

CANNABIS: Investing in One of the Fastest Growing Segments of the Life Sciences Industry

May 9, 2017



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Federal Regulation of Cannabis

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ACG Webinar – May 9, 2017

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Early Years of Criminalization

- 1906 – Labelling as poison
- 1930s – Uniform State Narcotic Drug Act in 35 states
- "Reefer Madness" – 1936
- Criminalization – Marihuana Tax Act of 1937
- Controlled Substances Act of 1970
- Schedule I status of cannabis – recent DEA decision

Recent Cases and Obama

- Illegal to prescribe
- Criminal penalties for possession – 6 months (1 kg) to 20
- Key Supreme Court cases
 - *United States v. Oakland Cannabis Buyers' Cooperative* (2001)
 - *Gonzales v. Raich* (2005)
- Obama's first term – raids of over 270 state legal medical dispensary raids and \$300MM spent (\$100MM more than GW Bush), mostly larger operations

Recent Cases and Obama (continued)

- Cole Memorandum – 2013 – following earlier less clear memos, focus the AG enforcement resources on persons or organizations whose conduct interferes with any of the following priorities (the "Cole Memo Priorities"):
 - Preventing the distribution of marijuana to minors;
 - Preventing revenue from the sale of marijuana from going to criminal enterprises, gangs, and cartels;
 - Preventing the diversion of marijuana from states where it is legal under state law in some form to other states;

Recent Cases and Obama (continued)

- Cole Memo Priorities (continued):
 - Preventing state-authorized marijuana activity from being used as a cover or pretext for the trafficking of other illegal drugs or other illegal activity;
 - Preventing violence and the use of firearms in the cultivation and distribution of marijuana;
 - Preventing drugged driving and the exacerbation of other adverse public health consequences associated with marijuana use;

Recent Cases and Obama (continued)

- Cole Memo Priorities (continued):
 - Preventing the growing of marijuana on public lands and the attendant public safety and environmental dangers posed by marijuana production on public lands; and
 - Preventing marijuana possession or use on federal property.
- Cole Memo is effectively nonbinding and can be changed or eliminated at any time by Trump Administration.
- Retains right for feds to prosecute if state enforcement is lacking.

Current Legislation and Trump

- Many unsuccessful attempts to decriminalize.
- Sanjay Gupta series 2013 – very influential in public opinion
- Most recent: proposed "Ending Federal Marijuana Prohibition Act of 2017" – organized opposition
- Rohrabacher-Farr amendments to budget bills since 2014; renewal included in May 2017 House budget bill
- Pres. Trump – previously said "100%" in favor of medical, supports states rights though previously stated against recreational, but new statement May 2017

Current Legislation and Trump

- AG Sessions
 - 2016: "not the kind of thing that ought to be legalized."
 - 2017: May be undue budget burden to enforce.
- Press Secretary Spicer
 - Feb. 2017: "stepping up" recreational enforcement but supporting medical marijuana.
- Canada announced April 2017 going recreational by 2018
- Feb. 2017 Quinnipiac US poll: **93% favor medical marijuana, 71% oppose federal crackdown on recreational.**

State vs. Federal Law

- Banking issues to be discussed
- Investment bank/broker-dealer to be discussed
- Issues faced by public cannabis companies
 - SEC view
 - FINRA
 - National exchanges (Innovative Industrial Properties)
- Physician risks in prescribing

State vs. Federal Law (continued)

- **IP Issues**
 - Patent and trademark- federal or state registration, common law
 - Enforceability of licensing
- **Employment Issues**
 - Drug testing in marijuana legal states
 - Professional sports teams – opioids ok but not cannabis
- **Tax issues**
 - Payment of taxes in cash
 - Deductibility of expenses

State vs. Federal Law (continued)

- Real Estate Issues
 - Risk of aiding and abetting federal crime
 - Enforcement upon default uncertain
 - Ensure compliance with loan/mortgage arrangements
- Insolvency Issues
 - Federal bankruptcy court unavailable
 - State law receiver appointment possible
 - Workouts/restructurings more common
 - Fewer protections for lenders and creditors

Current Industry Trends

- Toddler industry – still ground floor (not for long)
- Significant number of women entrepreneurs (Women Grow)
- New Frontier Data Report - February 2017:
 - 250,000 jobs by 2020
 - \$4.7B in 2016 to \$13.3B in 2020 *just in existing legal states*
 - CA could be ¼ of \$25B of national sales by 2025
- Uncertainty re Trump/Sessions slowing some activity
- Shaking off and also embracing "stoner" perception

Current Industry Trends (continued)

- Big plays in real estate, agtech, social media, consulting and more – don't "touch the plant"
- Existing funds and institutions cannot invest but partners do
- New funds being established by family offices
- Several new unicorns growing
- IPOs in Canada to raise money for US investing
- Retail prices dropping but still profitable; size matters

Current Industry Trends (continued)

- Companies face challenges in new industry
 - Inexperienced managements
 - Thinly capitalized
 - Long path to revenues
 - Uncertain regulatory environment federal and state
 - No established experienced players
 - Stigma continues as "dangerous drug" and still criminal

Current Industry Trends (continued)

- Positives Drawing Drove of Players into Industry
 - "Vanity" investment
 - Tremendous upside potential, strong growth predicted
 - Everyone comes from another industry
 - Ground floor opportunity
 - Very strong profit potential, especially in ancillary businesses
 - Public company stock market overall doing well
 - Canadian companies obtaining significant financing
 - Optimism about US federal decriminalization



State Regulation of Cannabis

Seth A. Goldberg, Partner and Head of Cannabis Inter-Disciplinary Practice, Duane Morris LLP
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Recreational and Medical Marijuana Programs

- 1996: California legalizes medical
- Today:
 - 29 states and DC medical
 - Of which 7 recreational -- Alaska, California, Colorado, Maine, Massachusetts, Nevada, Washington

Common Restrictions that Impact Market Performance

- Qualifying conditions: HIV/AIDS, glaucoma, cancer, multiple sclerosis, Crohns' disease, epilepsy and seizure disorders, **chronic pain**, **PTSD**, etc.
 - 1%-2% population
- Permitted forms: whole plant (smoking and edibles), oils, pills, creams, ointments, and tinctures
 - Entourage effect: all chemicals from whole plant
 - Oils: vaping, shatter, wax, honeycomb – HIGH THC

Common Restrictions that Impact Market Performance (continued)

- Cultivation methods: in-home or commercial only
- Possession amounts: daily supply, # ounces, # plants
- ID recognition: in-state or out-of-state too (recreational states – all over 21)

Revenues Driving State Interest

- Taxation
- Application Fees
 - Patients, physicians, grower, processor and dispensary
 - PA \$5,000-\$10,000 x 900
- License Fees
 - Grower, processor and dispensary
 - PA \$30,000 x 150 and \$200,000 x 25 original
- Industry and industry-supporting jobs

Stringent Requirements to Enter Core Business

- Applicants must demonstrate:
 - In-state ownership
 - Clean criminal record
 - Capital to become operational
 - Secured real estate and zoning permits
 - Community outreach
 - Diversity
 - Growing methods and testing
 - Security and surveillance

Core Business is Capital Intensive and At-Risk

- Application and License Fees
- Financing State-of-the-Art Facilities
 - Real estate purchase and/or lease
 - Ground-up or retrofit
 - Architects, engineers and consultants
 - \$200-\$400/sq. ft.
- Highly Competitive
 - 100s of applicants
 - Limited # of permits

Ancillary Products

- Innovation and Proliferation
 - Edibles, creams, etc.
 - Med-tech (transdermal patch) and delivery systems (vaping, nebulizers)
 - Lighting, CO2, consulting
- Licensing arrangements
 - Interstate restrictions
 - Locally sourced THC/CBD

Duane Morris Inter-Disciplinary Cannabis Practice

- Full-service w/ 21 US offices in 14 states
- All but two DM states have medical marijuana
- Inter-Disciplinary: Regulatory, Corporate, Banking/Finance, Private Equity, Real Estate, IP, Healthcare, Life Sciences, Taxation, Employment, Bankruptcy, Litigation
- Core and Ancillary – owners, operators and investors
- Applications, capital formation and financing transactions, regulatory advice, real estate transactions, IP advice



VIRIDIAN
CAPITAL ADVISORS

- FOLLOW THE MONEY -
ANALYZING THE CAPITAL FLOW INTO THE LEGAL CANNABIS
INDUSTRY

Viridian Capital Advisors



- ◆ **Early Investment Banking/Advisory Platform in Industry**
- ◆ **FINRA-Licensed Investment Bankers, Analysts, Brokers**
- ◆ **Deep Deal Experience in Capital Raises and M&A Transactions**
- ◆ **Industry Best Data and Market Intelligence**

Why We Launched Viridian



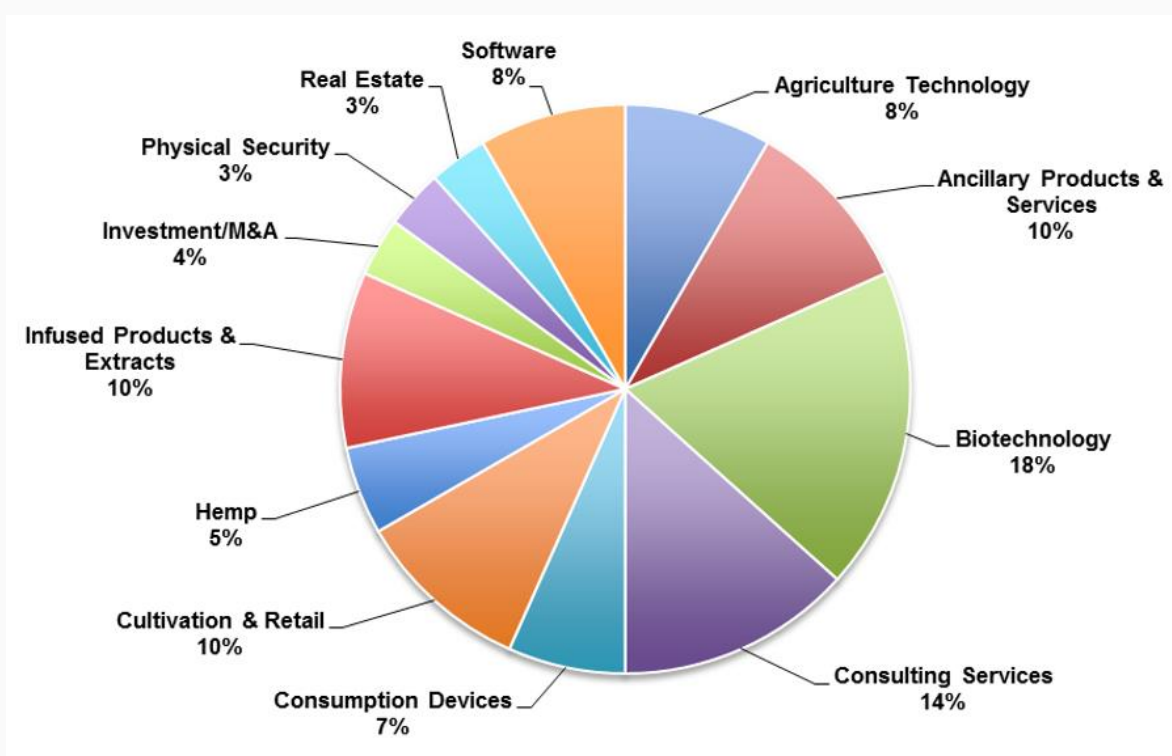
- ◆ Companies Needs to be "Professionalized"
- ◆ Institutional Investors Just Starting to Come Into Market
- ◆ Public Stocks Need Liquidity
- ◆ M&A Opportunities as Industry Naturally Consolidates



A Social, Legal & Business Revolution

Broker-Dealer Services Provided Through Pickwick Capital Partners, LLC A Member of FINRA and SIPC

Understanding the Opportunities



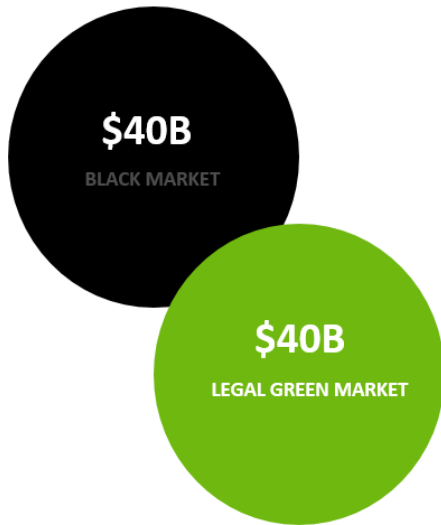
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The Road Ahead

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Our Opportunity



PLUS PHARMACEUTICALS
PLUS INTERNATIONAL
PLUS RELATED SECTORS
PLUS GROWTH

\$4.6B

LEGAL CANNABIS INDUSTRY IN 2014

\$5.4B

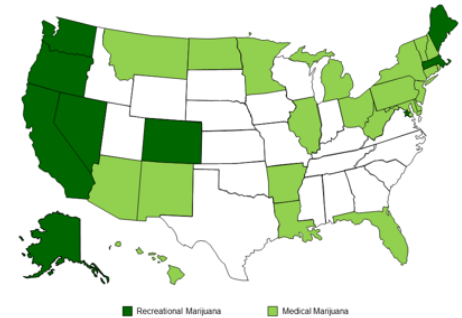
LEGAL CANNABIS INDUSTRY IN 2015

\$6.7B

LEGAL CANNABIS INDUSTRY IN 2016

\$22.6B

LEGAL CANNABIS INDUSTRY IN 2020
(EXPECTED)



■ Recreational Marijuana ■ Medical Marijuana

26 → 30

MEDICAL USE STATES (& D.C.) Q3 '16 – Q2 '17

4 → 8

ADULT USE STATES (& D.C.) Q3 '16 – Q2 '17

Our Opportunity



Lack of professional VC serving cannabis industry

Approximately 15 early-stage funds with an aggregate approximate \$550M AUM

Demand increasing for VC
shift from financings via reverse mergers

8% to 20%

VC/Private Equity
as financing source

8% to 17%

Angel Investors
as financing source



60%

Public support for
legalization in 2016

Decrease in crime

Reduction in incarceration costs

Increase in tax receipts

WWW

Growth characteristics are similar
to the early internet industry



Characteristics support
top quartile venture
capital rates of return

Capital Markets Embrace The Sector



- ◆ **300+ Publicly-Traded Cannabis Companies**
 - 225+ in U.S. - 75+ in Canada - 10+ in Australia
- ◆ **Capital Raise Activity Jumps**

	2014	2015	2016	2017*
Public Companies	\$58.3 M	\$565.5 M	\$942.4 M	\$636.6 M
Private Companies	\$82.9 M	\$288.2 M	\$280.4 M	\$97.1 M
TOTAL	\$141.2 M	\$853.7 M	\$1.2 B	\$733.7 M

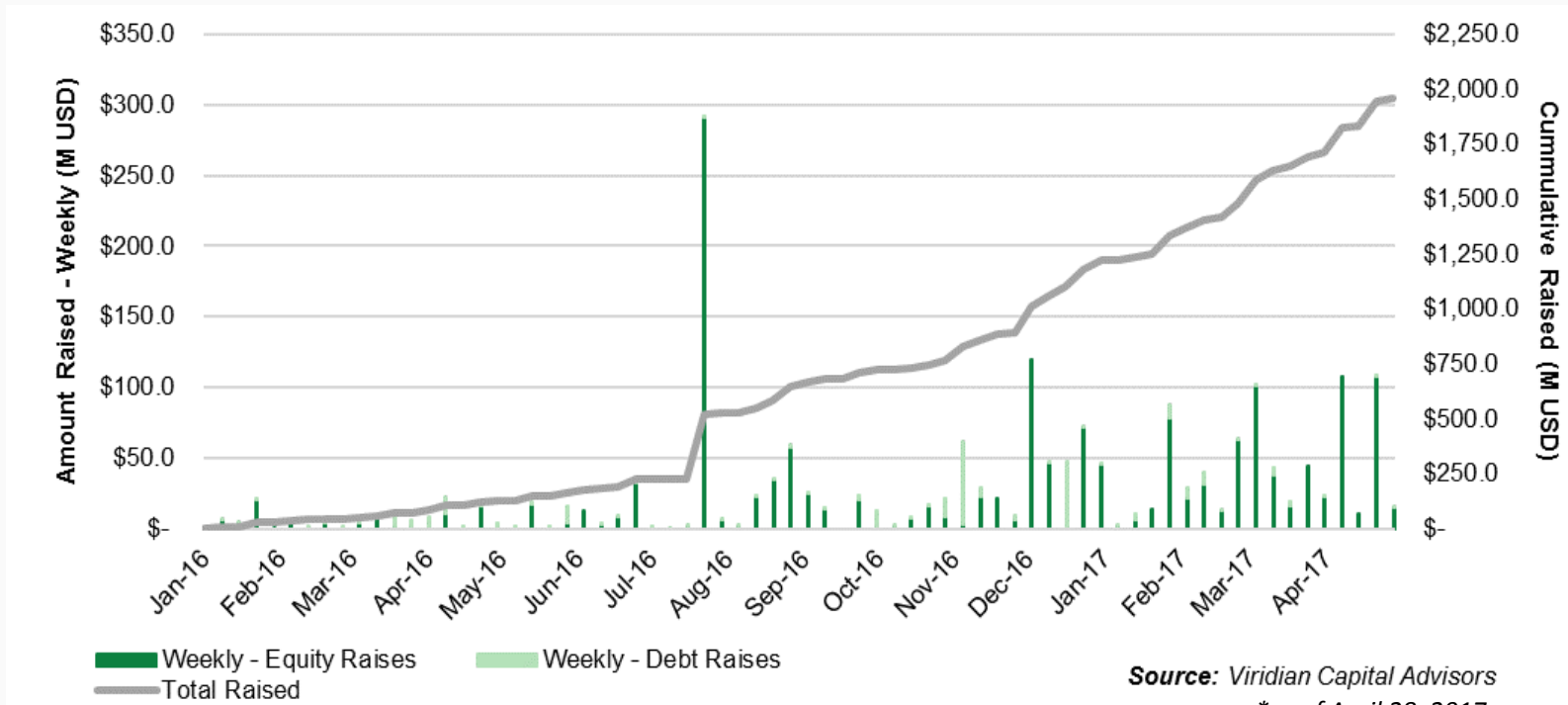
Source: Viridian Capital Advisors

**as of April 28, 2017*

Follow The Money



Capital Raises by Cannabis Companies Since Beginning of 2016 by Week*

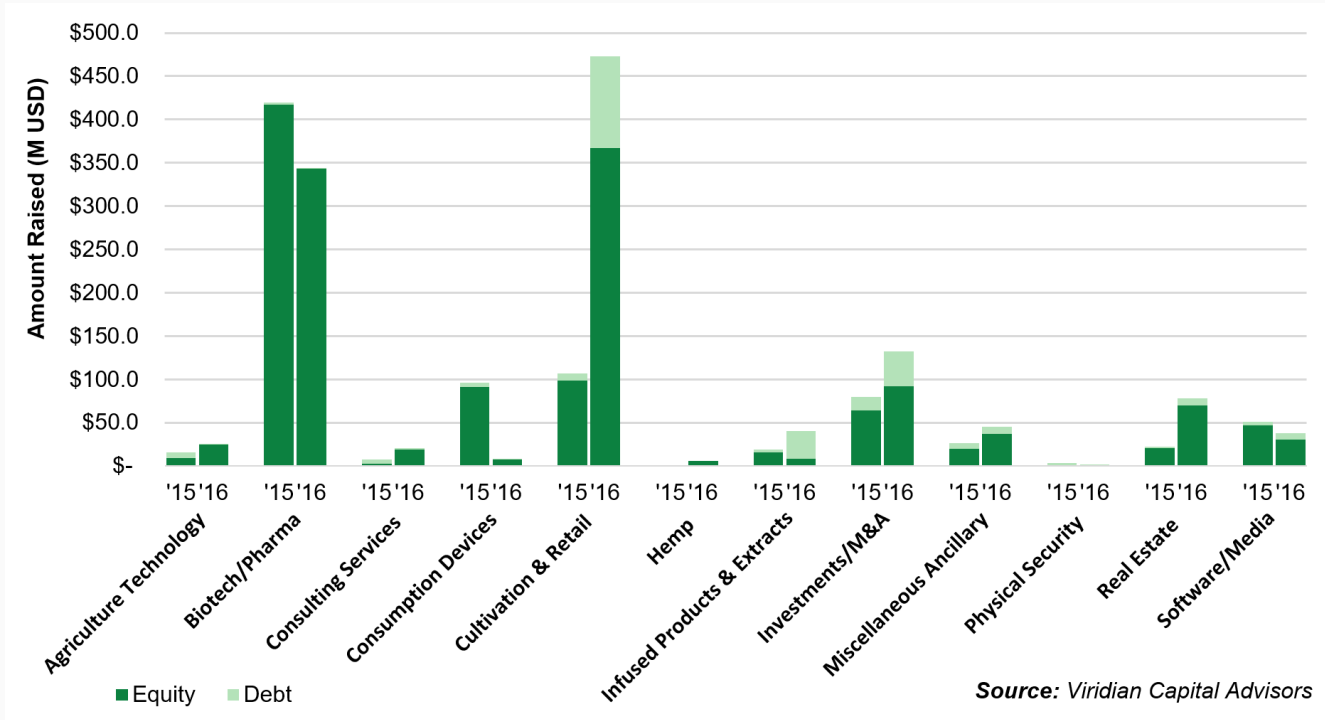


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Follow The Money



Capital Raises by Cannabis Companies in 2016 by Sector

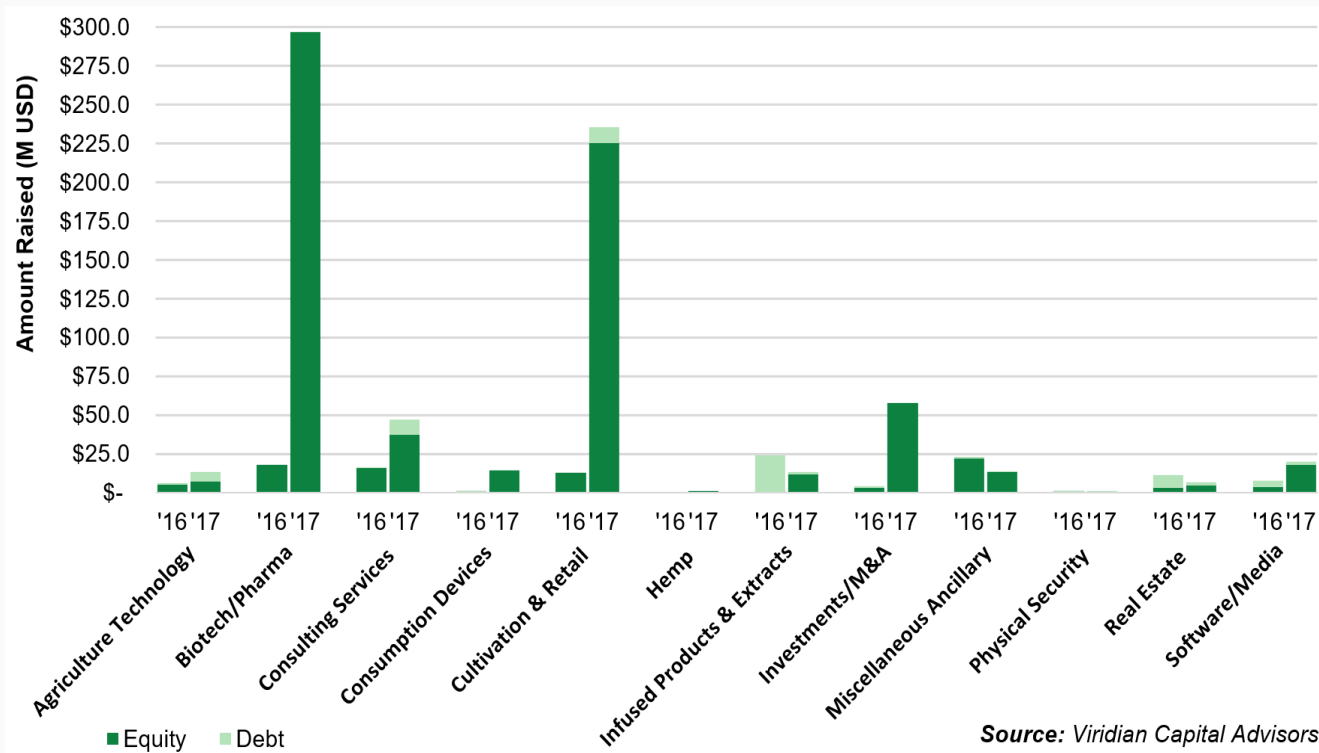


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Follow The Money



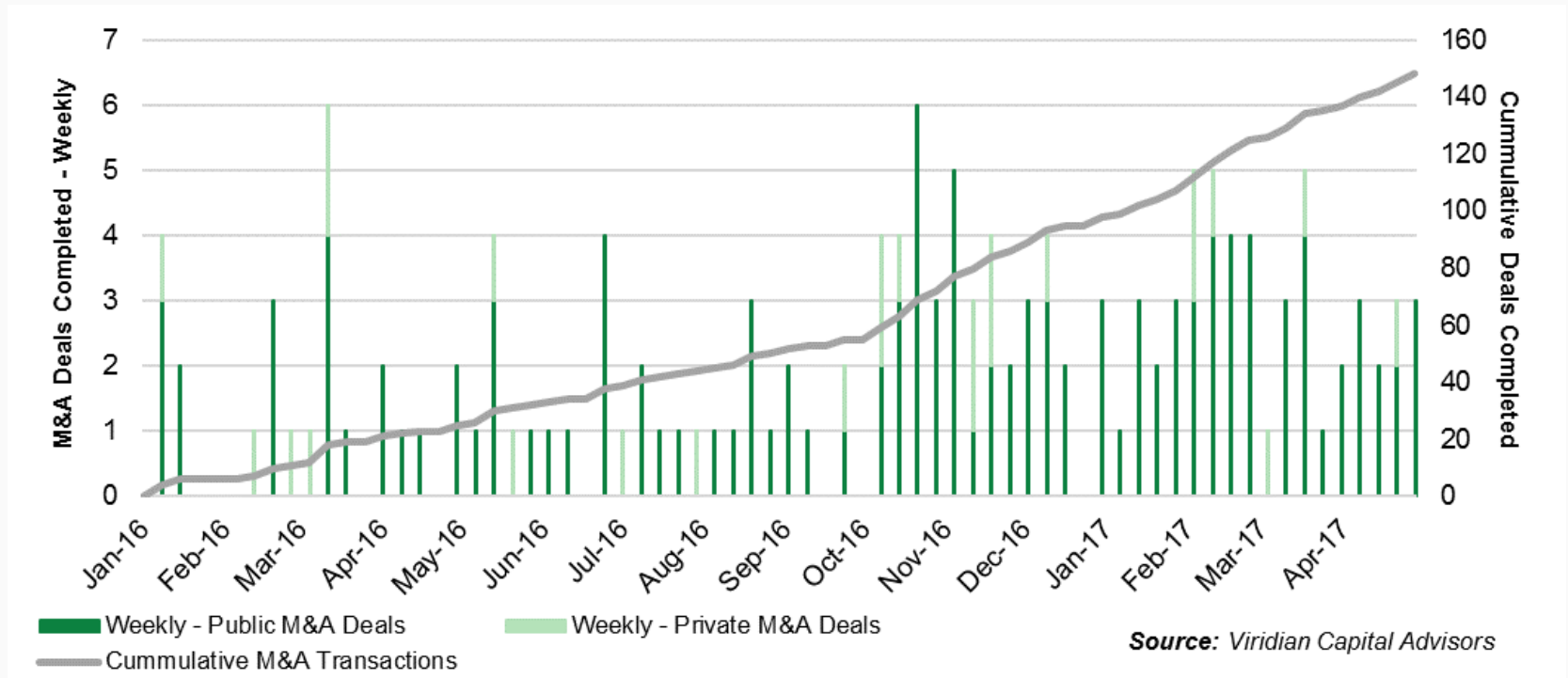
Capital Raises by Cannabis Companies in 2017 YTD by Sector



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Consolidation Has Begun

M&A Transactions by Cannabis Companies Since Beginning of 2016 by Week*

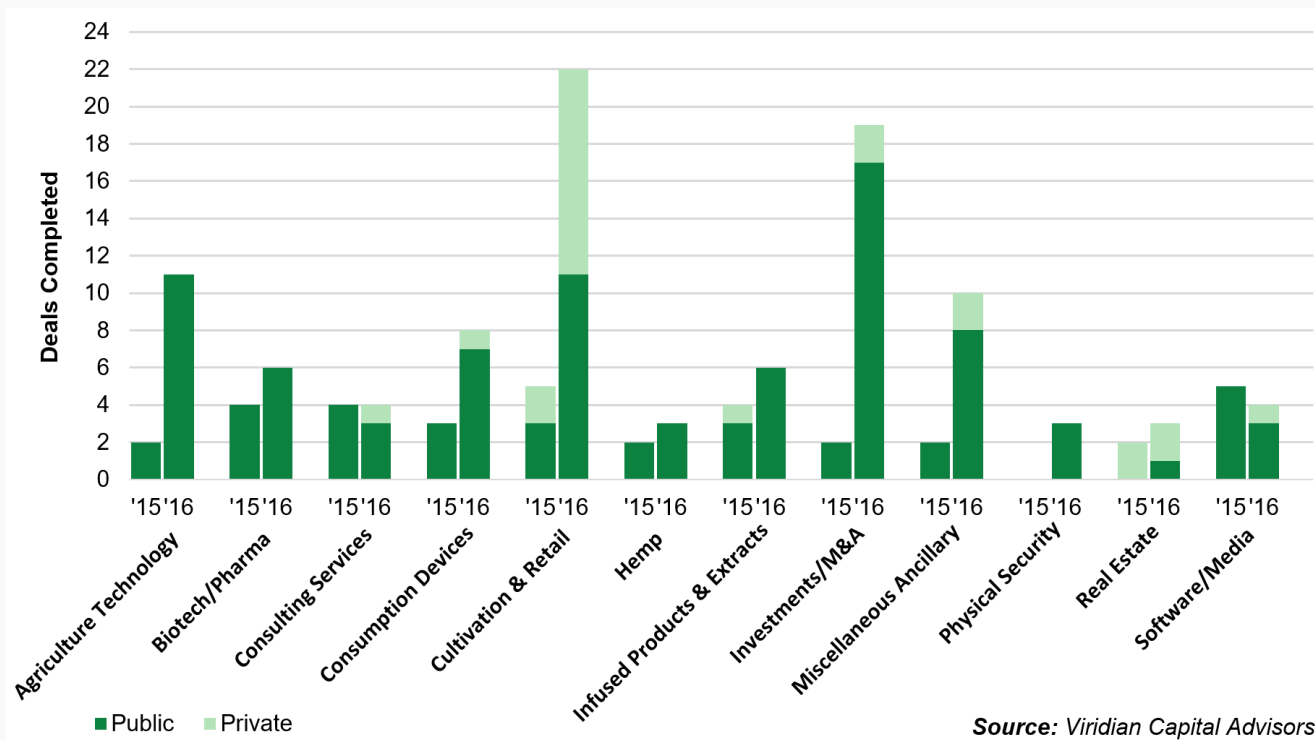


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Consolidation Has Begun



M&A Transactions by Cannabis Companies in 2016 by Sector



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Challenges Remain



- ◆ **Management Teams/Boards Still Lack Depth and Experience**
- ◆ **Many Public Companies Still Lack Real Financial Controls**
- ◆ **Some State Legalization Initiatives Remain Quite Restrictive**
- ◆ **Lack of Commercial Banking in the Sector**

HIGH STREET CAPITAL PARTNERS,
LLC.

ACG Global Webinar 2017

May 9th 2017

Kevin Murphy | Founder | Managing Member

Kevin Murphy is a Managing Member of High Street Capital Partners Management, LLC. Kevin has become a well established leader within the emerging medical cannabis industry. As a seasoned Wall Street executive with significant investment, risk management and business acumen, Kevin has nurtured a variety of medical cannabis companies through their startup phase. His expertise in business management and his focus on financial growth strategies has been critical to the success of these businesses. Kevin possesses a broad understanding of the medical cannabis space including knowledge and experience operating businesses within strict regulatory environments.

Kevin was most recently a Founding Member and Managing Partner of Tandem Global Partners, a boutique investment firm focused on the emerging markets. Prior to his work at Tandem, Kevin was a Founding Member and Managing Partner at Stanfield Capital Partners where he was central to Stanfield's growth from inception to a \$30 billion alternative money management firm. Kevin received his B.A. from Holy Cross College.

Portfolio Summary

HSCP has a presence in 14 states across the country

Oregon

Rec. license holder (5 dispensaries, 1 cultivation facility / processing lab)



Illinois

Vertically integrated MMJ license holder (4 dispensaries, 1 cultivation facility)



Maine

Vertically integrated MMJ license holder (4 of 8 dispensaries in ME)*



California

Cultivation license holder (1 cultivation facility)

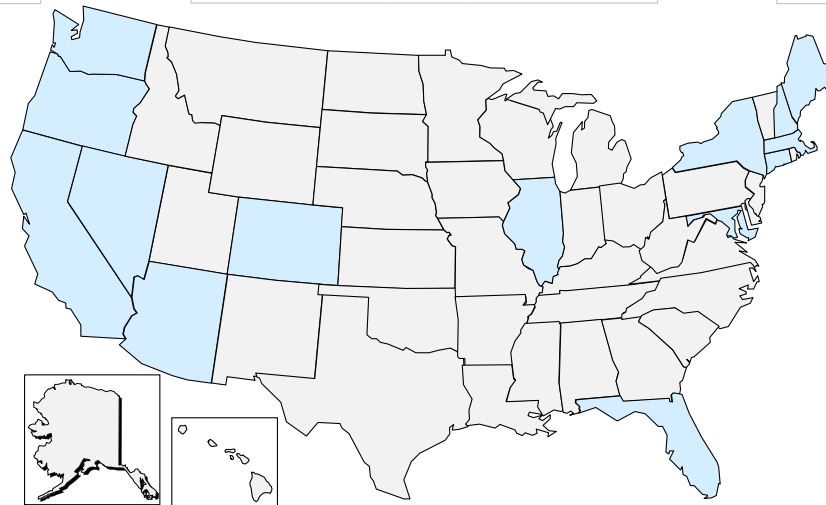
New Hampshire

Vertically integrated MMJ license holder (1 of 4 license holders)*



Pending Licenses

New York (4 dispensaries, 1 cultivation facility) and Maryland (1 dispensary)



Connecticut

MMJ dispensary license holder (1 of 9 dispensaries in CT)



Kalyx Development

REIT with properties across CO, OR, WA, and AZ



Massachusetts

Vertically integrated MMJ license holder (3 dispensaries, 1 cultivation facility)

Florida

Vertically integrated MMJ license holder (1 of 7 license holders in FL)

Dixie Brands

Edibles company operating in CO, CA, AZ and NV



* HSCP entities have consulting agreements with the respective non profit license holders

Prime Wellness of Pennsylvania

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CAPITAL PARTNERS



Conclusion

- The complexity of regulatory structures are still evolving
- High regulatory compliance is key to protecting your investment
- We combine best practices and the financial aptitude to ensure appropriate risk / return profile