



New York: Beast of the East
Top-end Revenues of \$3.5B, Economic Activity Exceeds \$8B

New York’s legislative session concludes on June 19th and legalization of cannabis is center stage. In early 2018, Governor Cuomo directed the NY Dept. of Health to conduct a review of the potential impact of a regulated cannabis market. The DOH concluded that the positive impact of a regulated cannabis program in NY outweighs the potential negatives.

New York lawmakers pushed the legalization conversation beyond the April 1, 2019 state budget deadline then introduced a revised Marijuana Regulation & Taxation Act (MRTA) in May. Meanwhile in neighboring New Jersey, legalization efforts failed by a thin margin and state legislators ultimately punted the matter to the 2020 ballot. In New York, Governor Cuomo now appears less willing to stake political capital on this key campaign promise. New York’s prospects of legalizing in 2019 now depend on the few votes of lawmakers from politically moderate suburban districts. In our 7thirty Cannabis Insights Vol. III, we discuss the extraordinary New York market opportunity.

Peak sales of \$3.5B. An April 2019 report from the Rockefeller Institute of Government projects that New York State’s adult use cannabis sales could reach \$1.7-\$3.5B at maturity¹. The New York market estimate reflects estimated illegal consumption of 6.5-10.2M ounces per year at a price of \$270-\$340 per ounce². However, NY’s sales projections appear conservative when one compares its 13.5M consumers to Michigan with its 6.9M consumers and estimated sales of \$1.7B³.

Economic activity could top \$8B. New York’s case for legalization is stronger for the fact that cannabis-related economic activity could exceed \$4B based on a conservative \$1.7B in sales. Economic activity in New York could reach a whopping \$8.4B based on top-end cannabis sales of \$3.5B. Each \$1 in regulated cannabis sales generates \$2.40 in economic activity⁴.

Jobs, Jobs, Jobs. A regulated New York cannabis market could generate 30K-63K jobs, including employment in cultivation, manufacturing, testing and dispensaries. By comparison, Colorado’s 2015 employment data showed over 18,000 jobs generated from sales of \$996M and \$2.4B in economic activity.

Tax revenues to approach \$800M. The proposed NY FY2020 budget conservatively estimated tax revenues of \$300M from first-year cannabis sales. However, based on cannabis sales of \$3.5B at maturity, New York would generate tax revenues of nearly \$800M including more than \$300M in NYC alone. The NY MRTA proposes a 15% state tax on cannabis plus up to a 2% local tax. NY sales tax would not apply, and medical cannabis sales would not be subject to the 15% excise tax. The MRTA proposes additional taxes of \$0.62 per gram on flower, \$0.10 per gram on

trim and \$1.35 each for immature plants. Taxes may approach 25% under the proposed regime, which is higher than Michigan’s 16% rate but lower than Washington state’s whopping 37%.

Will New York take the lead in the East? Similar to the Western US states in 2014, the Mid-Atlantic is poised for a wave of cannabis legalization with the first domino yet to fall. New Yorkers watched developments in New Jersey as Governor Phil Murphy struggled to garner support for a legalization bill, and lawmakers later killed the bill in favor of the 2020 ballot. Pennsylvania even took notice as lawmakers introduced their own legalization bill. New York is keen to avoid custody issues that could arise from its neighbor legalizing. But with cross-border concerns now alleviated, is New York less inclined to legalize?

Medical programs pave the way. In other legal US markets, including California, Colorado and Michigan, robust medical cannabis programs enabled a transition to adult use. New York’s Medical Marijuana program was the nation’s 5th largest medical roster at year-end 2018 with nearly 100K patients. The New York Medical Marijuana Program launched in July 2014, but the initially restrictive program targeted only patients with severe debilitating or life-threatening conditions; patients totaled just 15K in early 2017. The medical program expanded dramatically with the March 2017 addition of chronic pain to the list of allowed diagnoses.

Want to buy some time? Expand medical access. On May 6th, NY State Assembly Bill A7467 was sent to committee seeking to expand medical marijuana access. If approved, the bill would expand medical access by 1) eliminating the requirement that a physician be licensed to prescribe controlled substances, 2) removing the word “serious” in describing qualified medical conditions, 3) increasing state supply from 30 to 60 days, and 4) permitting approved medical caregivers to transport, deliver and administer product. The bill could act as a stopgap measure should lawmakers fail to advance an adult use bill by June 19th. New Jersey is aiming to expand its 50K patient medical roster with its own bill. On June 3rd, the NJ Health Dept. announced that it will soon accept applications for up to 108 new medical marijuana businesses.

Legalization by legislative process is uncommon. On May 31st, Illinois became the first state to legalize adult use cannabis via legislative process rather than by ballot. If the New York legislature legalizes cannabis, it would become just the second state to do so. But this may become more common as legislators in Delaware, Vermont, New Hampshire and Rhode Island are currently debating legalization bills.

¹ The Economic Impact of Developing the Adult-Use Cannabis Industry in New York. SUNY Rockefeller Institute of Government, Laura Schultz. April 25, 2019

² Assessment of the Potential Impact of Regulated Marijuana in New York State, NY Dept of Health. July 2018

³ November 2018 Ballot Proposal 18-1, An Overview, Michigan Senate Fiscal Agency. Jeffrey Mann, et al

⁴ The Economic Impact of Marijuana Legalization in Colorado, Marijuana Policy Group. Miles Light, et al, October 2016

What's the hold up on legalization in NY State? New York lawmakers presented a revised bill in May after withdrawing support for the original bill over taxes, social equity programs, small business interests, expungement, and local prohibition. Below, we examine how the bill addresses these issues.

Local taxes are capped. New York's local taxes on cannabis are capped at 2% under the MRTA. Some counties argue that local tax rates should be consistent with the current county-level sales tax rate of 4% in most of the state. Municipalities claim that local enforcement and health & safety costs require more than a 2% stake. Notably, New York's policy would differ from the Colorado and California markets that allow municipalities to assess local taxes.

Expungement faces a hurdle... New York State faces a difficult reconciliation in its legalization process. Over the past 20 years, about 800,000 individuals were arrested for marijuana offenses, 85% of whom were Black and Latino. It follows that expungement of cannabis-related convictions be a component of any legalization bill in New York. However, this may require lawmakers to amend the NY State constitution to allow expungement over the sealing of records.

...with a high-tech solution. New York might borrow from San Francisco's recent success with expungement where in February, officials used an open-source technology to identify over 9,300 cases eligible for dismissal. Illinois then set the bar for social justice by automating expungement of low-level convictions and permitting higher-level offenders to petition for expungement. Lawmakers estimated the state may have 770K eligible records.

New York delivers on social equity... New York's MRTA segments tax revenues after regulatory, enforcement and administrative expenses. The revenue split includes 25% to drug treatment & public education, 25% to the NY Lottery, and 50% to the community grants reinvestment fund. The fund invests in nonprofit organizations serving communities disproportionately affected by past federal and state drug policies.

...with a focus on small business. The New York bill encourages small business by preventing vertical integration through its licensing framework. Individuals are limited to 3 retail licenses and prohibits category licensees from holding other licenses. These restrictions may address early fears that existing vertically-integrated medical cannabis operators in NY would dominate the adult use market. The MRTA would establish a Marihuana Microbusiness & License Revolving Loan Fund to promote small business and ownership by minorities, women, low-income applicants and those convicted of marijuana-related offenses.

Prohibition allowed but unlikely to last. The MRTA permits NY towns, cities and villages to prohibit cannabis operations through an ordinance. However, developments in the mature legal markets of Colorado and California show that while municipalities may initially elect to prohibit retail cannabis sales, many of these jurisdictions later change policy to allow sales.

Does legalization in NY signal a national shift? Legalization of cannabis in New York City, the world's financial hub and the largest metropolitan cannabis market, would unleash a massive

market opportunity. But while New Yorkers overwhelmingly favor legalization, attitudes toward cannabis are shifting across the US. On June 13th, the House Appropriations Committee approved the Secure and Fair Enforcement Banking Act. The SAFE Act would permit US banks to participate in legal US cannabis markets without violating federal law. The bipartisan bill will be taken up by the full US House in the coming weeks. While the SAFE Act is a positive first step for the cannabis industry, we expect major US banks to enter these markets only after full Federal legalization.

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Returns of Selected Cannabis ETF's & S&P 500, YTD



Source: Yahoo Finance

Year-to-date, Cannabis-related ETFs, including the Horizons Marijuana Life Sciences Index (HMLSF) ETF (+30%) and ETFMG Alternative Harvest (MJ) ETF (+25%) have outperformed the S&P 500 Index which had a return of 15%.

New York State Employment Potential, at Maturity

Market Size		
Employee Count (Est.)	\$1.7B Market	\$3.5B Market
Cultivation	2,776	5,716
Manufacturing	6,664	13,721
Dispensaries	21,290	43,833
Total Employees	30,731	63,270
Economic Impact	\$4.1 billion	\$8.4 billion

Source: Rockefeller Institute of Government, 7thirty

The Rockefeller Institute of Government estimates that a regulated cannabis market in New York would generate \$1.7-\$3.5 billion in sales and cannabis-related economic activity of \$4.1-\$8.4 billion.

Canadian Licensed Producers (Canadian LPs)

Company	Stock Price	Mkt Cap (\$B)	YTD Return	52-wk Return*	52-wk High	52-wk Low
Canopy Growth Corp.	\$41.18	\$14.10	53%	38%	\$59.25	\$24.21
Aurora Cannabis Inc.	\$7.56	\$7.63	52%	10%	\$12.52	\$4.05
Cronos Group Inc.	\$15.44	\$5.13	49%	120%	\$25.10	\$5.61
Tilray Inc.	\$39.01	\$3.79	(45%)	74%	\$300.00	\$20.10
Aphria Inc	\$6.79	\$1.69	19%	(24%)	\$16.86	\$3.75

Source: Yahoo Finance, Google Finance, 7thirty data. *52-week return or return since trading began. Close as of June 14, 2019.

Private Cannabis Market Activity

Company	Location	Date	Category	Deal Type	Amount (\$M)
IONIC acq. Vegas Valley Growers	Las Vegas, NV	6/12/19	Cultivation/Distr.	Acquisition	\$8.87
HempFusion	Roswell, GA	6/12/19	Wellness	Seed	\$6
Sparx Cannabis	Salinas, CA	6/11/19	Cultivation/Distr.	Series A	\$10
Enlighten Technologies	Bowling Green, KY	6/5/19	Advertising	Series B	\$6.5
Distru	Oakland, CA	6/3/19	Software	Seed	\$3

Source: Pitchbook, company press releases.

Public Cannabis Market Activity

Company	Location	Date	Category	Deal Type	Amount (\$M)
Harborside acq. Airfield Supply	San Jose, CA	6/1/19	Vertically-Integrated	Acquisition	\$41.8
SOL Global acq. Northern Emeralds	Arcata, CA	5/16/19	Cultivation	Acquisition	\$120
iAnthus acq. CBD For Life	New Jersey	3/16/19	CBD	Acquisition	\$13.7
Innovative Prop. acq. Desert's Finest	Desert Hot Spgs, CA	6/12/19	Dispensary	Acquisition	\$5.6
Jushi	Boca Raton, FL	6/10/19	Medical Cannabis	PIPE	\$68.2

Source: Pitchbook, company press releases.

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