

Guide To Expanding Into New Markets



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Expanding into New Markets

In 2023, cannabis operators can expect more challenges. After a tough 2022, which saw high inflation and industry-specific obstacles such as overproduction and a lack of capital investment, cannabis companies are now gearing up for a shift in the market that will focus less on record-setting growth and more on ensuring operational efficiency, strategic thinking and resiliency.

Now that the cannabis boom experienced during the early stages of legalization has leveled out, it's clear that the industry is no longer considered as recession-proof as it once was. The slowdown of big-money mergers and acquisitions was noticeable in 2022 and that trend is expected to stay amid ongoing reports that access to capital is no longer readily available throughout the U.S.

On top of this, adult-use sales in mature markets such as Washington, Oregon and California have dropped below pre-pandemic levels. And in California, the state saw its first yearly decline in adult-use marijuana sales since the recreational market was launched back in 2018. Unfortunately, multistate operators (MSOs) are

facing even more challenges because of high taxes, falling prices and market saturation.

But not all hope is lost. Recent polls [overwhelmingly demonstrate](#) that public opinion in favor of cannabis legalization is at an all-time high. Consequently, the push for more federal reforms for cannabis is expected to continue this year. And while the U.S. economy is continuing to struggle, more (albeit smaller) mergers and acquisitions can be expected as many license holders will be looking to exit the market. This creates more opportunities for single-state operators (SSOs) to increase their footprints and multistate operators (MSOs) to enter new markets.

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So how do cannabis companies looking to expand their businesses in this tumultuous market go about doing so? In this guide, we look at some of the most promising new markets and states to watch out for over the next year. We also delve into the ways operators can go about expanding their businesses – by securing new licenses or through acquisition – and the ways MSOs can address the complexities of operating in multiple legal state markets. Lastly, this guide covers the importance of relying on industry-specific software built for MSOs to overcome quality, compliance, operational and data-integrity challenges.

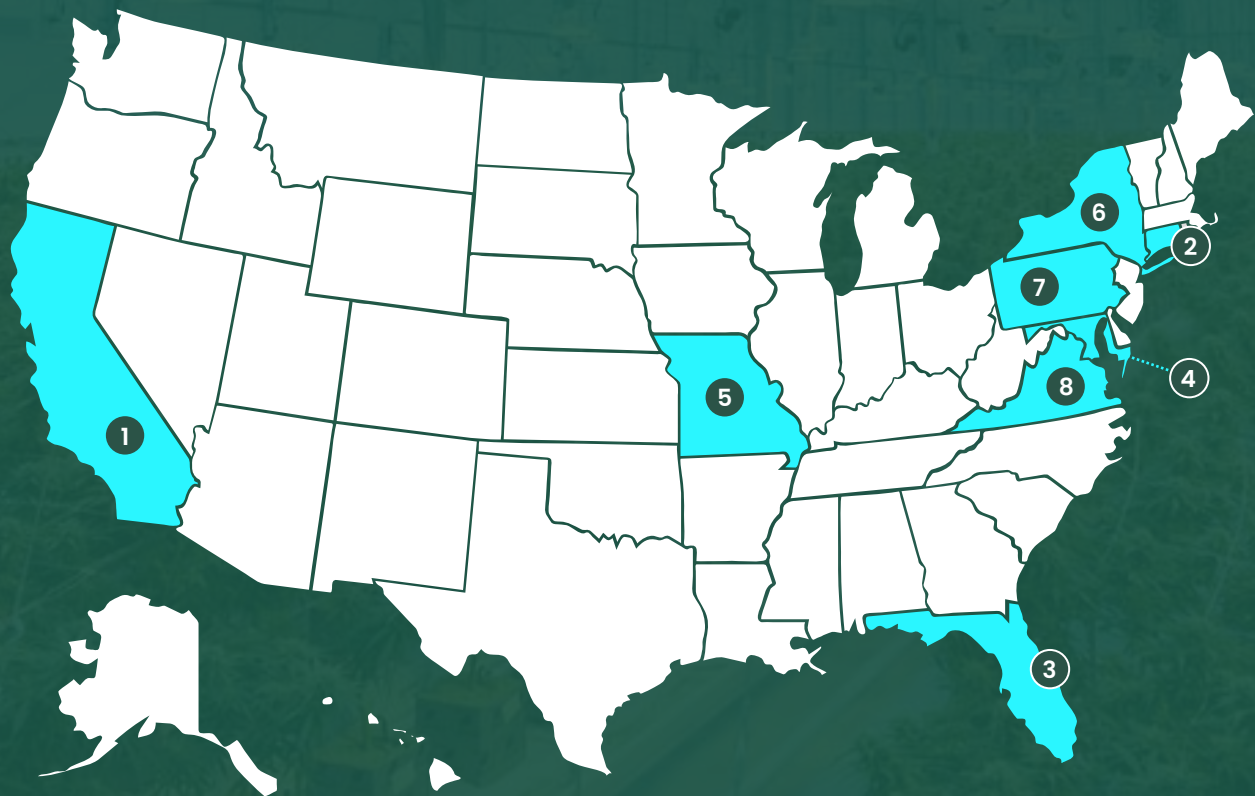


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Where to Watch

Unlike most industries in the U.S., cannabis is unique in that each state creates its own rules and regulations around growing, packaging, testing, marketing and more. In addition to differences at the state level, local governments can also develop their own rules regarding cannabis, contributing to the fragmentation of the industry across the U.S.

Over the past year, a handful of states were able to get cannabis legalization across the finish line with more expected to follow suit throughout 2023.



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So Where Should MSOs Focus Their Attention? Let's Take a Look:

1

California

For the first time since becoming legal in 2018, retail cannabis sales declined in California last year. The state (along with other older markets including Colorado, Oregon and Washington) is continuing to grapple with an oversupply of cannabis, which is affecting wholesale prices. Operators are also pointing to high taxes that encourage illicit-market activity as a barrier to retail success. It will remain to be seen what lawmakers and industry advocates do to curb falling sales.

2

Connecticut

Adult-use retailers recorded their first sales in January after the state made recreational marijuana legal earlier that month. In March, the state saw a record \$22 million in combined medical and recreational

sales, adding to the familiar upward trend typically seen in the early months of state-wide rollouts.

3

Florida

As the biggest medical-only market in the U.S., Florida is poised for even more growth in 2023. The state is set to issue 22 coveted medical licenses this year – the first time such licenses have been awarded in five years. Florida's market is already dominated by MSOs and the skyrocketing fees associated with license renewal – which top more than \$1.3 million – means that larger companies will continue their dominance of the market. An industry-led campaign to put a legalization initiative in front of voters on the 2024 ballot is now under review by the state Supreme Court.

States to Watch...

4

Maryland

Voters in Maryland voted overwhelmingly in favor of legalizing adult-use cannabis back in November 2022. As of early April, state lawmakers approved legislation that sets up regulation, licensing and taxing for recreational cannabis sales, which are set to begin on July 1. For now, Maryland's medical marijuana dispensaries will be the first to sell recreational cannabis, giving MSOs already firmly positioned in the state a major advantage.

5

Missouri

The state launched recreational sales in February with 195 dispensaries, among the most of any state rollout. Though the limited-license market won't expand much beyond this for years, the state is positioned to reach \$1 billion in collective medical and recreational cannabis sales before the end of the year.

6

New York

As the biggest market to launch in 2022, New York's adult-use program will be closely watched in 2023. Industry leaders have already deemed the state's rollout as less than successful as more than 1,400 unlicensed, illegal cannabis shops are still operating throughout all five of New York's boroughs. Approximately three licensed dispensaries are open across the state as of February 2023 and more than 60 licenses have been issued.

7

Pennsylvania

In 2023, Pennsylvania is one of a number of states considered to have the best chance of passing adult-use legalization. While the state has been on the verge of legalization for years now, the 2022 election of Gov. Josh Shapiro – a legalization supporter – and a takeover by Democrats in the state Legislature put legalization even closer within reach. For MSOs in the

States to Watch...

state, the existing medical cannabis market has proven difficult as the industry (like other markets) deals with inflation, oversaturation and sinking prices.

8

Virginia

As the first Southern state to legalize recreational cannabis in 2021, hopes were high for a January 1, 2024 start date for adult-use sales. But state lawmakers failed to reenact a number of provisions on the 2021 legislation – including regulatory and market details such as licensing – putting an indefinite hold on the future of the state’s recreational industry.



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Expanding Your Business

Most large-scale cannabis companies go about expanding their businesses into new markets through two routes: either by new license or by way of acquisition. Some of the industry's biggest companies expand by doing both. While one method of expansion isn't necessarily more efficient or easier than the other, there are challenges and benefits to each.

New Business Licenses

Breaking into new markets by way of new license application is complex. Prior to state legalization or the opening of license applications, applicants have likely already begun forming a team, selecting real estate, vetting vendors, hiring operational consultants and in some cases even starting construction on a production facility. The risk is great but securing a coveted license in one of the valuable markets mentioned above is huge for any cannabis business.

Once a company has won a license, attention turns to setting up operations and production processes. Even if an MSO is successful in another market, rules around taxes, packaging and serial numbers vary from state to state, so new business practices will likely have to be built from the ground up.

On top of this, MSOs vying for new licenses will also need a mother plant, seedlings, equipment, people and more to get the business off the ground.

The benefits of expanding a business this way? MSOs get to set up operations and processes according to their standards and ensure their new business operates exactly the way they want it to.

Acquisition

The cannabis news outlets are full of articles about recent acquisitions, both on a large-scale and in smaller markets too. And this is for good reason. By acquiring a company in a different state, MSOs can insert themselves into a new market without the hassle of waiting for new licenses to become available. It also gives them a leg up on their new

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Expanding Your Business...

license counterparts since the acquired company likely already has business processes in place that account for state rules and regulations.

The challenge for MSOs, however, is trying to integrate existing business models into a newly acquired company.

Here's an example: A successful cultivator in California has its eyes set on a company with a license in New York. The California-based company successfully acquires the

New York cultivator, and now has to figure out how to integrate its proven business practices and processes into the already-running New York business.

On top of this, MSOs need to be concerned with:

- How to bring together finance and accounting processes
- Consolidating financial statements
- Bringing together people, culture and processes



Addressing the Complexities of Multi-State Operations with ERP Software

Fortunately, there are tools out there to help MSOs navigate the chaos of expansion. An Enterprise Resource Planning (ERP) solution built for MSOs is designed to address the challenges of multi-site and multi-company operations while providing businesses with a platform that can scale and improve efficiency every step of the way.

MSOs expanding via acquisition, for example, need to file consolidated financial statements on a monthly, quarterly or yearly basis to the Securities and Exchange Commission (SEC) in the U.S. or the International Financial Reporting Standards (IFRS) in Canada. These statements contain a record of a company's combined financials. Not only is this information required of public companies, but it also provides valuable insight into company-wide operations and shows which business units are performing best.

With an ERP solution designed for MSOs, multi-company transactions are streamlined and automatically accounted for across multiple entities. This allows users to eliminate the need for duplicate data entry, ensure proper financial traceability and get a consolidated view of transactions across multiple companies (thus making consolidation reporting easier and more efficient).

Additional Benefits Of ERP Software For MSOs Includes:

1

Compliance

For cross-border transactions, MSOs need to maintain audit trails and perform recalls, segregate duties during cultivation and trace every interaction throughout the production cycle. ERP software allows users to sync daily activities for compliance and record and archive information about plant phases, additives, employee interactions and more.

2

Company-Wide Integration

While MSOs attempt to standardize operations to increase efficiency and profitability, they may end up with a portfolio of individual brands operating in virtual silos from one another. An ERP solution connects departments, data and processes from multiple entities into a single system, providing MSOs with one single source of organization-wide truth. Instead of relying on disconnected data from independently operating software systems, with an ERP, MSOs can make better decisions about their business as a whole.

3

Product Quality & Consistency

With an ERP, MSOs can standardize quality control measures across businesses. Based on quality data, users gain insight into which entities have more recalls or what facilities are producing more waste. This information not only helps MSOs meet EU GMP and other regulatory standards, but it also provides them with insight into where to focus additional time and investments.

4

Operational Efficiency

An ERP solution allows MSOs to consolidate and streamline operations across multiple business units. Rather than relying on purchasing data and financials from each business unit, for example, an ERP provides MSOs with the ability to oversee the entire portfolio of purchasing, allowing them to buy items at a higher volume and increase overall efficiency.

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Additional Benefits...

5

Scalability

MSOs need a solution that can grow with them. As new entities are added, a robust ERP system allows users to separate business units under one corporate umbrella while still sharing relevant information back and forth – such as customer, supplier and general ledger data – for enhanced analytics capabilities and complete visibility.

The right ERP solution will also have the flexibility to incorporate various business models and business types as a company grows, like adding a processing facility to a cultivation company or an outdoor grow operation to an indoor one.



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A Solution Built for MSOs

It's important to understand that not all ERP solutions are created equal. The cannabis software market is filled with systems that masquerade as full-scale ERP software but are light in functionality and lacking in depth. Only true ERP software will come with the features and capabilities needed to address the complex challenges of growing MSOs.

CannaBusiness ERP is a single, unified ERP solution that includes all the costing, compliance reporting, recall management, inventory control and multi-company features MSOs need on a daily basis. It is built in Sage X3 and configured by experts who have worked with some of the industry's leading MSOs.

Unlike smaller, lighter business management solutions, CannaBusiness ERP:

Is Backed by Years of Industry Experience

Our team members come from the cannabis industry, which means they can better understand your business and what it takes to compete. We implement process best practices, suggest ways to

make your operations run smoother and guide your team through the selection process, implementation, go live and beyond. Our implementation experts have a proven methodology that is tailored to the unique needs of MSOs that will help streamline the process, saving you time and money.

Can Handle the Financial Complexities of MSOs

Because CannaBusiness ERP is built in Sage X3, it comes with the platform's robust multi-company and multi-facility functionality, a differentiating feature amongst ERP solutions in the cannabis industry. These features give MSOs the ability to manage several companies in the same database and get a full picture of the health of their operations.

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A Solution Built for MSOs

Tracks Everything

CannaBusiness ERP is a true ERP system, which means that it manages every aspect of your business, including finance and operations, seed-to-sale, compliance, quality, traceability and more. As the solution manages each department and process, it also works to collect all data associated with each process or activity, giving business leaders visibility into the entire business.

Accommodates Cultivators and Processors (& a Combination of the two)

CannaBusiness ERP is unique in that it offers a more flexible, personalized solution for cultivators and processors looking to implement only the features they need for their business now. However, as an MSO expands and adds a cultivation operation or purchases an edibles manufacturer, the solution can accommodate it all because purpose-built functionality is already built into the solution. On the

cannabis processing side, for example, the software includes features that merge cannabis-specific requirements with food-specific ones to address challenges in cannabis edibles and infused-manufacturing. This includes production sequencing functionality and standalone harvest and waste management processes. For cultivators, CannaBusiness ERP includes comprehensive crop management functionality and stock process functionality, which accounts for inventory waste and adjustments for regulatory reporting.

With CannaBusiness ERP, there's no need to worry about integrations with standalone systems for seed-to-sale tracking or compliance because the solution comes equipped with the functionality needed to manage it all.

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A Solution Built for MSOs

Helps Track the Metrics that Really Matter

With robust Business Intelligence (BI) functionality, CannaBusiness ERP equips business leaders with the financial and operational metrics they need for absolute control and visibility into their operations.

Comprehensive dashboards allow leaders to get real-time insight into their business at a glance, without having to pull a ton of reports or enlist IT for support. That means a lot less time looking for data, leaving more time to spend evaluating what it means and taking action.

Features for Cultivators & Processors



For Cultivators

Crop management

Harvest management

Stock process functionality

Fertigation management



For Processors

Production sequencing

Waste management

End-to-end product traceability

Comprehensive recall management



CannaBusiness ERP

Connect with NexTec expert to explore how a modern ERP can improve your business.

Let's Talk



Schedule a Demo

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CannaBusiness ERP

NexTec CannaBusiness ERP is a complete business management solution purpose-built for cannabis cultivators and processors. Powered by Sage X3 and delivered by NexTec Group, CannaBusiness ERP provides a single system to manage your entire business through finance and operations, crop and harvest management, seed-to-sale, compliance, quality, and traceability. Leading cannabis companies trust NexTec CannaBusiness ERP to manage their day-to-day operations, grow, and thrive.

To learn more, visit www.nextecgroup.com or follow us on LinkedIn.