

# High growth companies & how to fund them: A Case Study

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**AIJA Annual Congress**  
**Prague**  
**August 28, 2014**



THE ONLY GLOBAL ASSOCIATION OF YOUNG LAWYERS

# Canada: *Marihuana for Medical Purposes Regulations ("MMPR")*

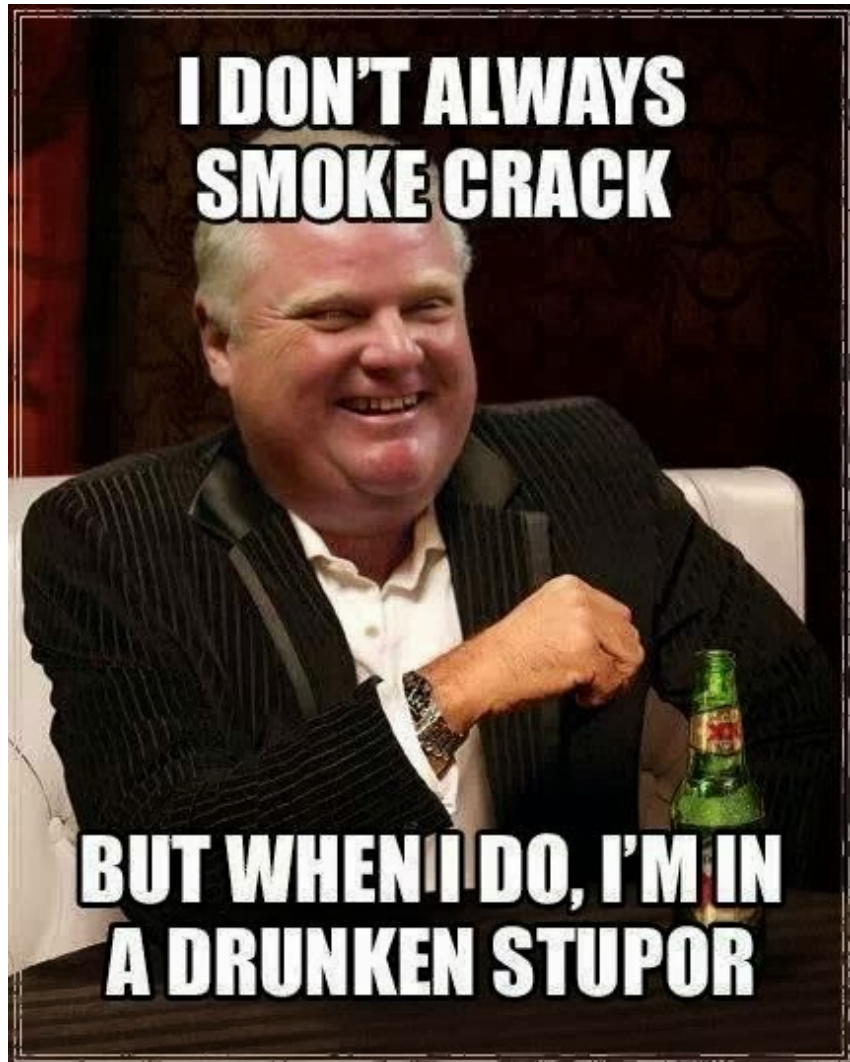


# ***Marihuana for Medical Purposes Regulations***

***What's going on over there in Canada???***



**MMPR results from a political decision ...**



**FORD FOR MAYOR**

# MMPR results from a political decision ...



STEPHEN HARPER

PRIME MINISTER



PREMIER MINISTRE



# ***Marihuana for Medical Purposes Regulations ("MMPR")***

## **Replaces *Marihuana Medical Access Program* ("MMAP")**

- introduced in 2001 in response to a Court decision
- In 2001, only 100 people authorized to possess marijuana for medical purposes ⇒ now 40,000

# ***Marihuana for Medical Purposes Regulations ("MMPR")***

## **Purpose:**

- Improve safety, security and oversight of marijuana production and distribution in Canada
- *“To provide Canadians reasonable access to dried marijuana for medical purposes, while protecting public safety”*

# Characteristics of high-growth companies

1. Disruption:
  - a) Opportunities created by technological advances
  - b) Opportunities created by legislative changes
2. Lack of capital
3. Cash flow difficulties
4. Lack of management skills
5. Ignoring risks
6. Risk of a “bubble”



# ***Marihuana for Medical Purposes Regulations: New Opportunities***

## **Unintended side effect:**

- cottage industry of marijuana stocks has sprung from nowhere in Canada



# The Pot.com Boom

## AKA

- Dot.Bong Boom
- Cannabis goes Corporate
- Greenrush
- Cheech and Chong do Wall Street

\*\*\*\*\*

Venture capitalist **Kevin O'Leary:**

*“For me as an investor, this is like getting an opportunity to get into alcohol after prohibition just ended”*

# MMPR unintended side effects

## *Examples*



### Matica Graphite

Changed its focus 3 times in less than a year:

- from copper, to rare earths, to graphite, and finally to marijuana

\*\*\*\*\*

### Affinor Growers

- Share price climbed as much as 3,500% since it announced a move from mining into marijuana in March

**AFFINOR**  
G R O W E R S

# MMPR unintended side effects



Canadian Securities  
Administrators

Autorités canadiennes  
en valeurs mobilières

**\*\*\* CSA Warning \*\*\***

*June 16, 2014*

- Canadian Securities Administrators (CSA) is urging investors to be cautious when considering investing in medical marijuana stocks. A significant number of reporting issuers have announced their intention to begin growing and selling medical marijuana, in conjunction with new regulations enacted by the Government of Canada as of April 1, 2014. [...]
- CSA has observed a number of inactive reporting issuers announcing medical marijuana business plans. In many [...] cases, just the announcement of intent to develop a medical marijuana business [...] resulted in [...] immediate rise in [...] stock price. The CSA is concerned [...] inflated price before there is a viable business.
- [...] Companies cannot legally conduct a medical marijuana business without a licence [...]

# Medical Marijuana: Industry characteristics

- High capital requirements
- Compliance
- Advertising (basically) not allowed
- Huge electricity costs
- Need to achieve scale
  - to be profitable
  - first-mover advantage

# **Medical Marijuana: Challenging & time-consuming to obtain grower's license**

- **Proposed Site & Physical Security Measures**
- **Product Quality**
- **Stakeholders**
- **Expertise**

# The Pot.com Boom

## Supply Side:

- Over 30 listed companies pursuing opportunities in medical marijuana
  - Many are former junior mining issuers
- So far, nearly 900 applicants for license to produce
- But only 13 licenses granted to date

# The Pot.com Boom

## Demand side:

- 40,000 Canadians have prescriptions for medical marijuana
  - However, many are on social assistance
- By 2024,
  - expected to grow to 450,000 Canadians with prescriptions
  - industry expected to be worth \$1.3 billion



# Financing Grow-ops



## Debt:

- Banks
  - Loans
  - Payment processing
  - Cash flow cycles: Factoring

## Equity:

- Seed capital (*no pun intended!*)
- Angel investors
- Venture Capital / Private Equity
- Public Markets

# Venture Capital / Private Equity



**“Privateer Holdings is a private equity firm shaping the future of the legal cannabis industry”**

# PharmaCan Capital



CEO

# *Marihuana for Medical Purposes Regulations*

**Tweed Marijuana Inc (TWD.V)**



# **Tweed: Reverse Takeover with Capital Pool Company (CPC)**



- Private Placements totaling \$11 million
- Reverse Takeover of LW Capital Inc. (CPC)
- Bought deal with underwriter for \$15 million
- Market cap is now \$100 million!

# Public Markets

## Pro and Con of going public:

Added regulatory burden, but access to capital

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eg *Tilray* (backed by Privateer) staying private



vs. Tweed ⇒ \$100 million market cap



# Risks

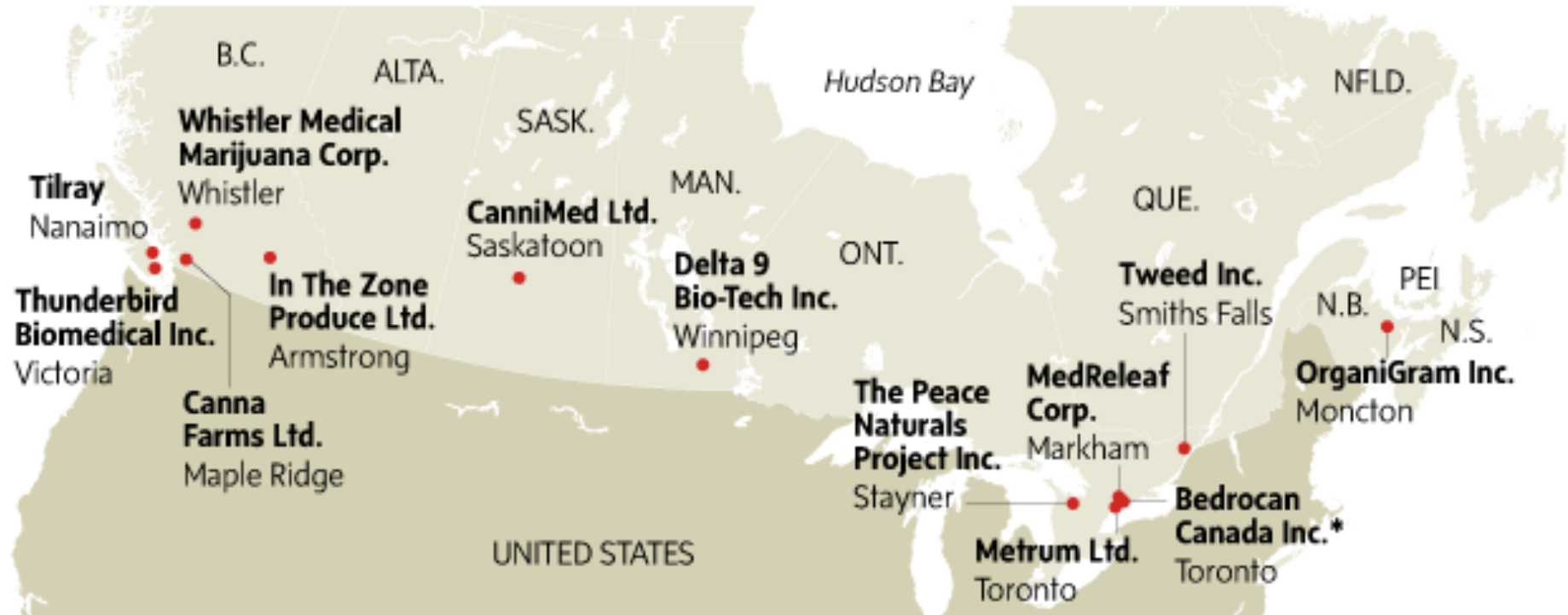


- Regulatory risk:
  - Relies on government license
- Reputational risk
- Competition
- Product liability
- Energy costs
- Capacity Constraints: Management of growth
- Lawsuits
- Outright legalization

# Regulatory risk: Reliance on government license

## AUTHORIZED LICENSED PRODUCERS

There are 13 companies licensed by Health Canada to produce and sell medical marijuana to eligible patients.



JOHN SOPINSKI/THE GLOBE AND MAIL | SOURCE: HEALTH CANADA

\*Subsidiary of a Dutch-based company



# Regulatory Risk



## Election October 2015:

- **Liberals lead in polls**
- **Liberals want to legalize all marijuana ...**
- **Will cigarette co's take over?**

# Challenges

- Physical premises
  - NIMBY
- Most potential customers on disability
  - lawsuits to be allowed to grow their own
    - at one-tenth the cost
  - However, “prescriptions” easy to obtain and aging population, so growing market
- Advertising not allowed

# How to deal with Regulatory Risk

## Diversification

- We are not just a “weedc
- We are actually ...
  - “a technology-driven agricultural giant in the making that produces non-GMO, mechanically pollinated, high yield, high shelf-life, high demand, fruits and vegetables”

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# How to deal with Reputational Risk

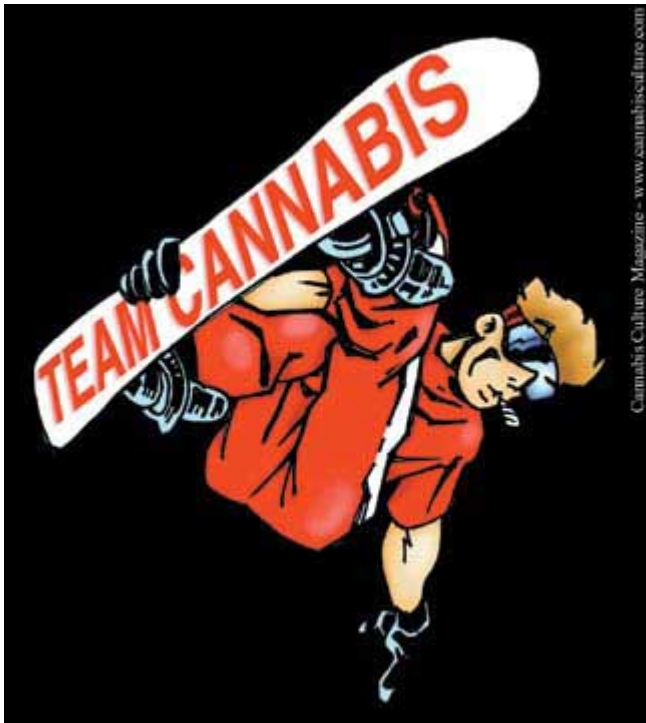
To add respectability:

- Former prime minister on board of directors:



# How not to deal with Reputational Risk

- Endorsement by former Olympic snowboarder **Ross Rebagliati**, best known for his disqualification for testing positive for a banned substance:



# Ancillary Industries



## Services to producers

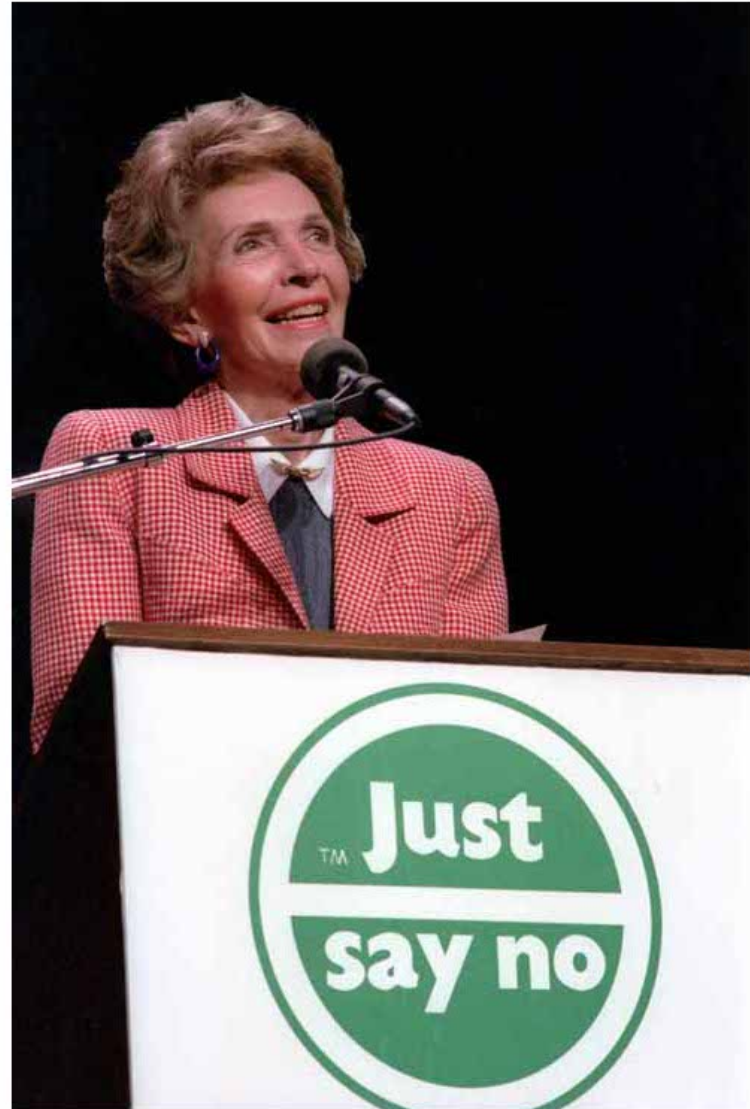
(Mining analogy: Sell them the “picks and shovels”)

- Lighting
- Fertilizer
- Sophisticated agricultural equipment
- Organize Conferences
- Laboratories
- Business brokerage

# Concluding remarks

- Although this is an attention grabbing industry, similar principles apply to start-ups of all sorts.
- Effect of outright legalization
  - Exports?
- Growth by merger (industry will consolidate)

# Would YOU invest?





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## Thank you!

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