



Excerpt from

Marijuana Dispensaries:

A Budding Industry Brings
Opportunities and Challenges
for Business Appraisers

Marijuana Dispensaries: A Budding Industry Brings Opportunities and Challenges for Business Appraisers

A BVR SPECIAL REPORT



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What It's Worth

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Introduction

The times they are a-changin'.

—Bob Dylan

This past November, Oregon, Alaska, and Washington, D.C., joined Colorado and Washington in legalizing recreational marijuana. Currently 23 U.S. states and the District of Columbia allow medical marijuana use.

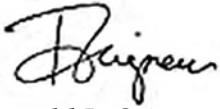
Legal marijuana is a very good business. ArcView Market Research put the value of the U.S. legal marijuana market at \$1.53 billion in 2013 and expects that figure will have increased 68%, to \$2.57 billion, this year.¹ GreenWave Advisors predicts that U.S. retail marijuana sales could reach \$35 billion a year by 2020.² Colorado's legal marijuana market reached \$203 million during the first four months of 2014. Just as one example, big players are emerging who have warehouses with some 50,000 to 60,000 square feet of plants and 50 or more employees watering the plants and giving them nutrients. These are very much commercial, professionally run operations.

And, as with other businesses, there is real money to fight over when the owners divorce a spouse, dispute a partnership agreement, gift shares, or sell the enterprise. However, in this case, performing an accurate valuation is particularly challenging. The industry's relatively short history, high level of risk, high volatility, and complex, quickly evolving regulatory structure are unique considerations to which appraisers must pay attention. Determining the subject company's proper risk-adjusted discount rate or the valuation multiple to apply to cash flow and EBITDA can be especially problematic. And the ethical or legal issues must be considered since selling marijuana is still considered an illegal activity at the federal level.

¹ *The State of the Legal Marijuana Markets*, 2nd Edition. Arcview Market Research. 2013. www.arcviewmarketresearch.com

² State of the Emerging Marijuana Industry. Current Trends and Projections. Executive Summary. GreenWave Advisors. October 2014.

Accountants, business appraisers, attorneys, and investors are all paying attention to this booming industry because of the opportunities it provides. The chapters here in *Marijuana Dispensaries: A Budding Industry Brings Opportunities and Challenges for Business Appraisers* address the important issues and provide the technical insight that business professionals need when valuing or servicing a marijuana dispensary.

A handwritten signature in black ink, appearing to read 'R. Seigneur'.

Ronald L. Seigneur, MBA, CPA/ABV, ASA, CVA, CFF
Seigneur Gustafson LLP

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