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

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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 ...

I DON’T ALWAYS SMOKE CRACK

BUT WHEN I DO, I’M IN A DRUNKEN STUPOR

FORD FOR MAYOR
MMPR results from a political decision ...
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

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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
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
“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
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 “weedco”
- 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”
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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