

January 8, 2024 **INDUSTRY OUTLOOK | CANNABIS**

New cannabis businesses set to launch in 2024, while sector keeps eye on federal reforms



HBJ PHOTO | STEVE LASCHEVER

A look inside CTPharma's grow facility in Rocky Hill. More grow facilities are expected to debut in Connecticut this year.

By Skyler Frazer

The state's recreational cannabis market got off to a slower-than-expected start in 2023, but the industry expects further growth in the year ahead.

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The adult-use industry recorded \$127.5 million in sales through 10 months in 2023, and generated over \$12 million in tax revenues, according to data from the state departments of Consumer Protection and Revenue Services.

Since the market launched, the industry has grown to include 27 dispensaries as of mid-December. However, the four growers that previously served the state's medical marijuana program remain the only active cultivators in the state.

More growers are expected to begin operations this year.

Here are some cannabis industry trends to watch in the year ahead.

New businesses, products enter market



Ben Zachs

The biggest trend in 2024 will likely be the entrance of new retailers, manufacturers and products, said **Benjamin Zachs, chief operating officer** of Connecticut-based **Fine Fettle**, which currently operates four cannabis dispensaries in the state and is building a 45,600-square-foot grow facility in Bloomfield.



Sarah A. Westby

With several potential growers already in the licensing pipeline, at least one or two will likely begin production this year, said **Sarah A. Westby, a partner** at law firm **Shipman & Goodwin**, who chairs the firm's cannabis team.

New dispensaries will also come online, she said.

"Several retail equity joint venture stores received provisional approval in 2023, and will likely open in 2024," Westby said. "The opening of additional retail stores across the state, coupled with the anticipated launch of new cultivation businesses, should result in increased retail cannabis sales, which have flattened in recent months."

New to market will likely be the first food and beverage businesses.



Benjamin Pomerantz

"I expect to see a host of new products come to market, including drinks, new types of foods, fast-acting products, and micro-dose and entry-level choices," said **Benjamin H. Pomerantz, a partner at Carmody Torrance Sandak & Hennessey**, who leads the law firm's cannabis industry group. "A more robust selection of products will enhance the consumer experience."

Still, many will be keeping an eye on how many licensees, especially those in the provisional stage, actually come online in 2024.



Drew Richards

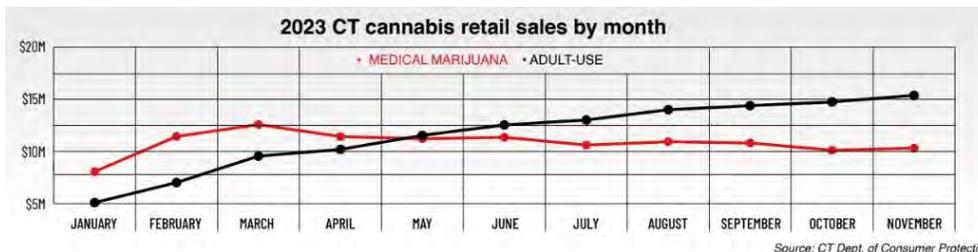
Cannabis startups continue to struggle with financing and finding adequate locations to operate their businesses, said **Drew Richards, a director** at national accounting firm **Marcum**, who works with cannabis companies across New England.

“The more time that passes, the more I can see investors becoming anxious and unwilling to continue to have their money sit stagnant; or even to continue to fund these companies that have yet to become operational,” Richards said.

Regulatory changes

Carmody’s Pomerantz said cannabis businesses will closely monitor Connecticut’s 2024 legislative session for potential changes to how the adult-use market operates. Changes were made during last year’s session to the 2021 law, and more are expected as the industry matures.

State officials this year are expected to discuss parameters for a second business license lottery. The state initially planned for two lottery rounds in 2022, but only one has occurred.



Federally, Westby said the potential rescheduling of cannabis from a Schedule I to a Schedule III drug could be a huge boost for the industry.

That was reportedly recommended last year by the Department of Health and Human Services to the Drug Enforcement Administration.

Such a move would make it easier for cannabis companies to operate, Westby said.

The Schedule I status “prevents cannabis companies from deducting ordinary business expenses from their federal tax obligations” through Section 280E of the Internal Revenue Code, resulting in an effective tax rate of 70% or greater, Westby said.

That has been a substantial barrier to cannabis companies’ profitability and long-term survival, particularly smaller businesses, she said.

“While rescheduling of cannabis as a Schedule III controlled substance would not fully remove the federal prohibition or permit interstate commerce of cannabis, it would remove application of 280E and enable additional research opportunities for medical marijuana,” Westby said.

Meantime, the industry will also be advocating for continued momentum behind the federal SAFER Banking Act, which would make it easier for legal cannabis businesses to utilize financial services available to other industries.

The bill was recently approved by the U.S. Senate Banking Committee.

Customer experience

Pomerantz said he also thinks the customer experience will improve in 2024, with more delivery service companies coming online that could make purchases easier and less time-consuming.

More dispensaries are also expected to offer drive-through options and curbside pickup this year, he said.

“I’m also looking forward to see how cannabis and cannabis consumption continues to be normalized in the community, the workplace, and in other industries,” Pomerantz said. “Many employers are starting to disregard (and/or accept) cannabis consumption the same way they don’t care about employees having a glass of wine when off the clock.”

DCP recently tweaked some rules that benefit consumers. For example, the agency increased per-visit transaction limits in December, and has been more lenient on strict product-naming guidelines that were established almost a decade ago for the state’s medical marijuana program.

“It will be interesting to see if anything else changes from the client experience – specifically, will retailers be allowed to showcase product or packaging within their stores and make the buying experience more of exactly that, an experience,” Richards said.

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