

IP Cannabis Show # 4

Changes Expected in the Coming 12 Months

This is Investor Perspectives, I'm the host of Investor Connect, Hall T Martin, where we connect startups and investors for funding.

In our new Investor Perspectives series entitled "How to Solve the Cannabis Problem", you'll hear about changes expected in the coming 12 months and our guests' final thoughts.

As the COVID pandemic passes, we emerge into a new world. The cannabis space is now undergoing tremendous change as we shift back to a normal way of life. Every state is reviewing its regulations and accelerating legalization across the board. We have investors and startup founders describe the changes coming up.

Our guests are:

1. [William Muecke, Co-founder & Managing Director, Artemis Growth Partners, 00:56](#)
2. [Codie Sanchez, Managing Director, Entourage Effect Capital, 07:00](#)
3. [Michael Boniello, Managing Director, Poseidon Asset Management, 08:59](#)
4. [Sherry Haskell, Founder & CEO, Canna Angels LLC, 20:45](#)

I hope you enjoy this episode.

Our first guest is William Muecke, Co-founder & Managing Director at Artemis Growth Partners. Artemis Growth Partners are a team of professional investors, operators, and advisors who have built and run successful, award-winning domestic and international impact funds. They started in cannabis in 2015, and since then have been working to bring the principles of ESG and impact investing to the cannabis industry on a global basis. William, thank you for joining us.

William, thank you for joining us.

[00:10:57] **Hall Martin:** So what changes do you expect to see in the coming 12 months?

[00:11:01] **William Muecke:** So I think in the coming 12 months, in the US anyway, it's going to be more on the state to state legalization. As I said, New York is going _____. They've announced that and they're putting the regulations in place. We see the sweet 16, the smaller limited license states, folks like Pennsylvania and others, that will likely have more of a domino effect, as New York turns, that entire northern corridor – Massachusetts is already adult use legal. Those states will turn to adult use markets. There will be significant growth in those businesses. And then on the technology side, I think that a lot of the service companies that are built around the cannabis cultivators, servicing those markets have shown hyper growth, as those platforms really are highly leverageable; they can cross borders, they don't touch the plant, so they're also not federally legal, they can be listed on the public markets. Weed maps is a great example of that that was taken public through SPAC. So I think that there are going to be pockets of growth, just naturally on the regulation side that's going to drive new business; and then on the technology and ancillary side it's going to drive opportunities in the US. And then flipping over to Europe, we're really just building the pharma supply chain, that is the cannabis space. If you think about cannabis in Europe, it's almost like looking at a generic or branded generics business for specialty pharma, and those components of manufacturing, IP, selling the products that go into drug discovery, servicing those businesses, those are all exciting categories for us as well.

[00:12:31] **Hall Martin:** Great. Well, before the pandemic, I think there was an estimation that full legalization in the US would come in 2030. When cannabis came as an essential service inside the pandemic, some moved that up to 2025. Where do you think it stands today for legalization across the 50 states?

[00:12:51] **William Muecke:** I think full legalization is still a ways out. But we don't need to get to full federal legalization in the States to have a very robust market. We already have that today without sort of federal openness, which I think is what we're hoping for as the next stage. Everything right now is being run by state legislators and under state rules. There is still a very heavy burden on cannabis companies with things like 280e, which is a federal accounting law that taxes cannabis companies at the gross margin level. There's no federal banking allowed for cannabis, so they can't open an account at Bank of America. They have to go to a credit union or some sort of non-bank financing. And they can't list unless they don't touch the cannabis plant.

So well before the federal legalization takes place, there are opportunities that are in the legislature right now. The SAFE Act, S-A-F-E is one of the opportunities that Congress has already voted in _____ the Senate. So there are sort of baby steps, if you will, that can continue to aid the growth of the cannabis market without full federal legalization. But obviously, the Holy Grail is federal legalization where you can have interstate commerce, perhaps even international commerce, but that's still probably a couple of years out. I think that for us as investors, we're okay with that. We actually feel very comfortable under the current administration and also the current social standing of cannabis as it evolves. And so, in fact, in some ways, we as smaller investors, we're not running a \$30 billion fund, but a \$300 million fund; we enjoy the protections frankly of not having my old brethren at Goldman direct investing in companies alongside of us, but, in fact, hoping to partner with us perhaps in the future when federal legalization takes place. So for the small investor or private investor, again, this is a terrific time to be investing with a couple of new acts coming forward that don't require federal legalization that will still open up large swaths of new territory for the cannabis market.

[00:14:52] **Hall Martin:** Great. And so my final question is: what else should we cover that we haven't, in general?

[00:14:58] **William Muecke:** I think I always finish with impact and ESG. I think that speaking to an investor base that actually cares about those components, dollars really matter, there's still a scarcity of capital in the private market. And so, when you are analyzing as an investor, the opportunities for you to put money to work, those companies that are minority owned, those companies that service the communities that have probably been hardest hit by the laws against cannabis, really the over policing of black and brown communities, the overall access for patients, those are critically important elements. And so, I would just challenge our investor audience to seek the higher ground, because it's not only from our standpoint, we believe that money does have morality, but it's not only the equation of what we think is good for the world, but we actually think that has premium value. And we think that that will play through in the future as these private companies grow into public businesses, because public capital now is really running for ESG, environmental, social, and governance investing and impact investing. And so, if you were doing that now, at the private level in cannabis, we are building a more just and inclusive industry. We don't need to be called impact investors. We can remove the asterisk. This is just how business should be run, and the way that that starts, so the people with the money, the investors showing up, demand those critical core components to be part of the business plan. So we would challenge the audience to look for those companies that do good and do well, because I think that there is not a reach and not a discount that goes with being an impact investor in cannabis.

[00:16:42] **Hall Martin:** Great. Well, thank you for joining us today.

[00:16:45] **William Muecke:** Thanks for having me.

Our next guest is Codie Sanchez, Managing Director at Entourage Effect Capital. Entourage Effect Capital is a private cannabis fund disrupting the rapidly evolving cannabis industry. EEC's mission is to actively leverage their sector and investment experience, networks, and investment process, and to identify, invest and accelerate high-quality emerging growth companies. Codie, thank you for joining us.

[00:22:28] **Hall Martin:** And so, what changes do you expect to see in the coming 12 months?

[00:22:34] **Codie Sanchez:** 12 months, in particular, I wouldn't be surprised if SAFE Banking passed, which is essentially, that would allow these companies to have access to banking on a nationalized level, which would be incredible for them to be able to do that actual access to credit and debt, which they do not have right now. In tandem with that, I do think we're going to see additional states legalize. I'm not sure we're going to see full federal legalization within a year, I rather doubt it. But I do think we're going to see more states come on board. We're going to see more states need tax revenue, and cannabis is a great way to do it. And I do think we're going to start to see some of the big institutional players really take a look at the space, probably more like the end of the next 12 to 18 months.

[00:23:14] **Hall Martin:** Great. What year do you expect to see full legalization across the country?

[00:23:19] **Codie Sanchez:** Oh man, that's a great question. I mean, three to five years is my target. I wouldn't be surprised to see it during this presidency, but I just don't think right now, with all the issues we have in the country, that cannabis will be at the top of the agenda.

[00:23:34] **Hall Martin:** Great. My last question is, what else should we cover that we haven't?

[00:23:40] **Codie Sanchez:** I feel the only other thing that's probably interesting today is keep your eye on the California market from a brands' perspective. I really think brands are going to have a breakout year this year and next year. People are starting to not only utilize cannabis consistently, but realize there are different form factors, which just means like, you could drink cannabis, or you could smoke cannabis, or you could eat it. And people are starting to realize these different aspects of it, and I think we'll utilize that in a bigger way.

[00:24:06] **Hall Martin:** Great. Well, thank you for joining us today, and hope to have you back for a follow-up soon.

[00:24:11] **Codie Sanchez:** You've made it super easy. Thanks for having me.

Our next guest is Michael Boniello, Managing Director at Poseidon Asset Management. Poseidon Asset Management was founded by siblings Emily & Morgan Paxhia in 2013, making their first fund one of the longest-running dedicated cannabis investment funds. The Poseidon team has focused on a diversified strategy covering a range of company stages and industry subsectors across the capital spectrum. Now in the eighth year of conducting due diligence, deploying capital, and serving on multiple company boards of directors, the team is considered a leader in the cannabis industry. Michael, thank you for joining us.

[00:25:23] **Hall Martin:** And what changes do you think we'll see in, say, the next 12 months?

[00:25:28] **Michael Boniello:** Sure, I think we have a good chance to see a change in banking. First and foremost, I don't think we'll see federal legalization. I think there's just too much to work through, and it's going to take some time. I'll get into that in a second. But in terms of banking, the SAFE Banking Act passed the House of Representatives in September of 2019, and it was a bipartisan effort, 45% of Republicans voted for it. A lot of those Republicans that voted for it are now in states that are either adult use legal or medical use legal, and some of them were very forthcoming, in that, they would say, I'm not for an adult use, which is also, just so everyone knows it, we refer to as a recreational market. I'll never _____ when you have even a medical market, that's doing hundreds of millions, if not a billion dollars a year in sales, it becomes a public health and safety issue, when you're transporting cash all over the place, and you have cash at the business, and cash that has to be driven to a bank, if you can even deposit that cash. So it's become known that this is a big issue. The SAFE Banking Act repassed the house in the last few weeks, over 50% of Republicans were on board. And so, you do have a bipartisan effort to get this done, and I do think you'll see banking in the industry sooner than later and likely in the next 12 months, possibly by the end of 2021.

What I don't think we're going to see is federal legalization. And when I say that there's just too much to come in federal legalization, we have to think about things like interstate commerce, and how's that going to play when you have a state that is fully legal today, and the neighboring state doesn't even have a medical program. They're not going to initially want to come on board to that. If they also think about things like how it's going to affect social equity and social justice, and the reforms that are needed on that front and righting a lot of wrongs that have occurred over the decades here, targeting specific groups of people, and then also think about things like import and export. In order to have a fully legalized industry under the WTO, we need to open our borders, and we can't just shut down this industry to import and export. Now we can minimize it, and the last thing I want is for us to open our borders and allow lower cost product to come in, because I'm a big believer in building this industry in the United States and having this be a US industry that hires US people, that is collecting taxes to benefit US citizens, and we have the opportunity to not outsource this industry from the start. And I don't want to see that happen, I want us to build a good strong US industry, and then allow imports and exports down the road to a certain extent. But there's a lot of these things that, if you can imagine on a federal level, that have to be worked through that I believe is going to take years and years to come.

Some of the things that we're already seeing ahead of major banking reform is some very large funds that have come in the industry in 2020 and early 2021. We've seen some very large US based mutual funds make investments into not only ancillary companies in the industry, which we are seeing happen on venture capital, private equity and with mutual funds, because they're not a fit directly deriving their income from touching the plant. But we saw some funds like Putnam and Wasatch Advisors and some others, some very, very large institutions in the United States make investments in the US plant touching companies, companies like TerrAscend, companies like Forefront Ventures, companies like GTI which is Green Thumb Industries, some of these companies have been able to raise capital in the last six months with a handful of institutional investors rather than going out and raising across a 1000 investors, they've been able to raise capital across maybe four to five or six investors. And that is really interesting that we're seeing some of these funds get a little bit ahead of the game and come into the industry. It means that they are feeling more comfortable in terms of the Treasury and federal regulations or what's coming down the pike, that there's going to be protections around them making these investments. And so, we've already seen this happen this year. There's been some IPOs where we've had some clients reach out to us and say, how can I get access to this. And unfortunately, they _____ being scooped up by the institutions, just like you see in other industries. And so, you're seeing more normalization around that.

And then lastly, in the next 12 months, what else do I see as continued market expansion? I think you'll see organic growth in current markets, especially the newer markets, but even in markets like California, Colorado, Oregon, Washington, these are still high growth markets, and these are more mature, put that in quotes, mature markets in terms of cannabis. And so, already in 2021, I mean, in the first quarter of 2021, we saw three states legalize: New York, Virginia and New Mexico. They didn't want to wait for a ballot initiative in November. They knew that it was going to pass if they got there. And frankly, with the budget holes due to COVID, and the likeliness of these states going fully legal in the next one to two years, they ultimately said, let's get this done now, let's regulate it, let's attack the black market. A lot of studies have been showing the benefits of legal cannabis in markets in terms of opiate addictions, and other things. And so, I think we're going to see more states come online this year. Who those states are? Not a 100% sure, but it wouldn't surprise me to see states like Connecticut, Delaware, possibly Rhode Island, possibly Pennsylvania, and possibly Minnesota; these are all states that are taking legislative initiatives to go fully legal. And the one thing that a lot of these states have in common, including northeastern states is that they're surrounded by now legal states; and so their residents, as the Governor of Connecticut, I believe, said after New Jersey went legal, you're going to be seeing a lot of Connecticut license plates in the state of New Jersey over the next few months, so we just got to get this done so we can create the jobs in the state, keep the tax revenue in the state, and be able to grow a viable industry.

The other thing I will quickly mention, when you think about growth states, when you think about the State of California and the amount of growth that's happening in the state, it is around the fact that the state is making inroads in attacking the illicit market. And in 2019, the State of California seized over a billion dollars' worth of product, cannabis products in the illicit

market. The state did 3 billion of sales in 2019, and by July of 2020, the state was on a revenue run rate of around \$4 billion. So it just goes to show the size of the illicit market still, and how attacking this market is translating into more revenue for the legal markets. And frankly, even mature states like California that have had legal markets for a number of years now, still have 60-70% of all sales on the illicit market, and Colorado and Washington and Oregon have dealt with similar things where it's still hovered around 50%. So I think that goes to show that perhaps cannabis is overtaxed, possibly overpriced, but I think the price has really has to do with taxes. When you go into a cannabis dispensary, a lot of times you're walking out the door, your tax rate's around 40%, all in on between cultivation taxes, excise taxes, local sales taxes, county sales taxes, state sales taxes, it goes on and on and on. And so, there's also a lot of opportunity, I think, for growth once we have this tax reform.

[00:33:38] **Hall Martin:** Well, that's great. In the last few minutes that we have here, what else should we cover that we haven't?

[00:33:43] **Michael Boniello:** I think we covered a lot. I think some of the key takeaways is, remember that this industry is still fragmented on a state by state basis, meaning multistate operators who are vertically integrated operators operating in more than one state at a time, cannot really achieve economies of scale, and the reason being is because each market they're in is a standalone market, they cannot have a big cultivation facility in one state and transport that product over state lines. So in every state that you're in, you have to have full operations in each state. So you think of it that way, and where there's more growth opportunities when we do have things like interstate commerce, it's going to be a game changer for the industry and a lot of companies that are doing business in multiple states. And the other thing that we'd like to think about as investors and we have to think about is really how the regulators are going to play into this industry going forward. We've made some investments recently into some companies that have GMP and FDA approved facilities. We think the industry is going that way in the longer term. We're seeing a lot of international markets open up that have GMP requirements off the start, and we feel like down the road, cannabis and pharma is going to merge, a portion of the cannabis industry, there's always _____ will have the adult use market for sure. But there's a lot to unlock with this product, and we are seeing a lot of anecdotal evidence, some scientific evidence, but a long way to come in terms of clinical trials and research, being a Schedule I drug makes that illegal in the United States.

So we're a little behind the ball in terms of medical and scientific research. But getting back to how we think about it, we have to think about this product going legal and being regulated by the FDA. And so, what does the FDA look at in other industries? How are you compliant in other industries where you have FDA oversight? And that is kind of the longer term thinking we are considering around making investments in this industry, how interstate commerce is going to play into and how Import export is going to play into it. Federal legalization is going to eventually happen, but as we've seen in this industry, regulations get rolled out and a lot of regulations have a different intention than what they end up doing in reality. And we've seen it over and over in a number of states, and so, there's going to be a lot of bumps in the road when we have federal legalization, and there's going to be a lot of ironing out of those regulations

over the long run. So you really have to be thinking about things like this, things about how an international marketplace is going to play and how low cost producers in other countries are going to play in, lots to think about, but a lot of opportunity around this, and the bottom line is you have to be disciplined, you have to be focused; and you have to have a good understanding not only of the past market to understand the history and how changes have happened to the current market, to current regulations and laws being rolled out today, and then what is coming down the pike over the next one to 10 years.

[00:37:01] **Hall Martin:** Great. Well, I appreciate your joining us today, and hope to have you back for a follow-up soon.

[00:37:06] **Michael Boniello:** Great. Thank you so much. I really appreciate it, I enjoyed it.

Our final guest is Sherri Haskell, founder & CEO at Canna Angels. Canna Angels is the leading angel investment consortium dedicated to the cannabis industry in the U.S. They are in their 5th year with over 50 stellar companies in their portfolio. With 5 exits (four as acquisitions, one as public issue to the CSE) in less than three years, their track record of identifying rising stars is solid. Sherri, thank you for joining us.

[00:19:32] **Hall Martin:** In the last few minutes that we have, what else should we cover that we haven't?

[00:19:38] **Sherri Haskell:** Oh gosh. Okay. Let's see, I think the sophistication of the industry, but people are probably wrapping their brains around that now. This is a big industry. As a matter of fact, this year, 2021, in the US – we are expected to generate 92 billion in revenues that are attributed to cannabis, just this year. Okay? And already this year, we have had equity investments into the larger companies in the US that exceed 1.5 billion. That's just so far this year. This is a huge, huge industry, and the impact to the general economy is massive. Marijuana Business Daily, there's a lot of metrics, and they provide those, if you're a subscriber to their services, and they've done recently – let's see if I've got it here, yeah, I do – the total economic impact by 2024, in the US, attributed to the cannabis industry is going to be approximately \$120 billion. This is a massive industry. This is overtaking a number of other industries that you would be surprised to hear about. But when I say economic impact, for every dollar that's spent in a cannabis dispensary, or in the cannabis industry, they calculate that 2.5 additional dollars are put into the general economy, through employment and through services, and through a number of different vehicles. So it's a big industry for investors; and for those that would like to get into this industry, it's growing. I would say, be very, very careful about who you invest with. If you're not capable of performing your own due diligence in the privately held companies or even the publicly traded companies, there are others, such as myself that are in the industry that you can work with, that will provide all of the due diligence for you. We also provide counseling and advisory services to many of the early stage companies. So there's a lot going

on. I would say, look for the people that have credentials in the industry, fully licensed. Let's see if there's anything else. I think that's a good amount of information right now, unless you've got – I mean, we had, as you know, in the election, let's see here, we've got states, 36 states now that are fully legalized, and we're looking at another five to come on this year. It's not if, it's just a matter of when.

[00:23:02] **Hall Martin:** So what changes do you expect to see in the coming 12 months? How many more states you think may come on?

[00:23:08] **Sherri Haskell:** the states that are in play right now, Connecticut, Rhode Island, Delaware, that's for recreational. North Carolina is a strong possibility, Alabama is another strong possibility. Looks like we're having some issues with Mississippi, they're vacillating back and forth, the voters voted on it, but then the courts just recently kicked it back to the curb, so I don't know about that. The Northeast is very, very strong, Massachusetts, Pennsylvania – I think that those northeastern states may even form sort of conglomerates where they're buying together, which would make sense. We actually have some of our West Coast companies that are at this point, looking to expand to the northeast. It's going to be a very, very big market, Florida is huge, Illinois is huge, and Arizona as well. So there's just a lot going on. It's an exciting place to be in. I'm very fortunate that I have had a number of great companies reach out to us and those companies are coming from all over the world. We're not confined to the US at all. So we have a number of Canadian companies in the portfolio, Israeli companies. I get inquiries from places that you couldn't even imagine, because once they understand that we do look at technologies, we do have an active pipeline, we get quite a few inquiries.

[00:24:55] **Hall Martin:** Well great. I want to thank you for sharing that with us today and hope to have you back for a follow-up soon.

[00:25:00] **Sherri Haskell:** I would love it, and thank you, Hall, for the invitation.