

CANNABIS MARKET INSIGHTS



CHOOSE YOUR WEAPON: CANNABIS INVESTMENT VEHICLES
Key Considerations for Green Rush Investment

The cannabis “Green Rush” has gone mainstream with high-profile listings now featuring on the Canadian, US and global exchanges. Cannabis investment vehicles options offer different exposures to this fast-growing market segment. These investment options continue to grow, providing better market access and improved liquidity.

Ways to play The Green Rush? Today, cannabis investors can buy individual stocks, invest in various ETFs, cannabis-related REITs have become popular, and a range of venture funds have emerged offering exposure to private deals and early-stage companies. Some other cannabis investments options on the market include private investments in public equity (PIPEs), debt funds, special purpose acquisition companies (SPACs) and distressed funds. In 7thirty Cannabis Market Insights Vol. V, we examine the range of cannabis investment vehicles available today and discuss some key considerations for investment.

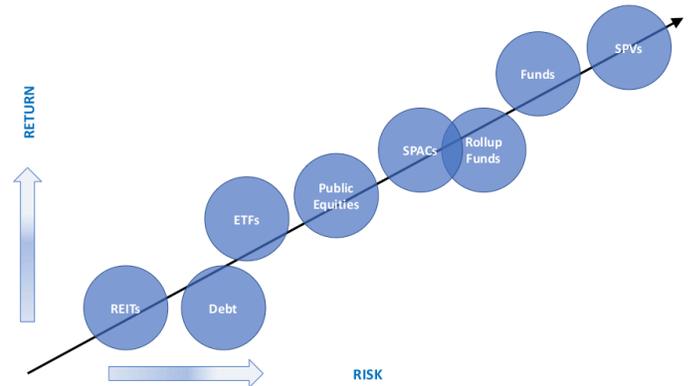
Cannabis market growth is all but inevitable. The global legal cannabis market is projected to grow at a 25% CAGR from \$11.9B in 2018 to \$29.5B by 2022, according to BDS Analytics. This robust market growth forecast has made cannabis the investment topic du jour and propelled some public company valuations to high levels. However, the recent correction in public cannabis stock values highlights the risk in this growing market. The New Cannabis Ventures Global Cannabis Stock Index declined 19% YTD compared to a 17% gain for the S&P 500. Due to the complexity of this fast-growing sector, cannabis investors must consider some key questions in selecting an investment.

Will you cross The Green Line? *Ancillary (non-plant touching) or Plant Touching?* is the first question that distinguishes cannabis investments. Many institutional investors must consider how the various cannabis industry sub-segments comply with their investment mandates, if at all. A cannabis investor must determine whether a company will take custody of the plant, and if so, what implications this may have for its operations.

US plant-touching companies feel the squeeze. Plant-touching cannabis companies in the US are subject to a punitive tax regime under IRS Code 280E. Under 280E,

businesses that traffic in FDA Schedule I and II drugs under the Controlled Substances Act are not allowed certain business deductions or credits for purposes of federal income tax. State regulations may also impact financial performance and corporate governance. Investors in plant touching companies should fully understand the regulatory & operational risks, and tax considerations for these companies.

What’s your risk-return profile? Cannabis investors should determine their risk-return profile in selecting an investment vehicle.



source: 7thirty Capital Group; Note: graphic does not factor asset liquidity in risk analysis

What size investment? Investors must also determine what size investment they wish to make as this will help determine what investment vehicles are most appropriate. Assuming that a financial institution’s mandate permits investment in legal cannabis, a key follow-on question is what size investment a firm might deploy. Aside from the obvious question of legality under US Federal law, the relatively small market caps of publicly-traded cannabis companies and thin trading volumes for many names has limited participation by large institutional investors. Cannabis stocks therefore have a more retail shareholder base. Many institutions can only consider investments at some established minimum value, and therefore the cannabis space may simply be too small for some investors.

Public Equities. Public cannabis stock prices fluctuate with market sentiment and the prospects of a particular company. Some cannabis stocks have had exceptional short-term gains behind catalysts like Canadian legalization and US market growth, but the sector has

CANNABIS MARKET INSIGHTS

also undergone massive downward corrections. Public cannabis equities trade at high betas and some have thin floats. The fast-growing nature of the industry means that for now, public company outlooks hinge primarily on revenue growth. As we noted in [7thirty Cannabis Market Insights Vol. IV](#), we expect analysts to shift from sales-focused metrics (i.e. Price/Sales) to profit-based metrics (i.e. EV/EBITDA) as more cannabis companies become profitable.

Liquidity is a concern when investing in public equities. Despite the growing suite of cannabis investment products, the relatively small market size and a lack of liquidity may limit participation by larger institutional investors. Below, we consider two liquidity cases, one for a single cannabis equity and the second case considers the top 10 US & Canadian operators.



“...small overall market size and a lack of liquidity are two fundamental issues faced by investors in public cannabis equities.”

Liquidity Case #1: Aurora. Aurora (ACB) is the second-largest global cannabis company by market share with Canadian production & retail licenses, and operations in 24 countries. ACB shares trade at \$4.15 per share with a market cap of \$4.5B. At present, the trailing 90-day Average Daily Volume (ADV) of ACB shares is \$83M. As a rule of thumb, a fund might typically limit a single investment to 30% of this ADV in case of a liquidity event. By this rule, the maximum amount a fund might invest in ACB is \$25M (30% of the \$83M ADV).

Liquidity Case #2: North American Cannabis LPs. As an exercise, we consider investments in the top 5 Canadian licensed producers (LPs) & US operators. The top 5 Canadian LPs have a total market cap of \$20.1B and the 90-day ADV is \$382M. By the same rule limiting investment to 30% of ADV, a fund might invest up to \$115M in Canadian LPs. Analyzing the top 5 US operators have a total market cap of \$9.4B and a 90-day ADV of \$21.4M. By that same 30% ADV guideline, a fund might limit its investment allocation to the top 5 US operators to just \$6.4M, which is quite a small sum.

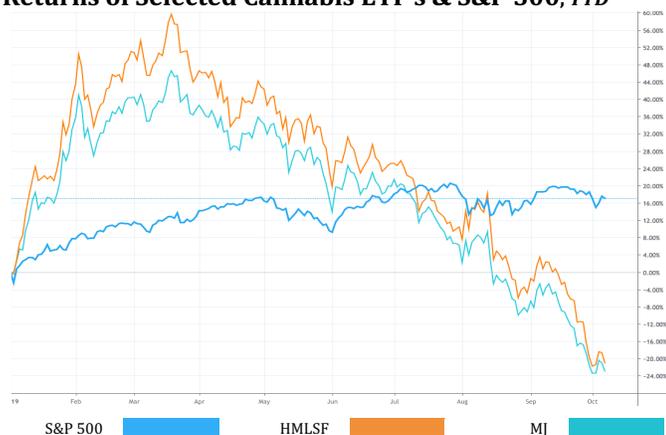
These cases show that the small overall market size and a lack of liquidity are two fundamental issues faced by investors in public cannabis equities. These factors are especially problematic for large pools of institutional capital seeking to invest in the space. As US legalization takes hold, the cannabis market will grow, liquidity issues will resolve through improved market access, and more institutional capital will enter the sector.

Exchange Traded Funds (ETFs). Cannabis ETFs offer a broad cannabis market exposure versus individual equities. Cannabis ETF expense ratios can be quite high, ranging from 42-75 bps, when compared to the SPDR Total Stock Market ETF expense ratio of 3 bps. Cannabis ETFs, similar to individual equities, feature the same issues of lofty valuations and high volatility. ETFs have improved liquidity for many of the included cannabis stocks, but the funds remain relatively small with net asset values of notable cannabis ETFs totaling just \$1.3B.

REITs. Cannabis REITs approach cannabis with a real estate focus and have been popular with institutional investors. REITs are an arguably lower risk asset in the cannabis sector with more predictable returns.

Private Equity/Venture Capital Funds. Cannabis funds offer investors a curated investment portfolio through private equity or early-stage investments. Many cannabis funds have emerged offering deal access, mostly to accredited investors. Some funds also present individual Special Purpose Vehicles (SPVs) for single cannabis investment opportunities of interest. It is important to note that funds are illiquid and are historically high-risk. PE lock-up periods typically range from 5-10 years. Fund selection is important given the complexities of the cannabis markets. The recent proliferation of cannabis funds means that investors should assure a fund manager has a deep knowledge of the cannabis space, experience in the legal markets, a strong network and a solid pipeline of cannabis deals.

Credit. Credit funds and other debt instruments represent the next frontier of cannabis investment. The cannabis industry remains very much starved for capital, despite the media headlines. These debt structures are vital to growth of the more capital-intensive areas of the cannabis supply chain, including industrial equipment and brands. Debt funds have now emerged to finance early stage companies. Opportunistic rollup funds and special purpose acquisition companies (SPACs) are also forming to capitalize on the industry consolidation that some believe will follow the current market expansion.

CANNABIS MARKET MONITOR
Returns of Selected Cannabis ETF's & S&P 500, YTD


Source: TradingView; Priced as of October 4, 2019

Year-to-date, Cannabis-related ETFs, including the Horizons Marijuana Life Sciences Index (HMMJ) ETF (-20%) and ETFMG Alternative Harvest (MJ) ETF (-21%) have lagged the S&P 500 Index which had a return of 18%.

Cannabis Exchange Traded Funds (ETFs)

Cannabis-focused ETFs	Ticker	YTD % Return	Expense Ratio	AUM
Advisor Shares Pure Cannabis ETF*	YOLO	-40%	0.74%	\$47.1M
Advisor Shares Vice ETF	ACT	11%	0.75%	\$12.4M
Amplify Seymour Cannabis ETF*	CNBS	-26%	0.75%	\$5.4M
Cambria Cannabis ETF*	TOKE	-25%	0.42%	\$8.4M
ETFMG Alternative Harvest ETF	MJ	-21%	0.75%	\$799M
Evolve Marijuana ETF	SEED	-7%	0.75%	\$6.1M
Global X Cannabis ETF*	POTX	-12%	0.50%	\$2.1M
Horizons MJ Life Sciences ETF	HMMJ	-20%	0.75%	\$434M
The Cannabis ETF*	THCX	-32%	0.70%	\$17.2M

Source: 7thirty, Morningstar; priced as of October 4, 2019; * Note: performance since inception

There are now at least nine cannabis ETFs offering exposure to the cannabis space. The net asset values of these funds total about \$1.3B which compares to the cumulative global public legal cannabis operator market cap of closer to \$80B.

Selected Canadian Licensed Producers & US Operators

Company	Stock Px	Mkt Cap (\$B)	YTD Return	52-wk Return*	52-wk High	52-wk Low
Canopy Growth Corp.	\$22.92	\$12,570	(15%)	(52%)	\$59.25	\$20.52
Aurora Cannabis Inc.	\$4.40	\$5,176	(11%)	(55%)	\$12.52	\$3.80
Cronos Group Inc.	\$9.02	\$4,018	(13%)	(8%)	\$25.10	\$6.50
Tilray Inc.	\$24.06	\$2,614	(66%)	(84%)	\$178.85	\$22.60
Aphria Inc	\$5.36	\$1,602	(6%)	(57%)	\$16.19	\$3.75

Company	Stock Px	Mkt Cap (\$B)	YTD Return	52-wk Return*	52-wk High	52-wk Low
Curaleaf	\$6.80	\$3,355	43%	N/A	\$11.73	\$3.88
Cresco Labs	\$6.16	\$1,975	(9%)	(33%)	\$40.63	\$0.81
Green Thumb Industries	\$9.19	\$1,917	14%	(38%)	\$19.84	\$7.37
Charlotte's Web	\$14.10	\$1,632	27%	29%	\$25.25	\$8.13
Harvest Health & Rec.	\$3.13	\$1,007	(40%)	N/A	\$10.85	\$2.69

Source: Yahoo Finance, 420 Investor and 7thirty data. Market capitalizations reflect fully diluted shares. *52-week return or return since trading began. Close as of October 4, 2019.

Private Cannabis Market Activity

Company	Location	Date	Category	Deal Type	Amount (\$M)
Pathogen DX	Scottsdale, AZ	9/30/19	Testing	Series B	\$8.0
Future State Brands	Culver City, CA	9/20/19	Branding	Seed	\$11.3
Cannalysis	Santa Ana, CA	9/18/19	Testing	Series A	\$22.6
Front Range Biosciences	Lafayette, CO	9/16/19	Ag-Tech	Equity	\$8.5
Wellcana acq. GB Sciences	Lafayette, LA	9/13/19	Medical Cannabis	Acquisition	\$16.0

Public Cannabis Market Activity

Company	Location	Date	Category	Deal Type	Amount (\$M)
TerraAscend acq. Ilera Healthcare	Newtown Sq., PA	9/17/19	Medical Cannabis	Acquisition	\$225
Cresco Labs acq. Tryke Companies	Las Vegas, NV	9/16/19	Integrated	Acquisition	\$282.5
Cronos Group acq. Lord Jones	California	9/5/19	Brand/CBD	Acquisition	\$300
Sundial Growers	Calgary, ON	8/1/19	Integrated	IPO	\$143
Neptune acq. Sugarleaf Labs	Conover, NC	7/24/19	Hemp/CBD	Acquisition	\$150

Source: PitchBook, company press releases

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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

Sources: Pitchbook 2018; CanopyBoulder.

TRUSTED ADVISORS & PARTNERS

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