

The Impact of COVID-19 on Wholesale Cannabis

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Key Takeaways:

- Cumulative 2020 industry growth is outpacing 2019:** In most markets studied, over 50% of retailers purchased more during the Post Stock Up Period than they did at the start of the year, and wholesale orders increased by more than 54% from January to June.
- Essential status of cannabis changed the trajectory:** In states like California, Oregon, and Washington, classifying cannabis as “essential” and allowing dispensaries to pursue new retail models helped the industry rebound faster after the COVID Stock Up Period. States like Arizona, Colorado, and Nevada, where access to delivery and curbside pickup options were more limited, recovered more slowly.
- Establishing brand loyalty is key:** In some states, brands sold up to 67% more during the Post Stock Up Period than they did earlier in the year, but retailers were less likely to buy from new brands in 2020 than they were in 2019. This behavior suggests that brands will have to work harder to reach new customers, whether by investing in advertising and promotion, offering flexible payment options, or revamping their logistics strategy.
- Inhalables are worth investing in:** While purchasing across all categories is up, Flower has been the most popular product type on LeafLink since early April, making up 32% of all Post Stock Up Period GMV.

Introduction

As the world responds to the COVID-19 health crisis, businesses across every sector face a fundamental question: how will this impact us? For cannabis, this question is especially difficult to answer; the industry is still new, and has never faced an economic recession, let alone a global pandemic. While many cannabis brands and retailers are still adapting, and the crisis is far from over, one thing has become clear over the course of the last six months: the cannabis industry is not only resilient, but thriving in many states.

This report provides an overview of how wholesale cannabis has been impacted by COVID-19. Our analysis looks at overall performance across all LeafLink markets throughout the first half of 2020 and gives a detailed look at how seven key US markets (Arizona, California, Colorado, Michigan, Nevada, Oregon, and Washington) fared during this time.

Here, we'll discuss how industry growth has been affected by the pandemic, how purchasing habits changed during this time period, and why in many markets, brands and retailers are performing better than they were before. Cannabis businesses and investors can use this information to benchmark their own performance and to understand where new opportunities in the industry exist.

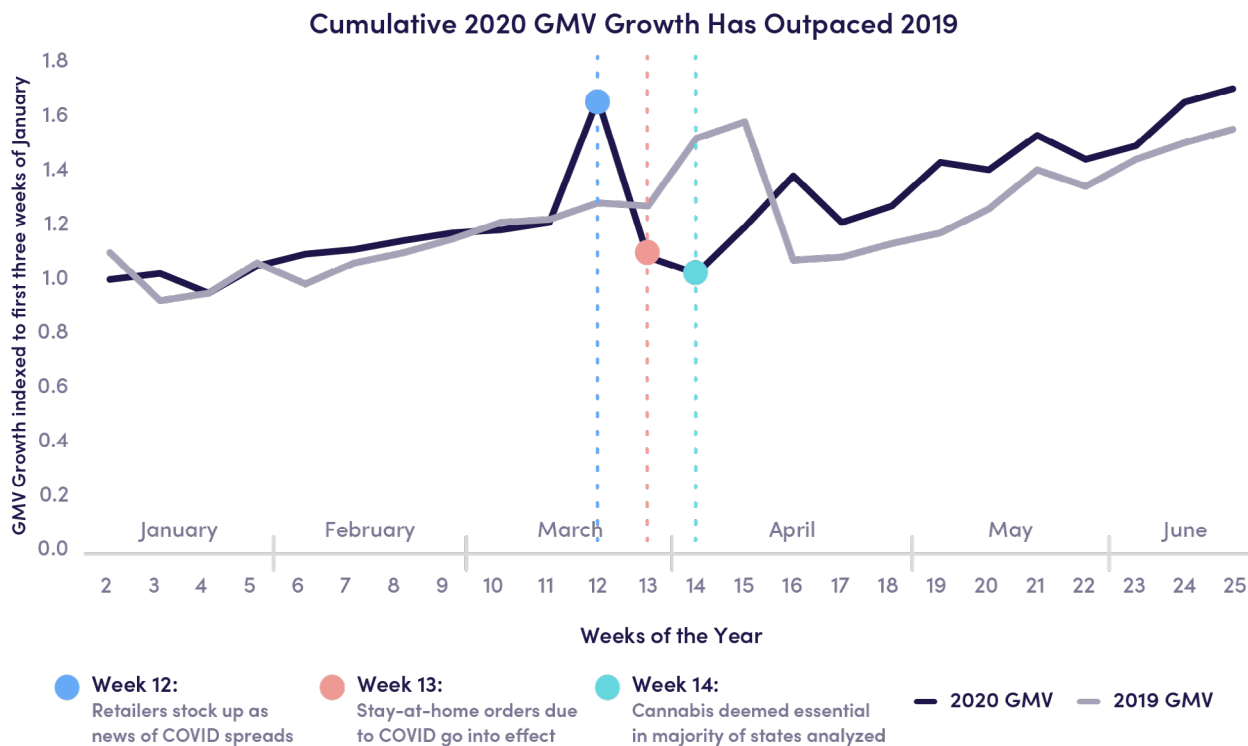
Studying Cannabis Over Time

In this report, we have broken our analysis into three key time periods during the year:

Pre Stock Up Period (Weeks 5-11)	COVID Stock Up Period (Weeks 12-14)	Post Stock Up Period (Weeks 15-23)
This time period goes from Monday, January 27th to March 15th, as COVID became a national health crisis across the US.	This time period goes from Monday, March 16th, as panic spread across the US and stay-at-home orders rolled out, causing volatility in cannabis purchasing, to April 5th.	This time period goes from Monday, April 6th to, as the industry stabilized due to cannabis' essential status in many states, to May 31st.

January							February							March							April							May							
Su	Mo	Tu	We	Th	Fr	Sa	Su	Mo	Tu	We	Th	Fr	Sa	Su	Mo	Tu	We	Th	Fr	Sa	Su	Mo	Tu	We	Th	Fr	Sa	Su	Mo	Tu	We	Th	Fr	Sa	
			1	2	3	4							1	1	2	3	4	5	6	7														1	2
5	6	7	8	9	10	11	2	3	4	5	6	7	8	8	9	10	11	12	13	14	5	6	7	8	9	10	11	3	4	5	6	7	8	9	
12	13	14	15	16	17	18	9	10	11	12	13	14	15	15	16	17	18	19	20	21	12	13	14	15	16	17	18	10	11	12	13	14	15	16	
19	20	21	22	23	24	25	16	17	18	19	20	21	22	22	23	24	25	26	27	28	19	20	21	22	23	24	25	17	18	19	20	21	22	23	
26	27	28	29	30	31		23	24	25	26	27	28	29	29	30	31					26	27	28	29	30			24	25	26	27	28	29	30	
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For a better understanding of how COVID-19 has impacted your market and your business, get in touch with LeafLink Insights at insights@leaflink.com.



The Big Picture: Purchasing Is Up, but COVID Overpowered Seasonality

How has COVID impacted the cannabis industry? The broadest way to answer this question is to examine 2020 industry growth vs last year. To measure this, we analyzed the week-over-week growth in Gross Merchandise Value (GMV) or sales through LeafLink, as compared to a baseline – the average of the first three weeks of the year. While weekly GMV is three times greater or more in 2020 than it was in 2019, studying the growth rates side by side is a good way to understand COVID's effect.

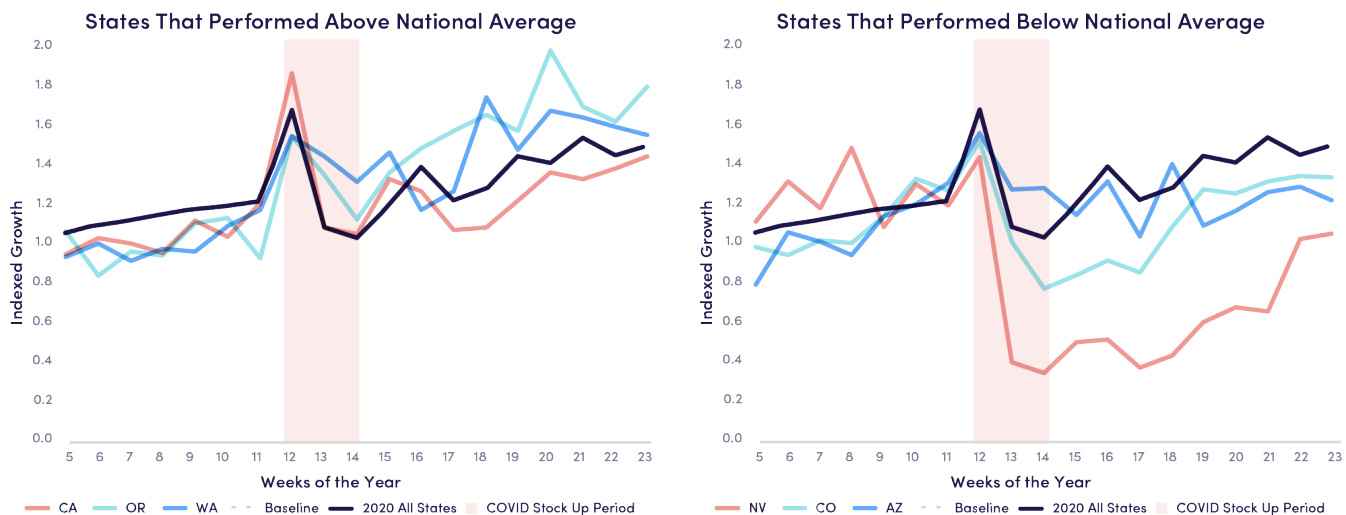
As you can see in the above graph, cumulative industry growth in 2020 has outpaced that of 2019. By Week 21 (May 18th), the size of the industry had increased by 54% since the start of the year, compared to a 41% increase during 2019.

However, it is clear that the pandemic generated some unique purchasing patterns. During the Pre Stock Up Period, 2020 industry growth was at pace with that of 2019. During the week of March 16th, as many US Governors declared a state of emergency in their states, retailers stocked up, causing a huge spike. Sales then plummeted the following week when stay-at-home orders started going into effect, only to slowly normalize as multiple states deemed cannabis an essential business.

COVID also caused a shift in seasonal purchasing patterns. Historically, wholesale orders spike during the month leading up to 4.20 as retailers stock up for the holiday – you can see the bump in 2019 GMV from Weeks 13-16. This year, the typical sales bump associated with 4.20 essentially came a month early during the COVID Stock Up Period. Despite this volatility, the industry slowly stabilized as businesses began to adapt to new curbside pickup and delivery models. By the week of April 13th (Week 16), the industry's cumulative year-to-date growth surpassed 2019 levels.

Breaking It Down: State Performance Was Impacted by Government Response

In the graphs below, we measured week-over-week sales growth in specific markets compared to sales during the first three weeks of January. We have added a dotted line representing the national trend into the graphs.



Quick Responders: California, Oregon, and Washington

In the above graph, we broke out the performance of three states (California, Oregon, and Washington) from 1/27/2020 to 6/1/2020. Each of these three markets performed above or near the 2020 national average.

In all three markets, guidance was issued early on that allowed retailers to pursue both curbside pickup and delivery models, opening up access to a larger pool of consumers throughout the pandemic. Cannabis was deemed “essential” in California on March 20th, and in Washington on March 23rd. On March 22nd, Oregon declared that dispensaries could conduct business online.

Mixed Signals: Arizona, Colorado, and Nevada

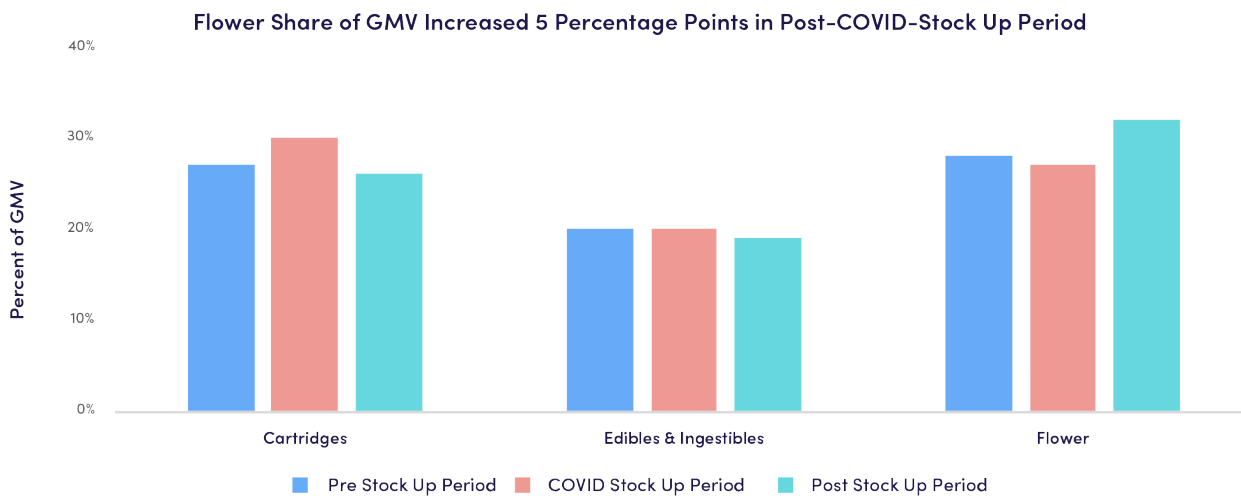
In the above graph, we broke out the performance of three states (Arizona, Colorado, and Nevada) from 1/27/2020 to 6/1/2020. Each of these three markets performed below the 2020 national average.

Each of these three states suffered from market volatility and lack of clarity around whether or not cannabis businesses were essential. In Arizona, a medical-only market, cannabis was never explicitly deemed “essential”, yet dispensaries were allowed to continue to operate curbside pickup models as part of the health care sector. Colorado declared cannabis as “essential” on March 25th, yet recreational shops were limited to curbside pickup only (vs medical shops that remained fully open). Neither of these markets allowed for at-home delivery. In Nevada, cannabis was declared essential on March 20th; however, curbside pickup was not allowed until May 1st, and the state, which relies heavily on tourism, has yet to fully recover.

Purchasing Trends: Retailers Flocked To Trusted Options

While COVID has ultimately spurred, not stymied growth in 2020, the pandemic has shifted purchasing patterns across the entire industry. One way we saw retailers change their buying behavior was by shifting the seasonal 4.20 bump to earlier in the spring. Below, we take a deeper look at whether or not retailers altered their purchasing habits further by studying preferences around product categories and first-time orders place with new brands.

Inhalables Remained Popular



One component of cannabis purchasing that does not appear to be greatly impacted by COVID-19 is consumer preference. While the data here is based on wholesale ordering through LeafLink, it is a good approximation for consumer demand because it reflects way in which retailers are stocking and re-stocking their dispensaries. Despite the onset of the pandemic, Cartridges and Flower, both strong categories as of early 2020, remained popular throughout the first six months of the year. As illustrated in the charts above, Cartridges were the most popular product category during the COVID Stock Up Period, while Flower was the most popular product category during the Post Stock Up Period.

Why the change from Cartridges to Flower? While retailers typically shift their menu to be more Flower-heavy during the summer, the trend was exaggerated this year. Cartridges are viewed as more of a luxury product, while Flower is more of a commodity, and it is likely that consumers are more price conscious than ever when it comes to buying cannabis.

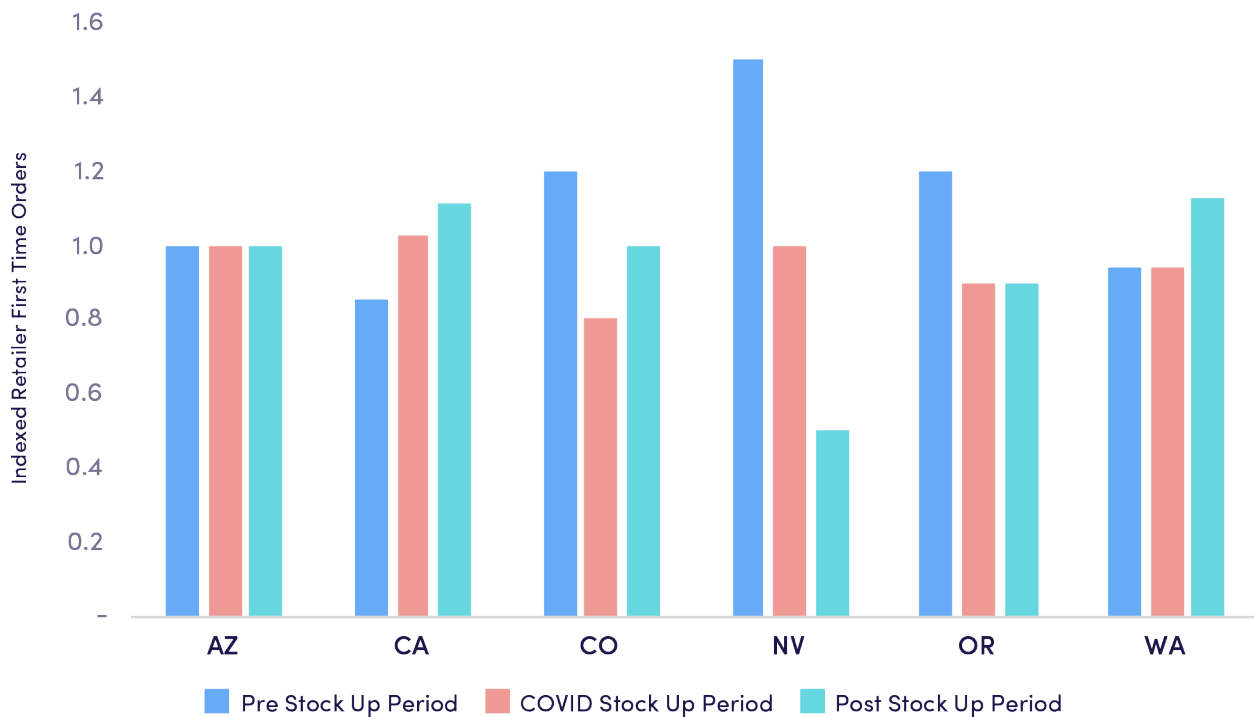
While Flower reached the height of its popularity on LeafLink during the Post Stock Up Period, increasing its share of orders by 5 percentage points since the COVID Stock Up Period, the category has been gaining momentum the start of 2020. This is likely due to the addition of several new markets to LeafLink over the past year. Newer markets tend to have fewer product categories available and favor Flower products as a result.

It is worth noting that Edibles & Ingestibles stayed stable throughout the pandemic. This could indicate that we can expect stability from the category for the rest of 2020.

Retailers Became More Risk Averse

A “first-time order” is defined as the first time a retailer places an order with a brand they have previously never ordered from on LeafLink. This can be interpreted as a retailer’s willingness to try new products and brands.

Fewer Retailers Placed Orders With New Brands After COVID Hit



Due to the onset of COVID-19, first time orders declined on a per retailer basis, meaning that retailers tried fewer new brands during 2020 than they did during 2019. We also saw an increase in order size, but not an increase in order frequency, indicating a shift towards placing larger orders less frequently. Out of all 7 states we looked at, only California saw an increase in first-time orders during the COVID Stock Up and Post Stock Up Periods. This is likely due to the popularity of sampling in the state.

During the pandemic, retailers flocked to tried and trusted options instead of trying new brands and products. They went back to the basics and bought more Flower and Pre-Rolls. They gravitated towards trusted wholesale partners known for quick order response times, quality products, smooth delivery, and recognizable branding. In many ways, this is similar to the way we’d expect consumers to behave when purchasing CPG grocery products during a crisis.

Brands Rebounded Faster Where Regulation Was Friendlier

In the table below, we look at brand performance per state over the course of our three time periods. Note: overperformers and underperformers in a state do not necessarily add up to 100% due to exclusions such as non-active brands.

Overperformance:

Sold more per week on average than they did during the first three weeks of January

Underperformance:

Sold less per week on average than they did during the first three weeks of January

Many Brands Are Selling More Since COVID								
		AZ	CA	CO	MI	NV	OR	WA
PRE STOCK UP	OVERPERFORMANCE	54%	51%	57%	58%	78%	38%	48%
	UNDERPERFORMANCE	46%	49%	4%	42%	22%	63%	52%
COVID STOCK UP	OVERPERFORMANCE	71%	48%	53%	39%	42%	53%	67%
	UNDERPERFORMANCE	25%	35%	43%	48%	53%	42%	33%
POST STOCK UP	OVERPERFORMANCE	64%	50%	35%	67%	20%	58%	67%
	UNDERPERFORMANCE	34%	42%	63%	27%	78%	40%	33%

Brand performance varied significantly by state, and while some brands benefited from the COVID spike in sales and the increased growth, other brands suffered. In Arizona, Michigan, Oregon, and Washington, more than 50% of brands performed better in the Post Stock Up Period than they did at the start of the year. This may indicate that these markets are recovering, and that a larger percentage of brands are benefiting from the market growth that we saw in the State Impact charts on page 4.

In Colorado and Nevada, however, the percentage of brands doing better during Post Stock Up Period is significantly lower. Only 35% of Colorado brands overperformed during the Post Stock Up Period, while only 20% of Nevada brands overperformed (compared to 77% who underperformed). This may indicate that these markets have not fully recovered, and suggests that while some larger, more well-known brands have held strong, smaller brands are lagging.

While markets may be generally recovering, the trend is not felt uniformly across all brands. Bigger brands with more access to resources and capital are able to adapt and rebound faster, making them more likely to come out on top. In addition, retailers are likely focusing their attention on well-known brands, due to both customer demand and their preference for purchasing from businesses that will be more likely to keep their supply stable.

Retailers in Most States Recovered Quickly

In the table below, we look at retailer performance over the course of our three defined time periods. Note: overperformers and underperformers in a state do not necessarily add up to 100% due to exclusions such as non-active retailers.

Overperformance:

Purchased more per week on average than they did during the first three weeks of January

Underperformance:

Purchased less per week on average than they did during the first three weeks of January

Most Retailers Are Buying More Since COVID								
		AZ	CA	CO	MI	NV	OR	WA
PRE STOCK UP	OVERPERFORMANCE	56%	49%	59%	60%	68%	41%	51%
	UNDERPERFORMANCE	44%	51%	41%	40%	32%	59%	49%
COVID STOCK UP	OVERPERFORMANCE	71%	59%	58%	53%	40%	56%	58%
	UNDERPERFORMANCE	29%	41%	43%	47%	60%	44%	42%
POST STOCK UP	OVERPERFORMANCE	59%	53%	54%	60%	14%	61%	66%
	UNDERPERFORMANCE	41%	47%	46%	40%	86%	39%	34%

Retailer performance as defined above can be tied to consumer demand – in states where consumer demand remained stable or increased, so did retailer purchasing. In all markets except for Nevada, over 50% of retailers performed better during the Post Stock Up Period than they did at the start of the year. This is likely due to the speed at which these markets pivoted and allowed cannabis businesses to benefit from new retail models such as curbside pickup and delivery. In Washington, one of the earliest states to respond to the COVID crisis, nearly two thirds of retailers are performing better.

In Nevada, on the other hand, only 14% of retailers performed better during the Post Stock Up Period. This market depends heavily on tourism, and this underperformance is likely due to a decline in visitors from out of state, as well as the lag in allowing curbside pickup. As of March 20th, dispensaries had been classified as essential, but sales were limited to delivery only, and because delivery is new to the state, few businesses were able to easily accommodate. On May 1st, curbside pickup opened up, expanding consumer access.

Looking Ahead: What This Means for Cannabis



While the COVID-pandemic is not yet over, it is clear that a new normal has emerged for cannabis businesses and consumers. In many ways, being classified as an “essential” business during this crisis was a huge win for cannabis – it proves that across the world, decision makers recognize the key role that cannabis, an industry that only began to gain legal status over the past decade, plays in many peoples’ lives.

How will this pandemic impact long-term cannabis growth? In spite of renewed outbreaks in parts of the US, the cannabis industry remains on a strong growth trajectory benefiting from shifting consumer priorities and favorable regulatory changes. If the industry continues to outpace 2019’s growth trajectory (depicted in the chart above), the cannabis industry may very well end the year stronger than many industry observers had forecast.




One of the main factors in making cannabis so resilient is the industry’s ability to remain adaptable. Businesses in this industry have faced many challenges, like navigating changing regulations, finding financial resources, and overcoming stigmas – and are better prepared to creatively solve problems as a result. This ability to adapt is the key to finding success through COVID. Over the past few months, brands and retailers alike had to adapt to new remote workflows, socially-distanced retail models, and government rules. Despite these challenges, many businesses found that they were able to survive, if not thrive. While the future remains uncertain, one thing is clear: operating a technology and data empowered cannabis business is more important now than ever before.

Make your brand more resilient. Get in touch for more information how LeafLink Insights can help you grow your business at insights@leaflink.com.

LeafLink, the cannabis industry's wholesale marketplace, connects thousands of cannabis brands and retailers across 26 territories in North America. The marketplace processes \$2.8 billion in annualized orders, an estimated 30% of wholesale cannabis orders in the United States, giving us insight into the evolution of cannabis commerce and industry-wide trends.

The image displays a variety of doTERRA products arranged on three shelves. The top shelf features four 100% pure essential oil bottles (Lavender, Sweet Orange, Eucalyptus, and Peppermint) and two large, decorative candles with fruit-themed labels. The middle shelf includes three tall, rectangular candles (Relief, Bliss, and Arouse) and a collection of smaller candles in various sizes. The bottom shelf shows four small, white, square-shaped diffusers (Lavender, Sweet Orange, Eucalyptus, and Peppermint) and three large, decorative candles with tropical-themed labels (Tropical Breeze, Tropical Breeze, and Tropical Breeze).

LeafLink Insights is the intelligence engine of the cannabis industry. By connecting brands, retailers, investors, and other industry participants to real-time first-party data, LeafLink powers smart and rapid industry growth. For competitive market insights and internal analytics products please contact insights@leaflink.com.

Daily Snapshot

\$630,014 USD

Today's Product Sales

\$87,448 USD

Yesterday's Product Sales

25 Most Recent Orders

CREATED ON	CUSTOMER NAME	TOTAL SALES	TOTAL PRODUCTS	ORDER LINK
2020-07-20 13:48:00	Jurupa Valley Retailer 813232	\$4,920	3	e4db-e3c
2020-07-20 13:47:08	Napa Retailer 533120	\$1,538	3	19fs-eaf
2020-07-20 13:45:25	Santa Cruz Retailer 727708	\$24,498	16	5991-4da
2020-07-20 13:27:59	Bloulder Creek Retailer 554438	\$6,765	9	43ac-45a
2020-07-20 13:27:06	Jurupa Valley Retailer 813232	\$14,317	16	6acd-590
2020-07-20 13:15:14	Los Angeles Retailer 549548	\$9,840	8	a5d3-aab
2020-07-20 13:09:32	Shutle City Retailer 280312	\$1,776	6	c128-c1a
2020-07-20 13:06:14	Los Angeles Retailer 287314	\$1,181	2	a6fb-bab

Top 5 Mondays

DATE	SALES	ADP
2020-03-16	\$1,734,544	\$11,800
2020-01-13	\$1,427,385	\$12,200
2020-04-15	\$1,298,209	\$9,414
2020-05-11	\$1,050,329	\$5,002
2020-03-23	\$1,827,481	\$8,434

Top 5 Tuesdays

DATE	SALES	ADP
2020-05-26	\$1,840,582	\$9,209
2020-03-17	\$790,017	\$8,778
2020-04-30	\$771,384	\$8,744
2020-02-11	\$747,404	\$7,381
2020-04-21	\$745,337	\$7,307

Top 5 Wednesdays

DATE	SALES	ADP
2020-05-27	\$708,399	\$9,839
2020-04-10	\$506,115	\$5,442
2019-08-28	\$497,504	\$9,213
2020-03-18	\$449,073	\$4,426
2020-04-08	\$408,017	\$4,375

Top 5 Thursdays

DATE	SALES	ADP
2020-07-02	\$941,277	\$9,959
2020-04-25	\$807,623	\$11,494
2020-03-19	\$580,434	\$5,437
2020-03-05	\$555,514	\$8,051
2020-02-04	\$538,910	\$11,478

Top 5 Fridays

DATE	SALES
2020-04-05	\$1,002,726
2020-04-19	\$988,076
2020-04-26	\$910,457
2020-07-10	\$771,865
2020-04-17	\$755,289

Top 5 Saturdays

DATE	SALES
2020-05-09	\$423,928
2020-03-21	\$329,484
2020-03-28	\$258,612
2019-02-16	\$255,190
2019-12-07	\$254,277

Top 5 Sundays

DATE	SALES
2020-03-15	\$776,829
2020-02-23	\$297,444
2019-11-17	\$259,106
2020-02-02	\$228,363
2020-03-01	\$193,472

Top 5 Days All Time

DATE	RETAILERS	PRODUCTS	SALES	ADP
2020-03-16	119	237	\$1,734,544	\$11,800
2020-01-13	107	101	\$1,427,385	\$12,200
2020-04-15	101	311	\$1,298,209	\$9,414
2020-05-11	178	250	\$1,050,329	\$5,002
2020-05-26	95	285	\$1,040,582	\$9,209

Methodology

Geographies:

In this report, we included data from all 26 territories where LeafLink is live for national surveys of Gross Merchandise Value (GMV) and Category Share. For all state specific surveys, we included the following US cannabis markets: Arizona, California, Colorado, Michigan, Nevada, Oregon, and Washington. These markets were selected based on the availability of data, and were all live on LeafLink by January 2019.

Time Periods:

In this report, our analysis includes data from January 1st, 2019 – June 1st, 2020. For specific breakdowns of how we determined the three time periods (Pre Stock Up Period, COVID Stock Up Period, and Post Stock Up Period), see the section “Studying Cannabis Over Time”.

Baseline Period:

For the purposes of this report, the first three weeks of January (Week 2 – Week 4) are used as a baseline for indexing growth. This baseline period is used in Figures 1, 2, 3, 6, 7, and 8.

Cumulative 2020 GMV Growth Has Outpaced 2019:

LeafLink GMV growth in 2019 vs 2020, through Weeks 2 – Week 23. GMV growth is indexed against a baseline – the first three weeks of January for a given year.

States That Performed Below National Average:

LeafLink 2020 GMV Growth Week 5 – 23. This graph includes 2020 National GMV Growth, as well as 2020 GMV growth for Arizona, Colorado, and Nevada. GMV growth is indexed against a baseline – the first three weeks of January for a given year.

States That Performed Above National Average:

LeafLink 2020 GMV Growth Week 5 – 23. This graph includes 2020 National GMV Growth, as well as 2020 GMV growth for California, Oregon, and Washington. GMV growth is indexed against a baseline – the first three weeks of January for a given year.

Flower Share of GMV Increased 5 percentage points In Post Stock Up Period:

Percent share of 2020 National GMV broken into three key product categories: Cartridges, Edibles & Ingestibles, and Flower.

Fewer Retailers Placed Orders with New Brands After COVID Hit:

Change in total first-time orders placed by retailers in a specific state during a given time period, where a first time order is the first time a retailer places an order with a brand they have not purchased from previously on LeafLink. Indexed against the average of new orders in Week 5 – Week 23 2020. 1.0 on the Y-axis is equivalent to the weekly average of first time orders during Week 5 – Week 23, meaning that if a bar reaches above 1.0, there were more weekly first time orders in that state during that time than on average.

Many Brands Are Selling More Since COVID:

2020 brand performance per state, where “performance” is defined as the amount a brand sold in a given time period compared to the baseline time period – the first three weeks of January 2020.

Most Retailers Are Buying More Since COVID:

2020 retailer performance per state, where “performance” is defined as the amount a retailer purchased in a given time period compared to the baseline time period – the first three weeks of January 2020.

2020 GMV On Pace to Exceed 2019 Growth:

LeafLink GMV growth in 2019 vs 2020, through Weeks 2 – Week 23. This graph includes 2019 GMV growth for Week 24 – Week 52, as well as a 2020 GMV Trendline based on the current weekly growth rate. GMV growth is indexed against a baseline – the first three weeks of January for a given year.