

New Mexico Cannabis Market Update

October 2024



The War on Drugs History

➤ The war on drugs in New Mexico has roots dating back to the end of Prohibition in 1933, when the national focus shifted from alcohol to drugs like marijuana. Harry Anslinger, the first commissioner of the Federal Bureau of Narcotics, led a fierce anti-drug campaign, using fear and racialized rhetoric to influence drug policies that disproportionately affected minority communities, including those in New Mexico. At the same time, organized crime figures like Arnold Rothstein, who had thrived during Prohibition, began expanding their operations into drug trafficking. Rothstein's network laid the foundation for drug smuggling, particularly in border states like New Mexico, where vulnerabilities were easily exploited. These early policies and criminal enterprises set the stage for the drug enforcement struggles New Mexico still faces today. Issues like illicit operators, fentanyl overdose, and lack of proper regulatory enforcement continue to shape the state's battle with drugs. The deep, historical connections between criminalization and organized crime help us understand the lasting impact this war has had on New Mexico's communities.

Justin Dye, Schwazze Chairman of the Board



- Justin Dye comes with 25+ years of experience in high-level strategic management, mergers and acquisitions, operations, private equity and corporate finance. Prior to joining Schwazze, Mr. Dye played a critical role in the private equity consortium that acquired national grocery chain Albertsons, Inc., where he led company expansion with more than \$40 billion in acquisitions, divestitures and real estate transactions. During Mr. Dye's tenure at Albertsons, sales grew approximately \$10 billion to more than \$60 billion. Previously, Mr. Dye held senior management and corporate development roles at Cerberus Capital Management, General Electric and Arthur Andersen LLP. Mr. Dye earned his bachelor's in political science from DePauw University, graduating with academic honors.
- Mr. Dye's passion for the cannabis industry is deeply rooted in his background and professional journey. Growing up in a hardworking, rural community in Winslow, Indiana, Mr. Dye developed values of honesty, perseverance, and competitiveness, which he carried with him throughout his career. After gaining valuable leadership experience during his time at Albertsons, he saw a similar opportunity in cannabis. For Mr. Dye, cannabis is not just about business—it's about improving lives. He believes in the plant's potential to enhance well-being and is committed to driving innovation, accessibility, and purpose in the industry. Leading Schwazze through rapid growth, Mr. Dye views his role as a unique opportunity to create positive change, supporting both customers and communities by delivering high-quality cannabis products and experiences.

New Mexico – Current Environment

- Nearly four years into the regulated adult-use market, New Mexico's cannabis industry faces serious challenges. Retail oversaturation, an under-resourced Cannabis Control Division, a thriving illicit market, and growing financial strain from unrecoverable accounts receivable are destabilizing the industry. These issues put both businesses and consumers at risk, threatening the market's long-term sustainability and safety
- To ensure a thriving, safe, and sustainable cannabis industry in New Mexico, immediate policy changes are crucial. Without action, the original promise of legal adult-use cannabis may never be fully realized.
- New Mexico can learn valuable lessons from states that legalized cannabis before us. Challenges like market oversaturation, high taxes, and other regulatory issues have already been debated and addressed elsewhere. At the very least, we should take note of the urgency with which many states have acted to resolve critical problems, such as hemp-derived THC. By following their lead and implementing proactive solutions, we can ensure the cannabis industry remains viable for the next 5, 10, or 15+ years, providing opportunities for those seeking to secure licenses and succeed in the market.
- This is a competitive industry, and that competition is welcome. However, businesses are not competing with each other. Operators in New Mexico are competing against illicit and gray markets, bad operators who are go unpunished and remain in business, and other national factors that we need to address with haste.

Policy Priorities

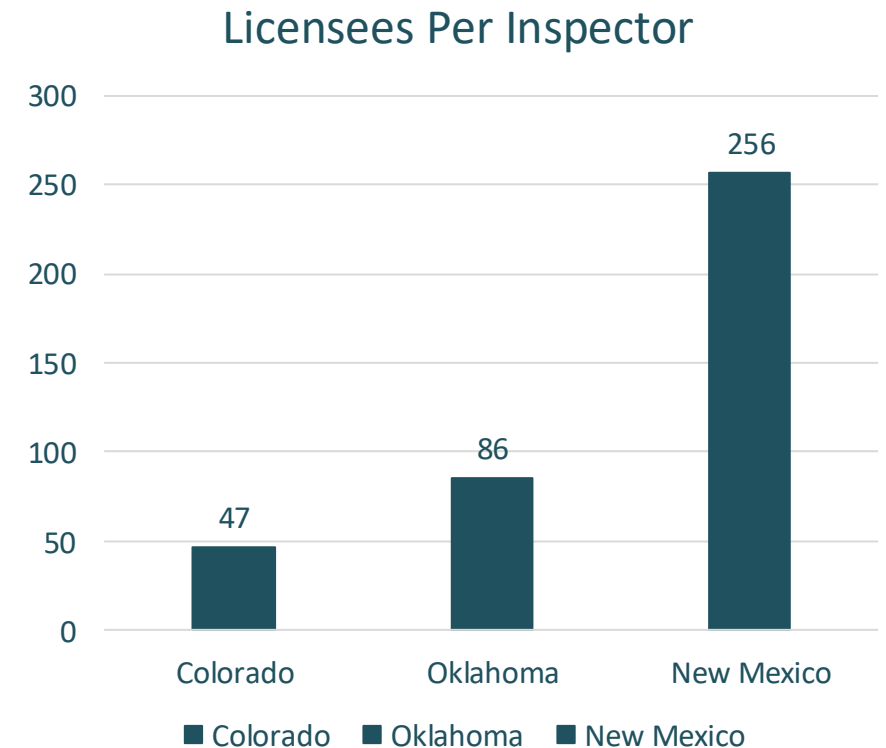
- Expand the number of Cannabis Control Division (CCD) inspectors to 30, aligning with Colorado's staffing levels and addressing the small but persistent black market.
- Temporarily pause the issuance of new retail licenses until the CCD can adequately scale its inspection workforce.
- Empower law enforcement with the authority to search, seize, and destroy illegal and dangerous products, and to arrest those involved in illegal activities.
- Ban the sale of intoxicating hemp products at unregulated venues such as flea markets, street vendors, smoke and vape shops, and convenience stores.

Additional Inspectors are Critical for Success

- The CCD remains under-resourced, with too few inspectors to ensure that licensees are operating legally and in compliance with regulations. This shortage also limits the CCD's ability to enforce rules in a timely and effective manner.

State	# of Licensees	# of Compliance Inspectors
Colorado	2,344	50
Oklahoma	6,424	75
New Mexico	3,071	12

In conclusion, New Mexico requires 30 additional inspectors to reach a licensee-to-inspector ratio comparable to peer states, ensuring proper oversight and regulatory compliance across the industry.



Ability to Control License Issuance Needed

➤ The Problem

- *Revenue Challenges*: 17% of retailers report generating less than \$10K in monthly revenue, while 50% report under \$50K per month.
- *Inspection Shortfalls*: Many licensed operators have yet to undergo required inspections.
- *Debt Issues*: The industry is grappling with unresolved outstanding debt.
- *Public Opinion*: Polling from last year shows strong public support for pausing the issuance of new retail licenses.
- *Bankruptcy Restrictions*: Cannabis businesses currently lack access to traditional bankruptcy protections.

➤ Approaches in Other States

- *Oregon*: Since June 2018, Oregon has implemented a series of administrative pauses on new cannabis licenses. A new law, effective April 2024 (HB 4121), permanently ties future licenses to population growth—requiring 7,500 smoking-age residents for production/retail licenses and 12,500 for processing/wholesale.
- *Oklahoma*: The state estimates that its regulated cannabis market produces 32 times more than needed to meet demand. In response, Oklahoma extended its moratorium on new licenses by two more years, now set to expire in August 2026, marking a total four-year pause.
- *Vermont*: As of September 2024, Vermont’s Cannabis Control Board has ceased accepting applications for new retail and tier two cultivation licenses.
- *29 Other States*: 29 additional states have implemented mechanisms to allow their cannabis markets to stabilize before issuing new licenses.

More Enforcement Powers Are Required

- Authority to conduct lawful warrantless searches and seizures.
- Authority to arrest individuals involved in the trafficking of illegal cannabis.
- Authority to place an administrative hold on the movement of cannabis products suspected of being adulterated, dangerously mislabeled, or fraudulently branded.
- Authority to embargo or seize cannabis products suspected of being illegal, adulterated, or dangerously misbranded.
- Authority to seize premises where cannabis products are produced, manufactured, or stored, as outlined in a warrant.

Intoxicating Hemp Ban

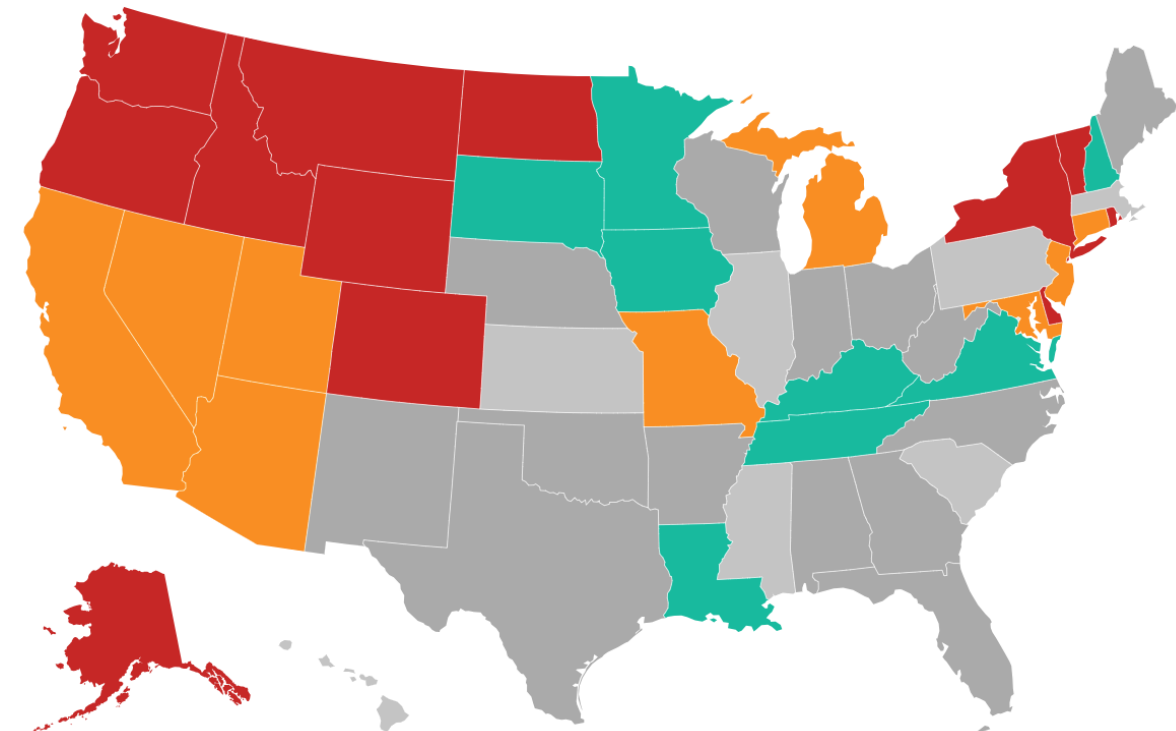
- The 2018 Farm Bill made it possible for hemp-derived THC and other intoxicating substances, which are not subject to the Controlled Substances Act, not taxed according to the NM Cannabis Regulation Act, and are not regulated or tested to any similar degree of scrutiny as cannabis.
- Hemp-derived THC products can be sold online without age verification, and at gas stations, and are alarmingly marketed as a “legal alternative” to cannabis, Delta-8 and THCa are growing in popularity with teens (More than 11% of high school seniors reported using Delta-8 THC in the last 12 months) because it’s easier to purchase than alcohol or cannabis. In 2021, Poison Control Centers across the country received more than 2,300 Delta-8 exposure cases.
- The U.S. market for hemp-derived cannabinoids increased 1,283% from 2020 to 2023. In-state and multistate operators are increasing shifting to hemp-derived THC, including direct-to-consumer online sales of drinks and gummies.

Hemp-derived THC legal status by state

How hemp-derived and hemp-synthesized THC is regulated across the United States

Regulation Status

■ Prohibited ■ Prohibited outside marijuana channels ■ Regulated ■ Unregulated ■ Unregulated; ban unclear



Schwazze Supports:



- Expanding the CCD's enforcement powers to include the ability to seize, destroy, and embargo illegal or non-compliant cannabis products.
- Increasing the number of compliance inspectors to achieve an industry best practice ratio of inspectors to licensees.
- Amending the Cannabis Regulation Act to implement a temporary pause on the issuance of new licenses.
- Banning intoxicating Hemp

Thank You

