

CANNABIS MARKET INSIGHTS



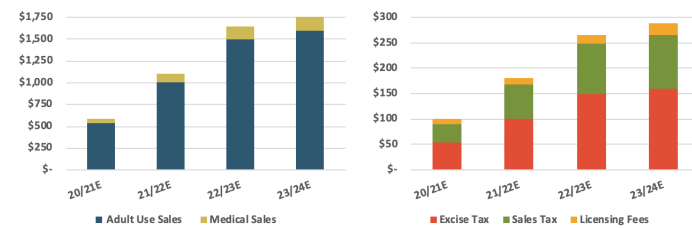
MICHIGAN GOES GREEN

The Great Lakes State Navigates the Path to Legalization

In our 7thirty Cannabis Insights Vol. II, we discuss the evolution of the Michigan market and recent legislative changes in The Great Lakes State. We then consider how the regulatory framework for Michigan’s adult use cannabis program might take cues from the development of other legal US markets.

Michigan cannabis proponents prevailed at the ballots in November 2018 as 56% of voters approved Proposition 1 legalizing cannabis for recreational use. Michigan is the 10th U.S. state to legalize cannabis for adult use and the first state in the US Midwest. The state’s adult use sales are expected to begin by January 2020. Legalization opens up the state’s market of ~7 million consumers of age with cannabis revenues projected to exceed \$1.7B by 2023, according to Michigan’s Senate Fiscal Agency.

Michigan Cannabis Sales & Tax Revenue Projections (\$M)



Source: Michigan Senate Fiscal Agency, 7thirty estimates

Michigan’s Licensing and Regulatory Affairs (LARA) Department has until December 2019 to create a regulatory framework and issue retail licenses though adult use became legal in the state in December 2018. Michigan’s government is actively managing the shift to a regulated adult use market.

Michigan is a key U.S. market and its 293,000 registered patients make up the second-largest US medical program next to California’s 900,000 patient roster. Michigan’s patients are supplied by a network of more than 14,000 caregivers who may legally grow up to 72 plants, 12 plants each for 5 registered medical patients and themselves.

On March 1, Michigan Gov. Gretchen Whitmer issued an executive order abolishing the Bureau of Marijuana Regulation and Medical Marijuana Licensing Board (MMLB) appointed by her predecessor. The Governor

established a new Marijuana Regulatory Agency and named Andrew Brisbo as executive director. The change may accelerate the approval process that some blame for the slow pace of licensure. The executive order will take effect on April 30th absent an appeal that we view as unlikely.

The MMLB has approved 148 licenses since July 2018 of which 110 have paid regulatory assessment fees, including 58 dispensaries, 35 growers, 11 processors, 5 distributors and 4 testing labs. Michigan’s 58 licensed medical dispensaries compare to over 200 businesses that operated in late 2018; about 50 dispensaries now operate under a temporary license.

Last week, regulators extended the deadline for medical dispensaries to become compliant with licensing requirements for a third time. The extension of the March 31 deadline allows dispensaries operating under temporary licenses to remain open, alleviating concerns over access for Michigan’s registered medical patients.

The licensing deadline caused a surge in applications from operators seeking to become compliant. The MMLB considered 118 applications at its March 21 hearing, and 91 received pre-approval status. The final MMLB hearing is April 25. Michigan’s licensing process illustrates one challenge that state’s encounter in transitioning to a regulated market.

In late March, Michigan legislators also addressed a potentially massive product shortage for the state’s medical market. Legislators voted to permit continued sales of untested marijuana by registered caregivers to licensed medical dispensaries. Without the supply from caregivers, the state’s medical supply would have depended solely on its 35 licensed growers.

Michigan is seeking to develop a framework for licensed operators to succeed, but legalization has spurred a thriving black market. More than 100 unlicensed cannabis delivery services have emerged statewide since November 2018. And cannabis gifting involving the sale of goods at inflated prices in exchange for a quantity of cannabis, has become a common mode of sale.

CANNABIS MARKET INSIGHTS

In June 2018, state legislators sought to reduce black market trade by making it a misdemeanor punishable by up to 93 days in jail to operate a dispensary or delivery service without a license. However, the law is loosely enforced.

Michigan is a key US cannabis market that will offer compelling investment opportunities in the coming years. We expect a number of themes observed in other legal US states to repeat in the Michigan market, and those insights should guide investment decisions. Below, we highlight key features of Michigan's regulatory framework under Proposition 1 and consider lessons learned from other legal US markets.

Tax Revenue: California's 2018 tax haul of \$345M on cannabis sales of \$2.5B fell short of the initial state projection of \$643M. The flow of tax revenues to state coffers was stymied by burdensome licensing requirements for growers, retail, distributors & testing labs.

Michigan's cannabis tax revenues are projected at \$77M in 2020 based on first-year sales of \$592M, according to the Senate Fiscal Agency. The 2020 forecast seems reasonable given that Michigan's population over age 21 is more than twice that of Colorado which collected \$76M in first-year tax revenues. At market maturity in 2023, the state agency forecasts taxes of \$288M on \$1.76B in sales.

Tax Rates: California applies a 15% excise tax in addition to state tax of 7.25%, plus local taxes of 8%-10%. Cultivators incur additional taxes on flower and leaf that can push tax burdens to nearly 45%. The heavy state & local tax burden weighed on operators and encouraged black market activity.

Michigan's tax rate on adult use cannabis would be among the lowest in the US. Michigan will apply a 10% state excise tax to adult use cannabis sales in addition to the state sales tax of 6%. Medical cannabis is to be exempt from the 10% excise tax.

Retail Licensing: The issuance of retail licenses is critical to the establishment of a regulated market, particularly in the early stages of legalization. In California, the licensing process was burdensome and factored in the state's 2018 tax revenue shortfall. California's dispensaries numbered more than 2,000 in late 2017 but the number of licensed operators fell to ~500 by mid-2018 as regulators sent cease and desist letters to nearly 1,000 unlicensed businesses.

Michigan extended the deadline for retail licensure for a third time in a year to assure continued access for its medical patients. Regulators must act to establish a network of licensed operators while considering the existing medical market. Michigan will benefit for establishing a retail market ahead of legal sales beginning in 2020.

Under Proposition 1, Michigan will accept license applications *only* from licensed medical marijuana businesses for up to 24 months. The state will not limit the number of recreational licenses it ultimately approves, affording regulators some discretion in establishing the retail landscape.

Local Prohibition: Legal states have been inclined to allow municipalities to prohibit retail sales and cultivation at their option. However, local prohibition can limit access for consumers who reside in these jurisdictions. In Colorado, many localities that initially opted out of retail cannabis sales later permitted sales. Similarly, in California many counties banned retail operations following legalization in 2018.

Under Proposition 1, Michigan regulators will permit municipalities to limit or prohibit cannabis in their jurisdictions. In our view, local prohibition could limit access and presents a risk to the state achieving its projected tax revenues.

Supply Issues: Supply chain issues that have emerged in the legal Western states highlight the importance of regulators keeping a pulse on a state's supply chain. Oversupply in Oregon and Washington stemming from liberal cultivation policies flooded the markets with product and cratered wholesale prices. In Colorado and Nevada, these legal markets were short of product shortly after legalization as the supply chain struggled to keep up with demand.

Black Market: In most legal US states, black market activity has persisted despite regulation. The reasons that operators turn to the black markets include fees, taxes, market oversupply and out-of-state arbitrage.

Under Proposition 1, Michigan's regulators reserve the right to license businesses that would help curb the black market, improve supply or provide reasonable access to cannabis in rural areas.

Michigan regulators, operators and investors are well-served to heed these lessons from other legal states as this key US market takes shape.

CANNABIS MARKET MONITOR

Returns of Selected Cannabis ETF's & S&P 500, % YTD

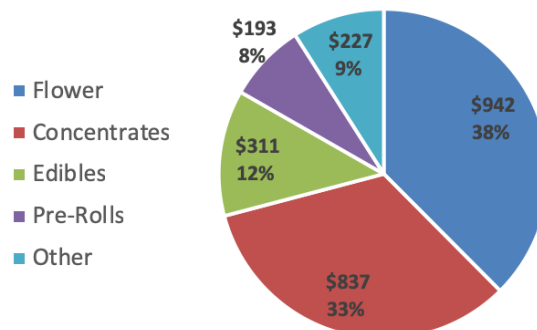


Source: TradingView

Year-to-date, Cannabis-related ETFs, including the ETFMG Alternative Harvest (MJ) ETF (+39%) and the Horizons Marijuana Life Sciences Index (HMLSF) ETF (+47%), have outperformed the S&P 500 Index which has returned 14%.

California Cannabis Spending by Category, 2018

California: \$2.5B in legal cannabis sales in 2018



Source: BDS Analytics

California reported 2018 sales of \$2.5B in the first year of legal adult use cannabis sales. Flower was the largest product category at \$942M (38%), concentrates sales were \$837M (33%), edibles sales were \$311M (12%) and pre-roll sales of \$193M represented 8% of sales.

Canadian Licensed Producers

Company	Stock Price*	Mkt Cap (\$B)	YTD Return	52-wk Return**	52-wk High	52-wk Low
Canopy Growth Corp.	\$42.48	\$14.58	47%	71%	\$59.25	\$18.93
Aurora Cannabis Inc.	\$12.20	\$12.34	75%	34%	\$16.24	\$5.29
Tilray Inc.	\$63.01	\$6.10	(11%)	174%	\$300.00	\$20.10
Cronos Group Inc.	\$18.61	\$6.09	65%	198%	\$25.10	\$5.12
Aphria Inc	\$13.27	\$3.32	65%	13%	\$22.00	\$4.76

Source: Yahoo Finance, Google Finance, 7thirty data. *Prices as of April 1, 2019, **52-week return or return since trading began.

Private Cannabis Market Activity

Company	Location	Date	Category	Deal Type	Amount (\$M)
Green Tank Technologies	Toronto, ON	3/28/19	Accessories	Series A	\$10.44
MJIC	Commerce, CA	3/18/19	Compliance	Corporate	\$15
EMMAC Life Sciences	London, UK	3/8/19	Medical Cannabis	Corporate	\$19.8
Holistic Industries	Washington, DC	3/6/19	Medical Cannabis	Corporate	\$13.88

Source: PitchBook, company press releases.

Public Cannabis Market Activity

Company	Location	Date	Category	Deal Type	Amount (\$M)
iAnthus acq. CBD For Life	New Jersey	4/1/19	CBD	Pending Acq.	\$13.7
Curaleaf acq. Acres Cannabis	Las Vegas, NV	3/18/19	Rec. & Medical	Pending Acq.	\$70
Greenlane	Boca Raton, FL	3/20/19	Accessories	Ann. IPO	\$92
Cresco Labs acq. VidaCann	Florida	3/18/19	Medical Cannabis	Pending Acq.	\$120
HEXO acq. Newstrike Brands	Oakville, ON	3/13/19	Medical Cannabis	Pending Acq.	\$263
Next Green Wave acq. SDC Ventures	California	3/11/19	Extraction	Pending Acq.	\$27
Harvest Entrpr. acq. Verano Hldgs.	Chicago, IL	3/10/19	Vert. Integ. LP	Pending Acq.	\$850

Source: PitchBook, company press releases.

7thirty Group provides a full range of capital services to investors & companies in the frontier legal cannabis, hemp and ancillary markets. 7thirty identifies investment opportunities in emerging cannabis companies related to ag tech, med tech, retail, e-commerce, SaaS solutions, deep tech research, and marketplaces. The 7thirty team includes cannabis investment veterans experienced in commodities, agriculture, technology & trading operations. We take a hands-on approach to investing, working with leading companies to devise smart strategies to thrive in this rapidly evolving market. 7thirty conducts **best-in-class due diligence** and maintains a **strategic partnership with CanopyBoulder**, a leading cannabis business accelerator.

INDUSTRY OUTLOOK

North American legal cannabis sales are projected to exceed \$50B by 2025 with the global market estimated to exceed \$146B.

30-40% CAGR for the next 7-10 years

- U.S. States & other Countries continue to legalize adult-use
- Market expansion & new consumers in old markets
- New uses/benefits to be discovered

Cash Flow from Cannabis-related Companies Will Fuel Expansion Back into Traditional Industries:

- General agriculture
- Supply chain optimization (i.e. blockchain solutions)
- Retail optimization

7THIRTY OPPORTUNITY FUND DETAILS

Financial Overview

- \$30MM private equity fund
- 2% management fee
- 10% performance hurdle
- 25% carried interest
- 5-7 year investment horizon
- US-centric with global exposure
- \$250K minimum commitment (\$50K through OurCrowd)

Primary Investment Verticals

- Ag & Bio-tech
- Robotics & automation
- Machine vision & learning
- Blockchain & Payment tech

MANAGEMENT



MANAGING PARTNER: MICAH TAPMAN

- **5 years investing in legal cannabis** & ancillary markets
- Founder of CanopyBoulder
- Led >100 investments and over \$18MM in AUM
- **Top-quartile fund manager (~30% IRR on 2015/2016 vintage funds)**
- Led financial services cybersecurity operations for SAIC
- Started three companies in cybersecurity, media & sales
- MBA from The George Washington University
- BS in Computer Networking from Strayer University
- Served in the US Marine Corp

KEY HOLDINGS:



KEY ADVANTAGES

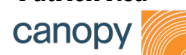
- Unparalleled Deal Flow
- Deep industry knowledge & personal connections
- >100 deals already executed by management team
- Hands-on operational experience
- Global perspective: USA, Canada, Brazil, Colombia, Australia, Israel, and EU
- Experienced international business team w/ 40+ years of deal making around the world)
- Accomplished support team of lawyers, accountants, & subject matter experts

¹ Sources: Pitchbook 2018; CanopyBoulder.

TRUSTED ADVISORS & PARTNERS

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