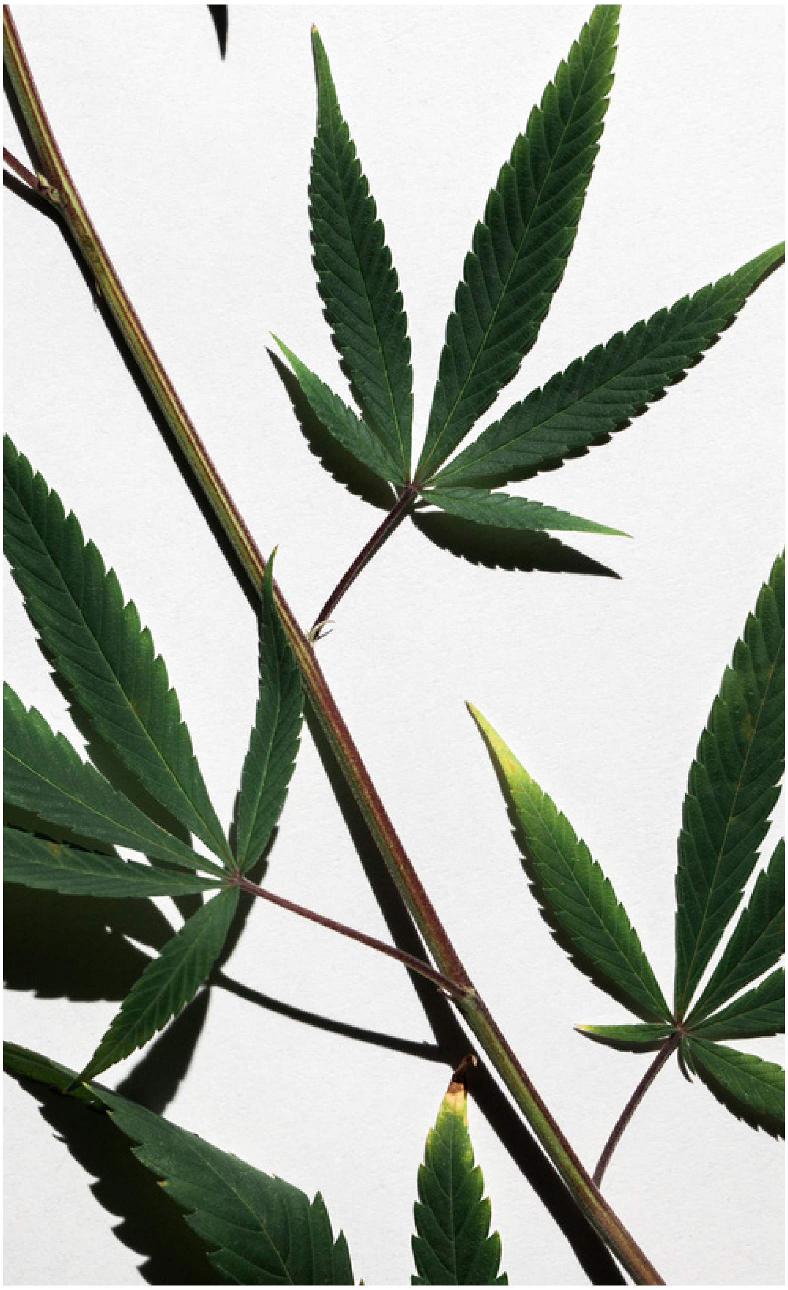
PRØHBTD MEDIA x HEADSET


# CANNABIS CROSSOVER

## THE WORLD'S LARGEST UNTAPPED CONSUMER

# INDEX



# METHODOLOGY

The sample size for this report includes more than $1.5 billion in transactions from the following states: Washington, Arizona, California, Colorado, Washington D.C., Illinois, Nevada, Oregon and Michigan.

PRØHBTD Media reaches millions of consumers online through its multi-platform network, and Headset's reach expands to any state with an active and regulated cannabis industry.

# FOREWORD BY DAVID BELL

PROFESSOR OF MARKETING
THE WHARTON SCHOOL

The "cannabis consumer" is, by definition, and matter of fact, also a consumer of a vast number of brands and experiences in many other product and service categories. Cannabis consumers drink Starbucks, wash their jeans with Tide, and consume digital content on Netflix.

In short, they aren't just *like* "you and me." Many times they actually *are* "you and me."

In this report we collate and present a series of insights into this consumer segment. We focus on core segmentation variables including: descriptors (*who* the customer is demographically and geographically), attitudes (*what* the customer thinks about and focuses on) and behavior (*how* customers buy products and consume content). The description of these core attitudes and behaviors will be based on data gleaned from these new consumers in the rapidly growing cannabis market. Brands can couple the core and proprietary knowledge held on their own customers with what we lay out for the cannabis consumer, and readily determine the critical points of intersection.

This data and knowledge fusion then becomes the basis for informed content and media buying, as well as for strategies on how to engage this consumer group.

Before going further, the first critical thing to note is the incredible scale of this emerging segment, both within the United States and abroad. In a few short years, the cannabis ecosystem of products and services will be worth $50B. Second, and commensurate with scale, is the diversity of customer types within the overall class. The stereotypical, legacy, pop culture consumer is young, male, a smoker, and a seeker of an altered state, a.k.a. "the high." This legacy stereotype is, of course, just that, as the *actual* customer of today can also be considerably older. And female. And a consumer of edibles, peripheral products, lotions, delivery services, and so on. And, oftentimes, a seeker of "wellness and wellbeing." Cue the middle-aged female consumer of edibles that help alleviate a medical condition or difficulty with sleep.

One other thing of special note in this space is the ubiquitous millennial trend of gravitation towards brands with purpose. There is an overwhelming desire among these consumers to seek out brands that do more than just satisfy the functional need that product serves. From Away in luggage to Warby Parker in eyewear, the new generation of digitally native brands stand for more, do more and mean more to the core constituent.

Critically, brand meaning is conveyed through the ongoing brand narrative, which relies heavily on visual, social and video-driven content. This content is driven by brands, media partners and even by the consumers themselves.

The buying behavior of these consumers *within the cannabis category* shows a fairly high degree of concentration and brand loyalty, especially in beverages, topicals and capsules. Furthermore, and as we document in this report, there are key age- and gender-related preference patterns for different classes of product. While "loyalty" is an overarching characteristic, the data highlights the importance of the nuance, in the delivery of the right message and marketing approach for the targeted customers. Another important and subtle overlay is the distinction between medical- and recreational-use cases, which can present both different segments and, at times, some degree of consumer overlap.

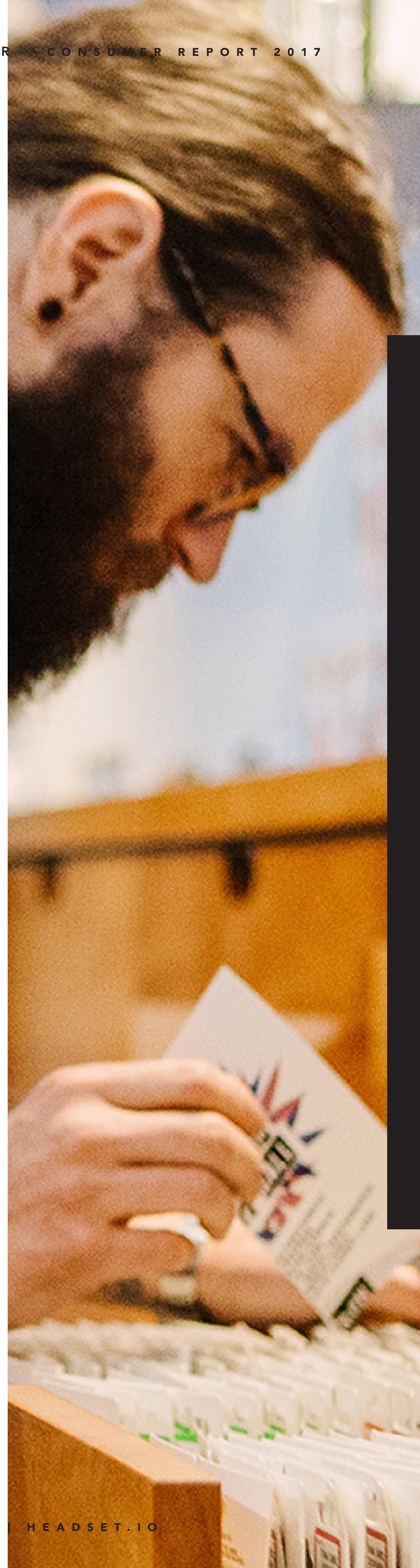
Perhaps more stereotypically, these consumers are prolific and engaged consumers of content. And content that varies widely in genre from educational content to pop culture, news and serialized entertainment. These points of engagement create tremendous opportunities for targeted and leveraged communications by traditional brands, who are vying for additional points of contact with customers who are already part of their own brand franchises. Data from the PRØHBTD Media Content Network shows that these viewers have voracious appetites for premium content formats, as well as for short form content, including the memes and word videos that populate all of our social media feeds.

PRØHBTD Media owns and operates the leading original content studio and largest multi-platform video network in the cannabis space reaching an aggregate audience of 100M+ people each month. We provide a suite of premium video production, branding and digital marketing solutions to help cannabis brands build their businesses and connect with customers through authentic stories & engaging content Learn more @ www.prohbtdmedia.com

Owned and operated by entertainment, marketing and advertising executives, PRØHBTD Media is at the forefront of the explosive cannabis market.

With more than 1,000,000 monthly active users, PROHBTD.com is a leading online destination for modern cannabis enthusiasts that showcases art, music, video, fashion, travel, gastronomy, lifestyle and pop culture that rebels against all forms of prohibition.

Contemporary and progressive, the PRØHBTD audience is young savvy consumers who like to access informative and entertaining content, learn about cool gear and interact with each other.



At Headset we're a cannabis tech company that's passionate about helping cannabis businesses become successful.

Our core team founded leafly.com, revolutionizing cannabis consumption by putting information in the hands of consumers.

With Headset, we want to do the same thing for cannabis business intelligence. Our comprehensive cannabis data analytics services benefit the entire supply chain, from seed to sale.

We currently offer three products that cover the array of specialized needs that cannabis businesses have, be they growers, extractors, processors, or retailers. We also release quarterly and annual market reports, offering our followers a data-driven look at the growing cannabis industry.

# THE WORLD'S LARGEST UNTAPPED CONSUMER

A new cannabis consumer has emerged. One that is brand safe, accessible and of course interested in goods and services beyond their preferred cannabis products.

By 2025, cannabis is set to be a $50B+ industry, and there are currently more than 50,000 companies in North America alone. With mainstream consumers eclipsing stoner stereotypes, brand marketers now have opportunities to access these audiences through digital and physical channels.

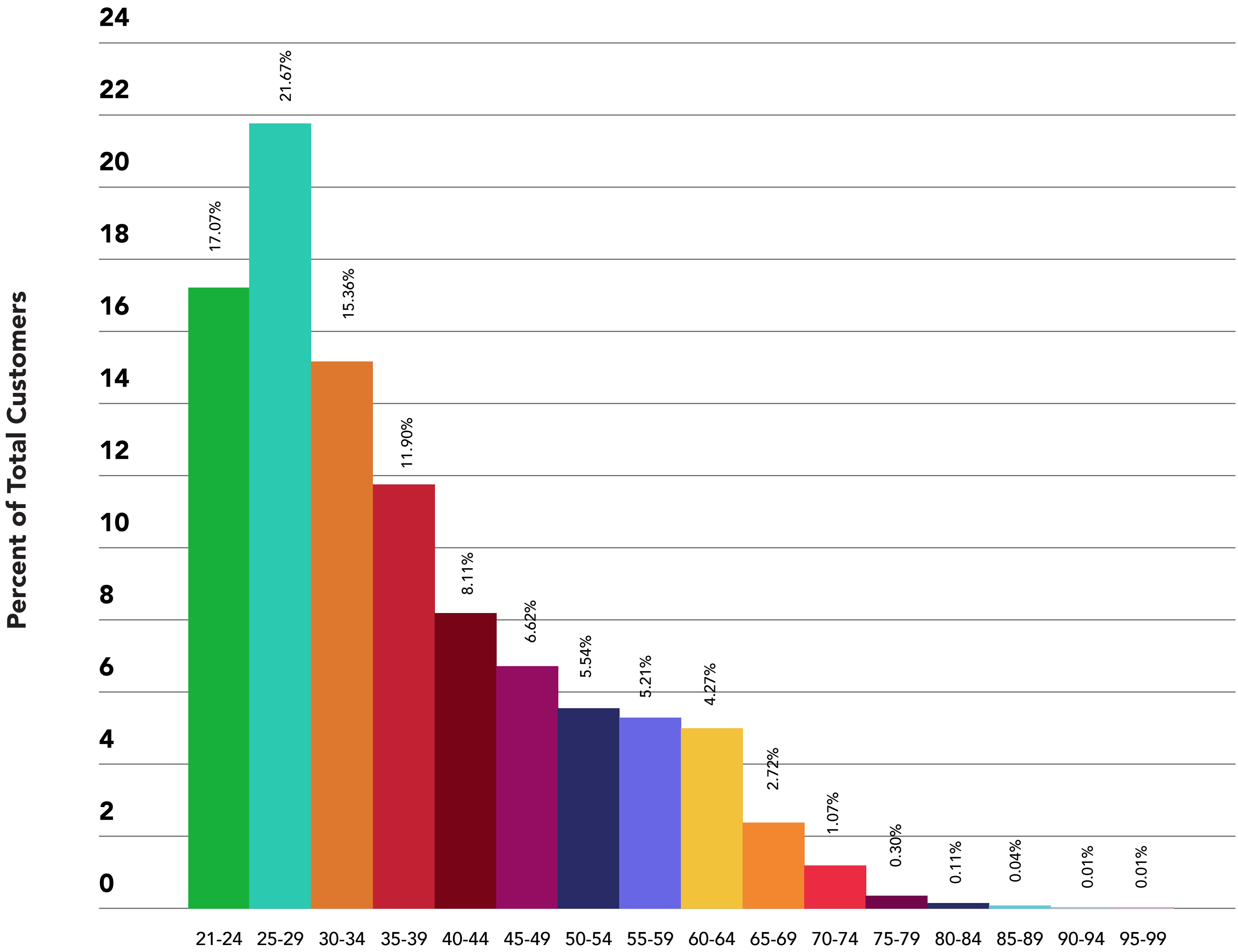
This mainstreaming of cannabis, and the consumers who are curious and passionate about the plant's qualities and natural abilities to enhance and elevate their lives, provide a once-in-a-lifetime social retail movement.

Cannabis pop culture has traditionally centered around the young male smoker and his high times. But the legalization movement has made cannabis more accessible than ever before, and cannabis' application as a painkiller is particularly appealing to senior citizens and young adults interested in the wellness movement.

So what does the typical, recreational cannabis user look like today? And how do the preferences and spending habits of groups like young men and senior citizens differ? Read on to find out.

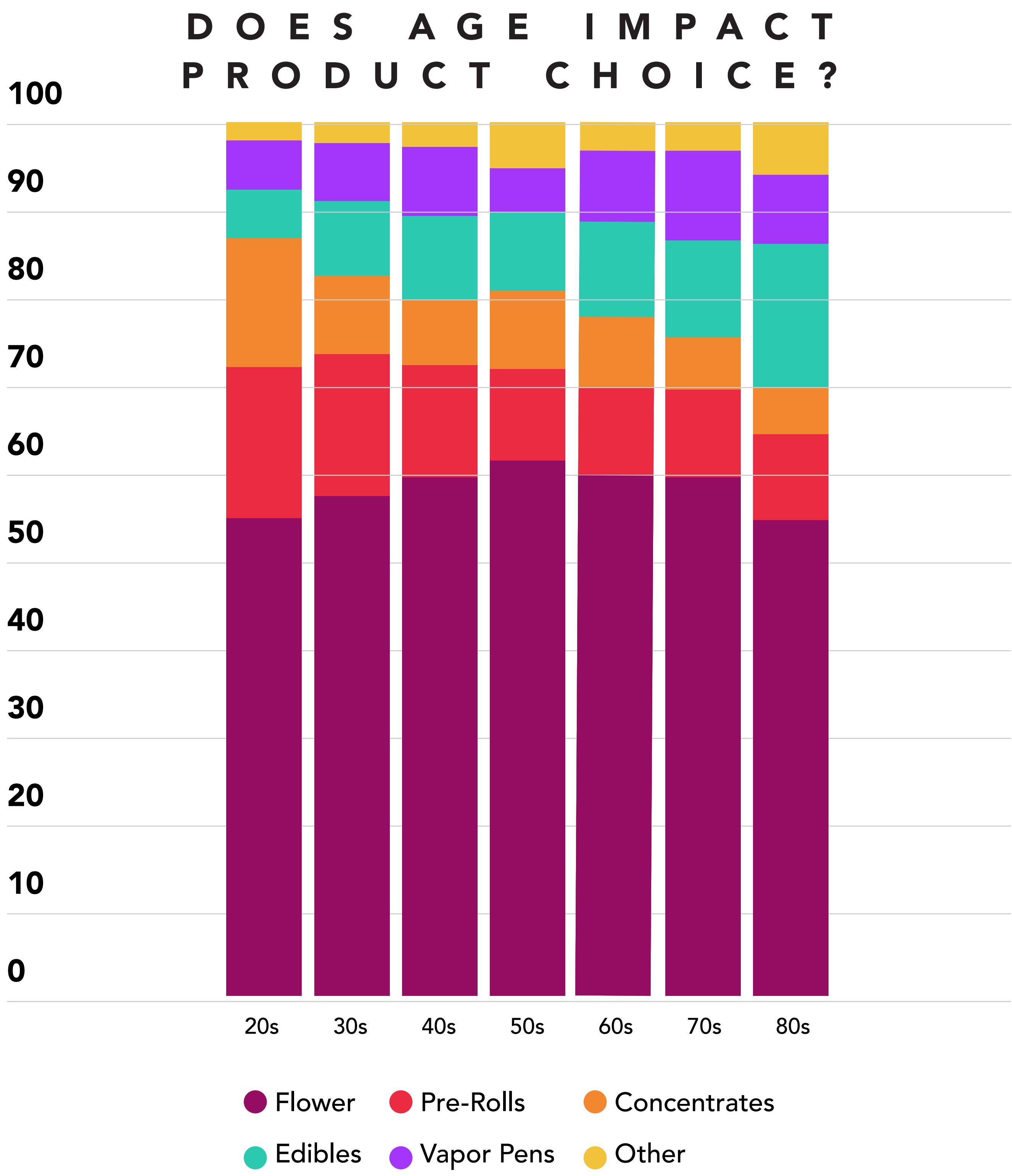
Throughout the report there may be terms that may be confusing for the uninitiated. For the purpose of clarity flower means cannabis bud and pre-rolls mean pre-rolled and packaged joints.

# THE CANNABIS CONSUMER AGE




***Consumers in their 20s make up almost 40 percent of the cannabis market***

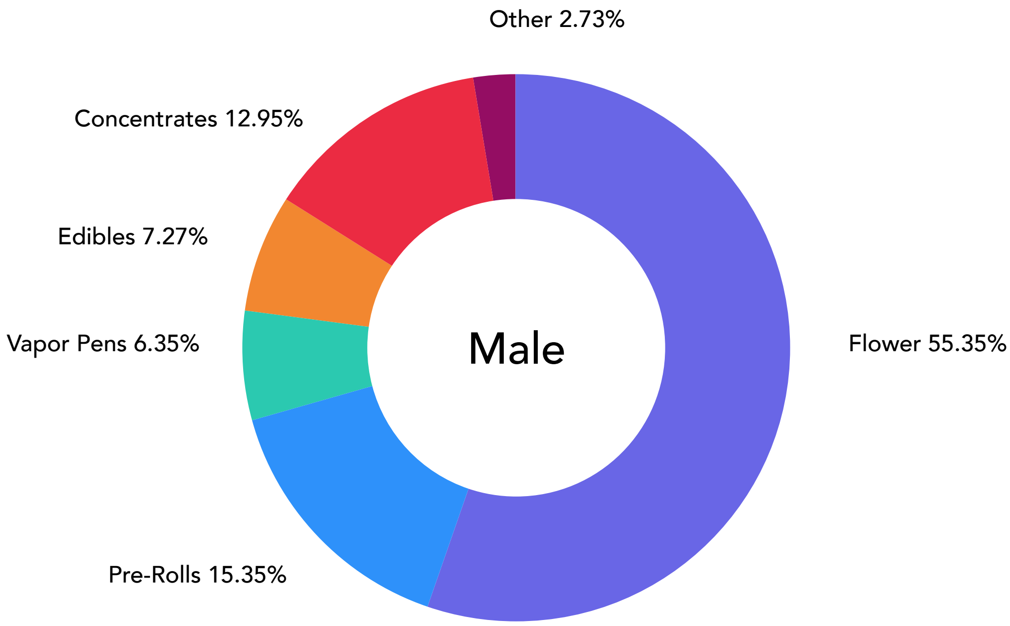
***Although a majority of cannabis consumers are under the age of 40, we still see a large amount of consumption with an older demographic as well***

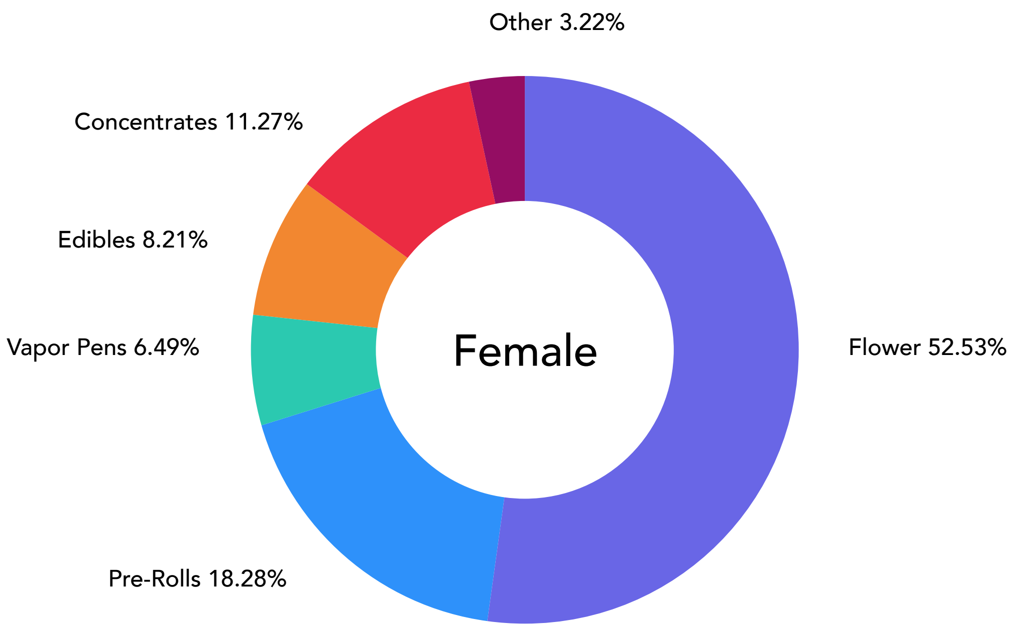



***Consumers in their 50s consume more than 60 percent flower***

***Consumers in their 20s consume the most concentrates of any age group at more than 12 percent and pre-rolls at more than 15 percent***

# DO MEN & WOMEN BUY SIMILAR PRODUCTS?



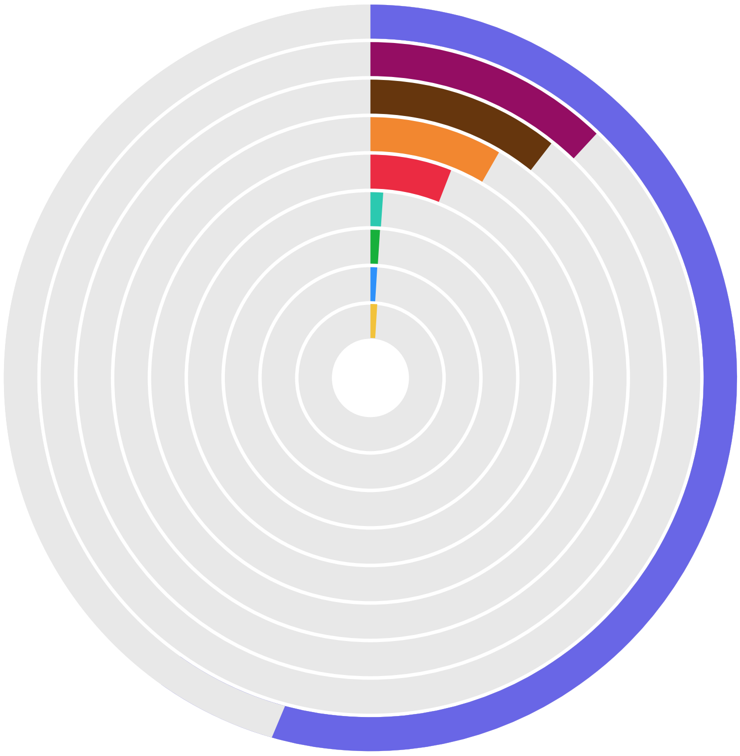




***Flower comprises more than half of the consumption levels of both male and female demographics***

***Females consume slightly more pre-rolls and edibles***

***The consumption patterns are fairly similar between genders***

# CATEGORY SALES



**Flower**
54.38%

**Pre-Rolls**
15.67%

**Concentrates**
12.29%

**Edibles**
8.03%

**Vapor Pens**
6.41%

**Beverages**
1.07%

**Tinctures and Sublinguals**
0.99%

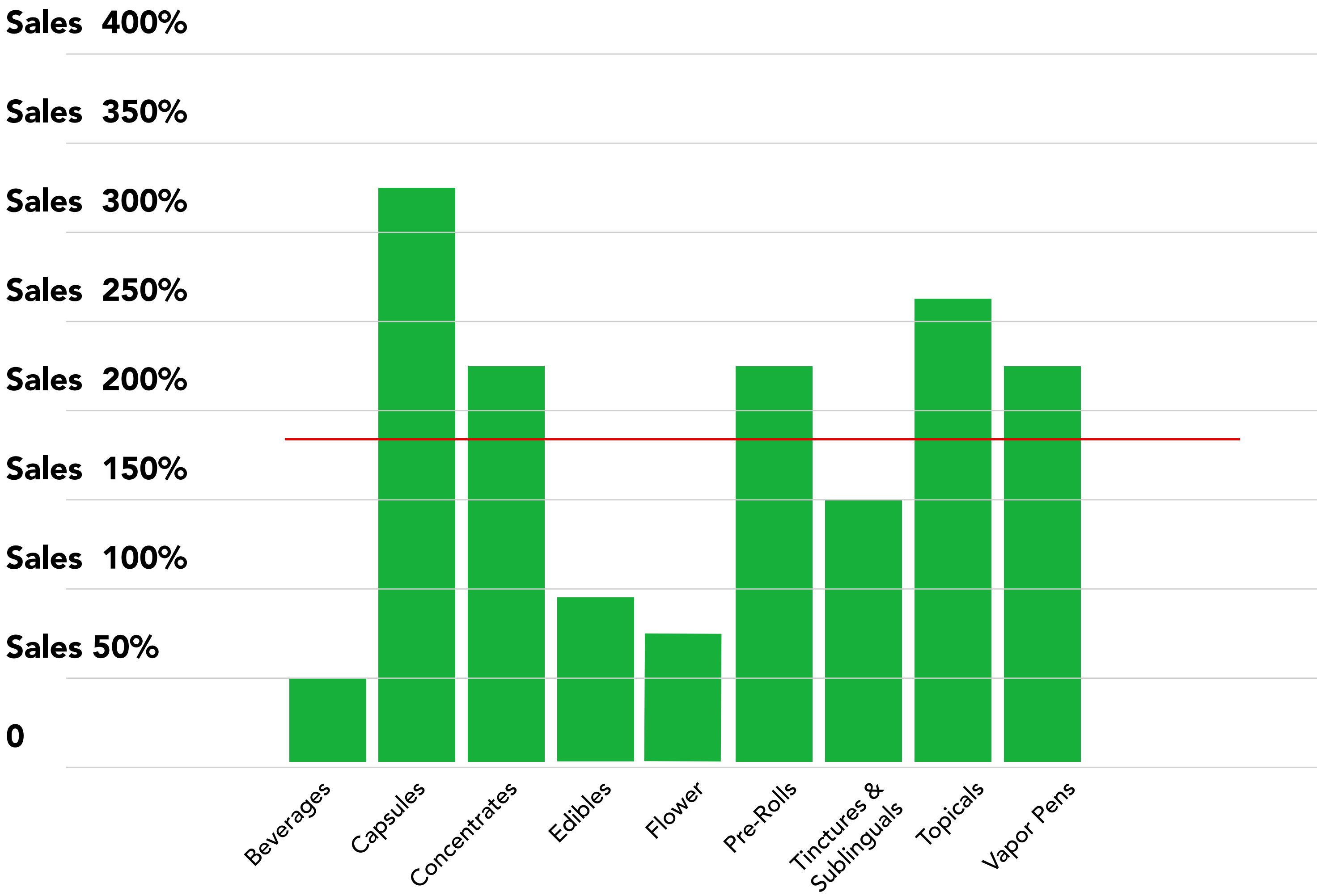
**Capsules**
0.60%

**Topicals**
0.54%

***More than half of the cannabis products consumed are flower (bud)***

***Packaged pre-rolls (joints) make up 15.67 percent while concentrates only make up 12.29 percent of the market***

# CATEGORY GROWTH



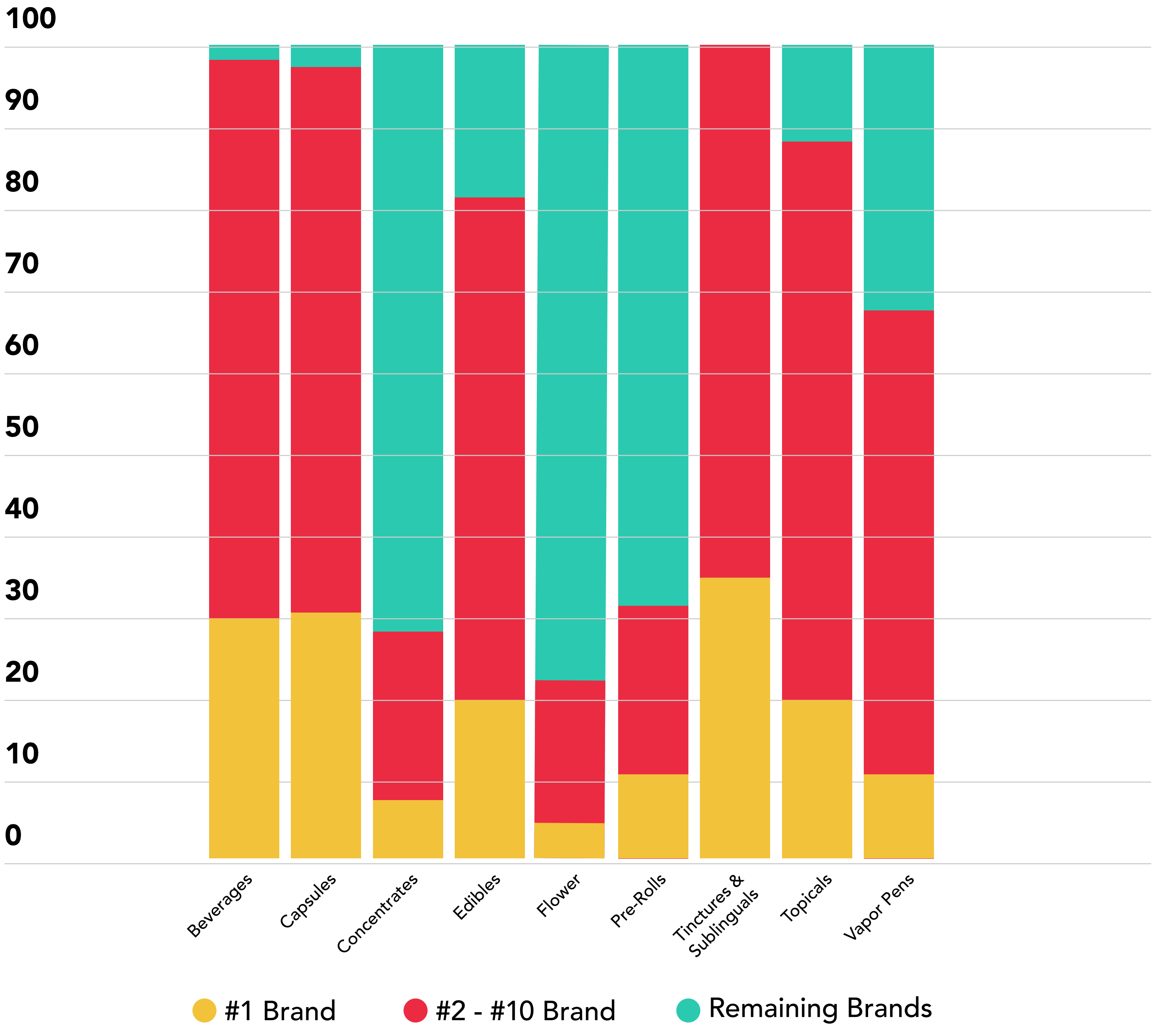

***The average category growth is 164 percent***

***Capsules have the largest sales growth at 331 percent***

***While flower makes up the largest portion of cannabis consumption, it is under average for growth***

***Pre-rolls and concentrates (oil, wax) have a relatively large market share and large growth***

# CATEGORY SALES BY BRAND RANK



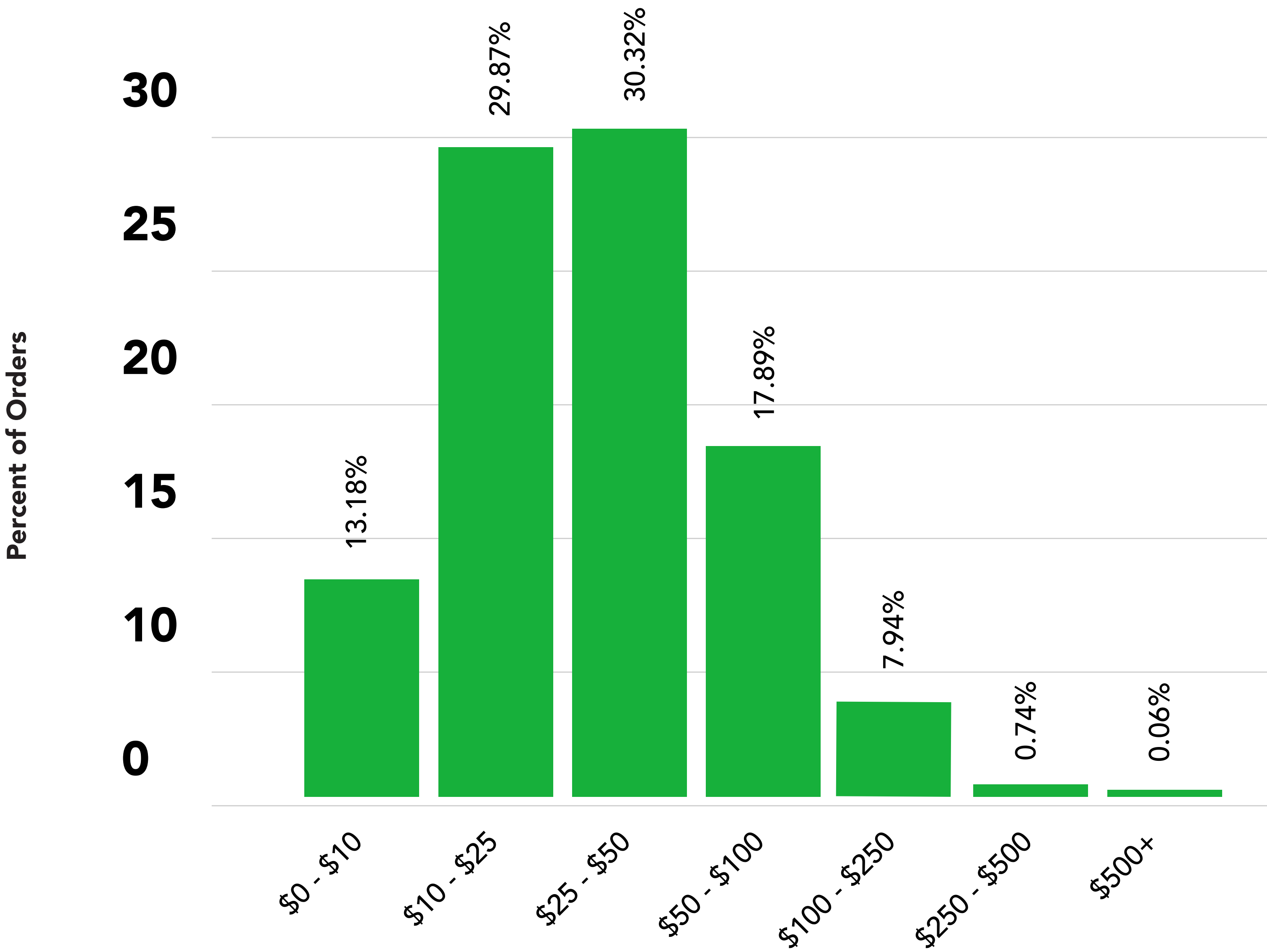

***Concentrates, flower and pre-rolls are the only categories in which the top 10 brands do not make up a majority of the sales***

***More than 20 percent of all flower sales go to the top 10 brands***

***Roughly $100M in flower sales go to the top 10 brands***

***Tinctures and sublinguals are dominated exclusively by brands ranked 1 to 10***

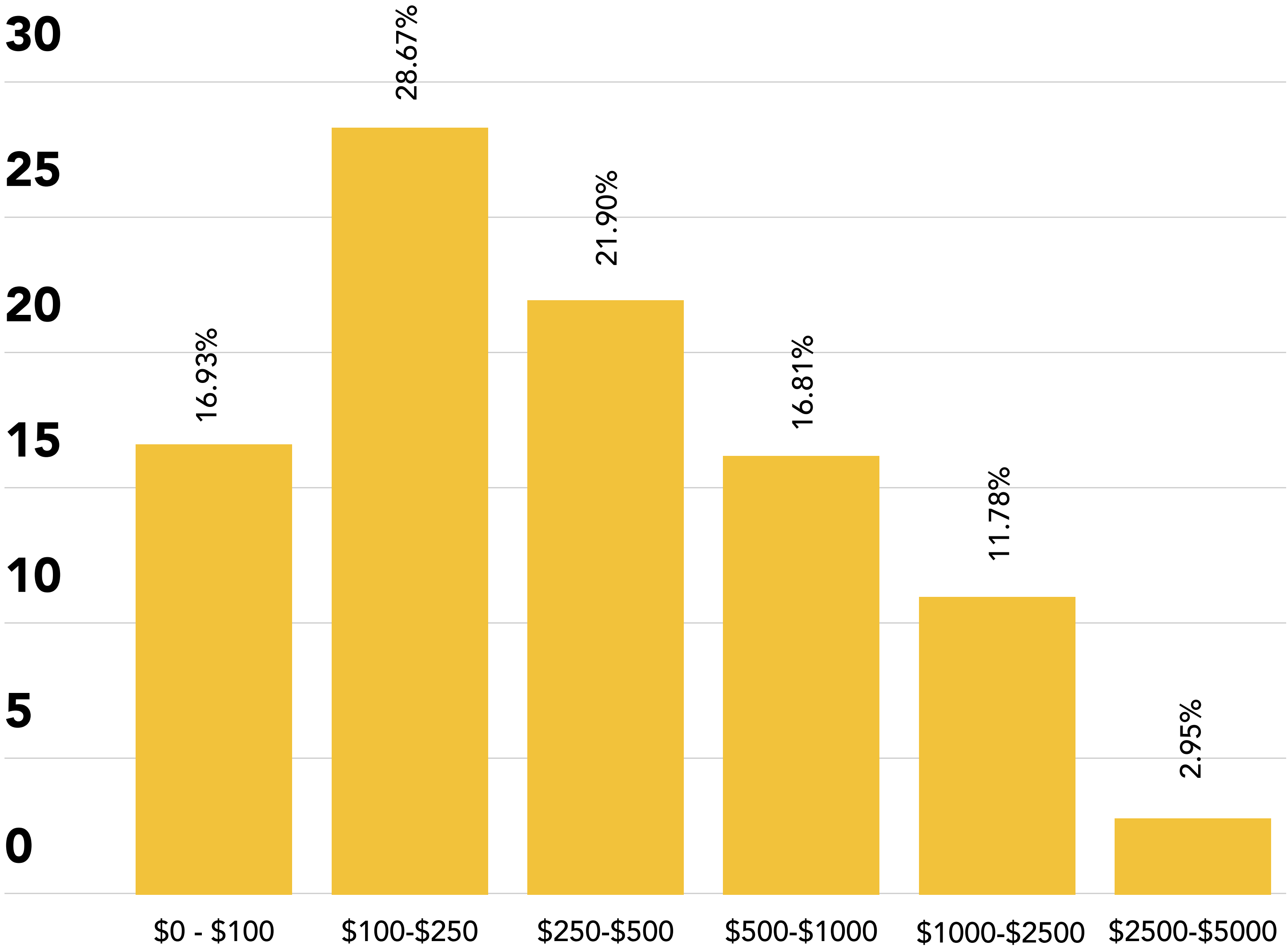
# AVERAGE ORDER VALUE




***More than 30 percent of orders are between $25 and $50, making up the largest category on our chart***

***Orders between $10 and $50 make up almost 60 percent of orders***

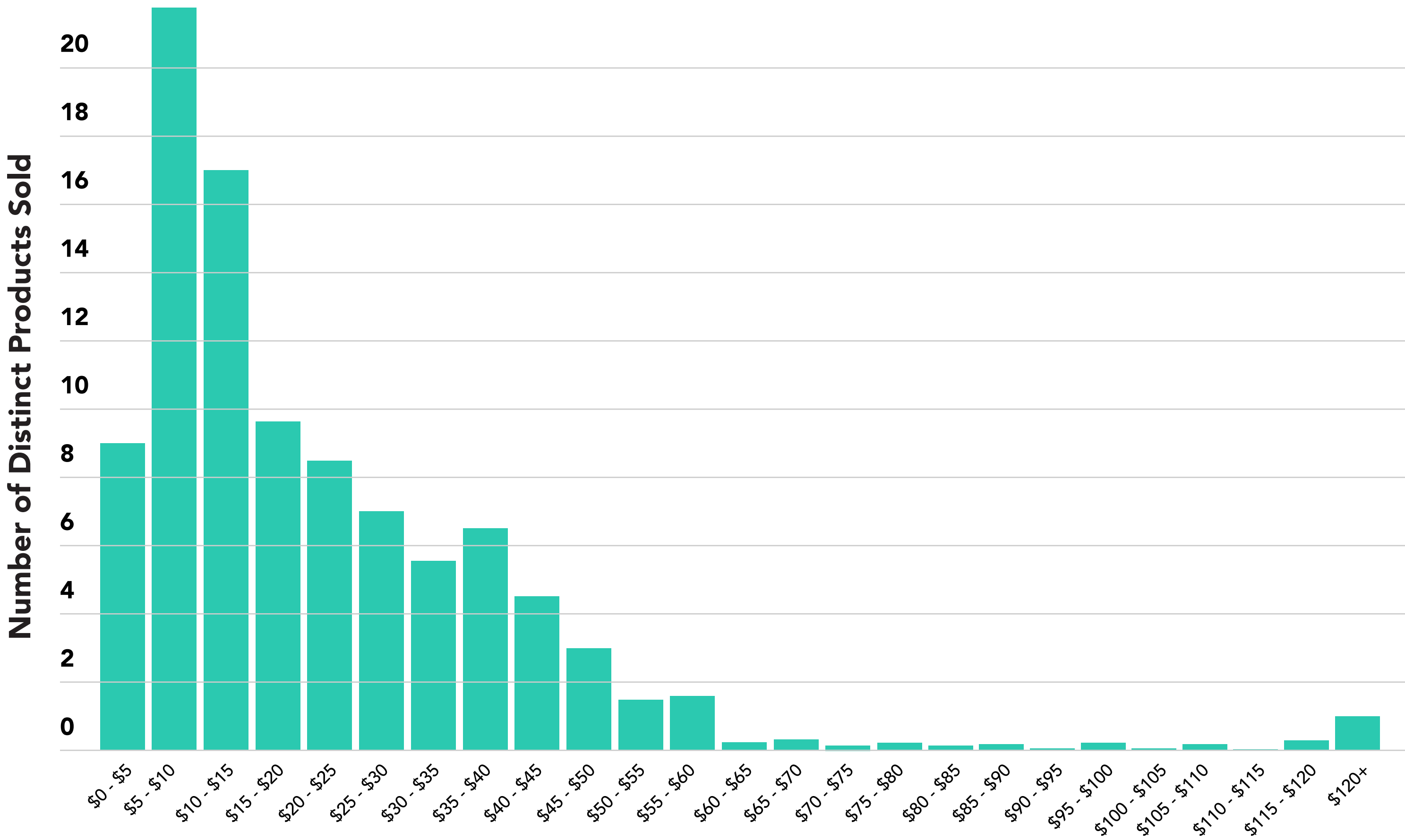
# AVERAGE SPENT PER YEAR




***The largest sector of annual spending is between $100 and $250 per year***

***Less than 3 percent of consumers spend between $2,500 and $5,000 per year***

# SALES BY AVERAGE ITEM PRICE




***Items sold between $5 and $10 make up almost 22 percent of sales***

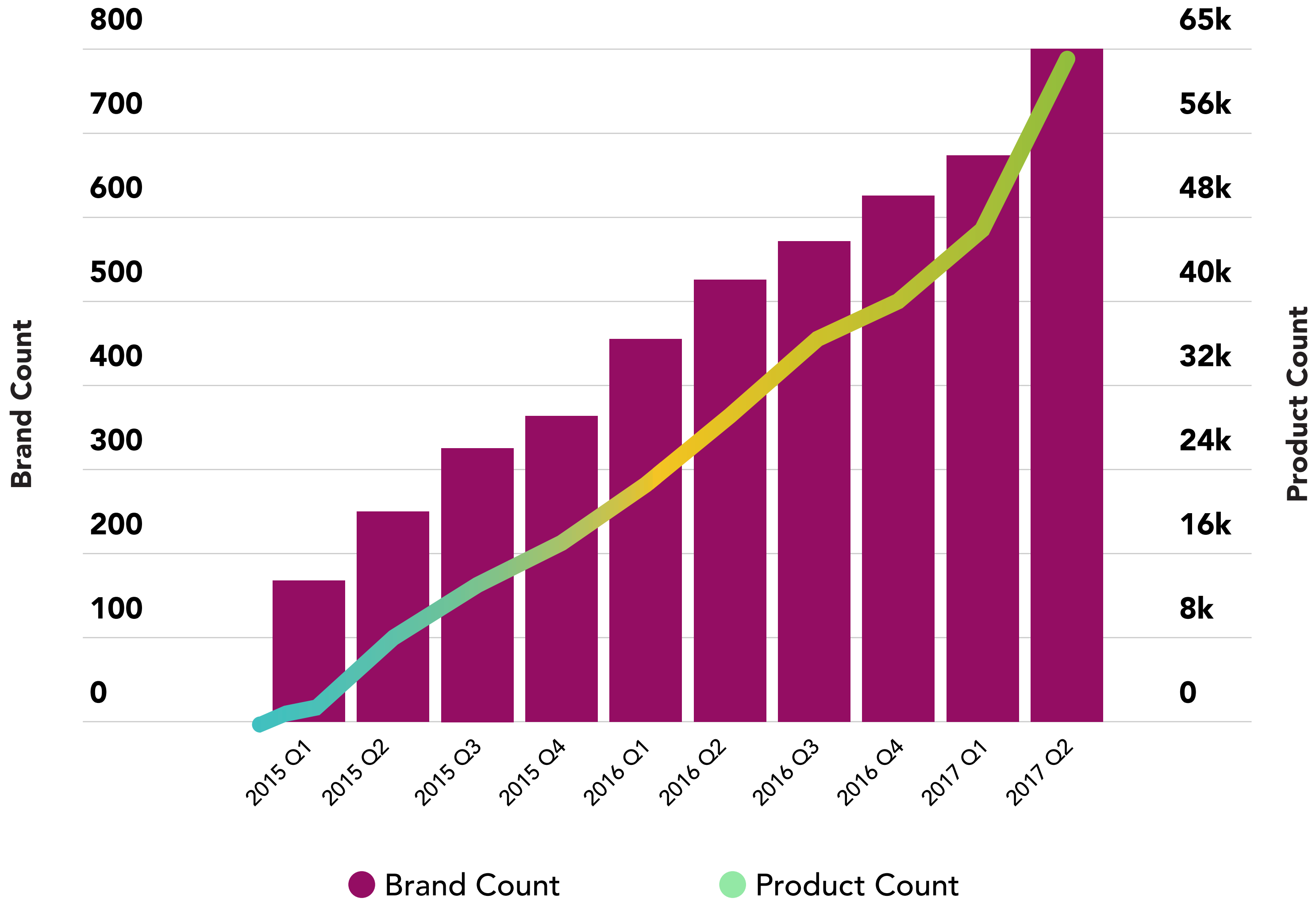
***Items between $0 and $15 make up almost half of all sales***

# DISTRIBUTION OF SALES BY AVERAGE ITEM PRICE


***Pre-rolls are the most inexpensive category, with more than 70 percent of all unit sales going to products priced $0 to $10***

***Vapor pens are the most costly category of products, with close to 80 percent of sales going to products priced $30+***

# PRODUCT COUNTS BY QUARTER

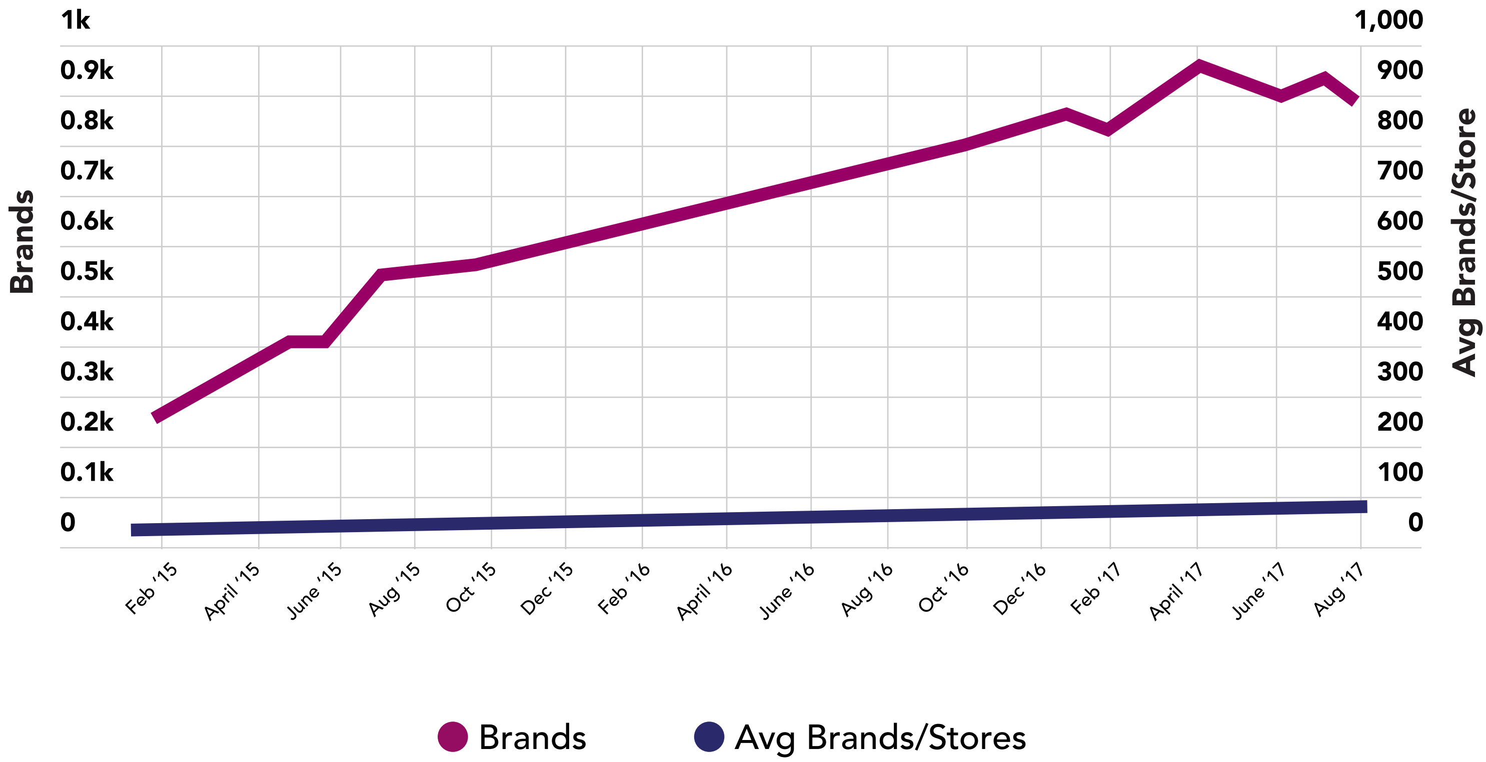



***2017 Q2***
***Brands: 803***
***Products: 64.7K***

***The number of brands has gone up to more than 800***

***New products are constantly on the rise***

# BRAND ADOPTION



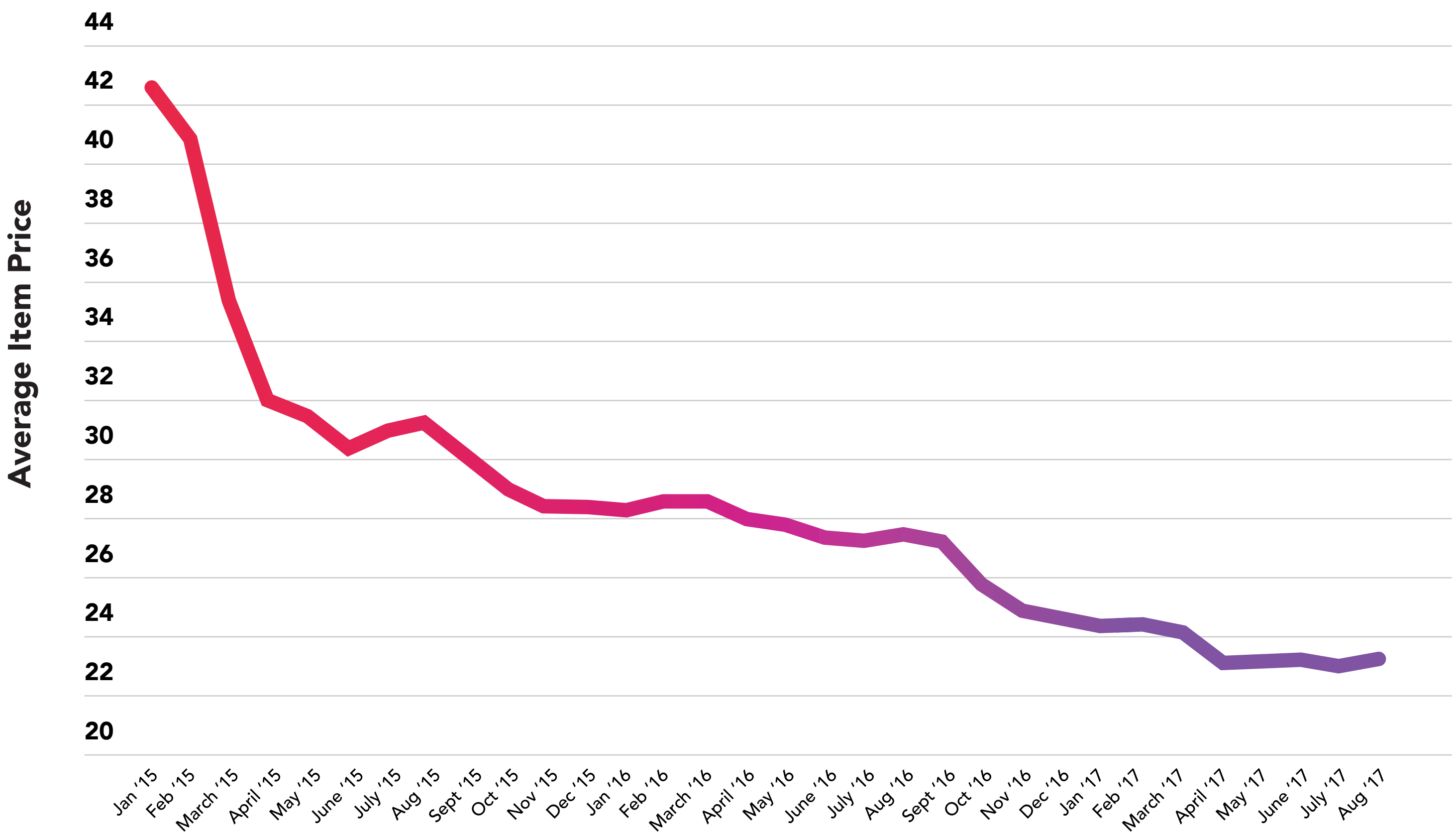

***While the number of brands keeps increasing, stores aren't adding to their brand count at the same rate***

***We are starting to see consolidation of brands***

***New brand introductions are slowing down due to retail space constraints***

***More brands mean more competition, making it harder to position yourself as a top brand in a given market***

# PRICING OVER TIME




***The average item price has decreased by slightly more than $18 since January 2015***

***We're seeing a steady decline in average item price due to lower priced items such as pre-rolls becoming more popular***

# PRODUCT DISCOVERY THROUGH CONTENT

Present-day consumers expect great content experiences with their products and services. Coupled with brand purpose and multiple platform access, brand loyalty is more likely than not to be the outcome.

The following data highlights were extracted from viewer engagement across various topics that have been formatted for serialized video and distributed across multiple digital platforms, including PROHBTD.com, Roku, Apple TV, Amazon Prime, YouTube, Facebook, Dailymotion, Metacafe and Pluto TV.

This is across a sample size of 33,397 hours of video view time that includes categories in and around mainstream cannabis culture:

***Average time spent | 3:45***

***Total minutes | 2,004,804***
***(sample size)***

***View through rate | 72%***

***Male | 73%***

***Female | 27%***

***Age range | 18-35 yrs (average)***

***Female | food***
***(most popular subject matter)***

***Male | lifestyle culture***
***(most popular subject matter)***

***33,397 hours***
***(sample size)***

**Culture**
43.53%

**Cannabis Lifestyle**
7.94%

**Food**
34.74%

**Music**
7.29%

**Education**
4.45%

# CONCLUSION

*Within the Cannabis Category*
*While some age, gender and other demographic subtleties exist in product-form preferences, they are minimal. Strikingly, there is very little gender disparity—males slightly over-index on flower and under-index on pre-rolls.*

*Market Power*
*Traditional product-form categories, e.g., flower, pre-rolls and concentrates, exhibit diffuse preferences and relatively less concentration in the hands of a few brands. Conversely, "newer" product forms, e.g., beverages, capsules, edibles and sublinguals, show much more concentration in the hands of a smaller number of leading brands.*

*Resonance*
*While consumers gravitate to cannabis-lifestyle content to some degree, they are far more apt to tune into content around food and culture in which cannabis products are featured. This underscores the idea that a cannabis lifestyle is less likely to be a special consumer identity; consumers increasingly view cannabis as part and parcel of their regular experiences. Normalization is the new normal.*

*The cannabis consumer is a prolific consumer of content, with exceptional view-through (72 percent) and high total engagement. Content engagement in a variety of genres, but especially food (female viewers) and lifestyle culture (male viewers), drives traffic to dispensaries, which, in turn, fuels purchases over a number of product categories. Critically, the content customer in both genders is predominantly in the coveted 18 to 35 age demographic. Flower is the core category for all age demographics, yet this age cohort is the most adventurous, spreading purchases more evenly across other product classes. The content-to-consumption link is most strongly seen in their willingness to buy more and experiment with brands outside the pure category leader alone.*

***Contributors to the report include:***

| | |
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