



## UPCOMING EXTINCTION EVENTS

- **Cartridges** - Once cartridges manufactured prior to December 31, 2018 sell out, manufacturers will face difficulty in sourcing hardware for vaporizer cartridges that can pass Phase 3 Heavy Metals testing. This will have a negative impact on manufacturer sales and the retailers that run out of cartridges for consumers. If only the illicit market has access to cartridges, expect a rough ride for legal cannabis sales.
- **CEQA** - If a local government does not adopt a cannabis ordinance prior to July 1, 2019, and that ordinance does not require discretionary review of projects and therefore an analysis under CEQA, then the local government itself will have to conduct the appropriate EIR for their regulatory ordinance. And while some counties have done so over the last two or three years-- largely as a result of litigation by environmental groups-- such a move will create an additional barrier to local governments expanding licensing and the creation of a viable retail market.
- **Consolidation** - Unless the regulated marketplace as a whole starts to meet and exceed the sales numbers prior to regulation, with the taxes and competition from the illicit market it is likely that 2019 will be a year of consolidation, with a wide variety of mergers, acquisitions, and takeovers, particularly fueled by Canadian investment dollars.
- **Taxation** - With over \$2 million of additional funding for cannabis tax enforcement proposed in the latest budget proposal for the California Department of Tax and Fee Administration, 2019 will be the year cannabis taxes get audited. There are hundreds of distributors which have not filed a single cannabis tax receipt. Additionally, whether it is the complexity of the excise tax the amount being owed based on a multiplier of the wholesale cost in some instances when retailers would rather assess a 15% surcharge on the final sale prices-- or the difficulty of tracking the cultivation tax from a cultivator through multiple manufacturers and understanding what parts of a manufactured product batch is aligned with which taxed plant matter, there will be plenty of ways cannabis businesses can stumble and fall in paying their taxes.
- **Testing** - It was a very capital intensive process to acquire the new equipment for Phase 3 heavy metal testing, and testing laboratories are under exceptional scrutiny following the very public failure of Sequoia in Sacramento, as well as numerous other mishaps by labs that were not as well publicized. As they proceed through ISO certification, look for more laboratories to undergo significant recalls and threats to their licenses, while those with greater professionalism pick up the slack.
- **Track and Trace** - While the Metrc system has been internally operational for some time, it has not yet been stress tested by the vast size and scope of the California market. At some point in its operation, there may be not just a loss of connectivity by individual licensees, but a wholesale loss of access to the entire



system. Such an event, while still allowing retail sales (following much lobbying), would prohibit licensees from transporting cannabis goods between premises, even for vertically integrated operators. The resulting loss of revenue and workload backlog may endanger those licensees which received early annual or provisional licenses.