Seaside Green Business Plan Executive Summary

Mission:

To provide reasonably priced, high-quality cannabis and value-added cannabis products grown, processed, packaged and sold at a single facility in a vertically integrated operation under a State Microbusiness license.

Background:

The Buddha Love LLC that holds the local permits and State license represents the continuation of a family business operating a retail cannabis store on the site in Seaside since 2019. The founding owners had prospered in the California retail cannabis market beginning in 2010. Like so many mom-and-pop operators, they failed to successfully navigate the wrenching regulatory transition following passage of MAUCRSA, and ended up facing a large back tax burden.

The current owners took over the business, cleared the tax debt, and continued to pursue a longstanding ambition to gain local permission to cultivate in the 4,400 sq ft high-ceiling basement level of the facility that originally served as a bank vault. Pursuit of that goal was complicated by the severe water shortage on the Monterey Peninsula in recent years. The cultivation project finally gained approval from the Water District and the City of Seaside in March of this year. The State microbusiness application that will replace the retail-only license has now reached the final stages of review.

Problem and Solution:

Seaside was among the communities that issued retail cannabis permits early, and a shakeout has since been underway. The City has decided not to replace permits for businesses that shut down - as a competing chain planning to expand into Seaside recently discovered. The local retail outlets currently all follow the same strategy in what can feel like a zero sum game - offering mainly the same brands of products, and competing based on an endless series of sales.

One way to gain a competitive edge in the expanding California cannabis marketplace has been to consolidate and purchase in volume at lower wholesale prices from manufacturers and distributors. That option is not available with a community-based business like Seaside Green. The microbusiness licensing model offered by the State provides an alternative means of lowering costs and competing - by allowing cultivation, manufacturing, distribution, and sales operations to all take place within a single integrated operation at one site. However, facilities suited to all these activities remain in short supply.

In addition to cost-cutting at the retail level, the microbusiness structure offers maximum flexibility to find profitable niches in the regional market that aren't available to retail-only licensees. The manufacturing component allows the business to process the raw flower material into concentrates and infused products. The distribution function allows the operation to arrange for product testing and sales of items produced and packaged in-house to other distributors and retailers. The broad range of choices open in this model maximizes the opportunities to respond to changing market conditions.

Financial Overview:

The retail component is actually of secondary interest here, other than as one outlet for the products produced on site. The really significant net revenue will come from other facets of the operation that competitors can't replicate. The ability to offer a line of unique, quality products at low prices will confer a competitive retail edge, but success of the microbusiness does not depend on profits generated by the retail operation. Profit sharing with a professional cannabis retail management company with a solid track record may prove the best option while establishing the other operational components of the microbusiness.

In order to estimate the volume of flower production at the base of the vertically integrated microbusiness model, we need to make some assumptions. In any agricultural production system there is always a limiting factor. Once growers address that issue, then some other factor becomes limiting. Typically, the quality and intensity of light becomes the main limiting factor when growing indoors.

The current lighting diagram on file with the State calls for 139 LED lights pulling an average of 1050 Watts each. According to the manufacturer, with that concentration of fixtures the cannabis plants under each of those units can produce more than 6 pounds. That assumes of course that every other factor has been optimized - nutrients, vapor pressure deficits, CO2 levels - everything down to genetics. We're not going to make those assumptions. Instead we'll assume production at less than half that amount, or 2.5 pounds of flowers per light in a three-month crop cycle.

At two and a half pounds per light, the system will produce 347.5 lbs per cycle. Running four cycles per year, that operation will put out 1,390 lbs. of flowers annually. We should note that the ceiling in the grow space is high enough to allow tiered production on a racking system, leaving the potential to nearly double the canopy area in the future.

Lighting technology continues to advance rapidly, yielding better spectral quality and intensity with less power, but lighting remains by far the biggest expense in producing those 1,390 lbs. To estimate that cost we assume that plants spend half of each production cycle at 18 hours of light per day, and the other half at 12 hours per day while flowering. The standard electricity rate in Seaside will be around 35 cents per kilowatt hour, although PG&E may offer significantly better commercial rates with time of day discounting.

According to the calculator provided by the manufacturer, running the lights 18 hours/day for six months at the standard rate would cost $165,500, and $110,340 at 12 hours/day. Adding those two gives us a total annual cost to run the lights of $275,840, or $68,960 for each cycle.

With automation, the skilled labor requirements for most of each cycle mainly consist of monitoring the system and record keeping. When we add in the cost of labor, rent, and power for all the equipment needed, an estimate of $120,000 is reasonable for the cost to run a production cycle. Each pound of flower then will cost the microbusiness $345 to produce.

At current prices that raw product would bring more than twice that amount if sold on the wholesale market, but there are much better options. With the micro license the business can add value, brand, package, and distribute the resulting products, and even sell directly to the public on

site. The current owner recently developed and sold a Buddha Love brand of flowers and prerolls, including the packaging design and production.

Quality flowers packaged as 3.5 gram units typically sell at retail in the $30 to $50 range, while the cost for the microbusiness to produce the flower itself will be only $2.68. Packaging costs will be around $2 per unit in-house. A total unit cost of $6 for quality flowers leaves an enviable margin to work with. A pound would net $1,556 if sold wholesale to distributors and other retailers at the very competitive price of $18 per unit. At the attractive retail price of $25 for 3.5 grams, the products sold directly to the public on site would net $2,463 per pound.

Flowers have historically accounted for 43% of retail sales at the facility, but the manufacturing component offers the chance to reach other segments of the local market as well. Prerolls and concentrates have made up another 25% of sales. The technology to manufacture high quality products in these categories at this scale without volatile solvents is now readily available and inexpensive.

The very best concentrates that preserve the terpene profile of the plant can only be made without solvents. Presses use heat and pressure to squeeze live rosin concentrates from raw flowers, and connoisseur quality ice water hash requires minimal equipment to produce. Rolling machines have replaced labor intensive methods for making prerolls. Concentrates can be sold as the final product, or used to make infused prerolls, a product that has been gaining in popularity.

Down the road other options can be considered like infusing edibles, a category that has accounted for 10% of local retail sales. The broad range of choices available will allow the business to respond quickly to changing conditions with a mix of products and sales strategies at both the wholesale and retail levels.

Setup Costs

The spacious leased facility is in excellent condition, with recent remodels to the 6,000 + square foot ground level which houses the retail, manufacturing, and distribution functions. The upper level will easily accommodate all the anticipated microbusiness activity with little further investment needed.

The cultivation plan relies on the existing room layout on the 4,400 square foot lower level. The space will not need further partitioning, so the major initial investment will be in equipment. As with the operating costs, lighting will eat up the lion's share of equipment expenses, followed by a commercial AC unit, dehumidifiers, and computer environmental controls. In addition growers will need to install the plumbing for irrigation and containers with growing medium.

The lights currently retail at around $1,000 each, which translates to a $139,000 investment. A 12 ton commercial AC unit on a pad outside will run $12,000, and the electrical panel installation to support this equipment another $5,000. With the additional materials and installation costs, set up for the first cycle will take around $210,000.

Although a production cycle can be run in three months, the product will require additional processing and packaging before it's ready for sale. Operating expenses will then need to be covered for the first six months before seeing a return on the investment from sales of the first cycle product. That's two full cycles of production, which we have put at $120,000 per cycle. We can estimate then that a $450,000 investment would be needed before achieving a steady output of salable product.

Return

The rate of return will depend in large part on how the product is processed, marketed, and sold. Direct sales to the public nearly doubles the net profit per unit, but to be conservative we can assume that it is all sold at a low wholesale price to distributors and retailers. We estimated a net return at that rate after operating expenses are paid to be $1,556 per pound. If we assume then that all of the first cycle production is processed, packaged, and sold at a low wholesale rate, that would net a total of $540,710.

Without scratching the surface of the available marketing and product options, the project returns the initial investment in less than a year. After that the ROI becomes a whopping 450%, and the operation generates a net profit of $2,162,840 per year. That estimate relies on conservative assumptions, and as we've seen there are many ways to improve on that performance as the business develops.