

CANNABIS

AN INVESTOR'S GUIDE

BY DAMON POETER*

With the help of our panel of experts, *GCT* has built a three-course educational track for cannabis investing.

“There’s been a lot of money lost in cannabis and there will be a lot more lost in the future.” These are the sobering words of David Traylor, a member of our expert panel and senior managing director of Meridian, CO-based cannabis investment fund Golden Eagle Partners.

Factor in the tumult of the past year in cannabis—inflation, poor earnings from some high-profile public operators, bearish investors—and it’s enough to make one consider hitting the pause button on the staking of cannabis companies.

On the other hand, a down market is a good time to buy, right? That’s Investing 101. But is it Cannabis Investing 101?

We’ve gathered a panel of some of the most dialed-in financial minds in cannabis to answer that question and much more. In the following pages, you’ll get a crash course in cannabis investing for beginners, as well as more advanced tips and guidelines for more experienced investors in the sector.

The first two courses, Cannabis Investing 101 and 201, are mainly aimed at retail investors who are likely to stick to investing in publicly traded cannabis companies and funds that bundle cannabis stocks together. The

advanced course, Cannabis 301, offers some guiding principles for more entrepreneurial sorts who may be considering a stake in a private venture, which brings different and usually greater risk than playing the stock market.

Speaking of risk, the very first thing to determine before investing in cannabis is your appetite for it. Cannabis can be a volatile market—there’s big downside risk, but that also means winning bets can be very rewarding.

So how much to bet on cannabis?

“The percentage of cannabis stocks in an investor’s portfolio is going to depend on the investor’s age, purpose for investing, and what other types of assets are in their portfolio,” says Rob Sechrist, co-founder and president of Laguna Hills, CA-based Pelorus Equity Group.

Small and inexperienced cannabis investors might consider cannabis exchange-traded funds (ETFs) instead of going straight to betting on individual stocks, notes Geoff Whaling, chair of the National Hemp Association and founder and chief vision officer of rePLANT Hemp Advisors. More on that portfolio diversifying tactic in the pages that follow.

Whether you are a newbie or an experienced cannabis investor, we hope you’ll find some helpful nuggets in this guide. Happy trading!



HOW WE BUILT THIS GUIDE

The *Global Cannabis Times* Investor's Guide is based on interviews with top financial experts in cannabis and an investing questionnaire developed by GCT, Global Go, Global Go Analytics and Golden Eagle Partners and answered by leading cannabis authorities.

CANNABIS: AN INVESTOR'S GUIDE

CANNABIS INVESTING 101

A beginner's guide to betting on green

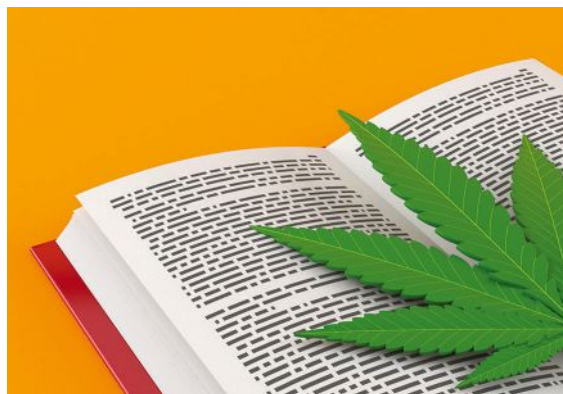
1.

FIRST RULE: KNOW WHAT YOU DON'T KNOW

An inflated sense of expertise is a terrible trait for an investor, no matter the market. Cannabis is no exception, says Traylor of Golden Eagle Partners. "There's been too much arrogance and too little humility in cannabis—whether that perspective involves the investing or operational sides of the business," he says.

Cannabis is an emerging industry with unique regulatory challenges. It's not as simple as just taking an investing strategy that works for other sectors and applying it to this one, Pelorus Equity's Sechrist advises. "Investing in cannabis is so nuanced and unlike any other industry. You need experience—that's the No. 1 rule," he says.

"The learning curve in cannabis investing is very steep. There are so many unique facets in this sector, whether we're talking compliance, inventory management,



growing biologicals, cash management or banking."

2. WHEN TO TURN TO THE PROS

Should we simply hand over our portfolios to professional financial advisors instead of trying to be DIY investors? Traylor quotes Warren Buffet, who famously said, "Invest in what you know ... nothing more." Learning on someone who has experience investing in cannabis is certainly a smart choice when you're just getting started.

A (PARTIAL) LIST OF TERMS TO KNOW

- CBD
- Cultivar
- Delta-8
- EPS
- ETF
- Hemp
- HHC
- Index
- IPO
- LPs
- M&A
- MSOs
- Pick-and-Shovel
- ROI
- THC

But be warned—finding a competent advisor on cannabis may not be easy. Experts in other industries may not be as dialed in on cannabis, which has unique quirks like shifting regulatory roadblocks. Even seasoned financial advisors can be out of their depth in cannabis, warns Traylor.

Adds Sechrist: "I wouldn't recommend hiring an investment banker or advisor unless they have a proven track record of experience, specifically in the cannabis sector."

3. WHAT'S THE DIFFERENCE BETWEEN HEMP AND MARIJUANA, ANYWAY?

There are a few important ways to answer this question, say our experts:

★ EFFECTS ON HUMANS. Both hemp and marijuana are cannabis. But marijuana has high levels of Tetrahydrocannabinol (THC), the principal psychoactive element of cannabis that gets humans high. Hemp, defined as cannabis with THC levels of no more than 0.3 percent, doesn't get people high.

THE CALL OF THE GREEN

The allure of cannabis financing is built on its potential to help people

BY ROB SECHRIST

We are happy at Pelorus Equity to see that cannabis is becoming legalized for multiple reasons, but perhaps most crucially because we believe cannabis has proven medical use, in particular with respect to pain management.

If cannabis helps just 1

percent of the population who might otherwise turn towards addictive opiates for pain management, then we see that as a massive win—one that could help the whole country.

From a business perspective, as a lender that had handled more than

5,000 transactions exceeding \$5 billion before we ever entered this sector, we've realized with the information we have now that cannabis is actually the most mispriced risk we've ever seen in our careers. And we don't see ourselves going back to traditional lending.

This sector is pretty recession-proof. It's not going to be as impacted by a real estate downturn or an economic down-cycle. The opportunity is here, and people haven't taken the time to really understand just how good the opportunity is.

✳ **USES.** All parts of industrial hemp plants can be used in a wide range of applications, including green construction, nutrition, feed and grain, bioplastics, new cement, textiles and energy, notes rePLANT's Whaling. Marijuana's prize is its flowering buds—these flowers and their extracted compounds are used for both recreational ingestion and medicinal purposes.

✳ **LEGAL STATUS.** Hemp is federally legal in the U.S. and many other countries allow it to be grown, though often under restrictions like testing for THC levels. Medical marijuana has been legalized to varying degrees in more than 65 countries. Recreational cannabis is officially legal in just seven countries worldwide but decriminalized in dozens more.

✳ **INVESTMENT OPPORTUNITIES.** Industrial hemp is poised to be a much larger worldwide industry than recreational and medical cannabis, perhaps by orders of magnitude. Whaling believes that makes it “by far the bigger market opportunity.” But Global Go Analytics CEO Tom Adams of our expert panel points out that there should also be ample opportunities to carve out valuable IP in the marijuana sector (*see sidebar, Hemp vs. Marijuana*), perhaps creating better targeted ROI vehicles.

4. HOW TO TELL GOOD CANNABIS COMPANIES FROM BAD ONES

As in any other sector, the best-performing cannabis companies will tend to have solid financial backing, industry expertise and a reputable management team capable of successfully executing a plan, says expert panelist Phil Valvardi, partner and CFO of Global Go.

Whaling echoes that sentiment, adding that when researching companies to invest in, look for executive and management teams that feature both financial and business expertise.

Traylor and his Golden Eagle Partners colleague Matt Daugherty offer some more salient advice—seek out authenticity

and avoid companies that spout buzzwords and jargon.

“To us, it's simple. Having been in the cannabis industry for more than eight years, our measure for a good company relates to attitude. The people and companies that don't drink the Kool Aid and have a more grounded approach are going to win,” Daugherty says.

“In the short era of legal cannabis, there's already a substantial history of companies that have blown up because of arrogance and false expectations.”

5.

PLAN YOUR EXIT STRATEGY

Here's a final lesson for novice investors, courtesy of Sechrist. Cannabis is a tricky market to extract profit from quickly as an investor. The first reason for that is the difficulty cannabis companies themselves face in getting to profitability. Companies in the U.S. are especially burdened by Section 280E of the Internal Revenue Code, which prohibits businesses engaged in trafficking federally controlled substances like marijuana from deducting typical business expenses associated with those activities.

“If a company can be profitable even without writing off all those expenses federally, I think you would be in a decent position to invest in them,” Sechrist says. A few publicly traded cannabis companies, including some prominent U.S.-based multi-state operators (MSOs), have been able to consistently stay in the black and are worth a look.

But even healthy and profitable stocks can be difficult to get out of in cannabis. “When trying to determine whether or not to invest in a publicly traded company, you want to look for the amount of shares trading daily. If it's a thinly traded stock, there's no way to get in and out of it easily with any sizable trades, and it's going to have massive swings,” Sechrist advises.



ETF (EXCHANGE-TRADED FUND) EXPLAINER

What exactly is an ETF? It's an “exchange-traded fund,” or a fund that trades on stock exchanges, generally tracking a specific index. In stock markets, an index can either track the overall market (like the S&P 500 does) or track a more targeted subset of the overall market.

Cannabis ETFs do the latter—they bundle dozens or more stocks in a given market according to a cannabis index, a targeted subset of the market. With an ETF, you get a bundle of assets you can buy and sell during market hours. This is a way to lower the risk and exposure you'd have if you only owned a single cannabis asset, while helping you diversify your portfolio.

Here are some cannabis ETFs of note (with ticker symbol):

- AdvisorShares Pure Cannabis ETF (NYSEARCA: **YOLO**)
- AdvisorShares Pure U.S. Cannabis ETF (NYSEARCA: **MSOS**)
- Amplify Seymour Cannabis ETF (NYSEARCA: **CNBS**)
- Cambria Cannabis ETF (CBOE: **TOKE**)
- ETFMG Alternative Harvest ETF (NYSEARCA: **MJ**)
- Global X Cannabis ETF (NASDAQ: **POTX**)
- The Cannabis ETF (NYSEARCA: **THCX**)

Keep in mind that you don't have to decide between investing in an ETF or an individual cannabis stock ... you can do both!

CANNABIS: AN INVESTOR'S GUIDE

CANNABIS INVESTING 201

Next-level market-tracking tools and tips

6.

GAMING THE GREEN RUSH

The term “pick-and-shovel” investment comes from California’s Gold Rush. Back in 1849, merchants selling prospecting tools often made far more money than the miners who bought those tools to hunt for gold. In the cannabis “Green Rush,” we can also demarcate between pick-and-shovel companies selling underlying materials and support services from the plant-touching companies that actually grow and sell cannabis products.

So which is the better investment? In the short term, pick-and-shovel businesses are a safer bet, according to Valvardi. “They are generally less impacted by regulations and in the U.S., onerous tax issues. But long-term, there will likely be large-scale, plant-touching growers, manufacturers and retail businesses just like in alcohol and other similar verticals.”

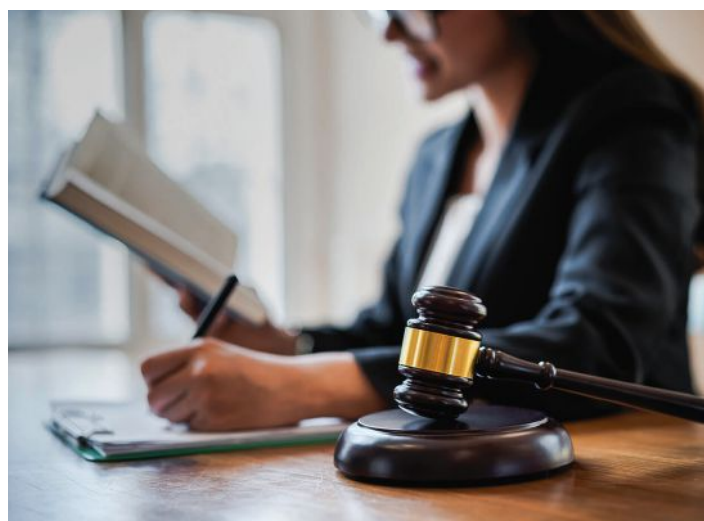
If and when marijuana is legalized at the

federal level in the U.S., the big, vertically integrated, plant-touching companies should be ready to pounce, adds Whaling. And not just U.S.-based companies. “Once there’s federal legalization, a Canadian company like Canopy Growth will be able to move on investments they’ve been making in the U.S. and almost instantly have a presence and distribution point for their brands already popular in Canada,” he says.

7. FINDING THE RIGHT PICK-AND-SHOVEL PLAYS

Companies supporting cannabis operators are finding purchase in areas like software, inventory controls and CPG packaging. Supplying services any business needs—legal, financial, payroll, HR and more—and tailoring them for cannabis ventures is a favorite pick-and-shovel play.

Some of those companies have gone public and might be worth a look by investors. But be warned: Cannabis is rapidly become a very crowded space and it can be difficult to separate the pretenders from the contenders, says Traylor.



“It’s very hard to capture full-scope market analysis across a rapidly expanding industry. We believe focus is a critical trait in companies worth an investment,” he says. “Cannabis companies, whether plant-touching or not, should focus on what they do well and if you aren’t one of the top two players in a sector, get out of it. There are too many companies and investors sinking capital into cannabis operations they don’t understand.”

HEMP VS. MARIJUANA

Which of the following do you believe is the best long-term investment and/or business opportunity: medical marijuana, adult-use marijuana or industrial hemp?



As a consumer product, the demand for medical and adult-use marijuana is strong. Scientific advances that have improved other raw materials for decades are now being trained on cannabis. That’s where we believe the IP opportunities lie. **TOM ADAMS**



Hemp. Its fiber and woody core can complement or displace a total addressable market (TAM) estimated at \$6 trillion in the U.S. alone! It’s the most sustainable crop on the planet—hemp consumes more CO2 than any commodity and helps the soil—and all parts of the plant can be converted into revenue: seed, grain, fiber, hurd and carbon credits. **GEOFF WHALING**

8.

RIDING OUT THE REGULATORY RIPTIDE

All of our panelists agree that the biggest inflection point in legal cannabis will come with a change in U.S. federal law that legalizes the industry in its biggest, most profitable market. Despite all the anticipation for that moment, it will still visit tumultuous effects upon even the most established players.

“If and when cannabis becomes legal federally and you’re an operator who paid a premium to be in limited-license states, all that value just gets wiped out,” says Pelorus Equity’s Sechrist. “Conversely, the longer the regulatory landscape is fractured, the longer you can draw out premiums.

“There are so many intricacies to regulations between states and keeping track of it all can be a nightmare—that’s why banks lending in this space or even doing deposit relations are extremely cautious and are only working in a few states at a time. We make sure we’re an expert in every state that we lend in.”

How to make yourself an expert as well? “The best way to plan is to follow the proposed changes in regulations and look at publications like GCT and others to assess what the likely impact will be in the various cannabis market segments and the industry as a whole,” says Valvardi.

9.

BRACING FOR A RECESSION

How would a recession affect the cannabis sector? In the United States, we’ve had mixed signals about whether we’re in a recession right now or not—but at any rate, we don’t have to look back very far to find evidence of what happens to cannabis in a contracting market, say Traylor and Daugherty.

“In early 2019, we mapped out the potential effects of a recession on the marijuana sector in the U.S.,” Traylor says.

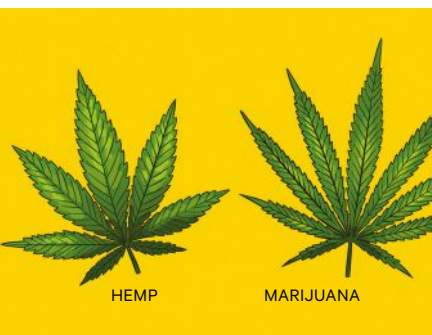
“We assumed that medical cannabis sales would increase because historically, health care spending during recessions has proven to be relatively recession proof. We used the stability of alcohol sales in recessions to be a proxy for what to expect for adult-use cannabis sales in a recession.

“In 2020, when the U.S. economy tightened during the pandemic, we were proven to be correct on our predictions for both medical and recreational cannabis.”

Adams adds a caveat, noting that in legal markets with high taxes on cannabis, illicit sellers can often undercut legal sellers on price. Shrinking purchasing power in a recession could push consumers to the black market if regulators don’t assist the legal players.



That is a very good question. Globally, we think medical cannabis has more potential than adult-use cannabis, but that is ignoring industrial hemp. Markets for industrial hemp have the potential to vastly exceed both medical and adult-use cannabis with the ability to bring a diverse set of benefits to both developing and industrial countries over the coming years. **DAVID TRAYLOR & MICHAEL DAUGHERTY**



OUR PANEL



DAVID TRAYLOR

Senior Managing Director, Golden Eagle Partners

→ David founded Golden Eagle Partners in 2012 to advise life science companies, adding cannabis to his portfolio in 2013. Previously, he served at leading investment banking firms including Pacific Growth Equities (later Wedbush), Caris & Company and Headwaters MB (later Capstone Headwaters).



MATT DAUGHERTY

Senior Vice President, Golden Eagle Partners

→ Matthew’s role at Golden Eagle Partners is working to source, manage and close equity and debt transactions. He has more than 18 years of experience working across the capital markets industry. Most recently, he was with Somerset Capital, a private capital firm focused on distressed assets and turnarounds.



GEOFF WHALING

Founder and Chief Vision Officer, rePLANT Hemp Advisors Chair, National Hemp Association

→ Geoff is the founder of rePlant Hemp Advisors, launching a first-to-market impact fund focused on U.S. hemp for food and fiber with a target investment of \$500 million in the space by 2030. He is also chair of the National Hemp Association (NHA), one of the world’s largest hemp advocacy groups.



ROB SECHRIST

Co-Founder & President, Pelorus Equity Group

→ Rob’s primary role at the Pelorus Equity Group, a leading provider of commercial real estate loans to cannabis companies, is developing strategic alliances with both private and institutional investors, formation of equity partnerships, coordinating the company’s growth into new markets and as an underwriter of transactions.



PHIL VALVARDI

Partner & CFO, Global Go

→ Phil is a partner and CFO at Global Go, a leading consulting and advisory firm to the global cannabis industry. Phil has spent most of his career leading innovative businesses within highly regulated industries. Most recently, he was CEO of Highroad Consulting Group, a cannabis consulting firm acquired by Global Go.



TOM ADAMS

Founder & CEO, Global Go Analytics

→ Tom is the founder and CEO of Global Go Analytics, having previously founded BDSA’s Industry Intelligence group and Adams Media Research. Investors following his work have been able to buy early (and sell on time) industry-transforming companies like Comcast, Blockbuster, Disney, Amazon and Netflix.

CANNABIS: AN INVESTOR'S GUIDE

CANNABIS INVESTING 301

Welcome to the head of the grass class

10.

TAKING A STAKE IN PRE-IPO VENTURES

Playing the market as a retail investor is one thing, letting it ride on a start-up as a seed-round investor is a different ball of wax. Our panelists are mixed on whether we should advise any reader to swing for the fences and invest in privately held companies.

"I wouldn't recommend investing in private companies individually. I would instead invest in a fund manager," says

Sechrist. "The learning curve for investing in cannabis companies is so steep—you wouldn't know what to look for in individual private companies. Even if you have experience, you still don't have the same velocity of real-time information that is coming to fund managers specializing in this field."

Global Go's Valvardi thinks private investment can be enticing, depending on the type of business and if you

can get an invitation to invest, which can be difficult without prior connections. "Private investment opportunities are by their nature more difficult to evaluate, but technology-oriented private companies that facilitate payments, online ordering and delivery might be very interesting if you were asked to invest."

Whaling, who is first and foremost concerned with hemp, offers a third per-

"I wouldn't recommend investing in private companies individually. ... The learning curve for investing in cannabis companies is so steep."

ROB SECHRIST



spective. He notes that due to regulatory and R&D timelines, hemp ventures are on a much longer track to going public than marijuana companies. His sector "will rely on private sector investments to establish and build the supply chain" for the next five to 10 years, he says.

11. THE LURE OF DISTRESSED ASSETS

"Distressed cannabis assets in the U.S. are not for the faint of heart since traditional federal bankruptcy processes are not available in these proceedings and the processes within states for workouts, receiverships and Assignments for the Benefit of Creditors as alternatives to bankruptcy can be challenging to navigate," advises Valvardi.

'Nuff said, right? Maybe not. Turning a distressed asset like a failing mini-chain of

regional dispensaries into a healthy earner is undoubtedly difficult. But some folks are doing it, like Jushi Holdings, the Boca Raton, FL-based MSO that has made this practice a pillar of its growth strategy.

If you do want to make a play like this, Adams cites some of the turnaround tactics Jushi CEO Jim Cacioppo shared with *GCT* earlier this year::

- ✦ Know exactly what you're paying for and don't spend a penny more than it's worth.
- ✦ Build a team that can step in, revitalize the distressed asset and roll it into your overall operations.
- ✦ Favor buying the other party out over keeping them on as partners and/or management.
- ✦ Have the capacity to absorb a loss if it all goes sour.

12.

EXIT, STAGE ALRIGHT, ALRIGHT, ALRIGHT

What are some of the exit strategies being mulled by founders and high-stakes investors in cannabis companies these days? After an initial wave of IPOs following the opening of legal markets in Canada and the U.S., the push to go public has cooled off considerably.

Whaling believes M&A will be the primary way controlling stakeholders in cannabis companies cash out for the foreseeable future. Adams concurs: “It’s going to be sales or strategic mergers rather than IPOs for quite some time.”

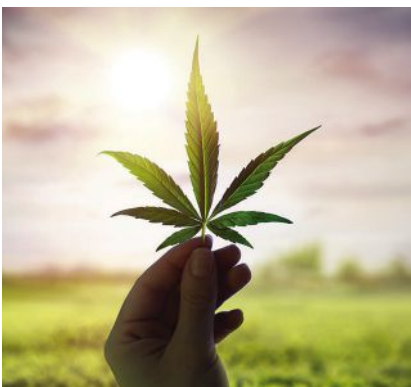
13. PREDICTING TOMORROW

Valvardi’s timeline for the next major growth spurt for cannabis concerns is two to three years. That’s when he believes federal prohibition will be over in the U.S. and markets outside of North America in Europe and elsewhere will begin growing appreciably.

“This is when you will see Fortune 500 companies, large banks, large investment banks, private equity and others that are on the sideline today jump into the cannabis space to facilitate deals and provide capital,” he says.

What about the future of cannabis itself? Whole new biotechnological frontiers are being explored for the plant, say Traylor and Daugherty (see sidebar, *The Future Is in the Molecules*). Cannabis isn’t just experiencing a regulatory awakening, it’s in the midst of a scientific one, they say.

Needless to say, we’re all looking forward to the ride.



THE FUTURE IS IN THE MOLECULES

BY DAVID TRAYLOR AND MATT DAUGHERTY

*Cannabis scientists and biotechnicians are defining
the next frontier for our industry*

Biotech has always been a part of cannabis—from breeding for traits in hemp centuries ago to the more recent use of high-performance liquid chromatography (HPLC) equipment in marijuana testing labs.

The pace of advancement is picking up. Biotechnology has accelerated and expanded its influence in cannabis with the adoption of good manufacturing practices (GMPs) and supercritical extraction technologies. We believe this trend will only continue in the global cannabis sector.

The production and cultivation of cannabis will continue to lean on biotechnology. Science will continue to improve the cannabis supply chain. The work to establish better genetics and apply biotechnologies like cell culture will continue to improve the quality of consumable cannabis, both adult-use and medical. Technologies will continue to be applied to create or improve on alternative production methods (APMs) using yeast, *E. coli*, chemistry or other options.

We think biotechnology will also address the need for a better understanding of the human side of the cannabis equation, particularly in terms of tailoring recommended dosages. Look at Endocanna Health, a company that provides personalized genomic information that can inform users about what cannabinoids, terpenes and molecules might work best for them, according to their genetic makeup.

How exciting is that?

The future is the molecular side of cannabis. Determining which molecules are important for which human and animal diseases is a terrific new path of research.

The recent explosion of interest in delta-8 Tetrahydrocannabinol and Hexahydrocannabinol are evidence that the future of cannabis molecules is already here.

We’re confident in saying that molecular science and its application through existing and novel biotechnologies will continue to assist in the future success of the global cannabis industry.