

Eyes on the prize, part II: Who cares about federal legalization?

Consumer demand is pulling us to >\$120bn of retail sales regardless of federal action



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MAY 27, 2023 · PAID



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Part I of this series said CannaTech will lead operators to the promised land of profitability. Part II reveals a >\$120bn retail market *regardless of federal legalization*. This is vital groundwork ahead of Parts III and IV, where we'll dive deeper into the overall cannabis economy, and CannaTech's importance therein.

Eyes on the prize, part II TL;DR Federal legalization be damned – Delta Emerald shopper data suggests cannabis will be at least \$120bn at retail excluding the upside that federal legalization will bring in convenience, grocery, and pharmacy retail channels. States like California, Oklahoma, and Missouri provide supporting evidence.

Stop us if you've heard this one before: "cannabis is a large and growing market." But what has that done for you lately? And what if federal legalization is still years away?

We aren't here to rehash what you already know. We're here to interpret what current facts tell us about the future. And the future is *bright*.

Delta Emerald's data platform focuses on two primary shopper archetypes: 1) the in-store shopper, the industry's dominant population, and 2) the e-commerce shopper, the power user who transacts 3.7x more often and spends 24% more on each purchase.¹

Blend those together, *et voilà*: today's average cannabis shopper spends ~\$750 per year on cannabis ². Given that the average U.S. dispensary did \$2.9mm ³ of revenue in 2022, simple arithmetic gets us to ~3,900 shoppers per dispensary.

Given 9,000 ⁴ dispensaries currently in operation, we estimate 35mm shoppers are transacting in the legal market, or 14% of the U.S. population over 21.

To reiterate, 14% of the U.S. population over 21 is buying legal cannabis. By comparison, it took 17 years for Netflix's U.S. subscriber base to reach 10% penetration! 

What current store density tells us about the future

Those 35mm shoppers generated \$26bn ⁵ in legal sales. That's with a store density of one store for every 37,000 people. ⁶ Below we explain why this figure suggests enormous whitespace opportunity for new dispensaries.

Take California, and its 1,900 dispensaries, or one for every 21,000 people. By comparison, the Eureka State is also home to 13,800 liquor stores, or one for every 2,800 people. That's right... California has >50% more liquor stores than the U.S. has dispensaries!

How does Delta Emerald unpack that upside? We posit that dispensaries will become as prevalent as liquor stores, which implies the U.S. market needs another 36,000 dispensaries to get to an equivalent density of liquor stores, of one per 7,400 people. ⁷

Oklahoma gives us a taste of what free market demand looks like. ⁸ That state's medical cannabis market went live in 2018. It took less than four years for 10% of its population to get a medical card, and those patients are already spending >\$2,000 per year on cannabis. ⁹

Missouri's transition from medical to adult-use gives us an even more timely example. In January 2023, medical sales totaled \$37mm. In February 2023, its first month of adult-use, legal cannabis sales totaled a whopping \$103mm. That's a +\$66mm jump with no new incremental stores – merely opening supply to latent demand. This suggests there is

untapped demand for legal cannabis *everywhere*; and that people want to transact *legally* and are *eager* to do so.

So, back to the future. With all this latent demand, how many dispensaries does the U.S. need? If, like us, you think cannabis' retail footprint will become as prevalent as liquor stores, you'll arrive at an expected U.S. retail footprint of ~45,000 dispensaries.

We assume the average cannabis shopper increases her annual spend from \$750 to \$850, which is still less than half of what those who drink, spend on alcohol in the U.S.¹⁰ We further assume that a more dense and competitive retail landscape will reduce the number of shoppers per store from 3,900 to 3,200. The net result is a minor reduction in revenue per dispensary, to \$2.75mm. So, with 45,000 stores bringing in \$2.75mm, we have an implied market size of \$124bn.¹¹

In part III of this series, we'll dig into the total economic impact of the cannabis economy.

1 For more on the Cannabis Subscriber check out [earlier issues](#) of Delta Dispatch.

2 Delta Emerald data, derived by blending average order values and purchase frequencies of in-store and e-commerce shoppers. This equates to \$62.50/month, or about one transaction per month.

3 \$26bn U.S. retail sales over 9,000 dispensaries, per TD Cowen equity research as of April 2023.

4 TD Cowen equity research as of April 2023.

5 TD Cowen equity research as of April 2023.

6 Total U.S. population per existing dispensary count.

7 Furthermore, public polling suggests that 63% of the U.S. population over 21, or 154mm people, consume alcohol. We think this provides a reasonable proxy for the bounds of the U.S. cannabis market.

- 8 We would grant that Oklahoma, a medical market, took the “hardcore libertarian” approach to legalization. Anyone over 18 with a state-issued ID can get a medical card, and up until recently it was relatively easy to obtain a commercial license.
- 9 2022 sales of \$786mm over 368k patients.
- 10 For context, adults spend an estimated \$1,945 on alcohol every year.
- 11 Delta Emerald data platform and analysis.

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A guest post by

Adam Dawson

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Skbannon Jun 1, 2023

now that td cowen is no longer going to cover cannabis market research, is there another source you recommend to rely upon?

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