain there throughout the forecast period. And although the United Kingdom and France are currently very limited markets, we expect the programs to broaden within the forecast period. By 2027, Germany, Italy, Spain, The Netherlands, and Switzerland will be leading European markets.

Though many markets in South America are small, they are some of the more progressive. Medical program lists of qualifying conditions are generally liberal, and there is more variety in how medical cannabis can be consumed. There is popular support for cannabis reform throughout the region, and we expect spending to grow significantly. Uruguay, where adult-use consumption has been federally legal since 2014, could become the blueprint for establishing more adult-use markets in the region.

Growth in the North American market is being propelled by major adult-use markets coming online. California saw adult-use sales start in some parts of the state on January 1, 2018. And now the focus is on Canada as the market draws closer to the start of adult-use sales in July of this year. Mexico is a huge opportunity but currently is very limited.

Over the next 10 years, the legal cannabis industry will see medical programs develop and progress around the globe even outside of the key markets included in the report, lending significantly to legal spending. In addition, legislators in current medical-only markets will make it possible to regulate successful adult-use markets. The result of international cannabis reform and regulations will be a \$57.3 billion industry in 2027 poised to grow for years to come.

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will see medical programs
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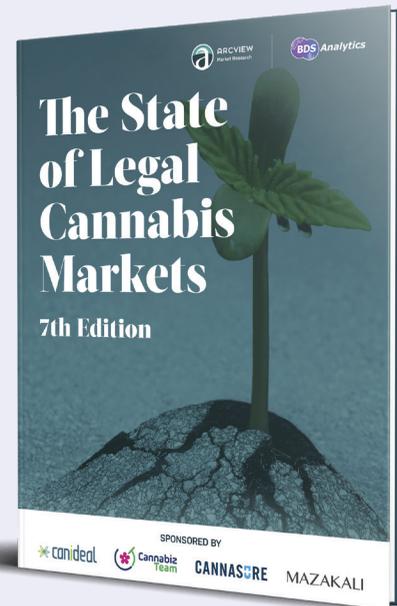
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