

Cannabis License Value: Influenced by Type and Market Age

Cannabis business licenses can be a golden ticket in some jurisdictions, offering substantial profit opportunities. In others, they may be worth little more than the paper they're printed on. The disparity in license value is stark between established markets like California, Colorado, and Oregon, and emerging markets such as Florida or Illinois. As Colin Ferrian, portfolio manager at San Francisco-based Poseidon Investment Management, notes, the maturity of the market plays a significant role in determining the worth of a cannabis license.

Emerging Markets vs. Established Markets

In states with long-standing legalization, such as California and Colorado, the value of cannabis licenses has plateaued. For example, in Colorado, where recreational cannabis has been legal for nearly a decade, the asking price for a cannabis retail license is roughly \$50,000, which matches the market value. In contrast, in Illinois, which only began recreational sales in 2020, the asking price for a cannabis retail license can reach \$2 million, even though the market value is closer to \$1.5 million.

This gap between asking prices and market values is more pronounced in newer markets. Sellers in these markets often overestimate the value of their licenses, driven by the high demand and limited availability. Ferrian explains that as markets mature, the difference between asking and market prices narrows, reflecting a more stable and predictable business environment.

Challenges in Emerging Markets

Entering the cannabis industry in an emerging market can be significantly more expensive than in a well-established one. Ferrian highlights that buying a cannabis business in a mature market typically offers better value, while emerging markets often see licenses sold at a premium with little room for discounts. "You have to do a lot of things right to make your money back," Ferrian warns, underlining the risks involved in these newer markets.

The Problem of "Empty Licenses"

Attorney Amber Lengacher, founder and CEO of Purple Circle, a Colorado-based consulting firm, identifies a growing issue in certain states: "empty licenses" that hold little to no value. This is particularly problematic in states that issue licenses across various categories, such as cultivation, retail, and transportation. For instance, in Illinois, transporters had to navigate a complex application process to secure a license, only to find that most cannabis operators opted to handle transportation in-house, leaving licensed transporters with no clients and a worthless license.

Lengacher notes that similar issues are emerging in Colorado, where the requirement for municipalities to approve marijuana delivery has led to a dearth of delivery services. Even when delivery is available, as with

Colorado Harvest Co., customer demand has been low, leading the company to cease delivery operations.

The Value of Vertically Integrated Licenses

In contrast to these low-value licenses, vertically integrated licenses in markets like Florida are highly coveted. Florida, with its 900,000 medical marijuana patients, allows license holders to grow, manufacture, and sell cannabis under a single license, making these permits extremely valuable. The market for these licenses is expected to grow further with the potential introduction of adult-use cannabis sales.

According to a recent report by CRB Monitor, the number of active vertically integrated cannabis licenses in the U.S. increased by 2% in the second quarter of 2024, with approved and pending licenses surging by 200%. This growth is driven by anticipation of expanded markets, particularly in states like Florida.

The Risk of Over-Saturation

However, not all new licenses hold value. In Minnesota, where a dozen different license types are available ahead of the state's upcoming adult-use market launch, there are concerns about over-saturation. Lengacher points out that if cultivators and processors are allowed to sell directly to retailers, wholesale licenses may have little value. This issue stems from the fact that new markets are often shaped by lawmakers, who may lack the data needed to design a balanced and functional market.

The Impact of Market Changes

Avis Bulbulyan, CEO of California-based cannabis consulting firm Siva, observes that the cannabis industry is evolving faster now than it did between 2014 and 2016. The potential for interstate commerce, driven by possible rescheduling of marijuana, could further disrupt the market. If marijuana can be transported between states, single-state transport licenses may lose value, making it more cost-effective to partner with already established companies.

Bulbulyan advises that in today's market, buying an existing business with assets is often a smarter move than pursuing a new license. "Money I would have spent going to chase a license, I can put into marketing and have a bigger success story," he says, emphasizing that distressed assets offer a quicker and cheaper entry into the industry.

Navigating a Changing Industry

As the cannabis industry continues to evolve, the value of business licenses will be heavily influenced by market maturity, legislative changes, and the potential for interstate commerce. In mature markets, the gap between asking and market prices has narrowed, reflecting stable business conditions. In contrast, emerging markets still present high risks, with licenses often sold at inflated prices that may not reflect their true value.

For those looking to enter the cannabis industry, understanding these dynamics is crucial. Whether investing in a mature market or taking a chance on an emerging one, the key is to carefully evaluate the potential returns and risks, considering both the current market conditions and the future direction of the industry.

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