



# A QUARTERLY REVIEW

**JULY 1 – SEPTEMBER 30, 2020**

Q2

# Q2



## ABOUT THIS PUBLICATION

The Ontario Cannabis Store (OCS) publishes *A Quarterly Review (July 1–September 30)* as a resource for the entire legal Ontario cannabis industry. This document is intended to provide historical key facts and figures for the period between July 1 and September 30, 2020.

This publication marks the second quarterly data report by the OCS following *A Quarterly Review (April 1 – June 30)* earlier this year. This publication will evolve over time, and feedback is welcome to help improve its value. Comments and feedback on this report can be submitted to [inquiries@OCS.ca](mailto:inquiries@OCS.ca).

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# Growing Ontario's cannabis market by creating better access to legal cannabis

Letter from Thomas Haig PRESIDENT AND CEO

I am pleased to share with you the story of progress that this report represents in achieving the mandate of the Ontario Cannabis Store and the goals of legalization of cannabis. The data for this report covers up to the end of our fiscal second quarter, just 17 days short of the second anniversary of legalization. This quarter represents the single largest jump in market capture from the illegal market with Ontarians choosing to purchase 36.2% of their cannabis through legal channels, up over 10% from the previous quarter. While there is still a great distance to travel in moving consumers from the illegal market to the new channels, we are establishing forward momentum, driven by a number of factors such as access, quality and price.

Of the \$204 million in legal sales this past quarter, more than 85% took place inside the walls of a brick and mortar retail store. The number of stores hit 183 by the end of the quarter and is over 280 at the time of publication of this report. This is a clear indicator that continued improvements in the number of consumers choosing legal will be driven by creating much broader access across Ontario.

Clustering of stores in urban areas has led to a decrease in the average volume sold through stores in the areas of greatest concentration. Retail store sales in Toronto (67 stores open) trailed the Western Region (44 stores open) and the Eastern Region (40 stores open). Across the retail store network, the average

monthly order per store stayed steady at 15,900 units per month. The single priority of the OCS in the year ahead is to support the rapid expansion of the retail store network by collaborating with our Licensed Producer partners and the Alcohol and Gaming Commission of Ontario (AGCO) to enable stores to open in communities across Ontario that are under-served or completely unserved.

While Ontario has Canada's broadest catalogue of cannabis products, with 1,120 unique SKUs available this quarter, one of the keys to future progress will be to work with Licensed Producers to ensure that the most popular products are always in inventory. When we asked customers about issues that presented a barrier to purchase on OCS.ca, the number one issue (39%) was that the product was not in stock, followed by not being able to find the product (28%). Neither of these indicators improved over the previous quarter and there is clearly an opportunity to do better. As in any retail market segment, customers in the cannabis sector have favourites and it is important that we make the trip to the store or to OCS.ca worthwhile by having what they want, when they want it.

The average price of dried flower on OCS.ca continued to drop, sinking to \$6.41 per gram, as compared to the illegal market, which increased to \$8.17 per gram. Attention of the industry must now turn to other product categories, which still have some distance to go when compared to the illegal market. I am confident we can work



together with our Licensed Producer partners to make product across all categories deliver value for consumers.

Sales through OCS.ca came back to earth after extraordinarily strong sales related to shopping restrictions made necessary by the fight against COVID-19 in Q1. Visitors, new visitors and total transactions all predictably sagged as restrictions eased and the total number of stores grew, creating more opportunities for consumers to shop easily in stores in their community. For consumers without stores, express delivery options for online shoppers improved with a further expansion of courier service, which now reaches 78% of the adult Ontario population with free three-day shipping. As well, a new same-day courier service was introduced that allowed some consumers a further option.

We remain committed to our mission of growing Canada's largest and most vibrant cannabis marketplace, enabling the success of the cannabis sector in Ontario in its journey to responsibly serving consumers with tested, regulated products.

A handwritten signature in black ink, appearing to read 'Thomas Haig'. The signature is fluid and cursive, written over a white background.

Thomas Haig  
PRESIDENT AND CEO, ONTARIO CANNABIS STORE

# Q2

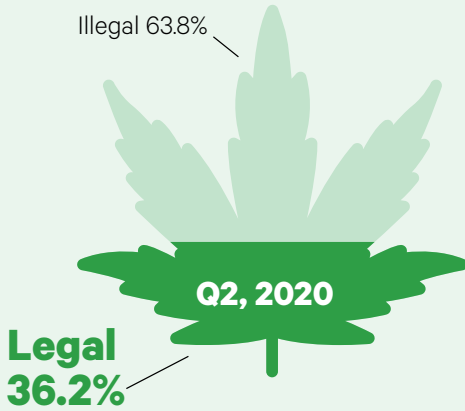
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# THE BIG PICTURE

## Ontario recreational cannabis market share by source: illegal vs. legal



Due to a large number of store openings, Ontario's legal share of the recreational market has increased significantly from 25.1% in Q1 to 36.2% share in Q2 2020 and is now closer to the national legal capture of recreational cannabis sales. The legal share is expected to decline in Q3 2020 due to lockdowns in Toronto and Peel areas causing retail stores to be open only for pickup and delivery.

Note: The calculation of the Ontario legal market share has been estimated from prior quarters updates from Statistics Canada. The time period of reporting has been adjusted to reflect OCS fiscal periods compared to the calendar year used by Statistics Canada.

Source: Statistics Canada; calculated by OCS

Q4, 2018	Q1, 2019	Q2, 2019
<b>4.6%</b>	<b>14.1%</b>	<b>20.7%</b>
Q3, 2019	Q4, 2019	Q1, 2020
<b>21.4%</b>	<b>24.7%</b>	<b>25.1%</b>

## Total grams sold

July 1, 2020 – September 30, 2020

# 25,800,000 g

OCS.ca  
**4,200,000 g**

Retail Stores  
**21,600,000 g**

## Number of retail stores



## Total sales in Ontario July 1, 2020 – September 30, 2020

OCS.ca **\$30,500,000**

Retail Stores **\$173,900,000**

# \$204,300,000

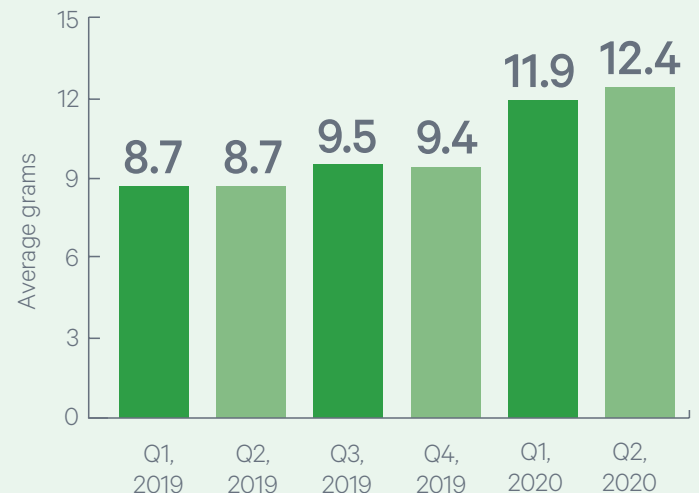
Note: All figures are unaudited. Sales exclude taxes (HST).

## Unique items listed

517	519	641	795	907	1120
Q1, 2019	Q2, 2019	Q3, 2019	Q4, 2019	Q1, 2020	Q2, 2020

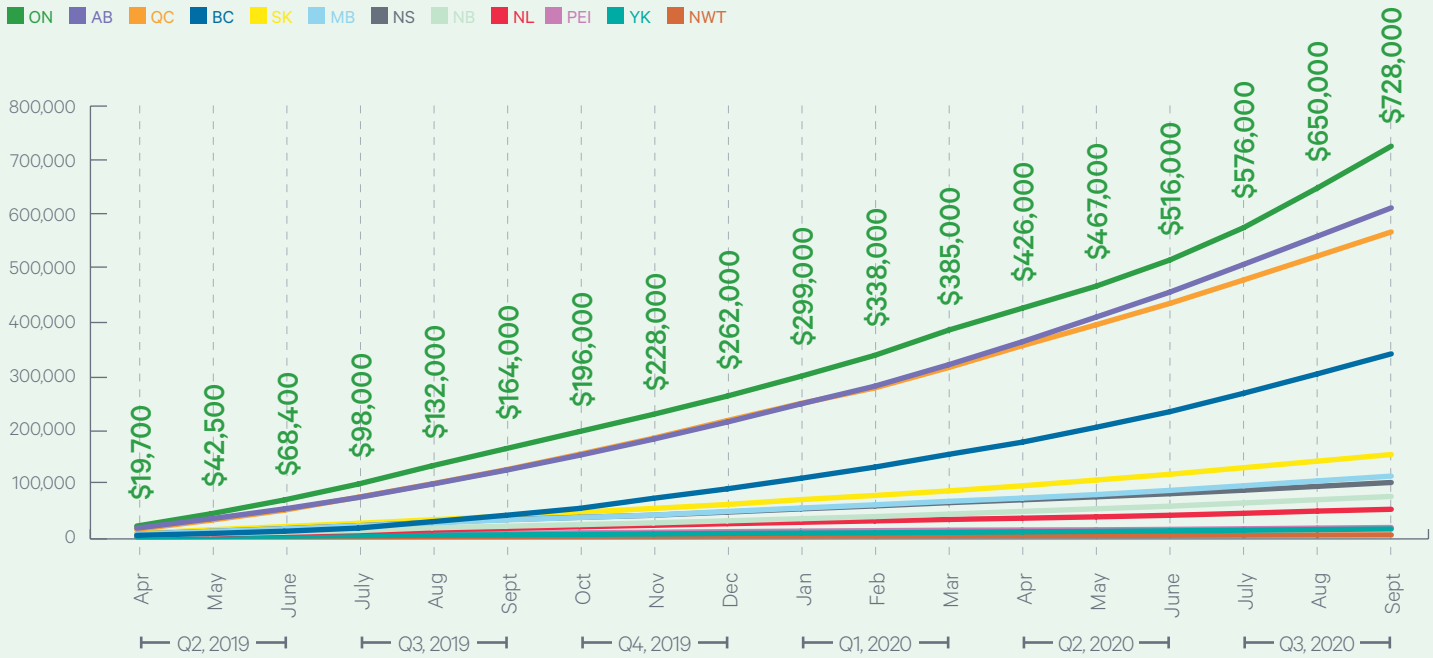
The number of unique items available for sale on OCS.ca is growing consistently and has increased by 23% (213 new items) compared to last quarter. Unique items listed include active SKUs that were in-stock and exclude accessories.

## Average grams per OCS.ca order



# THE BIG PICTURE

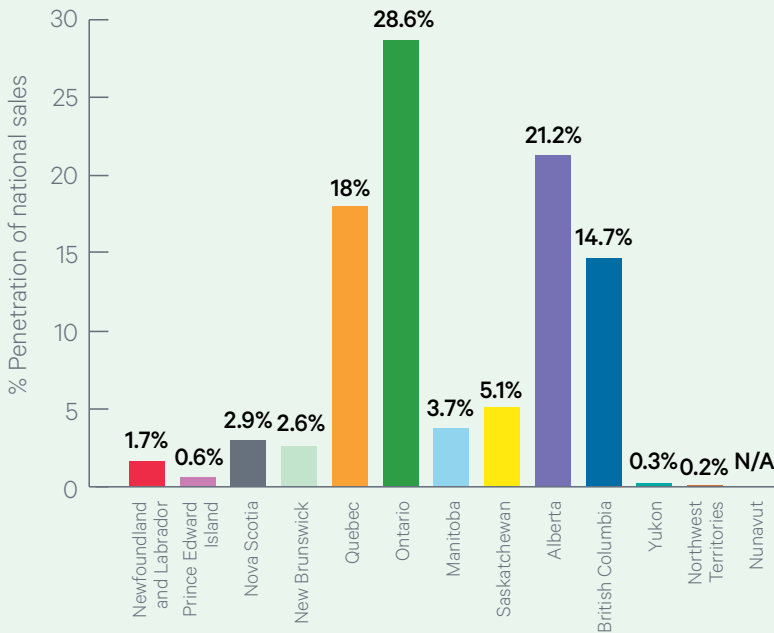
## Cumulative monthly retail cannabis sales across all provinces and territories



Source: Statistics Canada. Table 20-10-0008-01 Retail trade sales by province and territory (x 1,000)

## Ontario share of national recreational sales

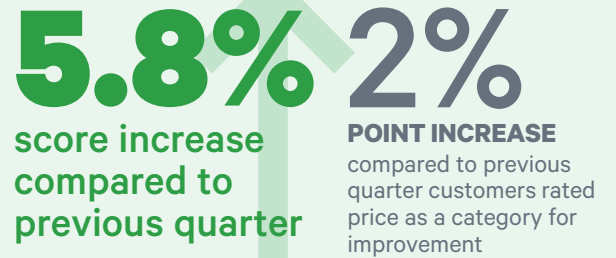
July 1, 2020 – September 30, 2020



Ontario's share increased by 5% compared to last quarter leading the national recreational sales among all provinces and territories.

Source: Statistics Canada. Table 20-10-0008-01 Retail trade sales by province and territory (x 1,000)

## OCS.ca customer sentiment score on price



## Total number of price reductions on OCS.ca July 1, 2020 – September 30, 2020



## SALES DATA

In the second quarter of this year, 25,800,000 grams of cannabis valued at \$204,300,000 were sold in Ontario. Physical stores dominated sales, representing 21,600,000 grams versus the online channel's sales of 4,200,000 grams. Dried flower continued to lead, with almost 60% of sales, followed by Vapes and Pre-rolls, at 15% and 12% respectively.

There continued to be inconsistent availability of edibles, beverages, concentrates, topicals and seeds, which contributed to these categories representing less than 8% of sales. As Licensed Producers hone in on consumer preferences and are better able to make sure shelves are consistently stocked with the most desirable products, this segment should take up a larger proportion of the market. Throughout this quarter, this product category grew each month as supply took steps towards diversifying product offerings.

Consumer preference still tilts towards products with higher THC levels (above 20%), with the second fastest selling products found at the other end of the range with CBD dominant products.

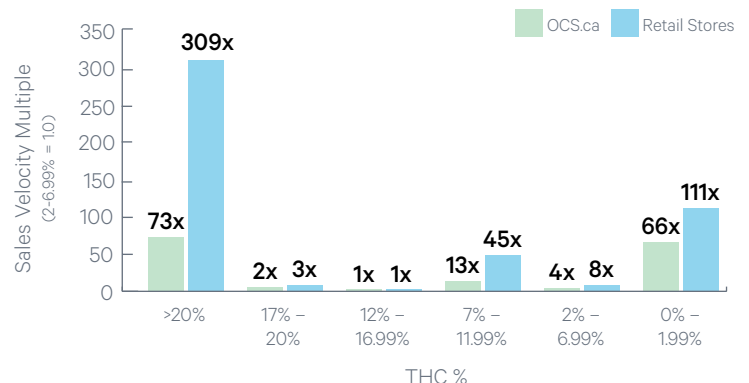
### Total sales and grams sold by product categories

July 1, 2020 – September 30, 2020

	OCS.ca	Retail Stores	% of \$ Sales
Dried Flower	\$16,700,000 2,950,000 g	\$104,430,000 13,500,000 g	59.9%
Vapes	\$5,100,000 244,000 g	\$25,540,000 1,000,000 g	15.1%
Pre-Rolls	\$1,580,000 187,000 g	\$22,770,000 2,090,000 g	12.0%
Edibles	\$1,400,000 198,000 g	\$6,660,000 703,000 g	4.0%
Oils	\$2,450,000 177,000 g	\$5,250,000 310,000 g	3.8%
Capsules	\$1,090,000 55,000 g	\$2,080,000 69,000 g	1.6%
Beverages	\$477,000 290,000 g	\$2,690,000 1,540,000 g	1.6%
Concentrates	\$577,000 77,000 g	\$2,370,000 260,000 g	1.5%
Topicals	\$260,000 5,000 g	\$750,000 13,000 g	0.5%
Seeds	\$75,000 7,000 g	\$76,000 7,000 g	0.1%

Note: Average prices are weighted by sales and include taxes. Sub-category sales do not add to total sales due to rounding. Dried flower equivalency (DFE) conversion can be [found here](#).

### Sales velocity by THC % July 1, 2020 – September 30, 2020



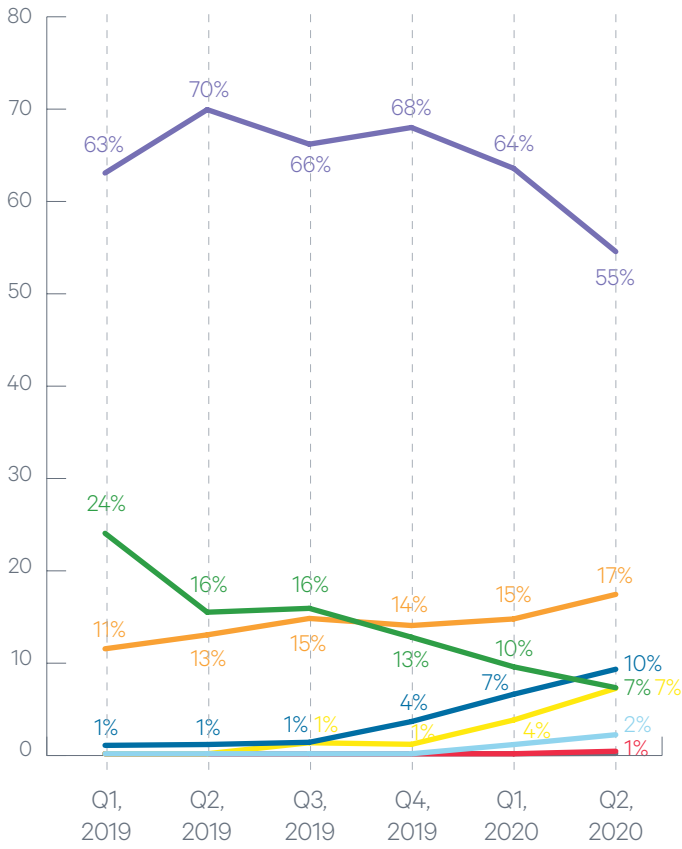
Sales velocity references units per day for OCS.ca and units per day per average store for retail.

## Sales Data

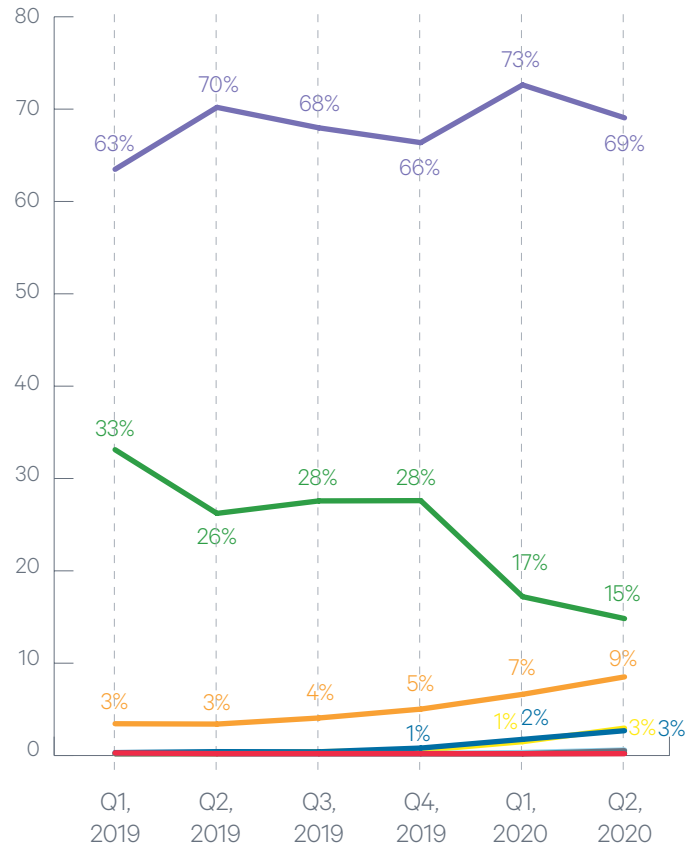
### Sales proportion by quarter, size and channel for dried flower

■ 1g ■ 3.5g ■ 5g ■ 7g ■ 14g ■ 15g ■ 28g ■ 30g

#### OCS.ca



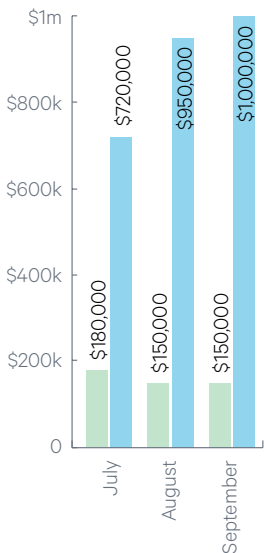
#### Retail Stores



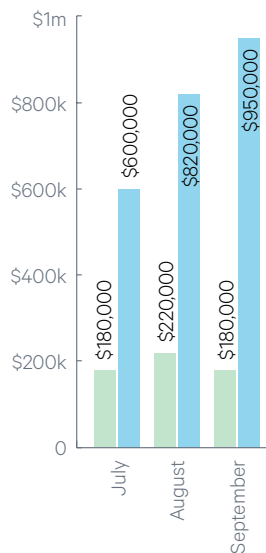
### Sales for new product categories July 1, 2020 – September 30, 2020

■ OCS.ca ■ Retail Stores

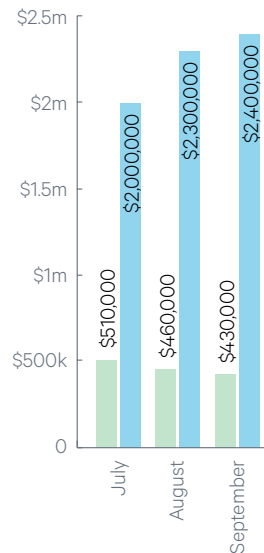
#### Beverages



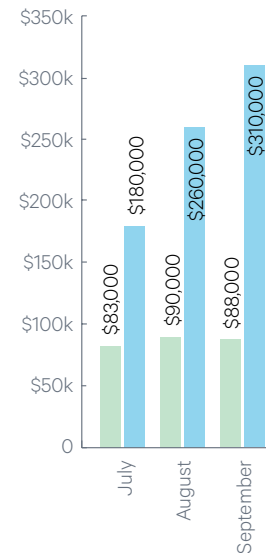
#### Concentrates



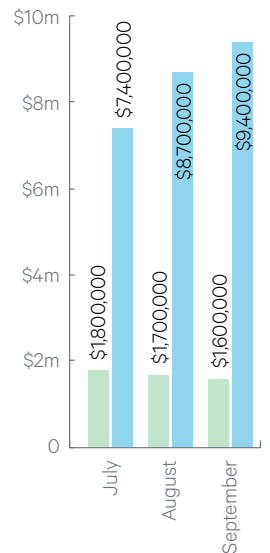
#### Edibles



#### Topicals



#### Vapes





## Top five brands per category based on sales July 1, 2020 – September 30, 2020

OCS.ca		Retail Stores	
<b>Beverages</b>		<b>Beverages</b>	
Tweed	28%	Tweed	24%
Houseplant	21%	Houseplant	22%
Everie	15%	Deep Space	16%
Ripple	10%	Everie	13%
Haven St.	8%	Ripple	7%
<b>Capsules</b>		<b>Capsules</b>	
Tweed	40%	Redecan	65%
Redecan	27%	Tweed	20%
Aurora	13%	Aurora	6%
Indiva	7%	Solei	5%
Vertical	6%	Indiva	2%
<b>Concentrates</b>		<b>Concentrates</b>	
48North	32%	48North	30%
Canna Farms	28%	Canna Farms	26%
JWC	18%	Original Stash	17%
Original Stash	12%	Fireside X	12%
Fireside X	7%	JWC	9%
<b>Dried Flower</b>		<b>Dried Flower</b>	
Pure Sunfarms	13%	Pure Sunfarms	12%
Redecan	10%	Redecan	9%
Daily Special	8%	Good Supply	8%
Good Supply	7%	Daily Special	6%
TWD.	6%	RIFF	5%
<b>Edibles</b>		<b>Edibles</b>	
Foray	26%	Affirma	24%
Bhang	22%	Bhang	22%
Aurora Drift	13%	Aurora Drift	16%
Affirma	11%	Foray	10%
Chowie Wowie	8%	San Rafael '71	9%
<b>Oils</b>		<b>Oils</b>	
Solei	29%	Redecan	33%
Redecan	23%	Solei	30%
Symbi	12%	Symbi	10%
Tweed	4%	Veryvell	4%
MediPharm Labs	3%	Pure Sunfarms	3%
<b>Pre-Rolls</b>		<b>Pre-Rolls</b>	
Good Supply	16%	Good Supply	14%
Redecan	12%	RIFF	13%
Edison	6%	Redecan	11%
Re-up	6%	Solei	8%
Aurora	5%	Edison	7%
<b>Vapes</b>		<b>Vapes</b>	
Redecan	18%	Good Supply	20%
Foray	11%	Redecan	19%
FIGR	10%	CANACA	5%
Good Supply	8%	Kolab Project	5%
Kolab Project	8%	Foray	5%
<b>Topicals</b>		<b>Topicals</b>	
Tidal	55%	48North	37%
LivRelief	26%	Tidal	37%
48North	19%	LivRelief	26%
<b>Seeds</b>		<b>Seeds</b>	
34 Street Seed Co.	61%	34 Street Seed Co.	70%
Pure Sunfarms	21%	Tweed	22%
Tweed	11%	Pure Sunfarms	6%
Pristine	6%	Pristine	2%

Sales market share by category indicated is for the entire quarter and may differ from point in time snapshots available to Licensed Producers through the OCS Data Program before the quarter has fully closed.

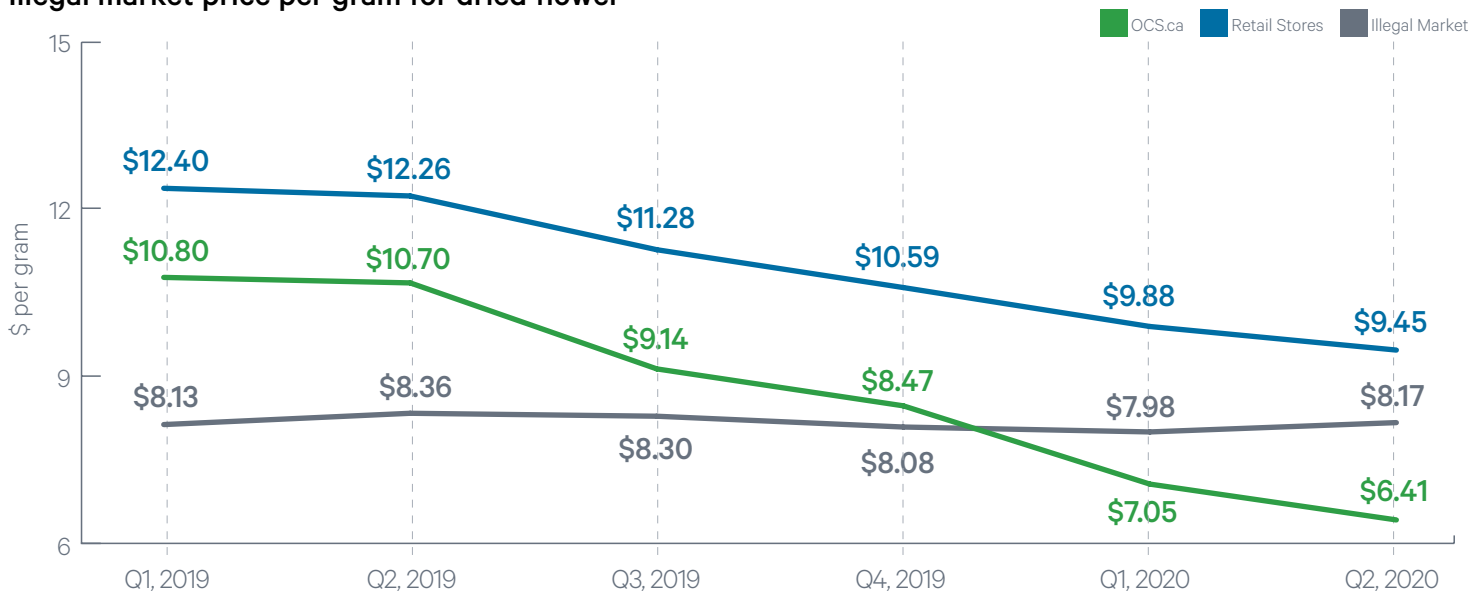
## PRICING

Traction continued on pricing with the average price per gram of dried flower on OCS.ca hitting \$6.41 per gram. The growth of value-priced, bulk offerings at 28 and 30 grams gave consumers access to quality cannabis at prices that were below the price paid for product on the illegal market. While growth in access was undoubtedly a prime driver for the strong rise in market share against an organized and persistent illegal market, the introduction of OCS's commercial strategy at the end of the last fiscal year and the continued efforts in this area should not be understated. These reductions are passed on directly to retail store operators as a fixed margin against online retail prices, and ensure a transparent and level playing field.

With dried flower pricing falling more in line with consumer expectations, it is expected that other product categories will follow suit as Licensed Producers continue their evolution. The value of the confidence customers can have in Licensed Producers, who offer accountability through the Certificate of Analysis and operate within a regulated framework, will continue to win over consumers concerned about knowing what is in the products that they are buying.

## Pricing

### Illegal market price per gram for dried flower



OCS.ca and authorized cannabis retail stores are weighted by sales and include taxes. Illegal market prices are unweighted and sourced through Weedmaps.com and mail-order-marijuana sites.

### Average price per gram across cannabis subcategories on OCS.ca

July 1, 2020 – September 30, 2020

Baked Goods	<b>\$5.26/g</b> (DFE)
Beverages	<b>\$1.83/g</b> (DFE)
Capsules	<b>\$22.18/g</b> (DFE)
Cartridges	<b>\$23.68/g</b> (DFE)
Chocolates	<b>\$6.47/g</b> (DFE)
Confectionary	<b>\$10.63/g</b> (DFE)
Creams and Lotions	<b>\$61.76/g</b> (DFE)
Dried Flower	<b>\$6.41/g</b> (DFE)
Hash	<b>\$7.37/g</b> (DFE)
Kief and Sift	<b>\$5.87/g</b> (DFE)
Oils	<b>\$15.59/g</b> (DFE)
Pre-Rolls	<b>\$9.53/g</b> (DFE)
Resin and Rosin	<b>\$22.36/g</b> (DFE)
Seeds	<b>\$12.09/seed</b>
Shatter	<b>\$22.49/g</b> (DFE)

Note: Average prices are weighted by sales and include taxes. Dried flower equivalency (DFE) conversion can be [found here](#).

### Sales velocity by price bucket for dried flower

July 1, 2020 – September 30, 2020

#### OCS.ca



#### Retail Stores

Sales velocity references units per day for OCS.ca and units per day per average store for retail.

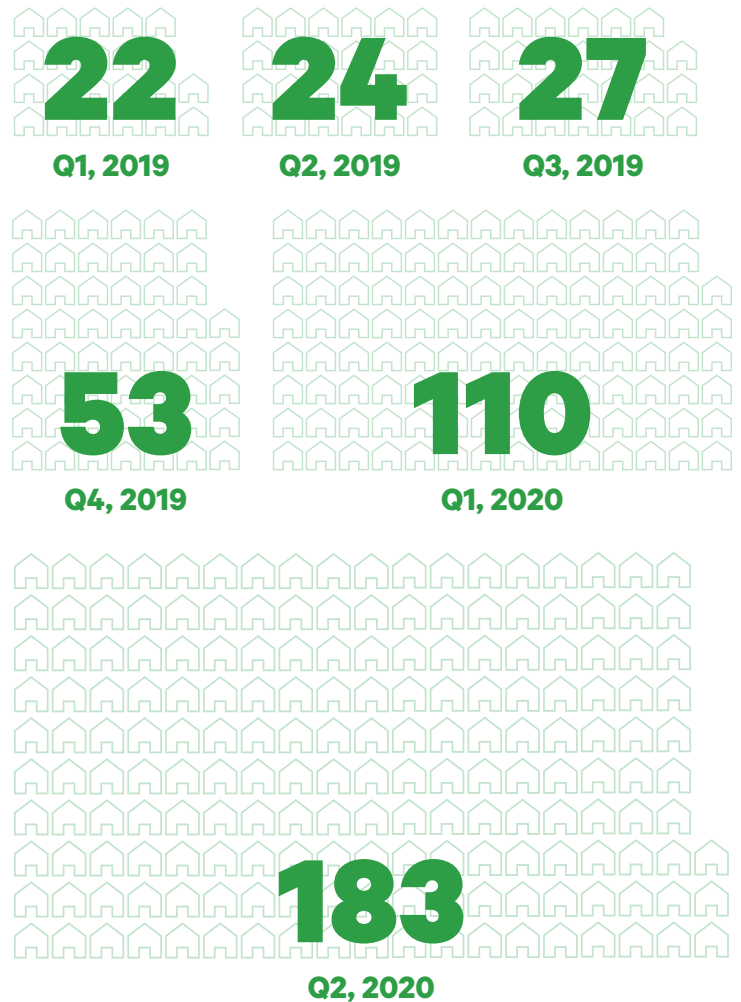
## GROWING ACCESS POINTS

Despite challenges in Q2 presented to the entire economy by efforts to fight COVID-19, Ontario gained 73 new retail cannabis locations, growing from 110 to 183. This represents the single largest jump in access since legalization and this effort was rewarded with more than 10% gain in market share. With the announcement in the beginning of September that the Government of Ontario had directed the AGCO to double its licensing pace from 5 Cannabis Retail Store Authorizations per week to 10 per week, the growth in this quarter will surely be eclipsed by the next. At the time of this publication, authorizations were being issued at a pace of 20 per week.

Much of Ontario remains under-served, with the average distance for consumers shifting very little from 19 to 18.5 kilometres, despite the large increase in store numbers. This is a reflection of stores continuing to cluster. This speaks to there still being tremendous opportunity in areas where stores are still absent from the landscape.

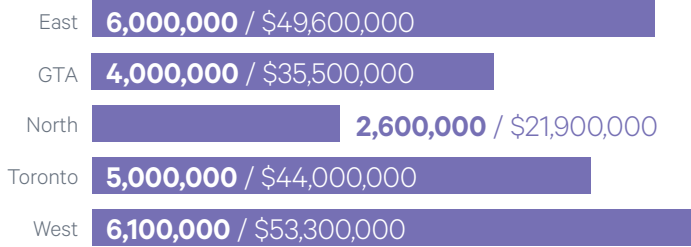
The reach of OCS.ca also expanded with the introduction of courier delivery last year. Initially this service was only available in the Toronto area, but by the end of this quarter the service reached 74% of OCS's customer base and could manage more than 5,000 deliveries per day.

### Growing number of retail stores



## Growing Access Points

### Grams sold by region

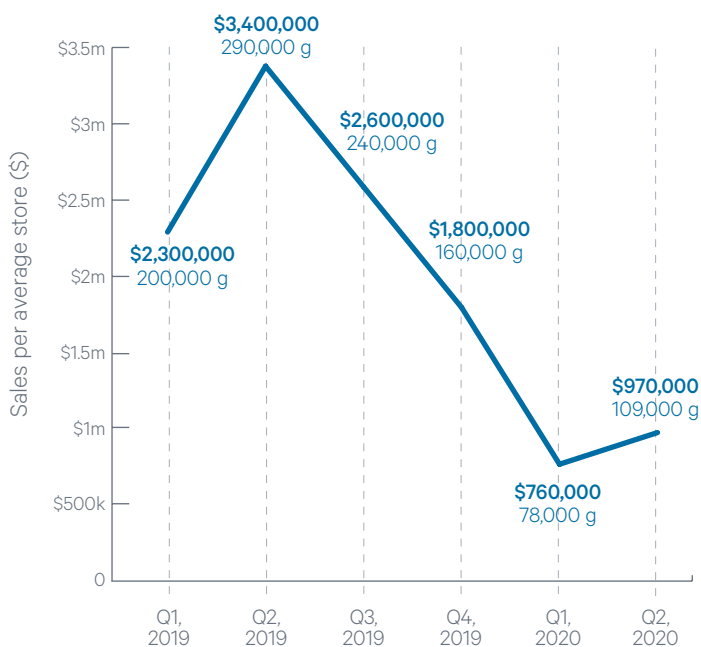


### Average distance for consumers to a retail store



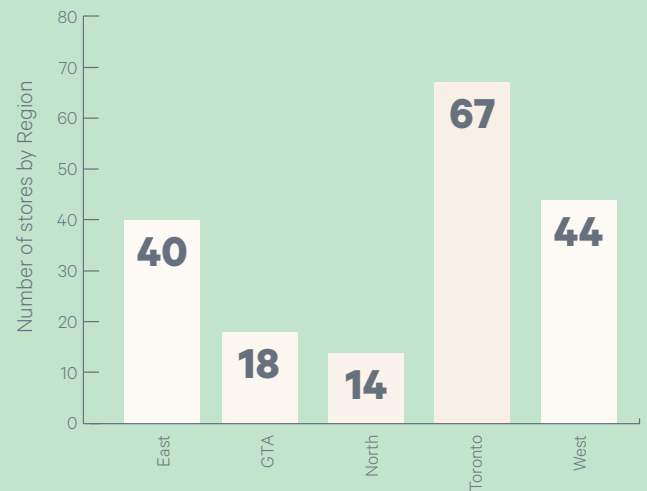
The average distance to a store decreased by 0.5 kilometres, while the number of stores more than doubled. This is due to stores opening within the same area of existing stores in central locations.

### Average sales and grams sold by a store



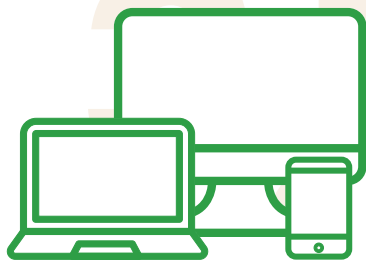
Note: Sales exclude taxes (HST).

### Number of stores by region and municipality



Number of Stores by Municipality	
Addington County	1
Ajax	2
Algoma	1
Ancaster	1
Aurora	1
Barrie	4
Bowmanville	1
Bracebridge	1
Bradford	2
Brampton	2
Brantford	1
Burlington	8
Cambridge	3
Chatham	1
Collingwood	1
Cornwall	1
East Haldimand County	1
Fort Erie	1
Gloucester	1
Greater Sudbury	2
Guelph	3
Haliburton County	1
Hamilton	9
Hawkesbury	1
Kingston	7
Kitchener	2
Listowel	1
London	7
Milton	1
Nepean	4
Niagara Falls	3
North Bay	4
Orillia	1
Orleans	1
Oshawa	2
Ottawa	7
Owen Sound	2
Pembroke	1
Peterborough	3
Renfrew County	1
Sault Ste. Marie Central	2
St. Catharines	2
St. Thomas	2
Stittsville	1
Stouffville	1
Stratford	1
Thunder Bay	4
Timmins	1
Toronto	67
Trenton	1
Waterloo	1
Windsor	3

Unique visitors to OCS.ca



Q2, 2020

**3,100,000**

Q1, 2019	Q2, 2019	Q3, 2019	Q4, 2019	Q1, 2020
2,600,000	2,200,000	2,300,000	3,400,000	5,300,000

Conversion rate on OCS.ca

July 1, 2020 – September 30, 2020

Q2, 2020 **9.1%**

Q1, 2019	Q2, 2019	Q3, 2019	Q4, 2019	Q1, 2020
7.6%	8.1%	7.3%	7.2%	9.2%

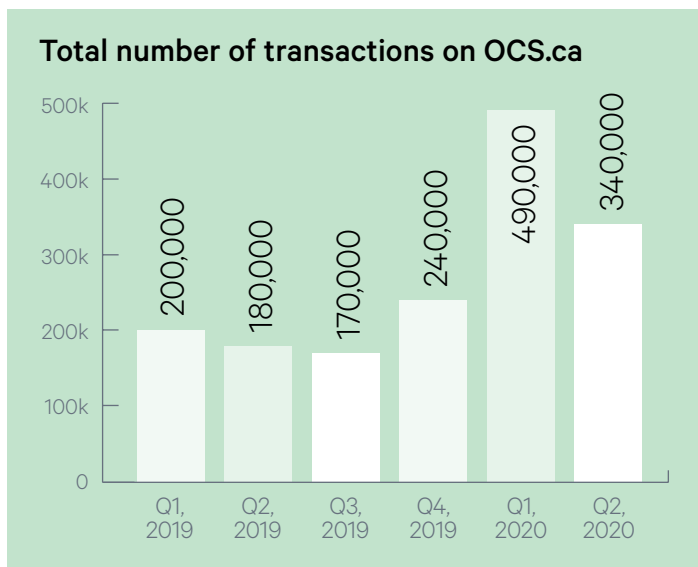
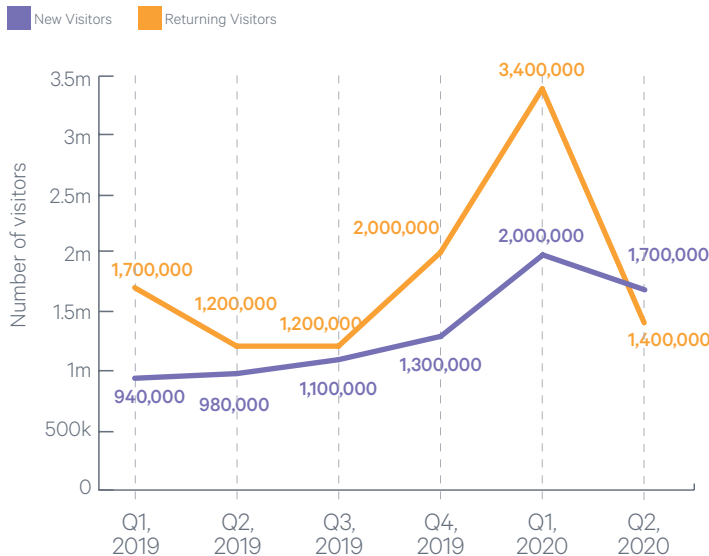
Conversion rate is an important metric by which e-commerce businesses measure consumer demand on their platforms. For every 100 customers on OCS.ca, 9.1 made a transaction.

**Average grams and sales per order on OCS.ca**  
 July 1, 2020 – September 30, 2020

**12.4g** Average grams per order

**\$89.42** Average \$ per order (before tax)

Growth of new vs. returning visitors



Population served by express shipping

Q2, 2020 **74%**

Q4, 2019 **37%**

Q1, 2020 **64%**

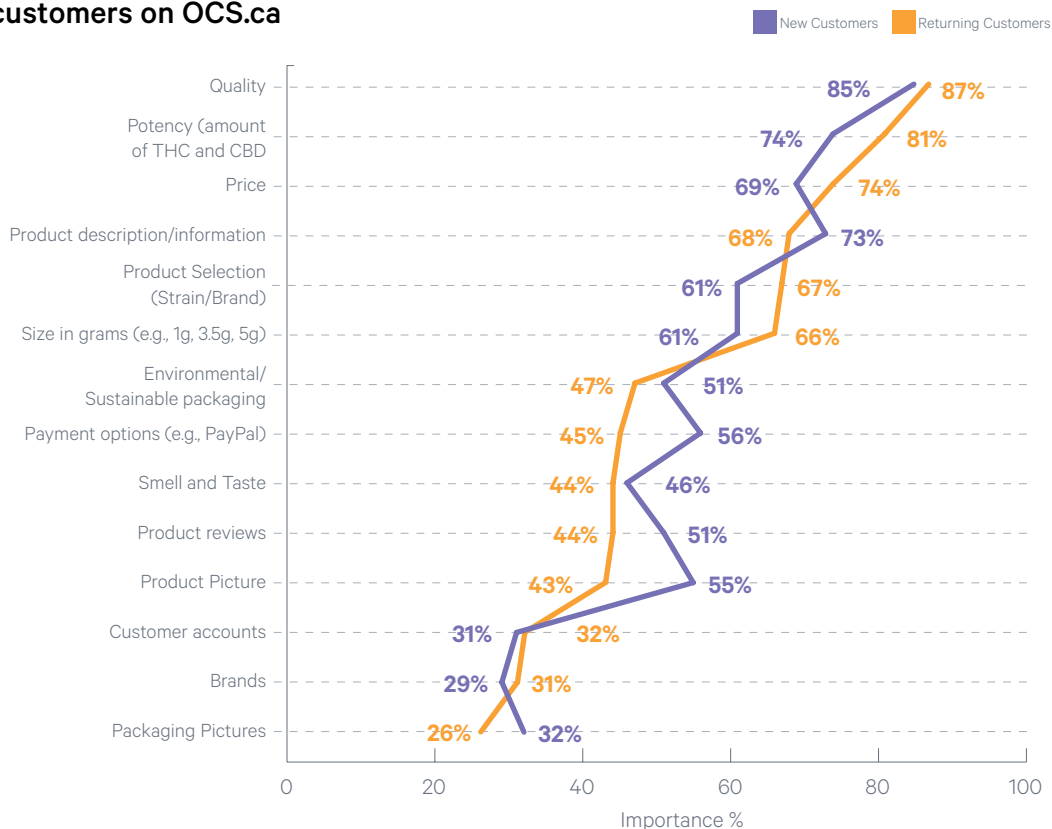
The OCS continues to expand express delivery to additional communities across Ontario to provide consumers direct-to-door delivery within one to three business days.

## Growing Access Points

### Attributes most important to customers on OCS.ca

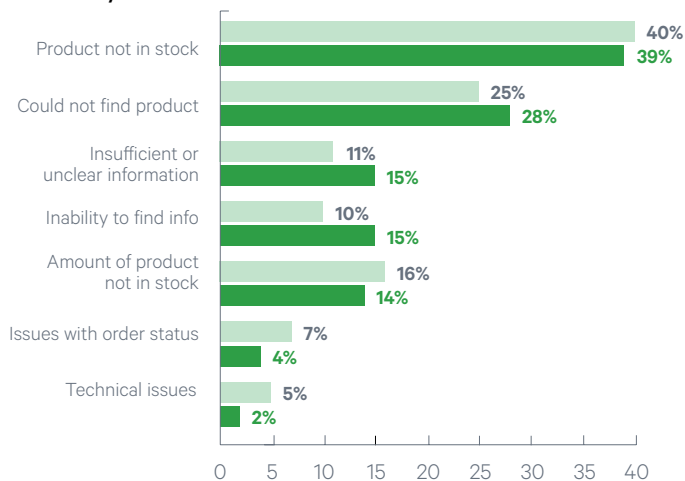
- In Q2 2020, quality continues to be the most important attribute for customers when shopping for cannabis. Dryness, stems and underweight product were the main factors influencing quality issues.
- While high potency (higher milligrams of THC or CBD) products are important for all shoppers, returning customers were significantly more likely to report potency as a very important attribute when shopping for cannabis
- Additionally, new customers attribute product descriptions and information as very important to inform their purchase decision.

Source: OCS.ca survey by Astute Solutions

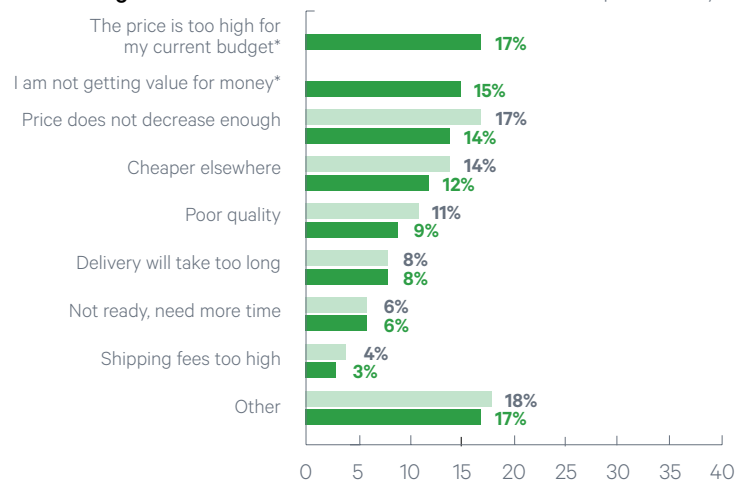


### Barriers to purchasing on OCS.ca

#### Findability Issues



#### Purchasing Issues



- While stock issues continue to improve overall, there is opportunity to offer a greater selection on specific products that customers are looking for but cannot find on OCS.ca (e.g., extracts and edibles).
- Visitors coming to OCS.ca for information are looking for more product details (e.g., terpene profile, strain information), more specifically, within extract and dried flower categories.

- Visitors saw an improvement on price decreases on larger formats, more affordable products and improved quality on OCS.ca.
- In Q2 2020, additional options were added around budget and value for money, both of which were main purchase barriers for visitors. Dried flower and extracts were the top categories related to these barriers.

Source: OCS.ca survey by Astute Solutions

## SUPPLY CHAIN

The largest supply chain news in this quarter was the transition to the new distribution centre in Guelph. The new location – leased and operated by the OCS's third-party logistics provider, Domain Logistics – represents a significant investment in enabling Canada's largest cannabis marketplace. The facility, once fully operational in the spring of 2021, will upgrade both capacity and capability with much more space and new automation. Guelph was selected for both its proximity to Highway 401 and strong community support for the facility.

In this quarter, the number of wholesale orders processed by OCS more than doubled to 1,884, with stores ordering an average of 15,900 units per month. 9% of SKUs represented 37% of sales.



## Supply Chain

### Order-to-ship lead time for wholesale customers

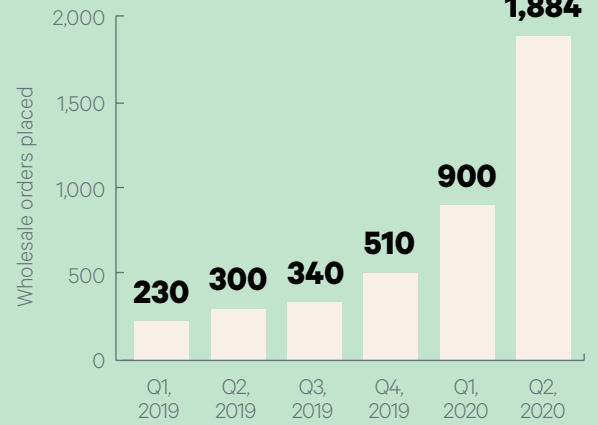
Note: Average since July 1–September 30, 2020.

# 2.43 days

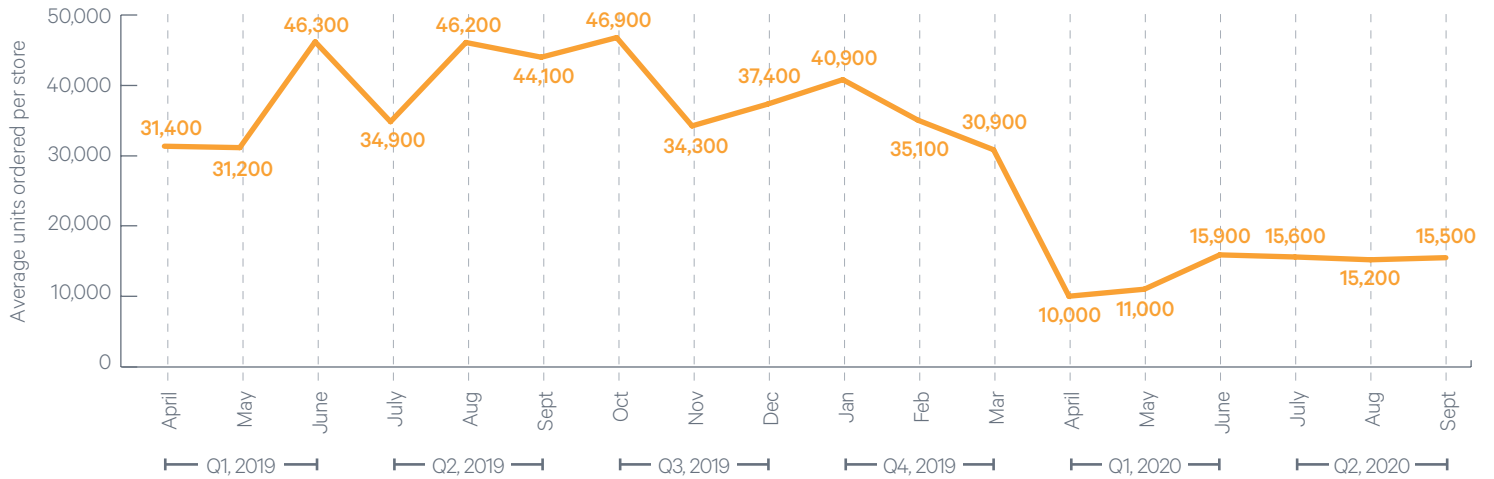
### Average SKU count per wholesale order



### Number of wholesale orders

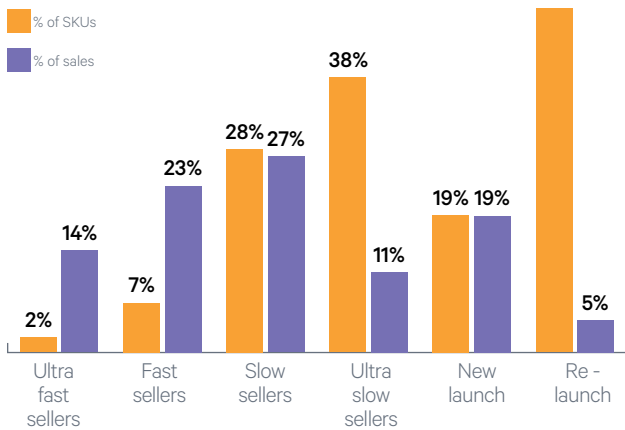


### Average number of units ordered per store by month



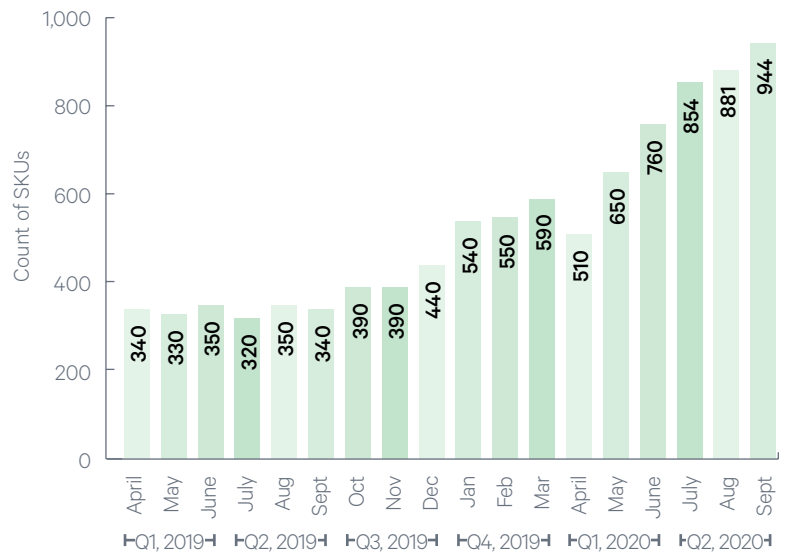
### Selling classes of products

July 1, 2020 – September 30, 2020



SKU classes are based on the unit rate of sale for a SKU per store per week and on OCS.ca. Note: Sales include both Wholesale and OCS.ca and exclude accessories.

### Unique SKUs ordered by month





OCS.ca