



CAPITAL BUSINESS COLLECTIVE
PRIVATE EQUITY & BUSINESS STRATEGY

DC's leading cannabis
finance advisory for
private placements and
M&A throughout the US,
Canada, Europe, and
Australia

Q2 Cannabis Industry Report

Industry insights and
expertise for informed
decision-making in an
increasingly complex
emerging market

Cannabis | CBD | Alcohol | Agriculture

www.capbizcollective.com
hello@capbizcollective.com





Q2 Cannabis Industry Report

The State of Cannabis Markets Amidst Pandemic Uncertainty

Credits & Contact

Analyst

Carlo DeSimone, Senior Analyst

carlo@capbizcollective.com

Contact

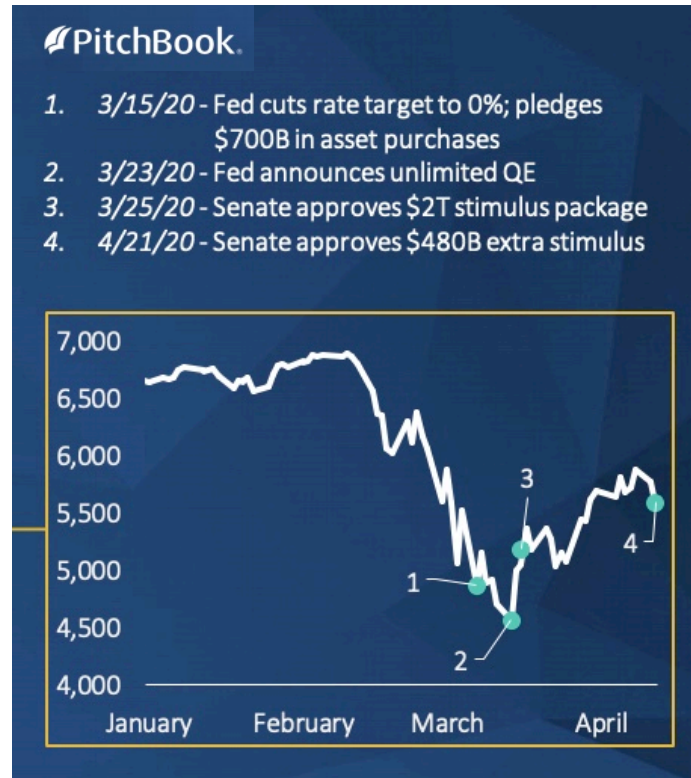
hello@capbizcollective.com

Contents

Key Takeaways	1
Highlights & Trends	2
Investment Activity	4
Market Risks	6
Investor Sentiments	6
Regulatory Environment	7
New Products	8
Looking Ahead	10

Key Takeaways

- Cannabis Exit activity reaches 2013 levels with regards to deal count and deal value
- Cannabis investor sentiment remains cautious amid COVID-19 uncertainty
- The cannabis industry is fed up with cash-only banking restrictions, claiming businesses and employees are at risk
- Washington, DC and Virginia make considerable strides towards legalization



A macro-analysis on the current environment of the US economy.

Highlights & Trends

Since the height of COVID-19, there has been significant recovery in the legal cannabis sector and the global economy as a whole. Mid-March marked a rapid collapse of the cannabis market as the American Cannabis Operator Index and the Canadian Cannabis LP Index hit 52-week lows. Although losses have not recovered to levels which negate losses, today's numbers tell a different story as many cannabis indices begin their climb out of their COVID-19 rut, which still requires a recovery excess of 40% in order to close out 2020 with positive gains.

According to New Cannabis Ventures, the outlook for the US appears to be more favorable than Canada. When studying the rebound and growth of cannabis markets within the US, an insightful case study lies in the state of Florida. Dominated by public companies, Florida has proven itself to be an exceptionally strong state who is up-to-date

with publications on THC product sales numbers. According to New Cannabis Ventures, THC products have grown 20% sequentially in Q2 while the subcategory of dry flower increased 47%.

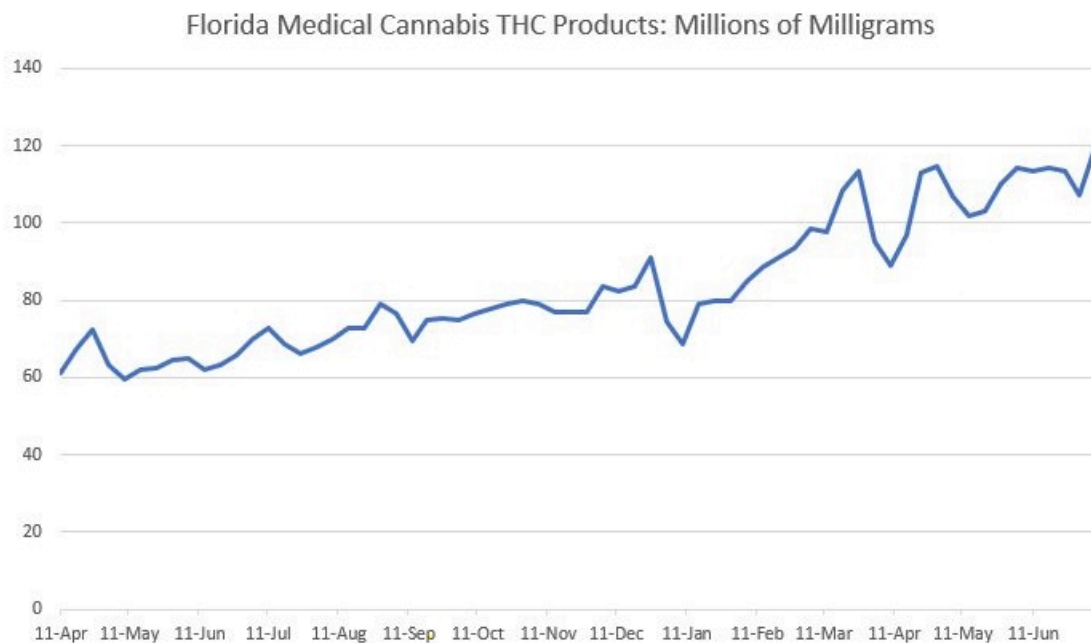


Canadian Cannabis LP Index showing the beginning of potential strong rebound.



American Cannabis Operator Index showing the beginning of potential strong rebound.

Much of the accelerated growth within cannabis is exhibited in Pennsylvania's medical market, and adult use markets in Illinois and Michigan, and are primarily supply constrained. With 2020 elections right around the corner, many speculators in the industry believe increasing ballot representation in the market will also spike further interest in the industry.



Since mid-April 2020 Florida's medical cannabis market has seen steady growth.

Investment Activity

On a macroeconomic level, investment activity and deal flow are expected to decline as credit and access to leverage tightens. Despite an abundance of firms with excess dry powder, many institutions are reserving capital for non-traditional uses due to the likelihood that investment groups will need to inject cash into distressed companies. Amidst overall deal decline, there will be an increase in Private Placements in Private Equity (PIPE), accompanied by Leveraged Buyouts (LBO) requiring larger equity backstops. Here is a look at some of cannabis' top players in the investment side of the industry:

◆ **Top 5 - Capital Raised to Date (MM's)**

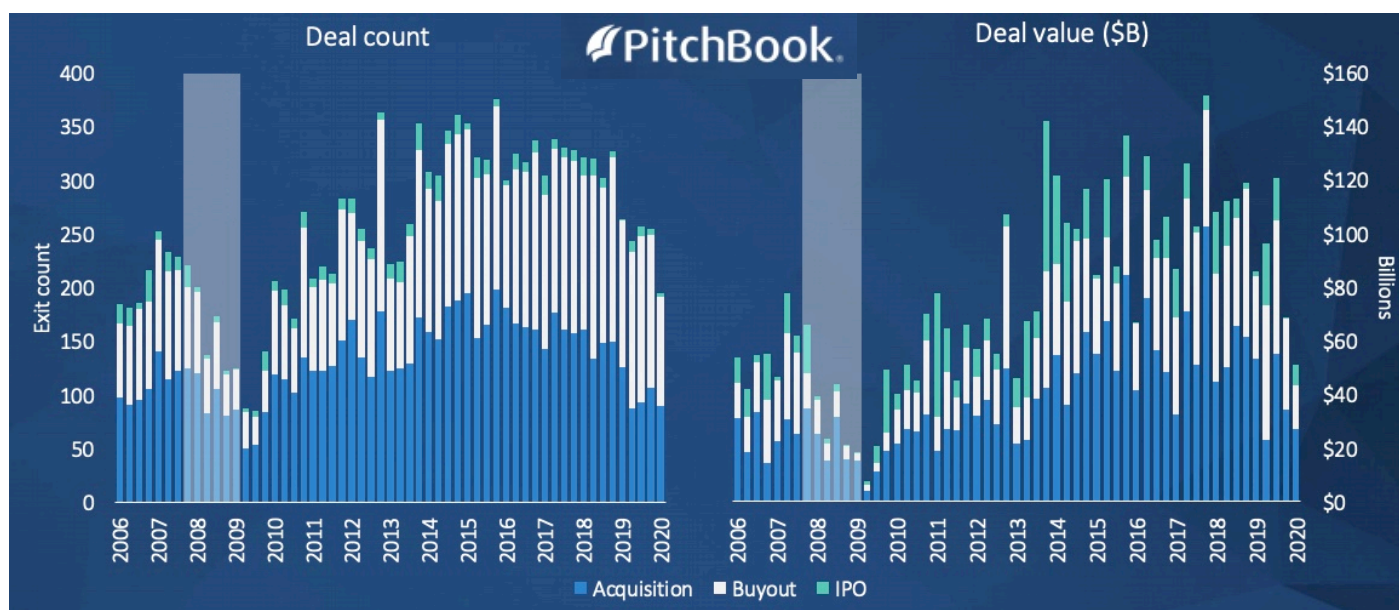
- ◆ Cronos Group (TSE: CRON) : \$3,643.68
- ◆ GW Pharmaceuticals (PINX: GWPRF) | \$986.02
- ◆ Acreage Holdings (CNQ: ACRG.U) | \$433.00
- ◆ Curaleaf (CNQ: CURA) | \$420.59
- ◆ CannaTrust (PINX: CNTTQ) | \$272.33

◆ **Top 5 - Acquisitions to Date**

- ◆ Canopy Growth (TSE: WEED) | 22 Investments
- ◆ Aurora Cannabis (TSE: ACB) | 15 Investments
- ◆ EVIO Labs (PINX: EVIO) | 10 Investments
- ◆ Green Thumb Industries (CNQ: GTII) | 9 Investments
- ◆ Harvest Enterprises | 9 Investments

◆ **Top 5 Private Companies - Financing Valuations Q2 (MM's)**

- ◆ Abacus Health Products | \$68.20
- ◆ Pennsylvania Medical Solutions | \$16.30
- ◆ Cannaseur | \$2.35
- ◆ The Joint (Denver) | \$1.80
- ◆ Meta Cannabis | \$1.50



Exit activity falls precipitously during times of economic uncertainty. Strains caused by COVID-19 and elections have brought 2020 deal value and deal counts near 2013 levels.

Market Risks

As the cannabis market continues to mature, we continue to uncover new risks even as those previously known persist. In our last report we covered several that are especially important to the cannabis market, including those affecting valuation and commoditization. Although these are still prevalent, the battle the virus is taking to companies' balance sheets is exposing further risks that are becoming increasingly important to be aware of.

Insolvency is debatably the most important risk to assess in today's cannabis companies according to The Motley Fool¹. Unfortunately, insolvency is a common reality faced by many cannabis companies. In a recent study conducted by Ello Capital, they concluded that Harvest Health & Recreation (OTC:HRVS.F) has approximately 9 months left of liquidity remaining. According to the study, as of September 30th, 2019, Harvest had \$18.3 million in cash compared to \$191.90 million in December 2018.

The last important risk associated with cannabis is theft. Cannabis companies have been required to operate on an all cash basis due to banking restrictions within the industry. Lawmakers and advocates are working tirelessly to gain comparable access to banks as other industries. Removing large collections of cash off-premises will greatly reduce the incentives for theft.

Investor Sentiment

Investor sentiment in the cannabis market remains positive but errs on the side of caution. The cannabis sector more than ever is poised for strong growth after being deemed essential by many state governments. Even with cannabis still not being fully legal at the federal level, US operators posted strong growth during the first part of 2020 regardless of problematic circumstances due to the

¹ Jagielski, David. "4 Of the Biggest Risks Facing the Cannabis Industry Today." *The Motley Fool*, The Motley Fool, 17 Mar. 2020, www.fool.com/investing/2020/03/17/4-of-the-biggest-risks-facing-the-cannabis-industr.aspx.

pandemic. Nonetheless, investors remain cautious even with strong numbers and anticipated future legalization.

The Cannabis market in mid-march hit an all time low, however it has rebounded to some extent since then. According to New Cannabis Ventures ², many traders believe this rebound to be a bear market correction that is accompanied by a lack of stimulus for future growth. Regardless of a slow legalization process, cannabis industry fundamentals continue to attract investors from all over.

Regulatory Environment

The regulatory environment in the cannabis sector is something of constant progression. States continue to loosen legality regarding the substance and regulations posed on businesses. COVID-19 caused an influx of positive transformations in the cannabis regulatory environment as business, broadly deemed essential, may have a better argument for a large-scale legalization rollout.

Regulations around cannabis banking have severely restricted businesses in the space, but continue to change for the better. Some of the most notable provisions included in new COVID-19-related spending bills for FY 2021 have very similar language to the SAFE Banking Act, which was recently passed by the House, but has yet to be voted on in the Senate. This would now allow financial institutions to provide services to CBD, hemp, or cannabis related businesses. Due to the current cash-only operations, many cannabis businesses are vulnerable to theft and other crimes ³.

In a separate spending bill, the Rohrabacher-Farr provision was introduced which would prohibit the Department of Justice from utilizing federal funds to interfere with states' medical marijuana laws.

² 28, June, and Exclusive article by Alan Brochstein. "Looking Ahead to the Second Half for Cannabis Stocks." *New Cannabis Ventures*, 28 June 2020, www.newcannabisventures.com/looking-ahead-to-the-second-half-for-cannabis-stocks/.

³ Adlin, Ben. "House Includes Marijuana Protections For States, Banks And Universities In Funding Bills." *Marijuana Moment*, 7 July 2020, www.marijuanamoment.net/house-includes-marijuana-protections-for-states-banks-and-universities-in-funding-bills/.

This provision offers the much needed protection on behalf of medical marijuana patients. These new spending bill provisions, among others, are evidence that the regulatory environment is rapidly changing.

As provisions continue to be introduced, many states are easing their legal repercussions regarding possession and sale of cannabis. As of July 1st, 2020, Virginia began its decriminalization of marijuana, a huge victory for the state in the journey towards full legalization. Just next door, Washington, DC has lifted restrictive provisions which have impeded the legal sale of cannabis in the District.

New Products

As the legality of cannabis continues to roll out across the globe, so do the variety of products that are available to the public. All over the US and Canada, CBD and THC-infused products can be found in many different forms such as gummies, lotions, and oils to name a few. Since the passing of the 2018 Farm Bill, CBD gained popularity among individuals and their pets. Despite lack of empirical evidence that suggests CBD promises therapeutic effects for pets, much of society has accepted the practice of using CBD for pets. Research conducted by Arcview Market Research and BDS Analytics projects that the pet CBD market will grow 5% faster than the overall CBD market ⁴.

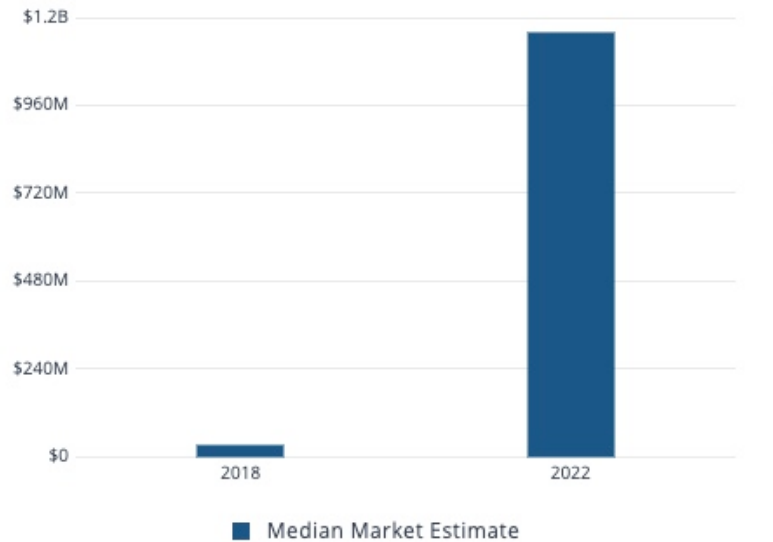
As researchers work tirelessly to learn more about the therapeutic effects of CBD in common household pets, many are also looking on to the effects of THC in pets, although these studies are severely controversial and just beginning. At this point in time, most research

⁴ "New Research Forecasts Pet CBD Market Growth." *Pet Business Magazine*, www.petbusiness.com/New-Research-Forecasts-Pet-CBD-Market-Growth/
#:~:text=While%20the%20overall%20market%20for,2024%E2%80%94a%2053%20percent%20CAGR.

conducted on behalf of THC in pets such as dogs lies within understanding the toxicity levels ⁵.

Market Size Estimates

CBD Pet Product



PitchBook consensus projects a \$1.16 billion median market size by 2022.

A developing trend related to the cannabis industry is the research and development of psychedelics for medicinal purposes. The use of medical cannabis and psychedelics, specifically to treat mental health issues and addiction, is becoming increasingly popular using drugs such as Psilocybin, Ketamine, and LSD.

According to Ganjapreneur, in June it was announced that the US Defense Department is funding a medical health study into the therapeutic use of psychedelics such as ketamine and psilocybin. Some pharmacology professionals believe these drugs to be effective antidepressants. With 1 in 10 people suffering from a mental health

⁵ Gyles, Carlton. "Marijuana for Pets?" *The Canadian Veterinary Journal = La Revue Veterinaire Canadienne*, Canadian Veterinary Medical Association, Dec. 2016, www.ncbi.nlm.nih.gov/pmc/articles/PMC5109620/. <https://ourworldindata.org/mental-health>

issue globally⁶, this new market segment has immense potential for human application.

Looking Ahead

In closing, as several states see a surge in COVID-19 cases as they try to reopen and resume normalcy, it's clear the virus will be top of mind for the US and the World for the foreseeable future. If there is one theme that will be consistent moving forward, it's uncertainty.

We will continue to see uncertainty in earnings, valuations, and dealmaking, in addition to a higher prevalence of non-traditional banking methods. The reopening of the economy and the new normal of adapting to changing safety measures in everyday life will continue to affect decision-making, in life and the way in which businesses are run.

For the cannabis industry, these issues are proving to be beneficial as regulators increasingly see the benefits that the industry provides to the public and continue to ease restrictions. The pandemic continues to prove that cannabis is the essential business that many local governments have already claimed it to be.