

# Macro View of The Cannabis Market

by Dutchess Capital



23,900,000  
People consume  
cannabis frequently.



They spend  
\$1,869 annually.  
That is  
\$44,700,000,000.



The black market is  
estimated at \$45B, the  
legal market is at  
\$2.5B, that gap has to  
be filled.



There is about  
\$1,700,000,000 to  
be spent  
developing MMJ  
facilities in the next  
18 months.



Most of these  
states have not  
started rolling out  
facilities.



24 jurisdictions  
have passed  
medical cannabis  
laws. 26 to go.



It costs about \$980  
to produce a  
pound of cannabis.



Cannabis wholesales  
for about \$2,500 per  
pound and retails as  
high as \$15,000 per  
pound.



Considerable risks  
exist which is  
creating  
opportunity.



Created by :  
Douglas Leighton  
Dutchess Capital

# Dutchess Capital Research

---

**This report was initially created for Dutchess Capital internal use. Subsequently, it was updated and is available for public review. Under no circumstance, is the information contained herein intended for any person(s) to use in making an investment decision. Further, under no circumstance shall the information, or any opinion expressed herein, constitute an offer to buy or sell any securities.**

**Information about American Cannabis Company is from its most recent 10Q. You can access the filing [here](#).**

By: [Douglas Leighton](#) at [Dutchess Capital](#)

## **Methodology:**

Reliable information and data collection regarding the cannabis industry has been difficult to obtain, mainly due to the fact that the industry operated in the shadows for decades. Historically, organizations and agencies produced ideologically biased data intended to illustrate the harmful effects of marijuana in order to deter marijuana usage. To formulate this thesis, we utilized existing empirical data and reinforced it with more recent data generated from other sources, which we believe to be reliable, including findings from our own research team.

## **Dutchess Capital Thesis:**

We conducted a lengthy and exhaustive due diligence process in preparing this report utilizing a top-down approach. By analyzing macro trends, we were able to identify the potential addressable market and focus on companies we believed could benefit most from the proliferation of investment capital into the legal cannabis sector.

## **Potential Addressable Market for Medical and Adult use Marijuana:**

By all measures, it is evident that the market for medical and adult use marijuana continues to increase rapidly. Sales of legal cannabis within the U.S. are forecasted to grow from \$1.3 billion in 2013 to \$2.5 billion in 2014, and reach \$6 billion by 2018, making it one of the fastest growing industries today<sup>1</sup>. Currently, there are an estimated 15.5 million cannabis consumers over the age of 18 in the U.S. who smoke at least once every 30 days<sup>2</sup>. Considering the average marijuana user spends approximately \$1,869 per year on cannabis, that figure equates to a retail market of almost \$29 billion. Given a 2012 National Survey on Drug Use and Health, which found that there are as many as 23.9 million people that smoke “frequently”, the overall market size could be as much as 50% larger. A widely accepted principle of fact-finding regarding marijuana usage is that many survey respondents either deny and/or understate their consumption habits, thereby skewing the data lower.

The cannabis market differs from other emerging industries being that in traditional markets, entrepreneurs expend considerable resources attempting to stimulate demand, while in the cannabis market, *significant demand for cannabis already exists; it just needs to be serviced legally*. As the legal

---

<sup>1</sup> ArcView Market Research

<sup>2</sup> Dutchess Capital Research, Substance Abuse and Mental Health Services Administration

# Dutchess Capital Research

---

market expands, demand will continue to outpace supply due to limitations on legal state-licensed cultivation facilities. Furthermore, while legal *within* some states, any interstate commerce of marijuana is still illegal, as mandated by federal law. This dynamic creates repetition within each state, as they can only service the market within their state's borders. This is providing even more opportunity, as it ceases the ability to create large regional centers that can ship to nearby states, and therefore creates duplication of equipment and services for every state that has a legal cannabis market.

## Growing Acceptance of Marijuana Use:

Moral views and attitudes toward marijuana usage in the U.S. have been shifting favorably, not only with the U.S. electorate, but with lawmakers as well. Much of its stigma has dissipated, and now over 50% of the U.S. population approves of medical marijuana usage, a significant increase from just 12% a few generations ago.<sup>3</sup> Surprisingly, the fastest growing demographic for marijuana usage is 51-60 year olds, followed by women. Further, in more recent years, there have been numerous unscientific reports published that indicate some evidence that cannabis can either relieve symptoms of, or outright cure, a multitude of ailments and afflictions. Perhaps most significant of these discoveries is a reduction in the incidences of seizures in epileptic children. These findings have also served to rapidly move cannabis deliberations to the forefront. Dr. Sanjay Gupta, CNN's chief medical correspondent and renowned assistant professor of neurosurgery at Emory University School of Medicine and associate chief of the neurosurgery service at Grady Memorial Hospital in Atlanta, recently reversed his long-standing negative viewpoint regarding the efficacy of cannabis and has now become a leading advocate for medicinal legalization.

---

### Support for Making Use of Marijuana Legal

Do you think the use of marijuana should be made legal, or not?



GALLUP

---

<sup>3</sup> Gallup Poll

## **Potential Tax Related Revenue:**

Total annual tax revenue generated in the U.S. from adult use marijuana sales has the potential to reach \$3 billion, if legalized in all 50 states.<sup>4</sup> This has enticed some cash-strapped states to look towards legalizing cannabis, since it already exists in an underground market, and the state and local governments are missing out on potential tax revenue. When you factor the significant cost of fighting the marijuana drug war at approximately \$10.7 billion per year<sup>5</sup>, legalizing, or at least decriminalizing, could alleviate that burden from governments and taxpayers.

## **The Opportunity:**

At the time of this report, there are 23 jurisdictions that have approved medicinal marijuana, leaving 27 remaining. Of the 23 states approving, only five have full-scale operations. This translates to significant growth opportunities over the next several years as more states potentially come online. Based upon the states that have already legalized medicinal marijuana but have yet to begin a full-scale rollout, with an average cost of \$5 million per cultivation facility, there is the potential for \$1.7 billion in capital expenditures alone over the next 18 months. In November, three more jurisdictions (OR, AK, DC) voted for the legalization of marijuana for adult use. The addition of these states will undoubtedly add to this capital expenditure potential.

We estimate the annual U.S. market for cannabis related consumables to be about \$962 million and expect it to double over the next 18 months.<sup>6</sup> The demand for soil, fertilizer, water, electricity, packaging, cleaning supplies, etc. is extensive, and each state has its own regulations regarding the distribution of these products. In addition, states have begun to legislate safety requirements for cannabis products, such as distinctive packaging and labeling and child proofing.

## **Sustainability of Marijuana Related Businesses:**

Barriers to entry for cultivation facilities are extremely high considering the following; (i) The average turn-key start-up costs including real estate and construction range from approximately \$5 million to as high as \$35 million in some markets; (ii) Raw materials and other operational expenses can be considerable; (iii) Currently, the average production cost of one pound of marijuana is approximately \$980. Wholesale market rates average approximately \$2,500 per pound, with retailers fetching prices as high as \$15,000 per pound. Profit margins at vertically integrated production and dispensary operations are robust enough to easily sustain operations of these new enterprises.

---

<sup>4</sup> Nerd Wallet

<sup>5</sup> Americans for Safe Access

<sup>6</sup> Dutchess Capital Research

# Dutchess Capital Research

---

## **Primary Risks of Investing in the Cannabis Industry:**

- It is illegal pursuant to U.S. federal law
- Politics could shift again in opposition to marijuana use
- There are currently no regulatory banking laws; it remains a cash-based industry
- Security regarding cannabis products and cash
- Each state has its own myriad of laws and regulations
- Federal tax law does not permit deduction of expenses in marijuana related businesses, pursuant to the Internal Revenue Code Section 208E

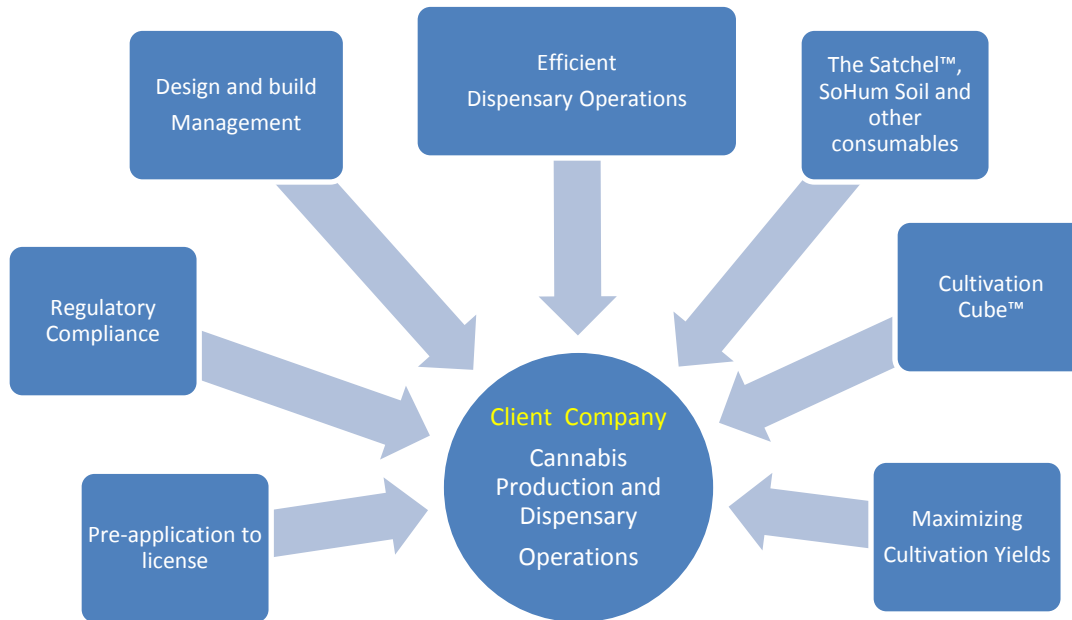
## **Potential Upside of Investing in the Cannabis Industry:**

- More states could decriminalize or approve medical and adult use marijuana
- More widely accepted scientific research could support medicinal benefits
- Marijuana could be reclassified from a Schedule 1 drug to a less restrictive classification
- Banking issues could be resolved
- IRS Code could be favorably amended

## **Conclusion:**

Based on our research, and weighing the risks and potential rewards of the cannabis sector, we believe it to be selectively worthy of investment. One company we selected for our investment portfolio is American Cannabis Company (AMMJ), one of the nation's leading legalized-cannabis consulting firms and producer and distributor of market-related proprietary and third party products. We believe AMMJ serves as a bellwether for the entire industry and should benefit significantly over the next several years as the marijuana legalization process continues to unfold.

## AMMJ Products & Services



**Application services:** AMMJ provides hands-on assistance to their clients in the formal written application process; pre-license planning and business plan drafting for presentation to the state authorities and potential investors.

**Design and build:** AMMJ designs and manages a complete build-out of a client’s entire cultivation and dispensary facility, from a retrofit of an existing building to new construction including greenhouses.

**Cultivation Cube™:** AMMJ offers self-enclosed, climate-controlled and stackable 1,000 sq. ft. containers, which allow for cultivation with risk mitigation, increased speed to market and higher overall yields. This increased efficiency can translate into as much as \$250,000 per year in potential revenue.

**Consumables:** AMMJ also markets a wide variety of consumable products including its proprietary Satchel™, a child resistant approved<sup>7</sup> exit package for dispensaries’ retail customers, licensed organic soil as well as a variety of other industry related products, through a wide variety distribution channels.

**Ongoing Consulting:** The Company provides ongoing consulting to its clients, throughout the life cycle of the business, regarding a wide range of issues from yield maximization to dispensary operations to regulatory compliance.

---

<sup>7</sup> By the American Society for Testing and Materials

# Dutchess Capital Research

---

## **Management:**

Corey Hollister, CEO: Corey brings 15 years of corporate sales, marketing, and management experience. He was also a co-owner of a Boulder, CO-based medical marijuana center.

Ellis Smith, CDO: Ellis is the master grower. He was co-owner of a Boulder, CO-based medical marijuana center. He has developed an understanding of complex marijuana cultivation systems, production protocols and sales optimization.

Trent Woloveck, COO: Trent has four years' service with a Fortune 50 healthcare company, two years' experience in business risk consulting and brings best practices knowledge of operations and distribution to the marijuana industry.

Anthony Bar, CTO: Anthony has 35 years business experience in financial planning, real estate acquisition and development, construction, product development & distribution, and contract implementation.

We believe this management team is fully capable of executing and growing its business into a formidable and influential player within the cannabis space over the next 24 months. They have had several key license procurements for their clients and have successfully navigated some of the toughest states' merit-based systems. For example, some of their wins include; one out of only four licenses granted in Connecticut, one of just eleven granted in Massachusetts and one of twelve granted within Canada.

## **Potential risks of investing in AMMJ:**

- The Company has limited liquidity in the market for its publicly-traded shares
- The Company has not yet proven that its business model is scalable and sustainable in the long-term
- The Company's management team has never operated a publicly-traded company
- The Company's clients may not win approvals for their licenses
- The Company assists parties with starting and operating a business that may be in violation of federal law
- The Company recently completed an offering at \$0.08 per share (in which we participated) and those shares can be sold pursuant to Rule 144 in November 2014
- We beneficially own 3.9 million shares, which are subject to volume restrictions on resale under \$1.00 per share and no restrictions above \$1.00 per share

## **Potential upside of investing in AMMJ:**

- Recurring revenue and significant profit margins on the Company's consulting services
- Continued growth of the cannabis industry within states that have already legalized marijuana
- New growth opportunities in states that have yet to approve marijuana

# Dutchess Capital Research

---

- Only one of their six consulting clients has won license approvals. The others are awaiting November 2014 votes on legalization
- Consulting clients are inherent sales channel for their proprietary consumables

## Key Events at AMMJ:

### 2013 Q2

- Signs consulting agreement with new client in Massachusetts

### 2013 Q3

- Signs consulting agreement with new client in Canada

### 2014 Q1

- Massachusetts client wins merit-based marijuana license

### 2014 Q2

- Signs consulting agreements with several clients in Illinois.
- The Satchel™ is officially launched
- Receives 500,000 unit order for The Satchel™ one month after launch

### 2014 Q3

- AMMJ shares commence trading on the OTC QB
- Signs consulting agreement with new client in Minnesota
- Signs consulting agreement with new client in New York
- Receives order for its Cultivation Cube™
- Signs licensing agreement for the distribution of its SoHum Soil™

### 2014 Q4

- Signs consulting agreement with new client in Florida
- Secured 6 provisional licenses for Nevada clients
- Company receives order for 4,250 units of AutoPot
- Company reports Q3 revenue of \$481,000 and net income of \$75,000.



# Dutchess Capital Research

---

## ***Disclaimer- Please Read.***

As of the publication date of this report, Dutchess Capital and its affiliates (collectively “Dutchess”), parties contributing to this report and parties we have shared our research with (collectively, the “Authors”) have long positions in the shares of common stock of American Cannabis Company, Inc. (“Stock”), and stand to realize gains in the event that the price of the Stock increases. Following publication of this report, the Authors may transact in the securities of the Company covered herein. All information in this report is derived from sources believed to be accurate and reliable, and represents the sole opinion of Dutchess. The Authors have obtained all information herein from sources they believe to be accurate and reliable. However, such information is presented “as is”, without warranty of any kind – whether expressed or implied. The Authors make no representation, expressed or implied, as to the accuracy, timeliness, or completeness of any such information or with regard to the results obtained from its use. All expressions of opinion are subject to change without notice, and the Authors may at their sole discretion decide to undertake to update or supplement this report or any information contained herein, but are under no such obligation to do so. This document is for informational purposes only and it is not intended as an official confirmation of any transaction. All market prices, data and other information are not warranted as to completeness or accuracy and are subject to change without notice. The information included in this document is based upon selected public market data and reflects prevailing conditions and the Authors’ views as of this date, all of which are accordingly subject to change. The Authors’ opinions and estimates constitute a best efforts judgment and should be regarded as indicative, preliminary and for illustrative purposes only. Any investment involves substantial risks, including, but not limited to, pricing volatility, inadequate liquidity, and the potential complete loss of principal. This report’s estimated fundamental value only represents a best efforts estimate of the potential fundamental valuation of a specific security, and is not expressed as, or implied as, assessments of the quality of a security, a summary of past performance, or an actionable investment strategy for an investor. This is not a recommendation to buy or sell any securities of companies covered herein. This document does not in any way constitute an offer or solicitation of an offer to buy or sell any investment, security, or commodity discussed herein or of any of the affiliates of the Authors. Also, this document does not in any way constitute an offer or solicitation of an offer to buy or sell any security in any jurisdiction in which such an offer would be unlawful under the securities laws of such jurisdiction. To the best of the Authors’ abilities and beliefs, all information contained herein is accurate and reliable. The Authors reserve the rights for their affiliates, officers, and employees to hold cash or derivative positions in any company discussed in this document at any time. As of the original publication date of this document, investors should assume that the Authors own shares of Stock in American Cannabis Company, Inc. and stand to potentially realize gains in the event that the market valuation of the company’s common equity is higher than prior to the original publication date. These affiliates, officers, and individuals shall have no obligation to inform any investor about their historical, current, and future trading activities. In addition, the Authors may benefit from any change in the valuation of any other companies, securities, or commodities discussed in this document. Analysts who prepared this report are compensated based upon (among other factors) the overall profitability of the Authors’ operations and their affiliates. The compensation structure for the Authors’ analysts is generally a derivative of their effectiveness in generating and communicating new investment ideas and

the performance of recommended strategies for the Authors. This could represent a potential conflict of interest in the statements and opinions in the Authors' documents.

The information contained in this document may include, or incorporate by reference, forward-looking statements, which would include any statements that are not statements of historical fact. Any or all of the Authors' forward-looking assumptions, expectations, projections, intentions or beliefs about future events may turn out to be wrong. These forward-looking statements can be affected by inaccurate assumptions or by known or unknown risks, uncertainties and other factors, most of which are beyond the Authors' control. Investors should conduct independent due diligence, with assistance from professional financial, legal and tax experts, on all securities, companies, and commodities discussed in this document and develop a stand-alone judgment of the relevant markets prior to making any investment decision.

From FINRA:

### **Marijuana Stock Scams**

**Update:** In early January 2014, new laws regarding the legalization of marijuana for medical and recreational purposes went into effect in a number of states. At the same time, media coverage of the issue increased, as did investor interest in shares of marijuana-related companies. In some cases, volumes for the stock of otherwise thinly traded, marijuana-related companies increased dramatically—and prices became quite volatile. In May 2014, the SEC issued an [alert and accompanying trading suspensions](#) for numerous companies that claim their operations relate to the marijuana industry.

We are reissuing this alert to warn investors not only about the potential for fraud in this arena, but also to reiterate the risks of investing in thinly traded companies about which little is known. Regardless of industry sector, any so-called "hot" stock can burn your portfolio. Rather than getting swept away, take time before you invest to learn more about the company, its products or services and the people running it. And be sure you carefully assess the company's prospects for success.

With medical marijuana legal in almost 20 states, and recreational use of the drug recently legalized in two states, the cannabis business has been getting a lot of attention—including the attention of scammers. FINRA is issuing this alert to warn investors about potential scams associated with marijuana-related stocks.