

WASHINGTON'S GROWING CBD MARKET: THE SECRET IS OUT

HEADSET CANNABIS MARKET INSIGHTS

Washington's Growing CBD Market: The Secret Is Out

November 2016



Executive Summary

This report is your guide to the steadily growing Washington State market for products high in Cannabidiol, more commonly known as CBD. Second only to THC, CBD is the most well-known and well-studied of the many cannabinoid molecules found in cannabis. It has very different effects on users than THC, and is especially popular among medical cannabis patients for its various therapeutic effects. Though high-CBD products currently make up only a fraction of the total cannabis market, interest in CBD products is definitely rising.

Various factors are driving the increase demand, including recent legislation combining the recreational and medical markets in Washington State, as well as increasing consumer awareness of CBD. High-CBD products seem to be popular among some of the newer cannabis users, including women and older consumers, though more data is needed to confirm the link between age and interest in CBD. In this report, we take a look at some of the 832 high-CBD products in our product catalog, seeing which ones are most popular, which product categories high-CBD products perform best in, and who's buying high-CBD products.

What is CBD?

There are, by some estimates, in the area of 200 unique cannabinoid molecules that naturally occur in the cannabis plant. However, THC usually takes top billing, as it is the one primarily responsible for the psychoactive properties of the plant, though CBD is also becoming a well-known component of the cannabis experience. It produces more distinctly physical effects, and is not psychoactive at all. In fact, it binds to the same cannabinoid receptor that THC does, which means that it can often inhibit the “high” feeling from THC in a blended CBD/THC product.

It can be incredibly effective in reducing anxiety, relieving pain, and helping users to relax. In this way, it has come to be popular in the recreational market in products that often mimic the effects of popular over-the-counter drugs. Topicals, for example, are a very popular format for high-CBD products, as they often prove more effective than a commercially available “rub” for sore joints and taxed muscles.

However, its chief use is in medical cannabis regimens. It has shown promise in treating everything from neuropathic pain to cancer to epilepsy, and is being intensely scrutinized by large drug companies for its use in medication. Indeed, Britain recently allowed a low-THC, high-CBD cannabis oil to be sold for the treatment of seizures. Here in Washington, the state's medical cannabis market was recently folded into the recreational one, which is likely driving that increased demand, along with increased consumer awareness and product offerings. However, it's still difficult to tell if the market conversion will drive a spike in CBD sales, as many of the state's more serious medical patients still distrust the

recreational system. The state did see a surge in overall sales after the July implementation date, but that was likely due to recreational users who possessed a medical cannabis authorization returning to the recreational market.

Additionally, there are some confusing market forces at work in the realm of CBD. For one, producers and processors are allowed to import industrial CBD oil from outside of the state, as it is not regulated in the same way as THC. Thus, many order large vats of CBD oil that is produced from Chinese industrial hemp, and cut that into their products. This makes it difficult for those who grow and extract CBD locally to compete, and consumers aren't currently educated enough to have a preference for "homegrown" CBD products. Many processors also argue that industrial hemp lacks the cannabinoid profile needed to yield the full benefits of CBD.

"Consumers expect the CBD purchased in i502 stores to be derived from plants grown in Washington state, not imported industrial hemp extracts. However, that is not always the case. At SPOT, we choose to support local cannabis growers for our inputs because it offers CBD in context to the whole plant. As the presence of CBD grows in the market, vendors should be prepared to offer more information about their input sources."

Lena Davidson,

Market Relations at botanicaSEATTLE

Ultimately, importation makes it extremely difficult to determine the true fair market value for high-CBD flower, and artificially suppresses the price of high-CBD products, which could explain some of the data showing lower basket totals for CBD purchases in this report. Beyond that, the use of imported CBD has contributed to the general wariness of the recreational market among medical patients, who are generally better educated than the average consumer and understandably more concerned about the purity of the products they buy.

Whether you're looking to market to the recreational, "just want to relax" user or a medical patient, understanding the characteristics, purchasing habits, and priorities of CBD users is key to entrepreneurs looking to enter the marketplace.

Methodology

Data for this report comes from real-time sales reporting by participating Washington State cannabis retailers via their POS systems which are directly integrated with Headset. This report is based on data collected from retailers between September 2015 and September 2016 unless otherwise stated. That data is cross-referenced with our catalog of over 60,000 products to provide detailed information on market trends. All products in this report are marketed as CBD products by the manufacturer or retailer. botanicaSEATTLE, a major Washington processor, also submitted commentary on the CBD market from within the industry. We examined the buying habits of over 40,000 individuals participating in loyalty programs across Washington to determine our demographic data.

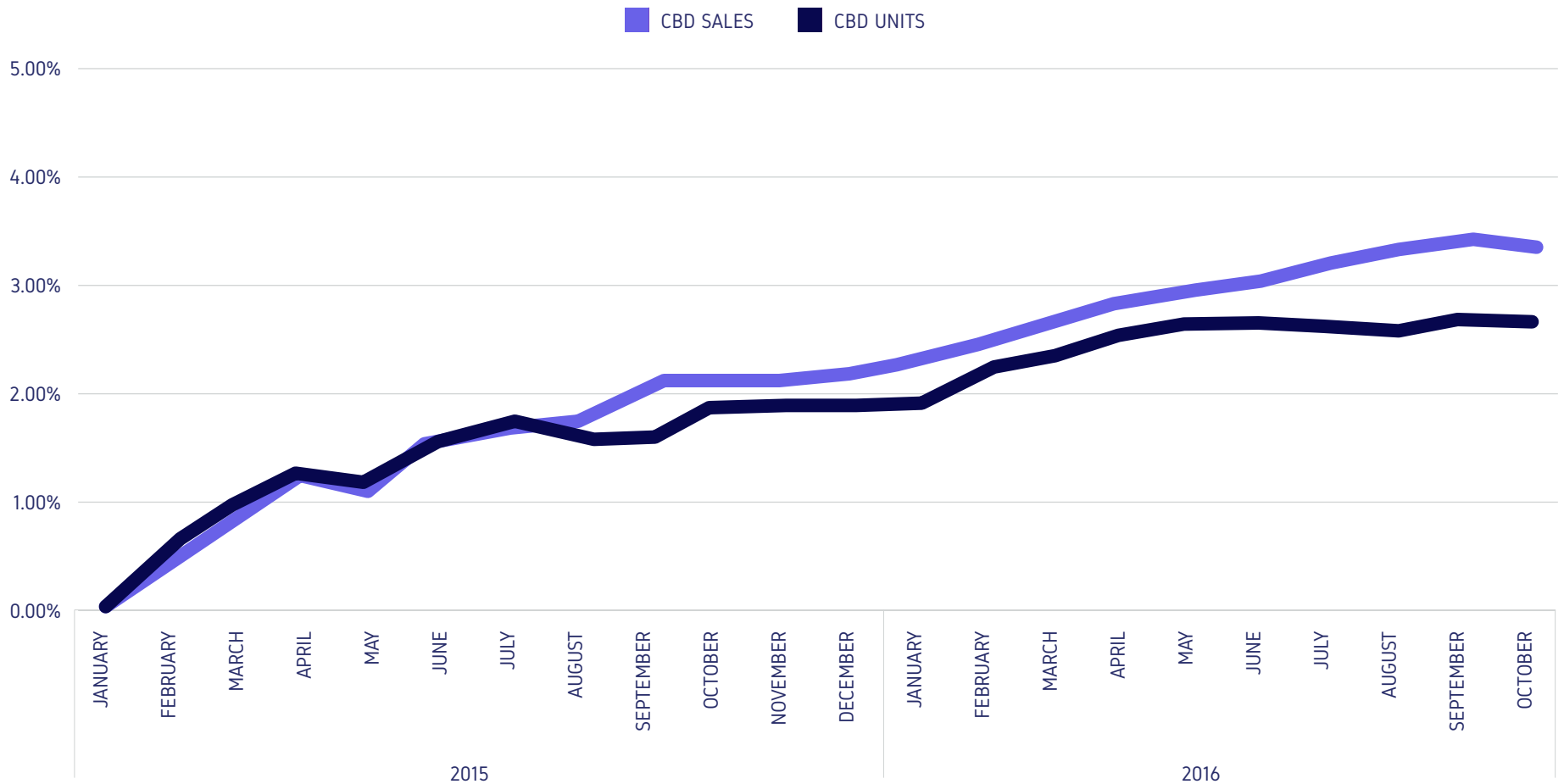
Headset.io's data is very reliable, as it comes digitally direct from our partner retailers and our product manufacturing partners. However, the potential does exist for misreporting in the instance of duplicates, incorrectly classified products, inaccurate entry of products into POS systems, or even simple human error at the point of purchase. Thus, there is a slight margin of error to consider.



Sales Overview

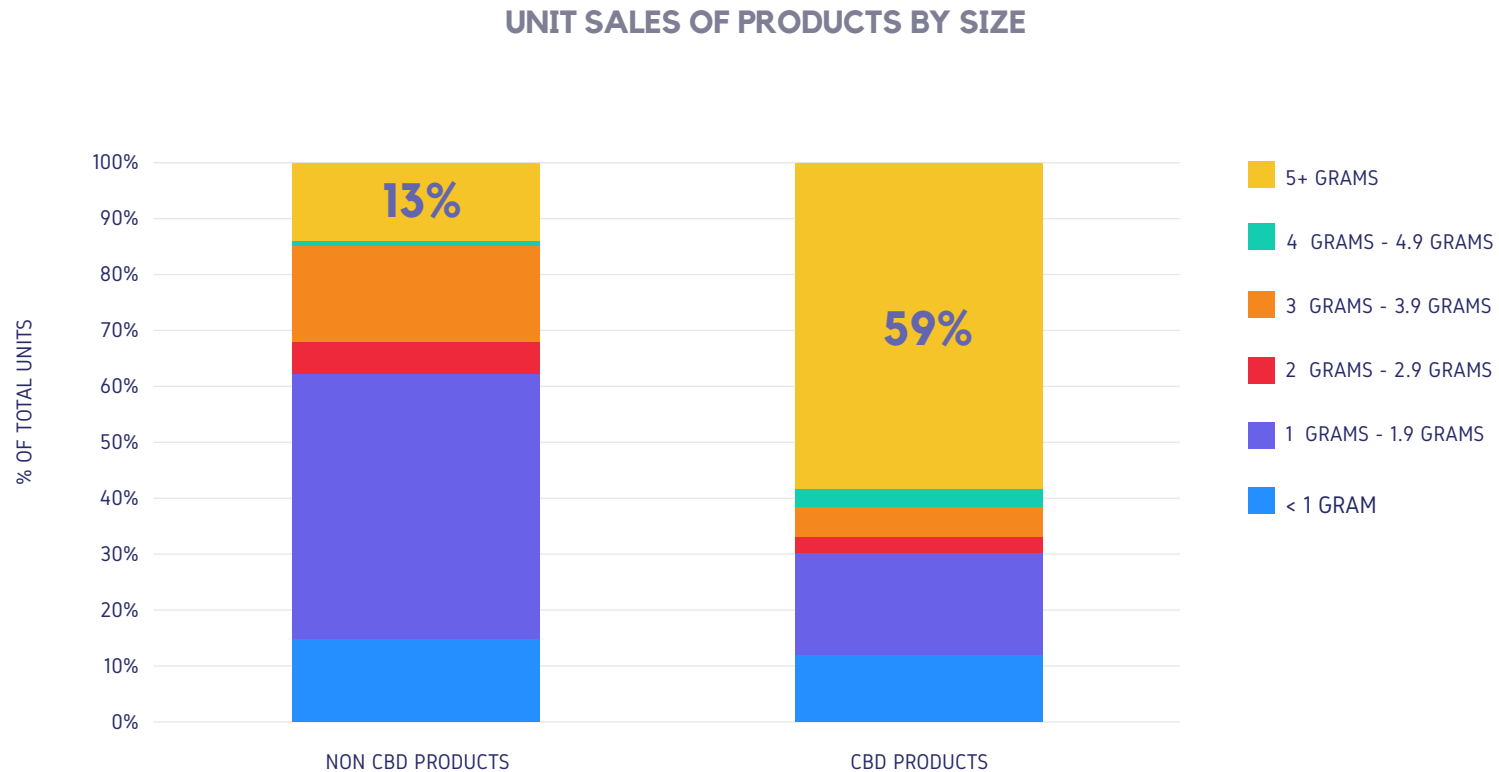
In Washington, there are about 832 different products that are distinguished as CBD. Those products accounted for 2.8% of total sales, 2.4% of total units sold, and about \$5.7 million of the market last year. Since January of 2015, the sales of CBD products have steadily increased, and are currently a little over **3% of the total market**.

PERCENTAGE OF SALES AND UNITS TO CBD PRODUCTS



Purchasing Patterns

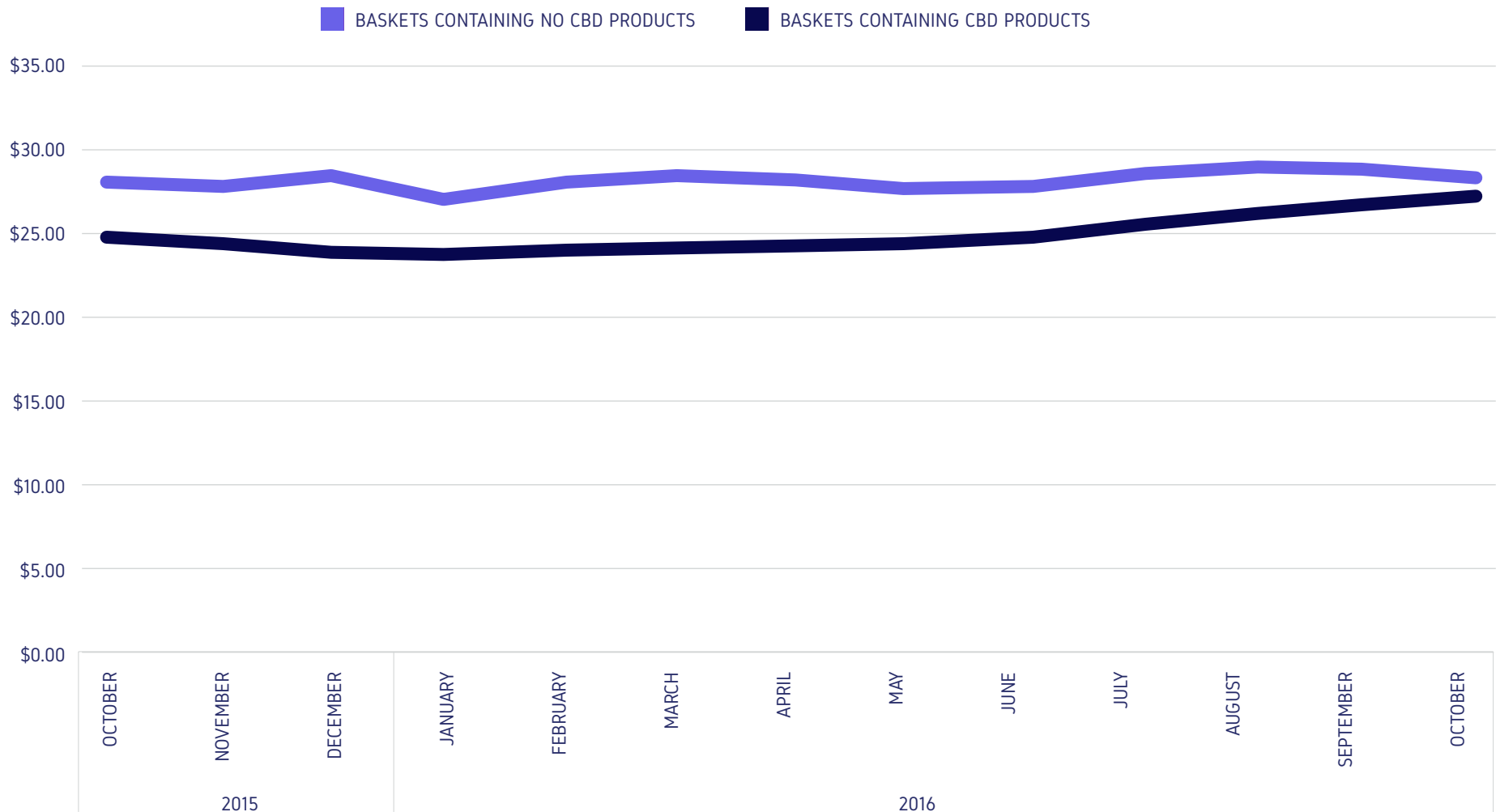
One of the most important things to note about CBD buyers is that they buy in bulk. About 59% of CBD flower purchases are 5+ gram purchases, which could be associated with people buying it with the intent to use daily for its various therapeutic purposes.



Purchasing Patterns Continued...

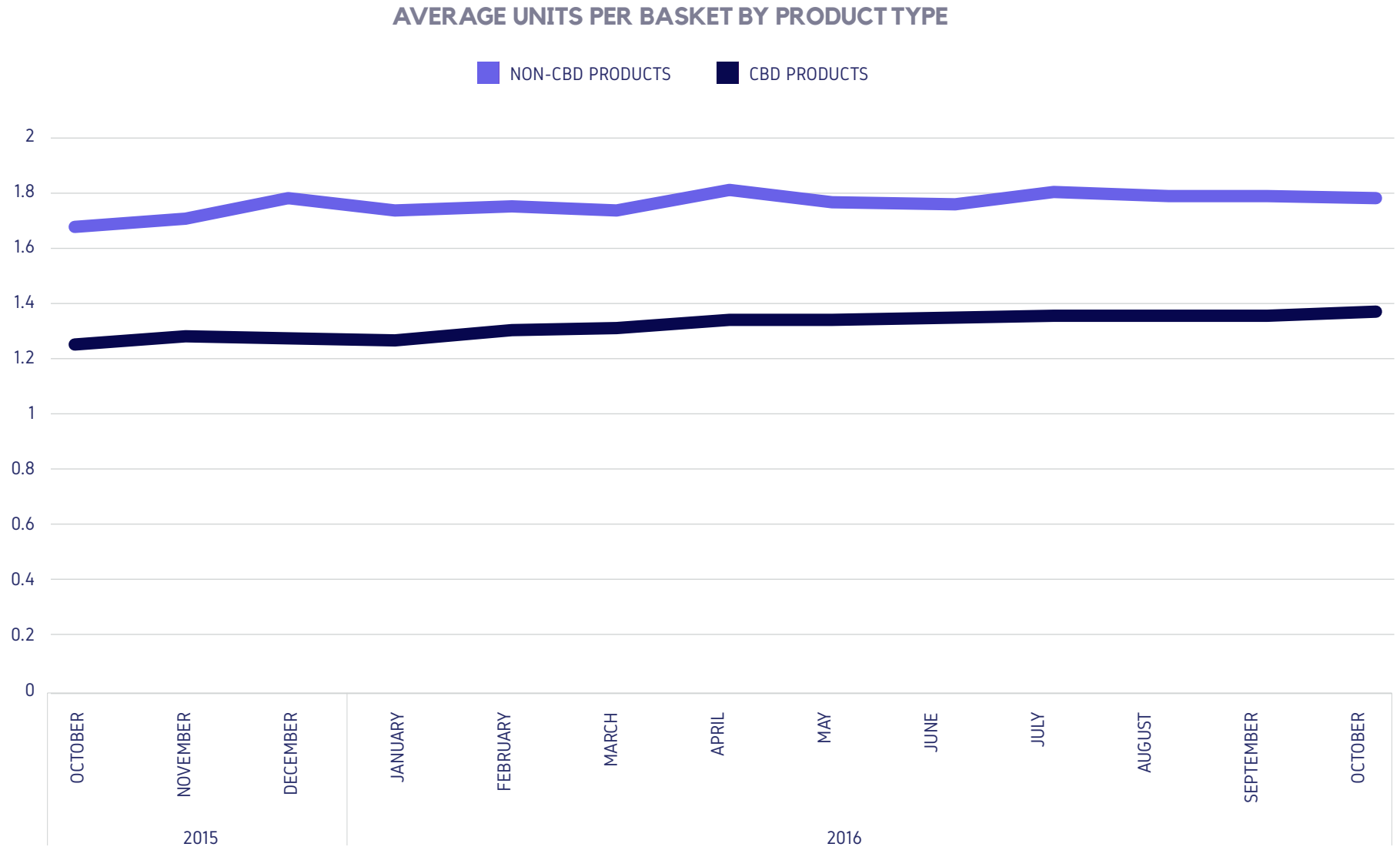
Alternatively, the overall basket price is slightly lower, likely because of those issues around CBD product valuation. However, that gap is slowly closing in recent months.

AVERAGE BASKET PRICE BY PRODUCT TYPE



Purchasing Patterns Continued...

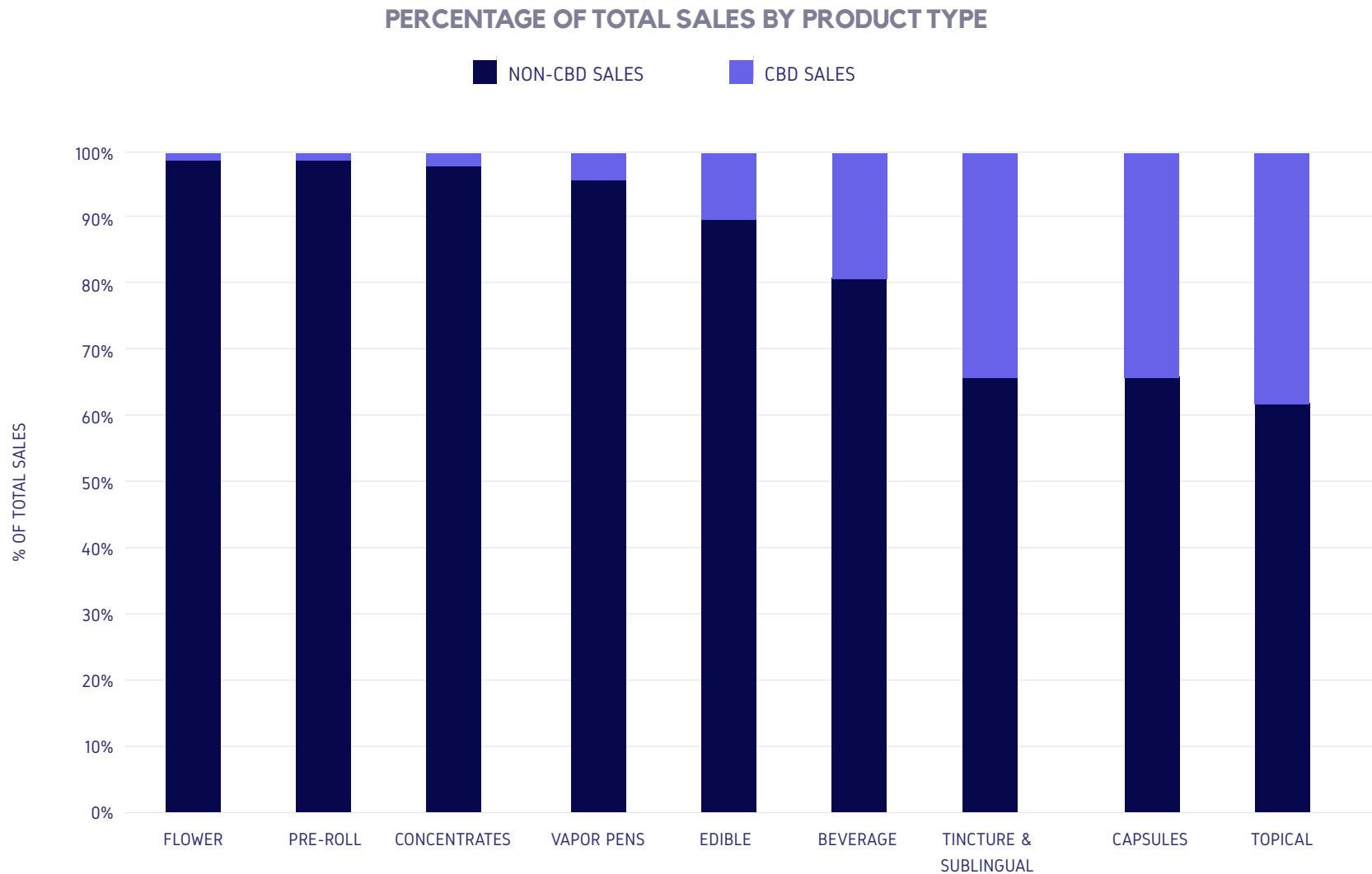
The gap between units per basket for CBD versus THC is also closing, but it's still a wide one, with an average of about 1.8 units per basket for high-THC products versus 1.3 for the high-CBD product.



Purchasing Patterns Continued...

In keeping with that, high-CBD products enjoy greater portions of the overall market share in the topical, tincture, and edible product categories. High CBD flower and pre-roll product sales are less than 1% of their product category, while topicals account for over 60% of theirs.

Total high-CBD market share is about 3%.



Purchasing Patterns Continued...

This is a snapshot of the CBD market share of the edible category for September 2016. Segments with high percentages of high-CBD products are highlighted in yellow.

	<i>Non-CBD</i>	<i>CBD</i>
Edible	90.16%	9.84%
Brownie	96.41%	3.59%
Hard Candy / Lozenges	92.57%	7.43%
Caramels & Chews	99.87%	0.13%
Chocolate	82.99%	17.01%
Cookie	96.64%	3.36%
Cooking Oil	100.00%	0.00%
Crackers & Crisps	100.00%	0.00%
Dehydrated Fruit	100.00%	0.00%
Espresso Beans	100.00%	0.00%
Honey / Sugar / Sweeteners	100.00%	0.00%
Mints	75.52%	24.48%
Nuts & Granola	100.00%	0.00%
Soup	100.00%	0.00%
Truffle	91.48%	8.52%



Become a Headset subscriber to see all of the popular CBD segments

Top Selling CBD Products in Washington

Though it varies month to month, topicals, tinctures, and edibles seem to be the most popular high-CBD products. In September of 2016, for example, these five products were the top sellers, accounting for 16% of overall high-CBD sales:



Mr. Moxey's CBD Ginger Mints by botanicaSEATTLE



Fairwinds Flow CBD Gel



Fairwinds 10:1 CBD Citrus Tincture



The 4.20 Bar CBD Dark Chocolate Minis by Evergreen Herbal



Evergreen CBD Caps - 10 Pack by Northwest Cannabis Solutions

Fastest Growing Segments For CBD Products

Overall high-CBD sales have increased significantly from last year, to the tune of 200%. While many of the big players from last year continue to dominate, and have even had significant growth, the expansion in the overall market and addition of new segments within it have caused their market share to decline.



Flower

- The Flower segment grew over 75% from last year and, though it has the most CBD sales of any segment, it decreased from 26% of overall CBD sales last year to 14% this year, likely due to all the new entrants.



Pre-Roll

- CBD prerolls made up nearly 3% of total CBD sales.



Vapor Pens

- Cartridges are the major player here, moving from the 7th most popular segment in Sept 2015 to 3rd in Sept 2016. They now make up 11% of the total CBD sales.



Concentrates

- Concentrates (excluding vapor products) represent only 3% of total CBD sales
- RSO had an increase in sales of almost 100% over last year



Beverages

- Last year CBD beverages were not common, as the products had not been developed yet. The entire category made up less than .1% of CBD with the majority of sales coming from Fairwinds CBD Coffee products.
- This year, Carbonated is the big player with about 7% of the CBD sales. The other segments make up less than 1% in total.

Fastest Growing Segments For CBD Products Continued...



Edibles

- Chocolates, Mints, and Hard Candy were the major players this year taking up 9%, 5%, and 4% of the CBD market respectively.
- Despite being new this year, Mints make up 5% of the CBD market and are the 8th most popular segment in terms of total sales



Capsules

- This segment slipped from the 3rd most popular CBD segment last year to the 4th this year, despite its extremely high growth rate of over 200%. This year CBD capsules make up just under 10% of the CBD market.



Tinctures & Sublinguals

- Tinctures, Oral Sprays and Breathstrips are all very popular CBD products, with Tincture being the major player.
- Tincture sales increased from last year by 140% and it remains the 2nd best segment in terms of CBD sales with about 13% of the CBD market.
- Oral Sprays and Breathstrips are not new but were very, very small in Sept 2015. They now make up 2% and 1.3% of the CBD market, respectively, which makes them the 12th and 14th most popular segments.



Topicals

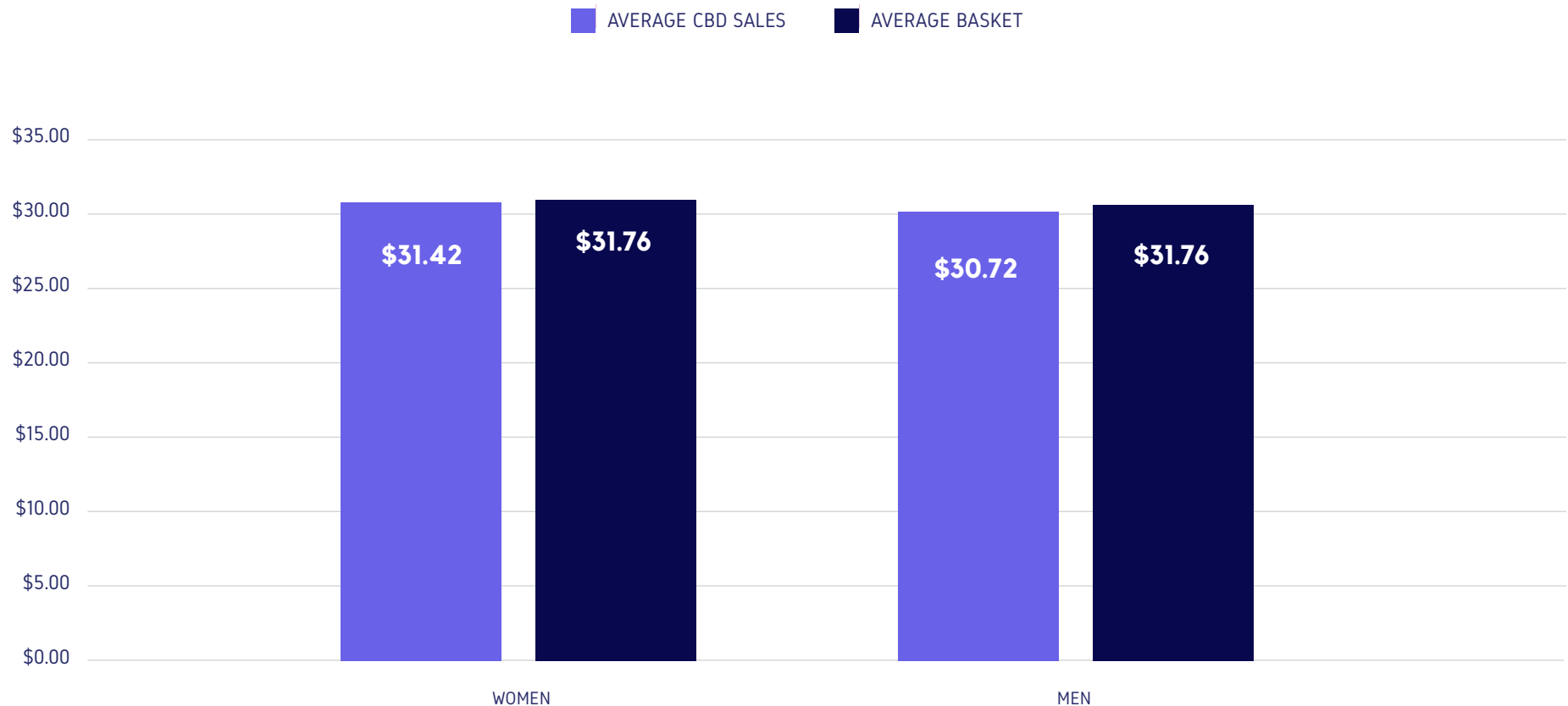
- Lotions & Salves are the most popular CBD segment in Topicals and the 6th most popular segment overall (up from 8th last year). After a 580% growth since September 2015, they now make up over 7% of total CBD sales.
- Transdermal Gel is another major player, moving from 14th most popular segment to 10% with an increase of almost 1000% over last year. Its current market share is 4% of overall CBD sales.
- Massage Oils/Lubes, Transdermal Sprays and Patches all are players in the CBD market as well, although to a much smaller degree.

Demographics

High-CBD products seem to be more popular with women, and are definitely more popular with older populations, suggesting that newer, non-traditional cannabis users are more receptive to CBD. **Women make up about 32% of the total market for all cannabis sales, though they make up 38% of total CBD sales, and the percentage of total sales for high-CBD products goes up noticeably as customer age rises.**

In terms of spending habits, both genders spend similar amounts, although **women buy slightly more CBD products per transaction.**

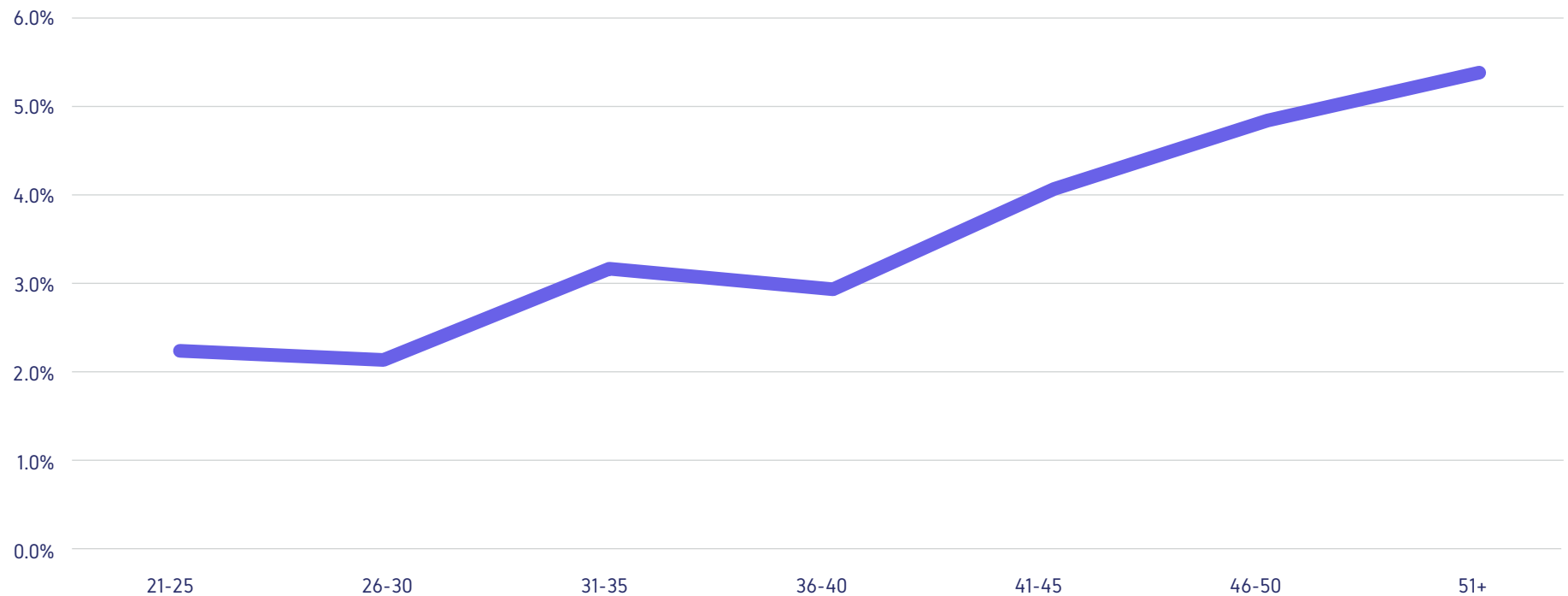
AVERAGE SALES PER TRANSACTION VS. AVERAGE SALES PER CBD TRANSACTION



Demographics Continued...

It's difficult to say with certainty that older customers favor high-CBD products, as fewer than .2% of basket data includes age. However, among the 1247 baskets with that information, a pretty clear age trend emerges. This trend would fall in line with more subjective reasons CBD is associated with older populations: its use for pain relief and its less psychoactive properties. **The percentage of overall sales going to high-CBD products increases steadily from a little over 2% in the 21-25 age group to over 5% in the 51+ age group.**

CBD SALES AS A PERCENTAGE OF TOTAL SALES BY AGE GROUP



CBD Buying Cycle

In terms of purchase frequency, **only 5% of customers in the last 3 months (June - September) purchased a CBD product.**

However, these customers shopped, on average, 8.4 times in the last 3 months vs. 8.0 times for non-CBD purchasing customers. These customers had higher average baskets than customers that did not purchase CBD products, a phenomenon driven entirely by a higher number of items per basket—2.1 items for customers purchasing high-CBD products versus 1.8 for all others. The average item price was slightly less for those which were purchasing CBD products, which again points to the pricing issues around CBD products.

CBD	Customers	Baskets	% of Customers	# of Trips	Average Basket	Average Items	AIP
Yes	3,942	32,996	5%	8.4	\$38.10	2	\$17.76
No	67,732	53,916	95%	8.0	\$33.48	1.8	\$18.38



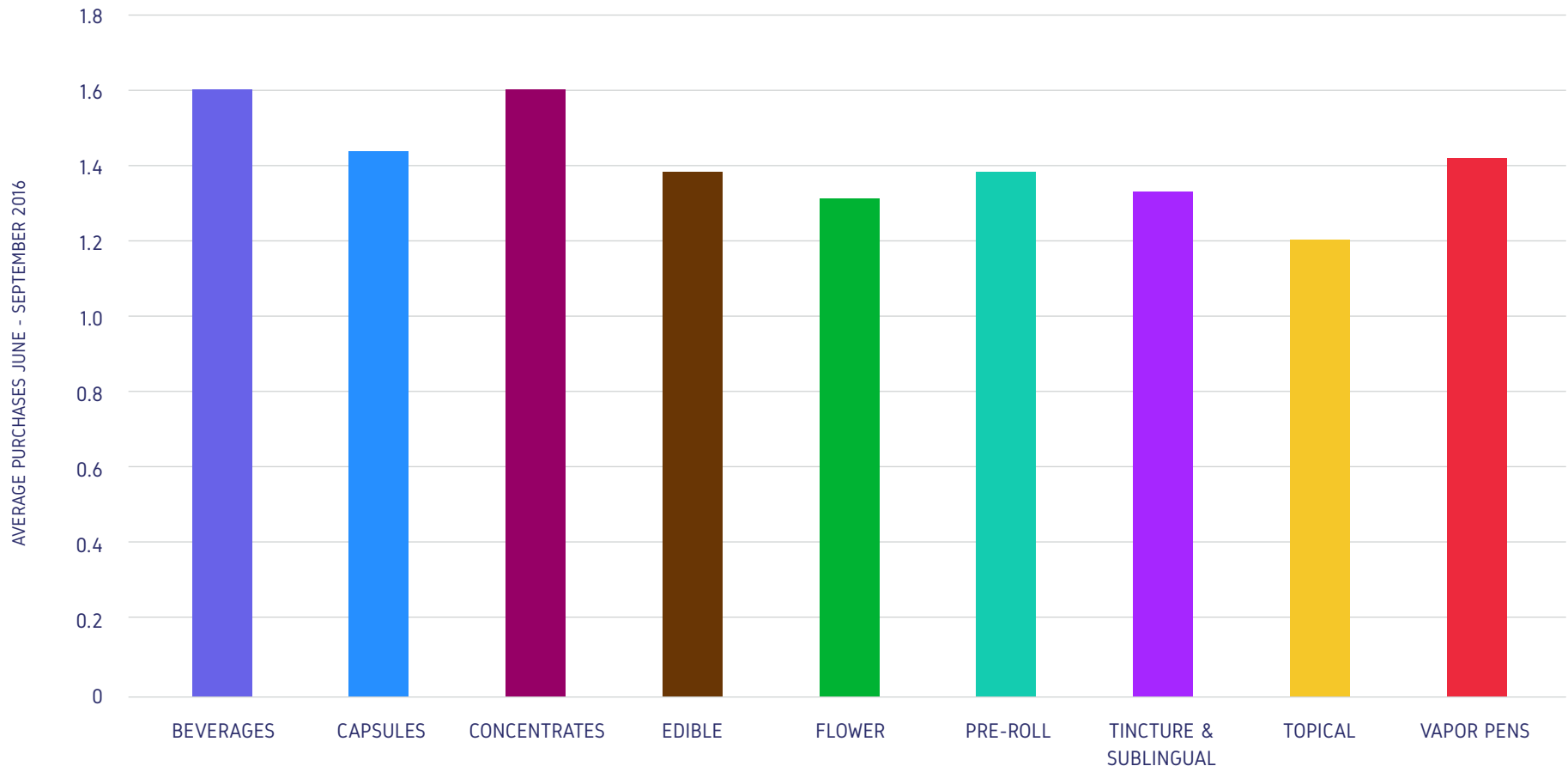
Become a Headset subscriber to see the total sales and total units for frequently purchased CBD products

CBD Buying Cycle Continued...

It's also interesting to note that high-CBD purchases are not really standalone purchases. **Of the customers that purchased high-CBD products 85.5% of them also purchased non-CBD products. On average, customers that purchased CBD products spent only 15% of their money on those products.**

It's also important to look at what they buy most frequently with that 15%. **Over a 3 month period it appears that concentrates and beverages are the most common high-CBD purchases, being purchased about 1.6 times by their buyers.**

AVERAGE PURCHASES OF CBD PRODUCTS PER CUSTOMER



Conclusion & Predictions

Currently, the market for high-CBD products in Washington is not a significant share of the overall cannabis market. However, it's growing, especially with non-traditional customers and in non-traditional product segments. It's too early into the state's medical cannabis consolidation efforts to determine if there will be any effect on high-CBD sales as patients adjust to the recreational market.

Regardless, consumers are increasingly educated about what CBD is and what it does differently. Thanks to increased attention from the media, and increased education at the retail level, it's not exclusively medical patients seeking out CBD anymore. Consumers who seek to enjoy the physical benefits of a traditional indica strain without getting "high" are also gravitating towards higher-CBD products.

However, there's a long way to go before high-CBD products are ubiquitous. Despite that increased consumer education, the average consumer still does not understand the difference between THC and CBD, considering it all "weed." And among those more discerning medical patients, there is a perception that recreational producers cannot be trusted to make medicine that meets their standards. Indeed, the issue of imported CBD oil will likely be a major stumbling block to the market's growth, as it skews pricing and makes it difficult for producers to turn a profit off of homegrown high-CBD material. Regulators could step in and more transparency on the origins of ingredients in cannabis products, but consumer demand will likely drive these changes. In order to know they want transparency, consumers have to be educated enough to know they aren't getting it, which could be a slow process.

Either way, expect to see CBD become more and more a part of the cannabis conversation, as its therapeutic properties convert more and more users. Also, as the cannabis consumer base expands, you can expect to see interest in products beyond high-THC flower expand commensurately. There will also be a growing demand for full-plant-extract, "homegrown" CBD products among medical patients, as those patients shift away from the now-defunct medical market that had previously supplied them with it. Smart entrepreneurs in this space will get to know the typical CBD consumer now, before the market truly takes off, and develop products and promotions that speak to them. Currently, the market for high-CBD products in Washington is not a significant share of the overall cannabis market. However, it's growing, especially with non-traditional customers and in non-traditional product segments. It's too early into the state's medical cannabis consolidation efforts to determine if there will be any effect on high-CBD sales as patients adjust to the recreational market.

About Headset

Headset is market data and business intelligence for the cannabis industry. Our extensive Industry Report deep-dives into specific brands to better monitor the competitive landscape as well as exhaustive category analysis. Reports are generated via aggregate, real-time transaction data to get a unique and thorough analysis of what's happening in the Washington market.



RETAILER DISPENSARY EDITION

BI tools to help transform your sales and inventory data into real cost savings everyday.



INSIGHTS EDITION

Real-time market intelligence for finding new opportunities and staying ahead of cannabis trends as they happen.



BRIDGE (COMING SOON)

Unprecedented visibility through retailer direct data. Collaborate. Forecast. Replenish.

Learn more about Cannabis Intelligence at headset.io