



As regional president for Northeast operations at Curaleaf, Patrik Jonsson is busy anticipating the launch of cannabis markets in several states.

Photo by Steweson Photography

OPEN FOR BUSINESS

By Omar Sacirbey

Cannabis companies prepare for launch of new markets potentially worth a combined \$2.5 billion

With at least five states poised to launch recreational marijuana markets and one introducing a medical program in 2022, thousands of opportunities exist for cannabis and ancillary entrepreneurs.

Between them, the five states readying adult-use programs—Connecticut, Montana, New Jersey, New Mexico and Vermont—are home to 17 million residents and welcome tens of millions more tourists annually. *MJBizDaily* and other sources estimate that by 2025, the cannabis markets in those five states will collectively be worth \$2.5 billion.

“We see a big expansion of opportunities happening because of rec,” said Patrik Jonsson, regional president for Northeast operations at Massachusetts-based multistate operator Curaleaf.

FEW LICENSE CAPS

Plenty of licenses are expected to be available. There are no state-imposed caps on the number of licensees in most of the coming markets, though Connecticut and New Jersey’s cultivation sector are exceptions.

In New Mexico, any complete and competent application will get a license, according to Ben Lewinger, executive director of the New Mexico Cannabis Chamber of Commerce. That said, in some states, local municipalities will have the right to limit licenses.

The only state launching a medical marijuana program in 2022, South Dakota, has also left licensing caps up to municipalities. While some municipalities have been restrictive, no South Dakota town can outright ban all medical marijuana businesses.

REGULATIONS AND SECTORS

Observers see opportunities in every plant-touching category and for ancillary companies.

“Anytime you’ve got a new market, you’re going to need certain industry expertise,” said Ned Horsted, executive director of the Cannabis Industry Association of South Dakota.

While all five recreational states are hammering out their final regulations—even as this issue goes to print—one key trend is a greater effort by regulators to provide more opportunities for small-business owners and social equity entrepreneurs to break into the market. These efforts include:

- Lower application and licensing fees.
- Creating microbusiness and small-business license classes.
- Restricting vertical integration or limiting the number of licenses an operator can hold.
- More robust social equity programs.

Whether these regulatory innovations will make it easier for such businesses to succeed remains to be seen. Medical operators in these states have been given head starts and other advantages, which observers fear will allow large operators to dominate the markets—something regulators hoped to avoid.

Observers acknowledge that only time will tell if regulations have done enough to allow small businesses to be competitive, but at least some marijuana activists are hopeful.

“The regulations facilitate an environment where small businesses have a chance to compete,” said Edmund DeVeaux, president of the

New Jersey CannaBusiness Association in Trenton.

If measures that New Jersey and other states have taken to facilitate small-business success bear fruit—and are adopted and expanded in other markets—2022 could be remembered as a pivotal year in cannabis.

In the following pages, *MJBizMagazine* looks at six state markets launching this year and the key criteria that will help determine where there is opportunity for you and your business.

EXECUTIVE SUMMARY

Established and new cannabis entrepreneurs are expected to find thousands of opportunities among the six states that are launching recreational and medical marijuana markets in 2022. Efforts have been made to help small businesses, but big players might still dominate. Important considerations and insights include:

- Many of the new markets have lowered barriers to entry for small businesses by decreasing application and licensing fees, reducing or eliminating capital requirements and removing licensing caps.
- Depending on the state, local municipalities have varying degrees of control over how many marijuana businesses they will allow, if any.
- More states are making microbusiness, craft and small-business licenses available, which likely will increase opportunities for entrepreneurs with limited capital.
- Most of the new state markets have social equity programs.
- Some states have eliminated or restricted vertical integration as a way to curb domination by large companies.



By Omar Sacirbey

How does your Garden State grow?

Ballot initiative or legislation: New Jersey voters approved recreational marijuana legalization on Nov. 3, 2020, by a margin of 67%-33%. The state's Legislature passed an implementation bill for the new measure on Dec. 17, 2020.

Regulatory agency: Cannabis Regulatory Commission (CRC)

Business license types: There are six classes of licensed businesses: cultivator, with six tiers based on size; manufacturer, with two tiers based on size; wholesaler, distributor, retailer and delivery.

In addition, microbusiness licenses are available for cultivators, manufacturers/processors and retailers. Microbusinesses are defined as having no more than 10 employees and occupying no more than 2,500 square feet.

The application process for cultivators, manufacturers/processors as well as laboratory licenses opened Dec. 15, while the application process for retailers will open March 15. Regulators have yet to set dates for when they will open the application process for delivery, distribution and wholesale licenses.

License caps: Cultivation licenses are capped at 37 until Feb. 22, 2023. The cap doesn't apply to cultivation microbusiness licenses. No other license types are capped.

Out-of-state applicants: Allowed for the six main license types, but New Jersey residents must hold at least 5% of the company. Microbusiness license holders must be New Jersey residents—defined as having lived in the state for five consecutive years—and locate their business in the municipality in which they live or an adjacent municipality.

Product types: All product types will be available except for infused sweet and savory edibles, such as gummies.

Anticipated sales launch: Sales appear likely to start this spring, unless medical marijuana operators are given a head start.

2021 estimated medical sales: \$180 million-\$220 million

2021 state population and patient numbers: With 9.4 million residents and 120,000 cardholders, MMJ patients account for 1.27% of the state's population.

Predicted size of market: *MJBizDaily* projects New Jersey's adult-use market will generate annual sales of \$850 million-\$950 million by 2024.

Local control and opt-in/opt-out rules: Past prohibitions have been voided; municipalities had 180 days from the bill's enactment to prohibit adult-use operations. Municipalities

cannot ban delivery services to consumers in their area, but they can decide how many licensed businesses to allow.

Social equity provisions: Minorities, women and disabled veterans are given priority consideration for licensing. Priority is also given to applicants living in "impact zones," or high-population municipalities negatively impacted by unemployment, poverty or marijuana-related arrests. To the extent possible, the CRC would grant at least 25% of all licenses to such applicants or those who employ at least 25% of their staff from such zones.

With annual sales predicted to approach \$1 billion by 2024, New Jersey's recreational marijuana market is poised to become one of the hottest in the United States, potentially overtaking Massachusetts as the East Coast leader. New Jersey's dominance likely will continue until neighboring New York's program—not expected to launch until 2023—gets into full swing.

"It's really going to be the hot spot of the entire mid-Atlantic region," said Edmund DeVeaux, president of the New Jersey CannaBusiness Association.

Opportunities are expected to be plentiful for cannabis entrepreneurs,

especially those looking to start small businesses.

There is no statewide license cap except for a temporary limit on cultivation licenses that expires Feb. 22, 2023. That doesn't mean an unlimited number of licenses will be available—local municipalities will be able to prohibit or limit the number of cannabis businesses in their areas—but it will still allow for a healthy number of licensees, analysts said. And while many municipalities already have opted out, some observers believe towns will opt back in as they better understand the regulations and financial benefits of licensing cannabis companies.

MILLIONS OF SHOPPERS

New Jersey is the fourth-smallest state by size but the 11th-biggest by population, giving entrepreneurs easy access to nearly 10 million residents living within a drive of only a few hours. State businesses also are likely to attract recreational cannabis consumers from New York—home to roughly 20 million people—and Pennsylvania, with 13 million. Nearby Maryland and Delaware also have about 7 million people between them.

“Because of its location and vastly underserved market, both internally and externally, (New Jersey) will be a boon for cultivation and dispensaries,” said Steve Schain, a cannabis attorney who specializes in the New Jersey and Pennsylvania markets at Smart Counsel.

RETAIL AND DELIVERY OPPORTUNITIES

Of the license types available, retail offers the most opportunity and has been getting the most attention, analysts say.

“It's the most economical and the most practical,” DeVeaux said. “It requires less capital to start. It's easier to find land. And the New Jersey commercial landscape lends itself to retail.”

While industry observers welcome a cap-free recreational retail regime, they warn that the unfettered num-

ber of retail licenses and lower cost of launching a store is already making for a highly competitive sector.

And because a limited number of towns are allowing cannabis companies, real estate is being bought up “like hot cakes” in these areas, said Fruqan Mouzon, chair of the cannabis group at the law firm McElroy, Deusch, Mulvaney & Carpenter. “It's very hard to find a location and a town that allows it,” he said.

Mouzon estimated that, based on studies, the state needs about 200 retail licenses to handle the expected number of consumers.

CULTIVATION OPPORTUNITIES

While launching a cultivation facility is vastly more expensive than starting a retail operation, some analysts see opportunity in that sector as well—especially once the cap on cultivation licenses expires in February 2023.

“New Jersey ... only has 12 functioning grows and is vastly underserving its plus-or-minus 150,000 patients. It needs a heck of a lot more cannabis—especially if it expects to also serve out-of-state residents,” Schain said.

DeVeaux said complaints from patients about the quality and quantity of medical cannabis are not uncommon, suggesting that the state will need many more cultivators to meet demand for a recreational marijuana market.

OPPORTUNITIES FOR SMALL BUSINESS

New Jersey has made solid efforts to promote small businesses—especially those owned by women and minorities.

The state has created microbusiness licenses with fees of \$1,000—far less than what is required for most other cannabis license types. The only catch: Microbusiness license seekers must locate their company in the municipality where the owner lives or a neighboring

municipality. If an aspiring microbusiness license owner lives in a town that forbids cannabis businesses and none of the neighboring towns allow them, either, the license seeker is out of luck.

New Jersey also will offer conditional licenses to help less-capitalized individuals. Conditional licenses can be awarded to entrepreneurs who are on the pathway to full licensure but require more time because of the capital constraints needed to obtain a full license.

“That favors new business owners, who will be mainly minorities and women,” DeVeaux said.

The state also has prioritized social equity. “I think the state has gone above and beyond,” Mouzon said. “It's a priority if you have diverse ownership, a priority if you're owned by women, a priority if you're owned by disabled vets, a priority if you're owned by social equity applicants.”

Mouzon is hopeful the regulations will increase the chances of minorities and women attracting the attention of investors.

Another way New Jersey has sought to help small businesses is to eliminate vertically integrated licenses (not including the existing vertically integrated companies in the state's medical marijuana program). The state's reasoning is that vertical integration is costly and something that only large, well-capitalized operators can afford.

If vertical licenses were allowed, it would make it harder for smaller, less well-capitalized entrepreneurs to compete, DeVeaux said.

Companies would still be allowed to vertically integrate, but they would have to obtain the sector licenses individually—and they couldn't obtain them concurrently; they would have to acquire one at a time, with one year between each license.

“Vertical integration equals exclusivity,” DeVeaux said. “We are avoiding vertically integrated operators to allow more people in.”

Half of cannabis business licenses will go to social equity applicants; regulators offer discounted fees

By Omar Sacirbey



CONNECTICUT

Ballot initiative or legislation:

The Connecticut General Assembly passed S.B. 1201 on June 17, 2021. Gov. Ned Lamont signed it into law June 22.

Regulatory agency: Department of Consumer Protection (DCP)

Business license types: Cultivator, micro-cultivator, retailer and hybrid retailer, product manufacturer, food and beverage manufacturer, product packager and delivery.

License caps: The law specifies that the DCP will determine how many licenses should be issued in each category and that 50% must be held by social equity applicants. If more than the DCP-designated number of applications are filed, the agency will hold two lotteries: the first for social equity applicants and the second for general, non-social equity applicants. Licenses will not be awarded to any lottery applicant who has two or more licenses of the same type through June 30, 2025. The Legislature has not set limits on the number of applications an applicant may submit.

Out-of-state applicants: There are no restrictions, provided applicants are authorized to do business in the state of Connecticut.

Product types: Infused chocolates and candies are prohibited.

Anticipated sales launch: Estimates range from spring 2022 to late 2022.

2021 estimated medical sales: \$165 million-\$200 million

2021 state population and patient numbers: With 3.6 million residents and 54,000 medical marijuana cardholders, patients make up about 1.5% of the population.

Predicted size of market: *MJBizDaily* predicts Connecticut's adult-use marijuana sales could total as much as \$250 million in the first full year and \$750 million by the fourth year.

Local control and opt-in/opt-out rules: Any municipality wishing to prohibit cannabis businesses can opt out by holding a referendum. Municipalities that elect to permit marijuana businesses will retain local zoning control over locations.

Only one retailer and one micro-cultivator will be allowed for each 25,000 residents in any municipality. This threshold is subject to reevaluation by the DCP on July 1, 2024.

Social equity provisions: Social equity applicants will receive 50% of all licenses awarded for each license type, while general applicants will be awarded the remaining 50% of licenses

Any person qualifying as a social equity applicant will receive a 50% discount on all fees for the first three renewal cycles.

Connecticut has the potential to be a lucrative market. With 3.6 million residents and borders that touch New York and Rhode Island—states that have yet to begin recreational cannabis sales—the market is considered “a very promising program” by observers.

“Connecticut certainly has a very robust population and a really good medical program,” said Brian Ward, the chief financial officer at Verano Holdings, an Illinois-based multistate operator that in November bought CT Pharma, a major cultivator in the state, and two dispensaries.

How promising that market will be depends on the extent the Department of Consumer Protection caps the number of cannabis business licenses—something not yet decided.

Cap or no cap, Connecticut's recreational program makes a solid effort to provide licensing opportunities for social equity and small-business applicants with a variety of tools, including:

- A regulation stipulating that 50% of all licenses will be awarded to social equity applicants. Also, social equity applicants will be selected ahead of general applicants, giving them an early mover advantage.
- Microbusiness licenses for small entrepreneurs.

- Conditional licenses that make it possible for businesses to get licensed gradually, thereby reducing the amount of capital needed at the front end of the licensing process.
- Relatively low application and licensing fees, reducing an early barrier to entry.

THE BIG COMPETITORS

That said, it won't be easy competing against existing dispensary operators in Connecticut, including multistate operators Acreage Holdings, Curaleaf, Green Thumb Industries, Trulieve Cannabis and Verano.

Although social equity applicants get priority, existing dispensaries can convert to hybrid retailer licenses, which allow them to sell medical and recreational products without going through the lottery process.

Large operators that dominate the state's cultivation sector now are expected to continue to do so for the first few years of the adult-use program. Only four medical marijuana cultivation licenses were issued, one to Curaleaf and three to private operators that are now owned by MSOs Verano, Green Thumb Industries and Greenrose Acquisition Corp., a special purpose acquisition company that acquired Theraplant in March 2021.

Pablo Zuanic of New York-based investment banking firm Cantor Fitzgerald wrote in an investor note: "We believe the four existing med cultivators will grab the lion's share of the rec wholesale market initially, at least for the first couple of years."

Patrik Jonsson, Curaleaf's regional president for the Northeast, agreed.

"The current operators will have enough to supply the current medical market. Then the question becomes, how much additional supply will be needed for adult use," Jonsson said. "I think we can supply the early market relatively well. As the market matures,

it's going to be important for new operators to come online."

SMALL-BUSINESS TOOLS

While Connecticut's established medical operators will initially have the market to themselves, social equity and small businesses are provided mechanisms to ease entry into the market.

This includes relatively low application and licensing fees, microbusiness licenses and prioritization for social equity applicants.

Another mechanism is a two-step licensing process that awards lottery-winning applicants with a provisional license that is good for 14 months, at which time an applicant must apply for a final license. Regulators hope the provisional licenses help businesses avoid getting locked into real estate, Michelle Bodian, a senior associate attorney with Vicente Sederberg's Boston and New York offices, told *MJBizDaily*.

WHOLESALE OPPORTUNITY

New and existing operators will find both opportunity and necessity in the wholesale market because operators aren't allowed to own more than two storefronts.

"Our goal—and the goal of many of the operators—is to make sure that we can offer wholesale product to new operators looking to get into manufacturing and retail, because we are going to be limited to the number of retail outlets we can have," Jonsson said.

Ward from Verano agreed. "One of the opportunities we've seen is supplying partners with biomass—raw material that they can process themselves," he said. "There are only four growers in the state currently. So even on the craft grow side, there's always going to be tremendous opportunity."

Ward added that craft growers will find their product in demand by MSO-owned stores because they

will be aiming to diversify their retail offerings. "On the craft grow side, we'd love to have some of that product. So that's definitely a big opportunity," Ward said.

MANUFACTURING BRANDS

Another potential opportunity is in creating a manufactured brand using biomass bought from growers at wholesale.

"In theory, the margins are pretty good, because you can buy biomass or finished oil relatively cheap. ... If you've got an idea for a brand and execute, we've seen that be very successful," Jonsson said. "And you can do that for a lot less money than what cultivation would run you."

One such example is Levia, a Massachusetts infused seltzer company that is the No. 1 infused beverage in the country, according to Leaflink. Levia recently was acquired by Ayr Strategies.

BEST REAL ESTATE

Retailers should also do well in a state that perennially boasts some of the highest median household incomes in the nation.

Observers say many people are interested in the densely populated and often wealthy suburbs, towns along trainlines, the state capital of Hartford and the New Haven area, home to about 20 universities, including Yale.

Businesses interested in Connecticut's adult-use marijuana market should check with local governments to see if they will be allowing adult-use sales.

Officials announced that residents of 35 Connecticut cities and towns will receive priority for recreational marijuana business licenses as part of the state's social equity program. According to the Hartford Courant, more than 200 of the state's 833 census tracts fall under the definition of disproportionately impacted by drug prohibition, based on drug conviction and unemployment rates.

A potential 'land of enchantment' for entrepreneurs as state converts to a recreational marijuana market

By Omar Sacirbey



NEW MEXICO

Ballot initiative or legislation:

Gov. Michelle Lujan Grisham signed House Bill 2, which was passed April 13, 2021, during a special session by the state Legislature.

Regulatory agency: Cannabis Control Division

Business license types: Micro-cultivation and commercial cultivation, manufacturer, retailer, vertically integrated establishment, integrated microbusiness license, testing laboratory, research laboratory, courier, consumption area.

License caps: None.

Out-of-state applicants: Allowed.

Product types: All products will be available.

Anticipated sales launch: The law says sales must begin no later than April 1. The application process for micro- and commercial cultivation licenses opened in August, while other application processes began before the Jan. 1 deadline.

2021 estimated medical sales: \$180 million-\$220 million

2021 state population and patient

numbers: With 2.1 million residents and 126,231 cardholders as of Oct. 31, medical marijuana patients make up 6% of the population.

Predicted size of market: *MJBizDaily* predicts New Mexico's adult-use market will generate \$125 million in sales the first full year and \$350 million by the fourth year.

Local control and opt-in/opt-out rules:

Local jurisdictions might not prohibit recreational cannabis businesses outright, but they can establish zoning regulations that limit where companies may locate.

Social equity provisions: The legalization bill mandates that regulators ensure licensing diversity. It also enables Native American communities to participate in the market through regulator agreements. According to the Marijuana Policy Project:

- Rules must include "procedures that promote and encourage full participation in the cannabis industry ... by representatives of communities that have been disproportionately harmed by rates of arrest through the enforcement of cannabis prohibitions,

rural communities likely to be impacted by cannabis production and agricultural producers from economically disadvantaged communities."

- Rules must include procedures to encourage diversity among applicants, licensees and their employees.
- The Cannabis Control Division will develop a certification for cannabis produced by microbusinesses or licensees that are owned by someone from a community that was disproportionately harmed by cannabis prohibition.
- The agency will produce annual reports on diversity in the industry.

New Mexico has no license caps. Municipalities can't outright ban marijuana businesses. Cannabis business application and licensing fees are comparatively reasonable.

What does this mean for cannabis companies? New Mexico might be the easiest new market to break into. But staying afloat and competing against established players and incoming multistate operators will require an entrepreneur's A-game.

UNLIMITED POTENTIAL

The law legalizing adult-use cannabis essentially states that any recreational marijuana business license application that is done properly will be granted.

“If you turn in an application that is complete and sound, you will be granted a license, whether it’s retail or any license,” said Ben Lewinger, executive director of the New Mexico Cannabis Chamber of Commerce in Albuquerque. “Anybody who submits an application that is complete and sound will get a license.”

While the program has successfully fulfilled a desire to encourage applications for small businesses—more than 1,500 cultivation applications have been submitted since August, when the application period opened—it has done less to curb the entry of big businesses and MSOs.

“There’s no residency requirement, and there are definitely lots of MSOs who are making inroads into the state,” Lewinger said. While many big operators and MSOs can be respectful competitors, there’s also a concern that other applicants might try to horde licenses and monopolize the program to the detriment of small and local operators.

While that concern is valid, Lewinger said, regulators have put in safeguards meant to prevent big companies from monopolizing the market. Most notably, production limits will be in place for a few years, he added.

The idea is that production caps, combined with the unlimited licenses, will create a market with many small producers and a few big producers each growing relatively small amounts of cannabis.

Lewinger also noted that New Mexico’s Legislature will convene this month for a 30-day session. “Closing those loopholes” that allow big companies to monopolize the market

“is a priority.” “Everything is focused on making it possible for these micro-licenses to be successful.”

“For new mom-and-pop stores coming into market, capital investment is the single-biggest obstacle. There’s just not a lot of capital in New Mexico. There is definitely a risk of out-of-state operators coming in and operating on economies of scale that make it impossible for local operators to be competitive on price,” Lewinger said.

“The flip side of that coin is we are naturally and intrinsically supportive of homegrown businesses,” he said.

“I would always bet on them against any big, multistate operator who thinks they’re going to come in and be able to relate to the New Mexico audience without doing their homework.”

BEST SECTORS

Cultivation is the only license type for which regulations have been written, while rules for the other license types were set to be released after this issue went to print. Lewinger believes cultivation and other sectors will have ample opportunity for small businesses.

The micro-cultivation license allows license holders to grow up to 200 plants. License holders that want to scale up operations in the future can apply for a license in a larger tier at that time.

“For lots of people, that 200-plant microbusiness (cultivation license) is just going to be a one-year jumping-off point to full commercial licensure. Maybe in Year Three, you have 5,000 plants in the ground. But many will just want to stick to 200 plants per year,” Lewinger said.

The move to adult-use demand and production will require more testing labs, Lewinger noted. “As we move from medical to adult use, there is going to be a big need for additional testing capacity,” he said.

CPG BRANDS AND RETAIL

At the same time, only a modest number of existing medical operators manufacture products and have storefronts. That leaves an open playing field for both infused product makers and retail entrepreneurs, Lewinger said.

“If you have a novel product, the potential to do well is there. Anybody that has a very clear vision for a customer experience will eventually do very well with a retail license,” he said.

When it comes to locating a storefront, executives will have to navigate a patchwork of zoning laws that makes some municipalities less inviting than others. That said, Lewinger believes many areas that are currently restrictive will loosen regulations once they see benefits, such as tax revenues.

One area that was prohibitive initially but has since embraced the industry—and offers lots of opportunity—is Curry County in eastern New Mexico, on the Texas border, Lewinger said.

“That border along Texas represents a huge opportunity for cannabis tourism. There’s a big rush to set up retail operations along the border,” he said.

While Lewinger sees opportunities in the consumer packaged goods and retail sectors, supply issues early in New Mexico’s recreational program could be hard on some small businesses. But those that survive their first year or two are likely to reap the rewards.

“For retailers and manufacturers, it may be difficult to get product initially. So, I think the biggest need we have right now is production,” Lewinger said. “As soon as our adult-use market equalizes and comes into balance, I think every single license type is going to present a unique opportunity for anybody who has a very clear vision of what they want their business to be.”

MONTANA

By Omar Sacirbey



Adult-use market will be restricted to medical operators until July 2023

Ballot initiative or legislation: Voters passed Initiative 190, the Montana Marijuana Legalization and Tax Initiative, on Nov. 3, 2020, with a vote of 57% to 43%. State lawmakers then passed House Bill 701, which modified the referendum. Gov. Greg Gianforte signed the measure on May 19, 2021.

Regulatory agency: Department of Revenue

Business license types: Thirteen different cultivation or “canopy” licenses, manufacturing, retail, transportation and laboratory testing.

License Caps: There are no statewide caps, but municipalities can impose local caps on marijuana businesses.

Out-of-state applicants: No. Montana residency is required to receive an adult-use business license as well as a medical business license. Residency can be established by living in the state for one year.

Product types: There are no restrictions on available products, but flower potency is capped at 35%.

When might sales begin: Jan. 1. Only existing medical operators who have obtained recreational sales licenses will be allowed to sell to adult-use buyers. On July 1, 2023, the recreational market will open for new adult-use licensees.

2021 estimated medical sales: \$125 million-\$155 million

State population and patient numbers: With 1.1 million residents and 55,000 cardholders, medical marijuana patients make up 5% of the population.

Predicted size of market: A University of Montana study projects an adult-use market will generate \$217 million in the first full year of sales (likely 2023) and \$234 million in year two.

Local control and opt-in/opt-out rules:

Where recreational marijuana business can locate depends on how the state’s counties voted on Initiative 190. Recreational marijuana businesses will be allowed to locate in counties that approved I-190 but not in counties that voted against the measure. Counties can change their policies through a local vote.

Social equity provisions: Montana regulators are proposing strict rules for people working in the state’s marijuana industry. Those with a criminal conviction within the past three years would not be eligible for cannabis-related employment.

Montana’s recreational cannabis market has potential allure and opportunity, but just how much won’t be clear until regulators finalize market rules and individual towns

decide whether to permit marijuana businesses within their borders.

While recreational sales are set to begin Jan. 1, only existing medical operators that have received a recreational license will be allowed to serve the adult-use market. The intention is to give Montana-owned marijuana operators a head start against competition. There are nearly 280 medical operators in the state and roughly 370 MMJ dispensaries.

The industry will be limited to the existing medical marijuana operators until July 2023, when other recreational businesses will be allowed to participate in Montana's adult-use market.

Once other applicants are allowed into the market, the level of opportunity will depend on how many recreational businesses municipalities decide to allow.

For example, voters in the state's biggest city, Billings, decided in November to prohibit new recreational marijuana stores, thereby leaving the market to existing MMJ dispensaries that also have licenses to sell recreational cannabis.

TOURISTS MIGHT DICTATE DEMAND

Montana's 1.1 million residents have been accepting of the state's medical marijuana program, with patient counts at about 55,000 or 5% of the population. While Montana's population ranks 44th in the nation, it has a strong tourism market, drawing roughly 12.9 million visitors in 2019.

How many suppliers, manufacturers and retailers it will take to satisfy that demand is unclear.

"The in-state market could be handled by the production capacity that we have in medical. But with tourists, we probably need to double the capacity to serve both the in-state and tourist market," said Kate Cholewa, government affairs lobbyist for the Montana Cannabis Industry Association.

The best places for retailers are in the larger population centers and near national parks, but land is costly, she cautioned. "Real estate right now in Montana, no matter where, is at a premium. Prices are up all over the place," Cholewa observed.

The areas that approved I-190 are home to about 90% of the state's population, she estimated. "So, even though there are vast areas where there won't be access to an adult-use market, most people live in a place where there is," she said.

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VERMONT

By Omar Sacirbey

Regulations seek to maintain state reputation for small businesses and artisanal products

Ballot initiative or legislation: The Vermont Legislature approved S.54 on Sept. 15, 2020, and the bill became law, unsigned by Gov. Phil Scott, on Oct. 7, 2020.

Regulatory agency: Cannabis Control Board (CCB)

Business license types: Cultivation (six outdoor and six indoor tiers), product manufacturer (two tiers), wholesaler, retailer (one store-front tier, one nursery tier), testing laboratories, integrated (for existing medical operators).

The board said in a report released Oct. 15, 2021, that it would consider several other license types in the future, including delivery, on-site consumption, manufacturing-cottage and temporary event.

License Caps: No

Out-of-state applicants: Yes, but it is recommended that out-of-state residents establish a limited liability company in Vermont.

Product types: Cannabis flower cannot have more than 30% THC, while oils can't exceed 60% THC. Flavored vape cartridges are banned.

Anticipated sales launch: October 2022

2021 estimated medical sales: \$10 million-\$14 million

2021 state population/MMJ patient numbers: With 680,000 residents and 4,674 medical marijuana cardholders, MMJ patients make up about 0.7% of the population, down from 0.8% in 2019.

Predicted size of market: The CCB estimates that recreational marijuana spending could reach \$231 million annually by 2025.

Local control and opt-in/opt-out rules: Local municipalities cannot ban cannabis business license holders except retailers. In the case of retail, towns must opt in with a vote approving retail outlets. So far, about 30 towns have opted into retail, while observers expect about 50 towns to opt in by the time sales begin.

Social equity provisions: In its report dated Oct. 15, 2021, the CCB proposed waiving application fees for social equity applicants in the first year, then offering fees reduced by 75%, 50% and 25% in each of the following three years, respectively.

Vermont is a small state, but its far-reaching reputation evokes artisanal products and farm-to-table dining. Regulators of the state's upcoming recreational cannabis market are encouraging that ethos and have created regulations that promote small-business opportunities while curbing Vermont's appeal to multistate operators.

Vermont's cannabis economy won't be the biggest—an Oct. 31 report by cannabis law firm Vicente Sederberg predicted it would reach \$231 million in 2025—but the market will be open to small entrepreneurs from both inside and outside the state.

"We're not in the billion-dollar club, but we have some of the lowest barriers to entry in the industry," said Tim Fair of Burlington-based consultancy Vermont Cannabis Solutions. "Vermont is going to be one of the most unique adult-use marketplaces in the country ... because of the emphasis on small business."

Vermont has only 680,000 residents, but the state draws 14 million tourists annually—many of them from the Northeast.

"Our regulators are incredibly pro-cannabis and pro this industry. They are working as hard as they can to make sure this is accessible to anybody who wants in," Fair said of the burgeoning recreational marijuana market in Vermont. "There's an emphasis on the small craft, but not to the exclusion of anyone else."

Patrik Jonsson, Curaleaf's regional president for the Northeast, agreed.

"There seems to be a little bit more pushback from the state to support small businesses. I think it's just the nature of Vermont," Jonsson said, adding that only a few cities are large enough to be of interest to Curaleaf. "Vermont's going to be very protective about small businesses, more so than some of the other states in the Northeast. I think they're going to do everything they can to protect local

"Perhaps the most opportunity lies in the craft and small-cultivation segment."

farmers and hemp producers and folks like that and try to keep out the MSOs to some extent—or at least not let them create any type of monopoly."

PUSH FOR SMALL BUSINESS

One way Vermont is trying to dissuade MSOs from entering is by limiting operators to one license per sector. That means an operator that wants to vertically integrate must separately win one grow, one manufacturing and one retail license. Operators can't have more than one of any kind of license, which is a disincentive for big businesses used to trying to win market share by opening multiple stores in a state.

"One retail license gets one retail location, and that is it. That has effectively really dissuaded a lot of MSOs and a lot of large operators from coming into the state," Fair said. "It has really kept out a lot of the major players and instead allowed a lot of the small-business people to really establish a foothold."

Fair added that applicants for craft and smaller-tier licenses aren't required to provide proof of funds. Furthermore, municipalities can't ban growers; they can only regulate them for zoning and nuisance violations.

"What we have is an opportunity for small entrepreneurs to really get a chance at the adult-use cannabis industry without the major players hogging up the market," Fair said.

The team at Vermont Cannabis Solutions anticipates that about 100 small growers will be needed—in addition to existing MMJ operators—to supply adult-use retailers, which are expected to number around 35.

CRAFT OPPORTUNITIES

Perhaps the most opportunity lies in the craft and small-cultivation segment.

The CCB calculated that Vermont will need 400,000 to 500,000 square feet of flowering canopy to sufficiently supply the recreational market.

Fair and his partner, Andrew Subin, believe much of that square footage will be awarded to small growers.

"I think they would give out 400, 1,000-square-foot licenses if they want to. But that's just the benchmark; there's no limit on the number of licenses," said Fair, noting that his firm represents about 120 cultivation license applicants.

EDIBLES OPPORTUNITIES

Fair and Subin also see opportunity in the product manufacturing category, particularly edibles. They said the edibles manufacturers currently seeking licensure in Vermont typically make 100 to 1,000 units per week.

Many of the product manufacturers that get licensed will be small businesses that aspire to reflect Vermont's small craft ethos. But there also will be a need for value-priced edibles brands that are mass-produced.

"What we're talking about is a production capability. We do not yet see the production capability to put out the volume of products that would be necessary to meet anticipated demand," Fair said, referring to the millions of tourists who pour into the state for skiing, leaf-peeping, mountain biking and other activities. What Vermont needs, he said, is an edibles manufacturer that can crank out 10,000 to 15,000 units per week.

"That's a real opportunity right now because that simply doesn't exist," Fair said. "There are going to be some small-batch, very high-end, craft edibles. But there are people who drink Budweiser, too. ... We also need basic edibles that are not high end, and that



SOUTH DAKOTA

By Omar Sacirbey

A patchwork of medical marijuana opportunities in a state where all towns must allow one cannabis business

Ballot initiative or legislation: South Dakota voters approved Measure 26 by a vote of 70% to 30% on Election Day 2020.

Regulatory agency:
State Department of Health

Business license types: Cultivation, product manufacturing, retail/dispensary, testing labs.

License caps: There are no state license caps, but counties and other local municipalities can institute their own caps.

Out-of-state applicants: Yes, but at least one principal officer must be a resident.

Product types: There are no restrictions.

Anticipated sales launch: Sales are expected to launch in late summer or fall 2022.

2021 state population and patient numbers: South Dakota is home to 885,000 people. The first medical card was issued Nov. 18.

Predicted size of market:
MJBizDaily projects medical marijuana sales will total \$1.5 million-\$2 million in the first year and hit \$10 million-\$12 million by 2024.

Local control and opt-in/opt-out rules: There are no statewide license limits. Municipalities are prohibited from barring all cannabis businesses outright and must have at least one cannabis company within their borders. Otherwise, local governments carry a high level of control, including writing their own municipal cannabis business licensing and zoning ordinances.

Social Equity Provisions: None

Having survived various attempts to kill the recreational marijuana referendums that voters passed in 2020, South Dakota's soon-to-launch medical market will be relatively small but still offer opportunities for cannabis entrepreneurs.

"South Dakota has always been an agricultural state and a very business-friendly state," said Ned Horsted, executive director of the Cannabis Industry Association of South Dakota, adding that each sector has attractive points. "I think there's opportunity in all of them."

South Dakota has given a great deal of regulatory authority to local municipalities. As a result, how much opportunity cannabis entrepreneurs find will depend on where they choose to locate businesses.

A factor that could dampen patient numbers is that few physicians are interested in providing recommendations, according to news reports.

PATCHWORK POTENTIAL

Some municipalities have been very open and cannabis-friendly, allowing a relatively high number of licenses. Others have been restrictive, even capping the number of businesses to the legal minimum of one.

While the state can't charge more than \$5,000 for a business license, municipalities can set their own fees. Some municipalities are charging less than \$5,000 for a license, while at least one has proposed \$125,000—a fee that would likely exclude some smaller players.

"Each of the counties and municipalities can do what they want," Horsted told *MJBizMagazine*. "There are no clusters of areas that are prohibitive or open. It's really a patchwork. And I think that there's some interesting market dynamics happening right now."

Horsted said it's not widely known which municipalities are friendly to cannabis businesses. His group developed a "matrix and a spreadsheet" for members to gauge how many licenses each municipality allows.

"Right now, I think the little guy has a chance. It really goes back to what these localities are doing with their zoning and licensing caps," Horsted said.

LOCATION CHALLENGES

Among the "interesting market dynamics developing" is which municipalities are opening cannabis opportunities and which are limiting them. Just as multistate operators appear to prefer limited-license states, Horsted believes that other big companies will target limited-license municipalities, which are also likely to be more expensive. Smaller cannabis entrepreneurs, meanwhile, will find opportunity in municipalities offering more licenses.

That dynamic and the number of opportunities are reflected in how South Dakota's two biggest cities—Sioux Falls, population 190,000, and Rapid City, population 80,000—are approaching cannabis licenses.

Sioux Falls voted in November to limit its cannabis licensing to five dispensaries plus testing labs, but nothing else. "So, no cultivation or product manufacturing within the city of Sioux Falls," Horsted said.

Rapid City regulators so far plan to make 15 dispensary licenses available, but that number could grow because the regulations link the number of dispensaries in the city to population growth.

Meanwhile, the Sioux Falls suburbs of Brandon and Hartford will be less stringent, while the former gold-mining town of Lead (pronounced Leed) in the Black Hills is one of a small number of towns without any license cap.

"You can do the math there. I think a multistate operator might be much more interested in a situation like Sioux Falls, where they've got a captive market and a high barrier to entry, at least in terms of licensing fees. And then other areas, they probably would want to stay away from because there are no caps," Horsted said.

While it will be relatively easy for out-of-state operators to break into the market, that won't diminish the opportunities for local cannabis entrepreneurs.

"There's going to be a lot of opportunity for your typical South Dakota entrepreneur to get into the business," Horsted said.

ROOM FOR BRANDS

The uncapped nature of South Dakota's market will offer numerous licensing opportunities. But developing a strong brand in this new market has the potential for long-term rewards, Horsted said.

"I think there is a latent brand opportunity here, but it's going to take a little while for the market to establish itself," Horsted said.

As an example that could indicate the potential for brand success, he pointed to Native Nations Cannabis, a vertically integrated brand launched by the Flan-dreau Santee Sioux Tribe last summer that so far has seen high demand.

"It's been great," Native Nations Cannabis President Tony Reider told Sioux Falls TV station KELO in November. "Business has been right on spot with where we projected it would be."

Native American tribes in states with regulated marijuana markets have some autonomy in how they manage their cannabis industries. This includes South Dakota, where some tribal areas launched cannabis markets July 1, when the medical marijuana law went into effect.

Horsted predicted there would also be "significant opportunities on the ancillary side" and said he is recruiting packagers, accountants, lawyers and other ancillary businesses to the association.

WAITING FOR A REC FUTURE

While South Dakota's medical market looks promising, many entrepreneurs are already looking ahead to when recreational cannabis is legalized.

Although the South Dakota Supreme Court in November upheld a decision to invalidate the 2020 recreational legalization ballot referendum, there are still two paths to recreational legalization:

- Cannabis advocates are lobbying legislators to pass a recreational legalization bill.
- Activists are collecting signatures to get another recreational legalization referendum on the ballot in 2022.

"A lot of folks are just holding out for rec," Horsted said.



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BACK TO THE BALLOT BOX

Residents of several states are likely to vote on marijuana legalization initiatives in November

By Jeff Smith

As many as six recreational marijuana referendums could reach state ballot boxes during the 2022 election, industry officials say. And some of the citizen-led initiatives are in conservative states such as Arkansas and North Dakota.

Thirty-eight states already have adopted medical marijuana programs, but citizen efforts are underway to legalize MMJ in three more: Idaho, Nebraska and Wyoming.

Depending on how those efforts play out, new markets could generate hundreds of millions of dollars in annual sales.

In 2020, marijuana referendums made a clean sweep on Election Day, with voters approving new recreational markets in Arizona, Montana, New Jersey and South Dakota as well as new medical programs in Mississippi and South Dakota. (State Supreme Courts later overturned South Dakota's recreational market and Mississippi's medical program.)

MJBizDaily projected Arizona and New Jersey combined would generate nearly \$2 billion a year in marijuana product sales by 2024. The 2020 ballot-box sweep reflected strong public support for legalization spreading across the country—even in so-called “red states.” Surveys show that two-thirds of Americans support adult-use marijuana legalization, although the number is lower in many conservative states.

U.S. Senate Majority Leader Chuck Schumer, who is proposing a comprehensive federal marijuana legalization bill, the Cannabis



Administration and Opportunity Act, told media company Black Enterprise: “The country is realizing that all the myths about (the extreme dangers of) marijuana are just that—myths.”

POTENTIAL PITFALLS

Not all is well on the ballot-initiative front, however. Rather, opponents have opened a new playbook. Anti-marijuana officials in Mississippi and South Dakota have been successful in overturning marijuana initiatives on technical grounds—even after voters had approved them.

The most recent defeat came in South Dakota, where the state Supreme Court shot down a recreational marijuana initiative opposed by Gov. Kristi Noem.

But cannabis advocates are at it again, collecting signatures for another attempt at adult-use legalization at the 2022 ballot box. The latest South

Dakota initiative doesn't include commercial sales.

“We decided to move forward with an initiative that was the least likely to be challenged in court,” Matt Schweich, Marijuana Policy Project's deputy director, told *MJBizMagazine*. “Our proposed 2022 cannabis legalization initiative is very narrowly focused on personal freedom regarding cannabis.”

Following is a snapshot of what's happening on the legalization front in various states.

ARKANSAS

Proposal: Recreational

Possible ballot initiatives: Arkansas Recreational Marijuana Amendment of 2022 (Arkansas True Grass)



Under the proposed constitutional amendment, the Arkansas Agricultural Department and the

Alcoholic Beverage Control Division would regulate a commercial market. The initiative calls for a three-year residency requirement. The Agricultural Department would issue two types of licenses: one for cultivation, transport and sale, and another for cultivation, processing, transport and sale.

A second group, Responsible Growth Arkansas, said in November 2021 that it also plans to have a signature drive for an adult-use legalization measure. The text of the initiative wasn't available by deadline.

The deadline for collecting signatures for the November 2022 ballot is in July. It's unclear whether either group will qualify a referendum.

IDAHO

Proposal: Medical

Possible ballot initiative: Idaho Medical Marijuana Act of 2022 (Kind Idaho)



If the measure is successful, the state Department of Health and Welfare would be required to issue rules within 120 days after the effective date of the act. Cities and counties would be allowed to place "reasonable zoning ordinances" for medical marijuana facilities. It's unclear whether the referendum will be successful.

MARYLAND

Proposal: Recreational

Possible ballot initiatives: Not yet announced



House Speaker Adrienne Jones said in July that she intends to pass a bill that refers recreational marijuana legalization to voters. Industry experts believe voters would likely approve such a measure.

MISSOURI

Proposal: Recreational

Possible ballot initiatives: Missouri



Marijuana Legalization and Automatic Expungement Initiative (Fair Access)

The constitutional amendment proposed by Fair Access would allow an unlimited number of recreational marijuana business licenses to be issued. A 7.5% tax would be imposed on retail sales. New Approach Missouri, which ran the successful 2018 medical marijuana legalization campaign, also said it would try to put an adult-use legalization measure on the 2022 ballot. It's unclear whether either effort would be successful.

NEBRASKA

Proposal: Medical

Possible ballot initiatives: Nebraska Medical Cannabis Regulation Act



The ballot proposal would establish a Nebraska Medical Cannabis Commission under the state Liquor Control Commission to regulate a commercial market. Application criteria would be established by July 1, 2023, and regulators would begin issuing permits to applicants that met the requirements by Oct. 1, 2023.

The deadline for submitting ballot signatures is July 8. Nebraska has a relatively high bar for ballot qualification: Signatures are required from 10% of registered voters, including at least 5% in 38 of the state's 93 counties. If the referendum does reach the ballot, it has a good chance of passing.

NORTH DAKOTA

Proposal: Recreational

Possible ballot initiatives: To Tax and Regulate Cannabis Like Alcohol and Tobacco (Legalize ND)



Legalize ND said in 2021 that it would collect signatures for an initiative to legalize adult-use marijuana and establish a retail market. The group's website recently indicated the effort was on hold because of COVID-19.

OHIO

Proposal: Recreational

Possible ballot initiative:

Ohio Marijuana Legalization initiative (Coalition to Regulate Marijuana Like Alcohol)



A Cannabis Control Division would be created to regulate the industry and issue licenses. The referendum calls for a social equity and jobs program.

OKLAHOMA

Proposal: Recreational

Possible ballot initiative: Oklahoma Marijuana Regulation and Right to Use Act (Oklahomans for Responsible Cannabis Action)



Medical marijuana dispensaries would be allowed to start selling adult-use products 60 days after passage of the referendum. The excise tax on retail sales initially would be 15%.

WYOMING

Proposal: Medical

Possible ballot initiatives: Wyoming Cannabis Patient Act of 2022



The Wyoming Department of Revenue's Liquor Division would regulate a commercial medical cannabis market. The Liquor Division would be required to establish rules by July 1 in the year after adoption.

Cannabis advocates face a high bar to get a medical marijuana referendum on the ballot: The number of signatures must equal 15% of the ballots cast in the previous general election, including 15% in at least two-thirds of the counties. But if the referendum qualifies for the ballot, it has a good chance of passing. A University of Wyoming survey found that 85% of state residents support medical marijuana legalization.

Additional reporting by Jenel Stelton-Holtmeier.

LAWMAKERS CONSIDER LEGALIZATION

State governments feel pressure to conform with will of voters nationwide

By Jeff Smith

Marijuana legalization through state legislatures has become more prevalent in recent years, in part because some markets don't have a voter-referendum process.

In 2021 alone, lawmakers in Connecticut, New Mexico, New York and Virginia legalized recreational marijuana markets that eventually are expected to generate more than \$5 billion combined in annual revenue. Alabama lawmakers, meanwhile, passed a medical marijuana law.

This year potentially could be as active, with lawmakers in Delaware (recreational), Kansas (medical), Maryland (recreational), Mississippi (medical), North Carolina (medical), Rhode Island (recreational) and South Carolina (medical) all making moves that warrant a close watch.

In Maryland, the Legislature might wind up referring legalization to voters at the 2022 ballot box.

As for Mississippi, voters approved medical marijuana at the ballot box in November 2020, only to see the referendum voided by the state Supreme Court on a technicality. State lawmakers then hammered out a less business-friendly medical marijuana measure, but Gov. Tate Reeves declined to call a special session to consider the initiative formally. So, medical marijuana is likely to come before the Mississippi Legislature—again.

The state summaries that follow include the most recent legalization bills that were considered.

Legalization bills introduced in 2022 legislative sessions in most cases are expected to be similar to the ones introduced in 2021. In some states—such as North Carolina and South Carolina—bills were introduced for the 2021-22 session.

DELAWARE

Proposal: Recreational

Bill(s): House Bill 150 (2021 bill)

Key backers: State Rep. Ed Osinski



Last year's House bill called for up to 30 retail store licenses, including 15 for social equity applicants; 30 processor licenses, including 10 for social equity applicants; and 60 cultivator licenses, including 30 for social equity applicants. Existing medical cannabis operators also could apply to participate in the adult-use market. Adult-use legislation has a 50-50 chance of passing in 2022, with state leaders feeling more pressure to legalize as neighboring New Jersey moves closer to launching its recreational marijuana market.

KANSAS

Proposal: Medical

Bill(s): Kansas Medical Marijuana Regulation Act, SB 158 (passed by House in 2021 but not the Senate)

Key backers: No individual sponsors identified



Smoking and vaping products would be prohibited. The measure

would set aside 15% of licenses for minority applicants. A medical cannabis measure is considered likely to have a strong chance of passing in 2022.

MARYLAND

Proposal: Recreational

Bill(s): Cannabis Legalization and Regulation, Inclusion, Restoration and Rehabilitation Act of 2021 (HB 32). Also, a legalization bill titled SB 708.

Key backers: Numerous backers



The two 2021 bills had similarities, but the House measure offered more opportunities for small and minority-owned businesses. State House Speaker Adrienne Jones said in July that she intends to pass a bill that refers legislation to voters, so it's possible an adult-use legalization referendum will end up on the 2022 ballot in Maryland.

MISSISSIPPI

Proposal: Medical

Bill(s): Not yet introduced.

Key backers: State Sen. Kevin Blackwell and Rep. Lee Yancey



Republicans Blackwell and Yancey were lead negotiators on a measure that lawmakers wanted to consider during a special session in 2021, but as of press time, Gov. Reeves seemed unlikely to call the session. So, the legislation will likely be considered this year.

Details are sketchy, but the legislation will reportedly include a provision for municipalities to opt out of the medical marijuana program. A measure of some sort likely will pass this year, given that voters approved medical cannabis legalization at the polls in 2020.

NORTH CAROLINA

Proposal: Medical

Bill(s): North Carolina Compassionate Care Act (2021-22 session, Senate Bill 711).

Key backers: Sens. Bill Rabon, Michael Lee and Paul Lowe

Regulators would issue 10 medical marijuana “supplier” licenses. Each license holder could open up to four dispensaries. Medical cannabis legislation has about a 50-50 chance of passing in 2022.



RHODE ISLAND

Proposal: Recreational

Bill(s): Cannabis Authorization, Regulation and Taxation Act of 2021 (SB 568). Gov. Dan McKee proposed a separate plan.

Key backers: Sens. Michael McCaffrey and Josh Miller

The state Senate bill emphasizes craft cultivation licenses and policies that would promote social equity. The governor’s plan would have set aside five of 25 retail licenses for minority applicants. Rhode Island has a strong chance of passing recreational marijuana legislation in 2022 or 2023.



SOUTH CAROLINA

Proposal: Medical

Bill(s): South Carolina Compassion-



ate Care Act (2021-22 session, S. 150 and H. 3361)

Key backers: Sen. Tom Davis and Rep. Bill Herbkersman

Regulators would issue 15 cultivation and 30 processing licenses plus one dispensary permit for every 20 pharmacies in the state. MMJ legislation has about a 50-50 chance of passing in 2022. **MJBiz**

Additional reporting by Jenel Stelton-Holtmeier.



Jeff Smith covers regulatory issues and government for MJBizDaily. You can reach him at jeff.smith@mjbizdaily.com.

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