

Farmer Jane Cannabis Co. is one of 6 currently licensed cannabis retailer in Regina. We have compiled the following to provide information on the cannabis market and to ask the Regina City Council to review the implications of implementing a moratorium on additional licensed cannabis retail locations. While our group benefits economically in a capped market similarly to the other Regina license holders, we feel a moratorium would result in counteractive outcomes to the federal and provincial initiatives that prompted recreational cannabis legalization in the first place.

Executive Summary

- Health Canada legalized cannabis in order to **protect public health, protect youth by keeping it out of their hands and to remove profits from criminal enterprises**
- The province is opening the market on September 1/20 in order to combat the illicit market. Most, if not all, municipalities in privatized provinces are aligned with the Saskatchewan provincial direction. With implementing a moratorium, Regina would be an outlier
- Annual legal cannabis sales in Regina are estimated between \$25-\$30 Million yet still represent less than 50% of the total market (combined illicit and legal)
 - **This means we are currently leaving \$25-30 Million in the hands of the illicit market and criminal enterprises**
- Council has received information that the current landscape has been slow in terms of sales and profitability and this is extremely inaccurate information:
 - There are currently six stores in Regina with industry experts estimating yearly revenues in the \$3-6 million per store, with net profit margins averaging in the mid-teens.
 - This equates to an average net profit of \$675,000 per store and growing!
 - Cannabis retail is currently a very profitable industry in Regina due to the limited competition model
- Other markets (example- Washington) with a strict cap on has resulted in retailers with substantial market powerⁱ but little impact on the illicit market
- Data shows the illicit market still hold the largest share of the market
- Total legal cannabis sales in all of Canada in the month of May was **\$185 million (population 37 million)**
- Total legal cannabis sales in the state of Colorado in the month of June was **\$259 million (population 5.7 million)**
 - Colorado is about 5 years ahead of Canada in terms of legalization and has thousands of stores
 - Colorado cannabis revenue accounts for about 3% of the state budget
- Canada has a long way to go in terms of overtaking the illicit market
- The unemployment rate in Regina is currently at 11.9% which is more than double 2019
 - According to Economic Development Regina, Regina's retail sector has been hard hit and has **lost 2,859 jobs** in the last 12 months
- Each new cannabis store represents approximately 10 new jobs. These jobs all pay more than minimum wage with many classified as a career job and are accompanied by an investment of appx. \$300K.
- We expect to see demand for another 10-12 locations within the next 12-24 months meaning over 100 new jobs and over \$3 million in investment dollars
- **The key takeaways are that existing demand warrants new stores and by expanding the store count we realize three key objectives – growth in the legal economy, creation of jobs (in many cases to support an underemployed cohort) and reduce the tens of millions of dollars of illicit market trade. Competition is a good thing especially when a handful of people control the market and reap the benefits of very healthy profit margins.**

Background

When the Canadian government legalized recreational cannabis on October 17, 2018, it was communicated that the three pillars behind the decision to legalize cannabis were:

1. Protection of public health by allowing adults access to legal cannabis
2. Protection of young people by keeping cannabis out of the hands of youth
3. Reduction in criminality associated with the illegal market; keeping profits out of the pockets of criminals.

Based on this federal decision, the Saskatchewan government determined the provincial retail framework and placed the regulation of stores under the Saskatchewan Liquor and Gaming Authority (SLGA). In Q1/Q2 of 2018, Regina was awarded 6 permits to be distributed by an SLGA lottery. The six Regina stores are Farmer Jane Cannabis Co, Fire and Flower, Lucid, Tweed (2 locations), and WIID.

In October 2019, the provincial government announced changes to an open market, an approach in line with the provinces of British Columbia, Alberta, Manitoba, and Ontario. The minister responsible for SLGA stated the reform is to provide more consumer choice and cut into illicit operations, a reform that was supported by both the Saskatchewan Party and the NDP.

- “I think this is the best way to affect the black market” Gene Makowsky- Minister responsible for SLGAⁱⁱ
- “We’re happy to see that it’s opening up more and providing more licenses” Nicole Sarauer- NDP Deputy Leaderⁱⁱⁱ

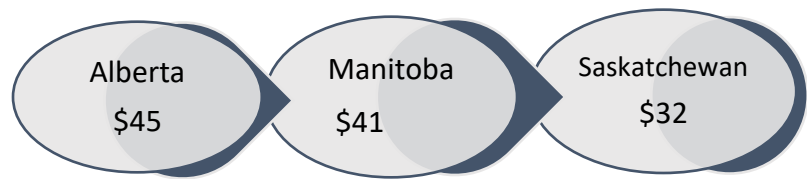
Black Market

The size and share of the cannabis black market is extremely difficult to study for a variety of reasons but available statistics show we are moving in the right direction when it comes to consumers turning to the legal recreational market although there are still major hurdles to overcome. “During 2019 about four in ten consumers across Canada reported having obtained cannabis from an illegal supplier (40.1%). The corresponding 2018 estimates were significantly higher (51.7% and 48.5%).”^{iv} Specific to Saskatchewan, over 40% of cannabis consumers were still accessing illegal cannabis^v after legalization and more importantly, only **27%** buy exclusively from the legal market. See table below:

	Before legalization				After legalization			
	'000	%	95% confidence interval		'000	%	95% confidence interval	
			from	to			from	to
Saskatchewan								
Grown by the user or another person	7.7	6.5 ^E	3.5	12.0	7.6	5.5 ^E	3.0	10.0
Illegal	71.4	60.1 ±	51.3	68.3	59.6	43.5 ^E	37.0	50.1
Legal	23.8	20.1 ±	14.1	27.8	80.6	58.8 ^E	52.1	65.1
Only Legal	10.1	8.5 ^E ±	4.8	14.5	37.6	27.4 ^E	21.7	33.9
Friends and family	48.8	41.0	33.1	49.5	47.6	34.7 ^E	28.4	41.7
Other (unspecified)	6.5	5.5	2.9	10.1	F	F

Looking at the per capita legal cannabis sales across the three prairie provinces, it seems reasonable that Saskatchewan's legal market has been less successful fighting the illicit market than its neighboring provinces, see figure 1. According to Stats Canada, "Differences between regions in total and per capita cannabis store sales may be explained in part by Canadian's access to cannabis stores"^{vi}.

Figure 1 – Yearly Legal Cannabis Sales Per Capita



From a retail store perspective, Saskatchewan and Manitoba are grossly underserved, however, Manitoba has opened their licensing structure as of June 1, 2020 in order to bridge this gap. There are currently only 44 legal, recreational cannabis stores in the province of Saskatchewan compared to approximately 700 liquor stores.

According to Stats Canada, a total of \$1.5 billion was spent on legal and illegal cannabis in the third quarter of 2019 with growing forecasts over the next 5 years. However, it found only a portion of that spending was made in the legal market.^{vii} This speaks to the economic viability of legal cannabis retailers once the framework enables access to product and provides support to diminish black market product and availability.

Relative to Health Canada's vision for cannabis legalization, "illegal stores will disappear as licensed vendors increase in number" and "Cannabis sales have been up every month since December"^{viii}. The Regina Police Service has "not seen any real escalation in the number of calls for service, in the number of impaired drivers, or in the amount of public consumption, which is a real positive thing" as per police Chief Evan Bray but the one problem they do see are illegal dispensaries^{ix}. Many of the main factors determining the success of the legal market in displacing the illicit market are pricing and availability, referred to as retail density. There is a clear theoretical and an increasing empirical link between retail outlet density and the ability of the legal market to compete with the illicit market. Increasing the number of retail outlets will enhance the ability of the legal market to compete with the illicit market by reduced price markups based on licensed competition. Implementing a moratorium will continue to restrict entry to the cannabis retail landscape. This fundamentally counteracts the federal mandate, keeps prices higher and undermines the legal markets ability to displace the illicit.

Conclusion

Through extensive research of public information, our own sales data, and local and national cannabis experts we are able to estimate the current size of the legal cannabis market in the city of Regina. We estimate the Regina market is currently between \$25 million and \$30 million in annual revenues with net profit margins running in the mid to high teens depending on quality of location and efficiency of the operator. This equates to a range of \$3.25 million - \$5.4 million in annual net profits to the six existing retailers. These numbers are rising month over month. If the market is in fact an open market allowing for a high level of convenience, low prices and innovation i.e. stores are plentiful, the estimated annual revenue climbs to \$50+ million by 2025. Based on sales representing less than 60% of all cannabis sales (according to Stat's Canada's chart), there is ample growth opportunity for the legal market at the expense of the illicit market.

Each new store not only aids in combating the illicit market (and thus higher tax revenues), but also creates approximately 10 permanent jobs per location and an investment of \$150,000-\$350,000. This investment causes a positive spinoff and creates more jobs in various trades and across other sectors. We know of numerous local entrepreneurs looking to start their own cannabis retail business as well as a number of interested larger players that should be a welcome sight to the City of Regina.

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ⁱ https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3237729

ⁱⁱ <https://www.slga.com/>

ⁱⁱⁱ <https://leaderpost.com/news/saskatchewan/slga-to-open-up-cannabis-retail-market-in-saskatchewan-by-removing-cap-on-stores>

^{iv} <https://www150.statcan.gc.ca/n1/pub/82-003-x/2020002/article/00002-eng.htm>

^v <https://www150.statcan.gc.ca/n1/pub/82-003-x/2020002/article/00002/tbl/tbl03-eng.htm>

^{vi} <https://www150.statcan.gc.ca/n1/pub/11-621-m/11-621-m2019005-eng.htm>

^{vii} <https://www.bnnbloomberg.ca/illicit-pot-market-remains-robust-as-prices-continue-to-beat-legal-sources-statscan-1.1378648>

^{viii} <https://vancouversun.com/news/cannabis-black-market-still-thriving-18-months-after-legalization>

^{ix} <https://www.620ckrm.com/2019/10/17/cannabis-legalization-has-been-positive-according-to-regina-police/>