

A close-up photograph of a cannabis plant with vibrant green, serrated leaves. The leaves are arranged in a fan-like pattern, and the background is a soft, out-of-focus green. The overall lighting is bright and natural, highlighting the texture of the leaves.

IR

magazine

A budding industry

The IR challenges and opportunities in the volatile cannabis sector

Introduction

A budding industry



Introduction

A budding industry

Three and a half years ago, Canopy Growth Corp became the first cannabis company to list on a major stock exchange. It graduated from the TSX Venture Exchange to the Toronto Stock Exchange (TSX) in July 2016, taking the ticker symbol WEED. At the time, the company had a market cap of around \$1 bn. As of late January 2020, the company boasts a market cap of more than \$9 bn.

Commentators on the cannabis industry have likened the opportunity for wealth creation in a short period of time to the end of prohibition or the fall of the Soviet Union. Vivien Azer, managing director of consumer, beverages, cannabis and tobacco at Cowen & Co, was the first mainstream Wall Street analyst to champion the potential of the

cannabis industry. In 2016 Cowen & Co predicted that the cannabis industry would generate \$50 bn in sales by 2026. It recently updated this number, predicting that cannabis sales will exceed \$75 bn by 2030.

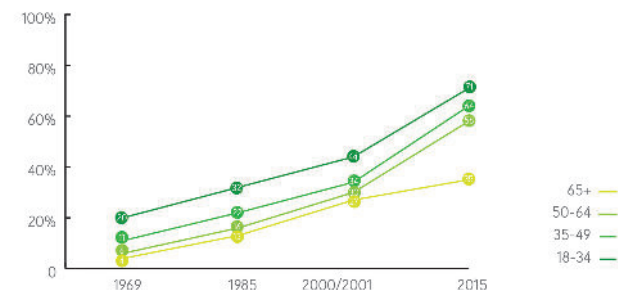
Many other sell-side analysts in the US and Canada have followed Cowen & Co's lead. For instance, Canopy Growth Corp is currently covered by 27 analysts – including representatives from Bank of America Merrill Lynch, BMO Capital Markets, CIBC World Markets, Jefferies, RBC Capital Markets, Scotiabank and the current leader in sell-side cannabis coverage, Canaccord Genuity.

Analysts are buoyed by shifting consumer sentiment toward cannabis. According to Gallup, 60 percent of Americans now support legalization of cannabis, compared with only 12 percent in 1969. 'What's happened over the

last 20 years is consumer sentiment has changed,' Azer says in a video published on Cowen & Co's website. 'There's a broader appreciation now that it's less addictive than alcohol.'

One strain of cannabis that is driving increased optimism for the sector's potential is CBD oil, which can be used to treat a variety

Support for legalizing cannabis, by age (US)



Source: Gallup and Cowen & Co

Do you support worldwide legalization of cannabis?

Yes

No

SEE RESULTS

“ There’s a broader appreciation now that it’s less addictive than alcohol ”

around the world. Canada led the way, by legalizing recreational and medicinal use of cannabis in October 2018.

In the US, recreational use of cannabis is legal in 11 states and the District of Columbia, and is decriminalized in another 15 states. Medicinal use is legal in 33 states and the District of Columbia. All use of cannabis remains illegal at the federal level, however, creating challenges from a legal, compliance and risk perspective and posing restrictions on banking activity.

In Australia, medicinal use of cannabis is now legal and recreational use is decriminalized in several territories. In New

Zealand, medicinal use was cleared in 2018 and there is set to be a referendum on legalization of recreational use in 2020. Medicinal use is also now legal in Belgium, Germany, Ireland – as part of a five-year trial – Israel, Italy, the Netherlands and a further 29 countries.

As a number of interviewees for this publication note, the growing international market for cannabis provides reasons for optimism, but the unique regulatory restrictions around production, distribution and usage in many of the countries listed above pose challenges for any company looking to expand its global footprint.

of ailments, such as anxiety, epilepsy and chronic pain. It can be consumed in a variety of manners, including through beverages, edibles and ointments. Nearly 7 percent of respondents to Cowen & Co’s 2019 consumer survey report using CBD as a supplement. Sales of CBD products in the US in 2018 are estimated to be between \$600 mn and \$2 bn, and Cowen & Co predicts that this number could rise to \$16 bn by 2026.

Where is cannabis legal?

The growth of the cannabis industry in the public markets is mirrored in – and likely caused by – a softening of cannabis laws

Growing pains

Despite the rise in analyst coverage and the lofty predictions for future revenue, there are many paradoxes at play when it comes to investor relations. As we will explore in this publication, there was a tremendous wave of money piling into cannabis stocks from retail investors, but institutional investors are still prohibited by law from investing in the majority of companies in the sector. For Todd Fromer, managing director at KCSA Strategic Communications, this is a source of anxiety.

‘When I look at the industry, I see parallels to the dotcom bubble-burst in 2000. At that time, investors completely overlooked traditional metrics. Everybody was in the mindset of trying to get as big as they could, as fast as possible. It’s one of the things that keeps me up at night, in terms of how quickly this sector has ignited,’ Fromer says.

Due to the prevalence of retail investors buying into cannabis companies, there’s a lot of noise and volatility in the sector; it’s not uncommon for public cannabis companies to

release at least one press release per week. If they don’t, they fear they will become irrelevant. But if they do, they risk losing credibility with the watchful, and increasingly sophisticated, covering analysts.

In Canada, a paradox exists relating to the legalization of cannabis. While it’s legal to use the substance today, research from Scotiabank predicts that 71 percent of cannabis sales in 2019 took place on the black market. Oliver Rowe and Ben Isaacson, authors of the research, believe supply chain challenges, government inspections and quality control issues will result in most cannabis sales happening illegally.

Finally, in the US, there are companies that are generating millions of dollars in revenue, but could feasibly be shut down by a federal government clampdown tomorrow. All of this provides the background for what may be the most dynamic and complicated environment for investor relations in the world right now. The second half of last year brought a market correction that was challenging for

many public cannabis companies, raising the question of whether they were overvalued and, if so, by how much. There’s still a lot of enthusiasm about the sector’s long-term prospects from prominent analysts like Azer, but there’s also an understanding that the volatility in the sector is unlikely to stabilize in the near term.

A man wearing a grey baseball cap, glasses, and a brown t-shirt is working in a cannabis grow room. He is reaching up to touch a large, green cannabis plant that is hanging from a wire. The room is filled with many similar plants, and the lighting is bright and even. The man's t-shirt has some text on it, including "TERP" and "PREMIUM QUALITY".

The value of investor relations

Helping the Street understand the cannabis industry

The value of investor relations

Helping the Street understand the cannabis industry

‘There are few industries in the capital markets today where IR professionals can play a more important role than in the cannabis industry,’ says Walied Soliman, global chair and Canadian chair at law firm Norton Rose Fulbright. ‘IR professionals have a critical and important role in the development of the cannabis space in Canada and around the world. In an industry that is continuing to define itself, IR professionals get to shape the shareholder base and help investors get comfortable with the industry.’

This sentiment was echoed by every single interviewee for this publication. There’s a sense that investor relations professionals and agencies have an outsize role to play in

terms of coaching senior management teams that may have limited exposure to the public markets, advocating for best practices around disclosure, communicating with a largely unsophisticated investor base, navigating complicated regulatory environments and working with analysts to create a vision of what a mature public market for cannabis companies looks like.

Many of these challenges are true for a lot of small and micro-cap public companies, but what makes cannabis unique is the speed of growth and the volume of work that takes place. For the largest cannabis companies in the world, there will be weeks in the year where the IR team will attend three to five conferences – akin to the annual conference attendance of some companies. For the smaller cannabis companies, their analyst coverage and market cap growth can change

extremely rapidly, posing unique challenges around owning – or even identifying – a narrative for the financial markets.

Working in dog years

‘Working in the cannabis sector really does feel like dog years,’ says Nick Kuzyk, chief strategy officer and senior vice president of capital markets at High Tide. ‘This last year would be five years in any other industry.’

As of August 2019, High Tide picked up its first covering analyst, from Canaccord Genuity. Kuzyk says there are ongoing conversations with other analysts, but that they are as stretched as IR teams. ‘The one thing that is consistent is that every resource is maxed out,’ he explains. ‘Every analyst has too many names to cover. Getting coverage requires an analyst to expand his or her coverage or cut coverage somewhere else.’

For Tyler Burns, vice president of IR at Canopy Growth Corp, it's also been a wild ride since he first started working with the company in 2016. At that stage, Canopy Growth Corp had operations at three facilities in Canada and was listed on the TSX Venture Exchange. It now has facilities in eight provinces in Canada, 12 countries around the world, a market cap in excess of \$8 bn and is listed on the TSX and the NYSE. The dog years analogy rings true for him, Burns says.

'The biggest part of the IRO's job is education – constantly to our analysts and investors to get them up to speed on the sector,' he points out. 'At times the inflow of calls from investment funds in the 212 [New York] area code is... well, let's just say that on Sundays I parse my days into 30-minute chunks because I have to explain the sector to so many people.'

Accurate information and differentiation

High Tide is earlier in its public markets journey, having listed on the Canadian

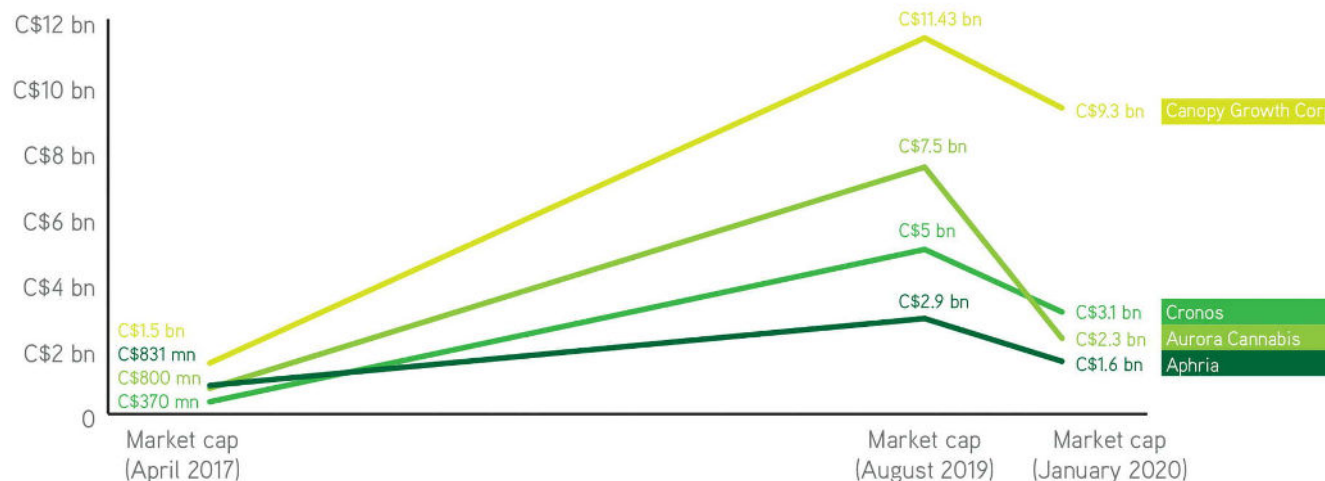
Securities Exchange in December 2018. Much like Burns, however, Kuzyk is focused on making sure the investment community has the information it needs.

'Having a fact sheet and an updated slide deck every month is useful,' Kuzyk says. 'The number of stores we have, the number of employees and the number of permits we have is always changing. We try to provide

current numbers to the public on our website so they can model our business. When you have this many retail investors, it's about old-fashioned customer service: responding to emails and answering calls.'

This is also true for KCSA Strategic Communications, which has built a thriving cannabis advisory business. The firm will often staff the phones and field incoming

The volatility of the cannabis sector: Select market cap changes



Source: GMP Securities and Bloomberg

queries from retail investors on behalf of their clients, according to Jeffrey Goldberger, a managing partner with the firm. He says acting as 'an educated call center' can be an eye-opener regarding the sheer volume of calls that come in.

Goldberger also notes that the cannabis industry is at a stage now where building a sophisticated investor relations function – whether by hiring in-house talent or working with an agency – will be a differentiator as analysts become shrewder.

'In general, the role of IR is going to be differentiation,' he says. 'Those companies that treat investor relations with the respect it deserves – both internally and with respect to shareholders – will be the mainstays.'

A close-up photograph of several green leaves with serrated edges, set against a dark, blurred background. The leaves are the central focus of the image, with their intricate vein patterns clearly visible.

The makeup of investor bases

Large retail bases pose unique IR challenges

The makeup of investor bases

Large retail bases pose unique IR challenges

Due to the restrictions placed on institutional investors on entering cannabis stocks, the vast majority of public companies in the cannabis space have an investor base made up primarily of retail shareholders.

In a 2019 survey of 250 retail investors by KCSA Strategic Communications, half of respondents say they pulled money from other industries to invest in cannabis.

More than a third (40 percent) of investors are significantly overweighting their cannabis investments, which make up more than a quarter of their overall portfolio, according to the survey. And while there continue to be issues for cannabis companies around

compliance with regional and national laws, 84 percent of respondents are not concerned about the federal illegality of cannabis.

‘Retail investors tend to be more emotional and more committed to the stocks they buy,’ says Fromer. ‘Smarter money knows how to trade in and out of opportunities and [retail investors] have the wherewithal to do that.’ But having such a large retail shareholder base can pose some unique investor relations challenges, specifically relating to cost, volatility and education.

Hundreds of thousands... and growing

‘This is investor relations like no other because of the sheer size of the investor group,’ says Burns. ‘We have 760,000 shareholders. That increases volatility and means that in every disclosure we’re educating and managing our investors.’

Burns estimates that Canopy Growth’s shares are 55 percent held by retail investors. This is unusually low for a public cannabis company and is due to Canopy Growth’s deal with Constellation Brands (which holds around 35 percent of the shares) and the company’s position as a first mover, which has led to some institutional ownership.

Communicating with such a large investor base can be costly. Burns explains that for the company’s annual shareholder meeting in 2017, there were 87,000 separate shareholders – 7,000 in the US and 80,000 in Canada. For the company’s special meeting in 2019 to approve the acquisition of Acreage Holdings, Burns says he had to mail out printed meeting materials to 600,000 shareholders in the US and 160,000 in Canada. ‘It goes without saying that that is a lot of circulars to mail out,’ he observes.

“ Smarter money knows how to trade in and out of opportunities and [retail investors] have the wherewithal to do that ”

‘We mailed out well over 300,000; our printing costs alone totaled C\$1.5 mn.’

Volatility

The investor base at High Tide is even more extreme, with 99 percent of shares held by retail investors, according to Kuzyk. Around 45 percent of the company’s shares are owned by the CEO and his family, which Kuzyk says protects the company from the fear of an activist entering the stock.

But having such a large retail base poses other challenges when it comes to volatility.

During this year, High Tide’s stock price has fluctuated between 22 and 41 cents per share.

‘Any little bit of downward pressure or upward support in the market is really going to move our share price,’ Kuzyk says. ‘We trade about half a million shares a day and it doesn’t take much to move our price up or down. We’ve been all over the place, and that kind of volatility can cause a lot of stress to retail investors who aren’t used to it.’

Goldberger explains that having a volatile and unsophisticated shareholder base will

increasingly be a problem for companies as they look to mature and deploy capital in sustainable ways that might be misunderstood. He specifically cites the issues that some life sciences cannabis companies are facing, relating to their research and development expenses.

‘We’re having discussions with companies that are on the true life sciences side,’ he says. ‘The cannabis investor doesn’t ultimately understand the life sciences sector. These firms might be doing research on a specific medical condition and being asked about how many strains of cannabis they’re making. They’re happy to be public, but they’re having to deal with very misguided individuals.’



Working with senior management

Helping first-time public company executives
understand what's expected of them

From dorm room to boardroom – Working with senior management

Helping first-time public company executives understand what's expected of them

'A lot of cannabis companies have been started up by individuals who were either serial entrepreneurs or had experience of legacy businesses,' says Goldberger.

Many companies in the cannabis industry have their roots in small, scrappy, entrepreneur-led businesses. This can often be the case for small and micro-cap public companies in any sector, and transitioning from a fast-growing private company to established public company requires an understanding of good public company governance, disclosure and investor relations.

Again, what makes the story of many cannabis companies unique is how quickly they've continued to grow and the volatility they have faced once they've gone public.

Soliman explains that this is an area where IR can and should be playing a leading role in helping senior management transition into life in the fishbowl of the public markets.

'IR professionals are playing an important role to make sure management teams that have not been in the public market spotlight are prepared for the shots that come in from investors, especially in a roller-coaster market like cannabis,' he says.

In addition to focusing on educating management teams on the rigors of being a

public company executive, Soliman says IROs can highlight new opportunities.

'There are ample M&A opportunities in the cannabis space,' he adds. 'IR professionals are playing an important role in explaining the shareholder acceptance of – and in some cases demand for – more M&A activity.'

Some IR professionals in the sector have found they have been trusted by their senior leadership team, and given the role and responsibility to provide insight into how to run an effective public company.

This is true for Laura Lepore, vice president of investor relations and corporate communications at MediPharm Labs. 'We have such a supportive senior leadership

team and board that understand the art and science of IR,' she says. 'They're setting an example that this is the way IR should be treated at every company.'

The speed and volatility of the cannabis industry further necessitates a close working relationship between investor relations and senior management teams. This was particularly the case at Canopy Growth Corp last summer, when it was announced that the company's founder and chief executive, Bruce Linton, would be leaving the company. For Burns, the closeness he had enjoyed with his CFO was crucial.

'I sat down with the CFO and we thought very intently about how we were going to address [this management change],' Burns says. 'You don't have a lot of time to ponder or analyze. Everything is fast and you have to make swift decisions and move on. We thought about how we wanted to communicate this to the Street. In this industry you've always got to be on your toes and thinking about your messaging.'

'These companies don't know what's expected of them'

The companies that see value in hiring an IR representative – whether in-house or through an agency – have implicitly recognized the importance and value of investor relations. But that isn't always the case, as Goldberger points out.

'We talk to a bunch of small, very micro-cap Canadian stock exchange listed companies that are pushing back and saying they don't want to do an earnings call,' he says. 'They're saying that none of their peers are doing it, to which I say, *If all of your friends jumped off a cliff, would you?*

'These companies don't know what's expected of them. This is a retail investor-focused industry for the time being, and you have to give your investors the information they need. You have an opportunity to stand out, and if you don't do a call and spoon-feed information to your investors, you're leaving it up to the market to determine whether or not you're successful.'

Kuzyk believes that as more public company operators start working at cannabis companies, this will improve, as will the best practices around reporting and financial metrics. 'Our founder and CEO is an operator who built our company,' he says. 'He's a quick study, but he's never been part of a public company. We've been doing some coaching, and have had some excellent counsel from our lawyers and bankers to help him navigate the public capital markets.'

Kuzyk adds that he's seeing a migration of talent from the energy sector into cannabis companies like High Tide – which has just appointed a new CFO and COO, both of whom have public markets experience.

'Now that the hype is over, the market is looking to attract real operators,' Kuzyk says. 'Continuous improvement is a key theme for the future cannabis industry, and when you can attract better talent, it's wise to do so.'

A photograph of several cannabis plants growing in a field, silhouetted against a bright sunset sky. The plants have characteristic serrated, palmate leaves. The lighting is warm and golden, creating a dramatic effect.

News releases and disclosures

News coverage can move the stock –
but can there be too much of a good thing?

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In an industry with such a large retail following, news coverage and press releases matter. The cannabis industry has garnered countless column inches and hours of airtime during the last couple of years, and public cannabis companies face a fight to keep themselves relevant, visible and attractive to potential retail investors.

It's also true that if a company issues too many press releases with little or no substance, its credibility will take a hit. Similar to the fate of the boy who cried wolf, several commentators suggest that companies that issue too many releases will struggle to get their most meaningful news picked up in

the future. 'There are 300 cannabis companies,' Lepore says. 'Imagine if you're an investor and you've got 300 companies all putting out a press release every week. How do you keep up with that?'

One interviewee who wished to remain unnamed likened the issuing of press releases to the issuing of currency during a recession: you can print more money, but you risk diluting your message. This is the challenge for some IR teams that are working with executives who lack public company experience – the executives may be too focused on the stock price and what they can do in the short term to influence it.

'If you're just putting out news because you think it's going to support your liquidity, it's like yelling 'Fire!' in a crowded theatre,' says Goldberger. 'I understand that people are

trying to gain exposure, but it's a fool's game to play. Just be thoughtful and don't succumb to the pressure of others.'

Even so, the speed of change, the volume of transactions that are taking place and the rate at which new analysts are initiating coverage do merit a significant number of press releases throughout the year. *IR Magazine* looked at the number of press releases sent by a selection of cannabis companies between January and the end of August 2019 and found that several cannabis firms had sent more than 40 press releases in the first eight months – significantly more than most companies would issue in an entire year.

And news coverage really *can* make a difference in the cannabis sector, according to Burns. He says that in late 2017, the chief investment officer of Bank of Montreal was

quoted as saying that the bank would be paying closer attention to the cannabis sector. 'There was an immediate price reaction, as well as follow-up articles from brokerages that were having trouble keeping up with the requests from investors,' says Burns. 'There were backlogs!'

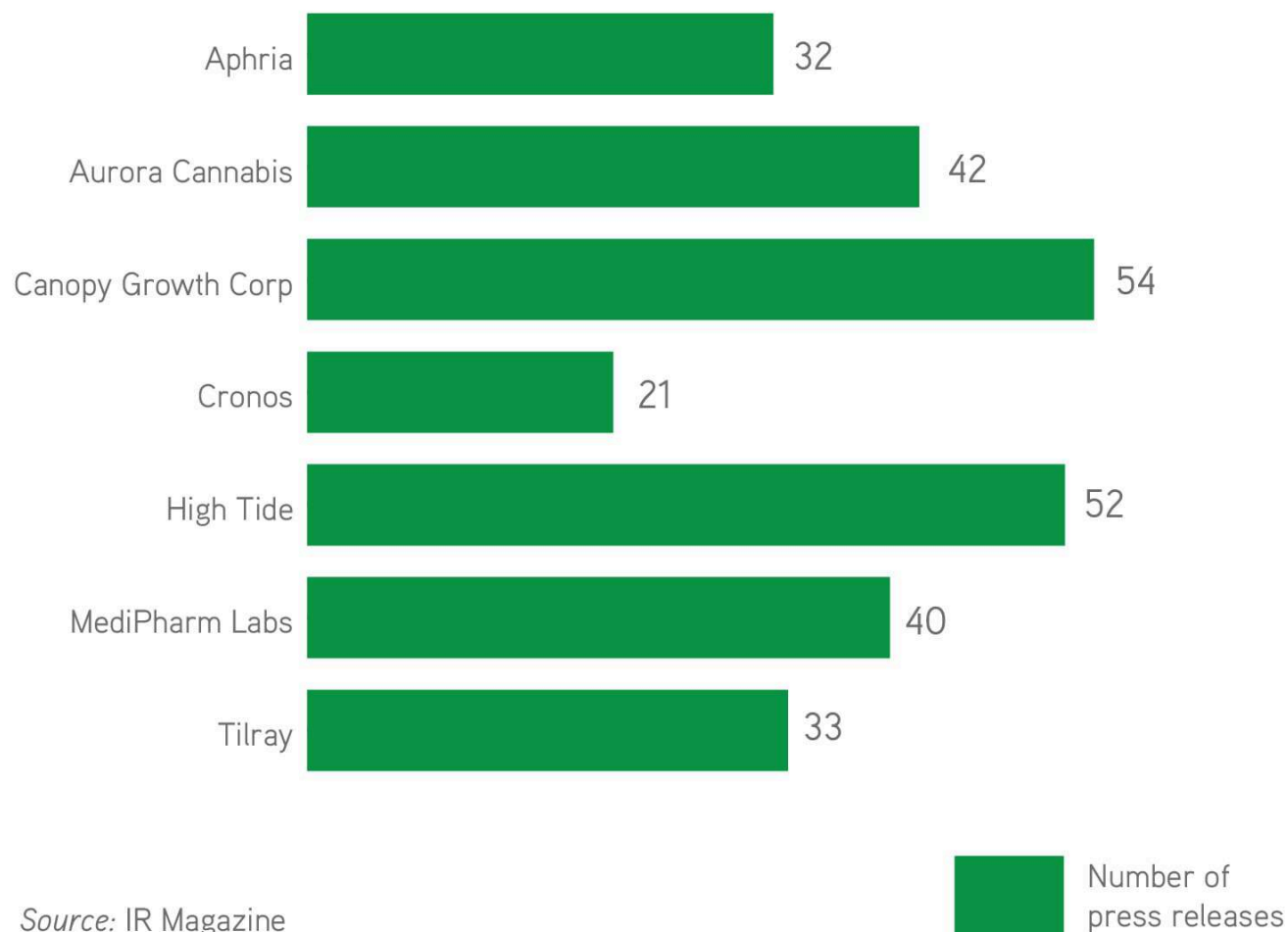
Enhancing disclosures

Burns adds that it's not just investors that struggle with the volume of press releases that are issued: analysts covering the industry also have their work cut out.

'I've found that it demands a more active line of communication with sell-side analysts to help them see the forest through the trees,' he says. 'It's a much more active role than I've played at any other company. There's an opportunity to be more precise with evaluating the figures coming out of the sector and the sell side is becoming more discerning about the information it's reading.'

Ron Parham, senior adviser at Arbor Advisory Group, is a former NIRI chair who

Press releases from select cannabis companies, January 1 to August 26, 2019



spent 15 years working at Nike and 10 years at Columbia Sportswear before migrating into the cannabis industry, first as an IRO with a pre-public cannabis company and now as an IR adviser. He says one of the most interesting aspects of the cannabis industry is how rapidly the best practices around disclosure have evolved.

‘In the early days (two years ago) it was all about *funded capacity*: how much funding do you have and how much cultivation capacity build-out can that support?’ Parham explains. ‘That was important because it was about laying the foundation for future revenue.

‘Now that companies are producing and cultivating in some quantity, people are talking about new metrics such as yield per acre and cost per gram. It’s interesting because it goes way beyond what some industries would disclose. Because the industry is so new and the investment community is people trying to get their arms around those metrics, they’re being disclosed.’

Parham adds that it’s incumbent on the IR representatives at cannabis companies to play a leading role in creating an appropriate disclosure framework schedule that gives covering analysts the information they need for their company’s unique business model.

‘I think there is a lot of opportunity for experienced IROs to help create a disclosure regime,’ he says. ‘The IRO is really in the middle of that – it hasn’t taken long for the investment community to move beyond wanting more granular metrics that go well beyond just cash flow, burn rate and return on invested capital.’

Goldberger agrees. ‘There is a responsibility as a publicly traded company to act like the firm you aspire to be,’ he says. ‘If anything, over-report – be as transparent as possible.’



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 hemp, **Cannabis sativa**. 2. its dried leaves
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Definition of cannabis
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Removing risk
 US institutional investors have sought
 legal routes to invest in cannabis

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US institutional investors have sought legal routes to invest in cannabis

Clearly the regulatory environment surrounding cannabis hasn't prevented retail investors from buying shares, a situation that has also been helped by Canada's relaxation of cannabis laws. But for institutional investors looking to increase their exposure to the green rush, there are some options.

One of the most notable in North America is Scotts Miracle-Gro. Since 2015 the company has made six major acquisitions – including last year's \$450 mn acquisition of Sunlight Supply – under its subsidiary Hawthorn Gardening Company. The heart of the business is selling hydroponics equipment that could be used to grow cannabis, although Jim King, executive vice president and chief

communications officer at Scotts Miracle-Gro, is keen to stress that the products are also used to grow herbs and vegetables.

Unlike most of the companies interviewed for this publication, Scotts Miracle-Gro is 95 percent held by management and institutional investors, King estimates. Bringing them along for the ride has been an interesting journey, he says:

'The messaging has evolved tremendously since 2015. I'm sure we never used the word cannabis in the first year we invested in hydroponics. We kept talking about what hydroponic growing was, how it was being used and what the growth rate was, but nobody focused heavily on cannabis.

'A year later we bought two more companies and then we started to get more media

attention on the issue. It became very clear we were building a portfolio that was going to be largely driven by the evolution of the cannabis space. We started to be very direct after that.'

King, who has been with the company for 18 years, says the messaging to the Street about Hawthorn Gardening Company is naturally very different from the messaging around Scotts Miracle-Gro's core business.

'Our core business is much more reliable and predictable,' he explains. 'Cannabis and hydroponics are much more volatile. If you look at it from beginning to now, it's a positive curve, but it's much choppier along the way.'

'If you have a bad quarter in our core business, you're plus or minus a point or two. In our Hawthorn business, that can be plus or

minus 10 points or so. Then you can have very quick upward or downward pressure on the stock price.'

While what Hawthorn Gardening Company does is federally legal – and doesn't at any point touch a cannabis plant – one of its core customer bases is engaged in illicit activity, so is at the mercy of federal and regional laws.

The company faced a bumpy road last year, following the acquisition of Sunlight Supply. More than half (54 percent) of Hawthorn Gardening Company's revenues were coming from California, so when the rollout of legalized cannabis use in the state didn't go to plan, it had a knock-on effect.

'We were finally getting people to understand the business, and then in fiscal 2018 our business collapsed and was down 30 percent,' King says. 'A lot of people took that to mean we had not assembled the right portfolio. It took a lot of re-educating the investors and analysts.'

King describes this as a 'small operational hiccup', which appears to be validated by the numbers: on the company's most recent earnings call, it was revealed that Hawthorn Gardening Company sales were up 21 percent on the prior quarter.

King says the move into hydroponics hasn't led to any increased analyst coverage from cannabis specialists, but it has meant that Scotts Miracle-Gro gets invited to a broader set of conferences than it used to. When it comes to analyst coverage, he has to do a lot of work educating them on the sector and managing expectations down.

'A big part of what we've had to do is help the analyst community and investors reign in their expectations about cannabis,' he explains. 'We had analysts last year who were projecting 50 percent growth when we were guiding 10 percent to 12 percent growth. It's sometimes been harder to educate people about growth expectations.'

The legal outlook

Lobbying continues in the US capital around cannabis legalization



The legal outlook

Lobbying continues in the US capital around cannabis legalization

There are a couple of noteworthy legislative efforts underway in the US to improve the environment for cannabis companies. While Jeff Sessions, the previous attorney general, strongly opposed states' rights relating to cannabis and had threatened a clampdown, current Attorney General William Barr has taken a softer approach, suggesting he'd like to seek a resolution between the conflict and state and federal law.

King has spent several years lobbying in Washington, DC on this issue. While he is optimistic about several of the bills currently in progress, he notes that the conversation has become more nuanced even as it's become higher profile.

'The legalization discussion is becoming more complicated than when it was just an up or down vote,' he points out.

'There are now conversations about where the tax dollars would go and about expunging criminal records for those already convicted of cannabis offenses. The broader you make the discussion, the less support you have for the debate.'

Below we shine a light on the most high-profile legislative efforts to reform the cannabis industry in the US.

- **The Strengthening the Tenth Amendment Through Entrusting States Act** – This bill aims to recognize compliance with state laws and prevent a federal crackdown on cannabis companies – so if a cannabis company was trading in California and operating within the restrictions that are laid

out in the state law, it would not be vulnerable to federal enforcement. The bill was originally introduced in the House of Representatives and the Senate in June 2018, but didn't get passed into law prior to the mid-term elections. It was reintroduced into both chambers in April 2019 and has bi-partisan support in the House.

- **The Secure and Fair Enforcement Banking Act** – This bill would enable financial bodies to offer services to legal cannabis companies without fear of federal prosecution. The bill was introduced to the House in March 2019, with the House Committee on Financial Services quickly voting to approve it. It was passed by the House on September 25, 2019. The bill has also been introduced to the Senate, and a hearing was held in the Senate's Banking Committee in July 2019.



Advertisement feature

Pioneering cannabis
communications

Pioneering cannabis communications

KCSA's initial foray into the cannabis industry began in 2015, when we were tasked with supporting the communications efforts of a group applying for one of the original medical cannabis licenses in New York. As these were literally *green fields* in terms of public and investor relations, with no concrete examples to help guide us, KCSA forged a new path, writing the initial chapters of what would eventually become the de facto playbook for providing communications counsel to cannabis companies.

A growing market opportunity

Despite the fact that cannabis remains illegal at the federal level, the Obama administration's writing of the Cole Memorandum – and the protections it afforded – essentially opened the door to individual states to set their own rules regarding the sale and consumption of medical cannabis.

Currently, 33 states and the District of Columbia allow for the sale of medical and/or adult-use cannabis. And today, 93 percent of American voters support the use of medical cannabis, while nearly

two thirds (63 percent) support the legalization of marijuana in the US, according to a Quinnipiac University Poll.

Many Canadian and a few US-based investment banks have seized this once-in-a-lifetime opportunity to raise billions of dollars of growth capital for cannabis companies. At the same time, a few intrepid stock exchanges, led by the Canadian Securities Exchange (CSE) – sometimes referred to as the Cannabis Stock Exchange – have become home to hundreds of publicly traded cannabis companies. Nasdaq and the NYSE are not far behind, having recently opened their doors to federally compliant cannabis companies such as Akerna or Green Lane, that either do not touch the plant in the US or are ancillary service providers.

With the investment banks and exchanges either dipping their toe in the water or wading into the deep end, coupled with trends favoring national legalization, the need for PR and IR services has never been greater.

KCSA cannabis today

Today, KCSA is widely regarded as the pre-eminent cannabis communications firm in the world. Our clients range from start-up companies looking to raise initial capital and prepare for a launch to more established private and publicly traded companies looking to build their brands, raise their profile, drive sales and – when needed – raise even more money. KCSA's clients span the entire supply chain from companies that grow the plant, process it and dispense it to companies that provide consulting services, financial services and even ancillary products such as nutrients and packaging.

KCSA's leadership role within cannabis communications doesn't begin and end with our clients: we've also worked hard to position ourselves as advocates for the overall cannabis industry.

- In October 2017 KCSA officially launched the Green Rush, a podcast series dedicated to raising awareness for the burgeoning cannabis industry. Every Thursday, KCSA speaks with the leading

politicians, business leaders and cultural icons moving the cannabis industry forward. For nearly 100 episodes, listeners have been able to learn about everything underpinning the growth of the industry, while getting a feel for the people who are converting a \$100 bn illicit market into a regulated, taxed and safer industry.

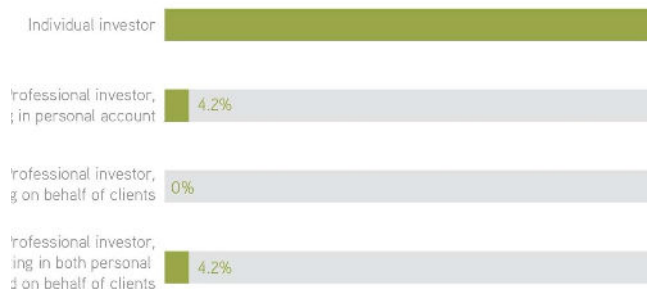
- On May 21, 2019, KCSA hosted the first-ever KCSA Congressional Cannabis Day Forum in the US Capitol. This full-day event boasted five different panel discussions covering topics including: CBD, Hemp and The Farm Bill; Capital Markets and Banking; Opioids: Is Cannabis the Answer?; Social Justice; and Veterans and Cannabis. In addition, we screened the Ricki Lake documentary, *Weed the People*.

- Finally, in September 2019, KCSA fielded the second iteration of its Cannabis Investor Survey, highlights of which include the following insights from just over 300 participants:

– Just over 90 percent of the respondents identify themselves as individual investors.

IR conclusion: While this result is not surprising due to the fact that cannabis remains federally illegal in the US, KCSA guides its publicly traded cannabis companies in developing and executing communications strategies that cater to the needs of the active retail investor audience for cannabis.

What type of investor are you when it comes to your cannabis holdings?

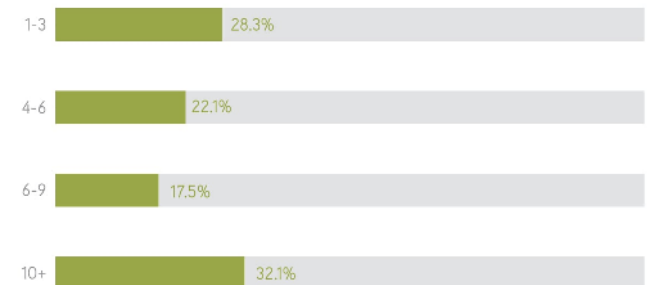


Source: KCSA

– Investors are spreading their bets across multiple companies: 39 percent have invested in four to nine companies and just over 32 percent have invested in 10 or more companies.

IR conclusion: There are a lot of companies to choose from when considering where to invest in cannabis. In order to stand apart from the crowd, KCSA believes it is imperative that publicly traded cannabis companies build their investor relations programs based on IR best practices.

How many cannabis companies have you made investments in?



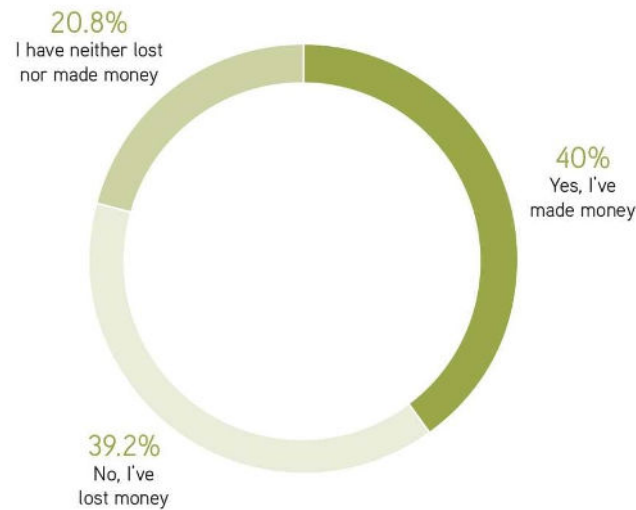
Source: KCSA

– It has become increasingly difficult to make money investing in cannabis companies. In the first KCSA Cannabis Investor Survey fielded in March 2019, 89.3 percent of respondents say they have made money investing in cannabis, while in the

September 2019 iteration, only 40 percent indicate they have made money investing in cannabis.

IR conclusion: Similar to biotech in the 1990s and crypto-currencies today, the challenge for cannabis firms is to transition from the hype and promise and begin to deliver strong, measurable operating results. To build and maintain credibility with investors, KCSA advises its clients to communicate transparently and frequently. At the same time, we recommend that management teams establish clear and manageable metrics from which investors can gauge the progress their company is making.

Have your investments in cannabis companies been profitable?



Source: KCSA

Cannabis and the public markets

Capitalizing on our decades of investor relations experience, coupled with our initial entrance into cannabis through our PR team, KCSA has become the go-to resource for cannabis companies looking to outsource their IR. To date, KCSA has provided investor relations support to more than 75 cannabis companies that have transitioned from private to publicly traded companies, and are listed on Nasdaq, the Canadian Securities Exchange, Toronto Stock Exchange and OTC. Of note, most of these companies have completed significant capital markets transactions, including private placements, reverse takeovers, up-listings and special purpose acquisition companies.

Advising publicly traded cannabis companies

As an industry that remains illegal on a federal level, it is still a challenge to operate as a publicly traded cannabis company, with the lack of access to commercial banking options, institutional investment capital, expensive debt markets and the potential sword of Damocles hanging over the industry in the form of federal regulation. To both address and overcome these challenges, KCSA advises its pre-public and publicly traded cannabis clients to:

1. Embrace and adhere to an investor relations program grounded in best practices
2. Develop a differentiated and defensible message platform
3. Communicate like the company you aspire to be
4. Communicate to the lowest common denominator: the individual investor
5. Consistent and transparent communications is a must – remember that
6. It's your obligation to educate the investment community.

KCSA remains steadfast in our belief that the future of the cannabis industry has never been brighter, and the industry has been derisked to the point of general market and cultural acceptance.

A truly integrated communications consultancy

Celebrating its 50th anniversary earlier this year, we are proud to say that KCSA Strategic Communications has secured its position as one of the most trusted strategic communications companies in the US. Specializing in providing investor relations, public relations and digital media services to companies around the globe, KCSA has developed a unique brand of *integrated communications* that combines passionate, persuasive storytelling with pioneering strategies.

Over the course of five decades, we have established ourselves as one of industry's most entrepreneurial and trusted agencies, aligning our objectives with those of our publicly traded and private company clients. By providing expert communications counsel atop a deep platform grounded in best practices, KCSA helps our clients inform, inspire and influence.





Advertisement feature

Investor relations key in
budding cannabis sector

Investor relations key in budding cannabis sector

When US-based medical cannabis provider Columbia Care went public in April 2019, listing on Canada's NEO Exchange, it did so in a unique fashion. Rather than use a reverse takeover or an IPO, Columbia Care merged with a special-purpose acquisition corporation (Spac) set up by its investment bank Canaccord Genuity to facilitate a go-public transaction, making Columbia Care the first cannabis company to use a Spac.

The deal valued Columbia at \$1.35 bn, which is not bad for a 2012 start-up that has quickly grown into the largest fully integrated operator in the global medical cannabis industry, with 96 facilities in 16 jurisdictions in the US and EU.

Columbia went public at a tumultuous time for the nascent industry. After a banner 2018 saw cannabis companies raise almost C\$12 bn (\$9 bn) in Canada, 2019 was a roller coaster. Some companies found themselves subject to intense regulatory and

media scrutiny. Investors became more interested in profitability than expansion. High-profile CEOs were sacked and, by year's end, medical concerns over vaping emerged.

The volatility the cannabis sector faces highlights the important role an investor relations program plays, notes Jos Schmitt, who heads NEO, one of the two senior stock exchanges in Canada and the only one to list US cannabis companies and Spacs. 'This is a young industry and many companies are learning what it means to be publicly listed,' he explains. 'As cannabis companies look to raise capital, it's important to have a good understanding of your investor base and communicate well.'

Here, Nicholas Vita, Columbia Care's CEO and co-founder, and Gary Santo, vice president of investor relations, talk about taking a cannabis company public and navigating choppy waters.



Nicholas Vita, CEO and co-founder, Columbia Care

When should a cannabis firm tap public markets?

Vita: A cannabis company is really no different from any other company. There are a number of factors that determine when a public listing should be considered. The most important has to do with the level of confidence in the business model and the opportunity to reduce the cost of capital and increase the access to capital.



Gary Santo, vice president of IR, Columbia Care

What were you looking for in a listing exchange?

Vita: Because we are a cannabis company, the first criterion was determining which exchanges we could actually list on. The next factor was how we approached the capital markets. We went public through a Spac, which allowed us to use a completely different approach compared with our peers. A very close, but important, second tier of decision points revolved around the integrity of the listing platform. Was it a senior exchange? Did it have high-grade listing requirements? How much support would we be able to receive? How much transparency could we get into the marketplace? All those things were critical in the decision-making

process, and NEO was the clear choice. Looking back, it's been helpful to have the NEO team as a resource because it has been incredibly responsive.

What are the advantages and disadvantage of a senior exchange?

Vita: We had to go through a regulatory review process of our documentation and business model. That was very important to us because we believe it gives investors a higher degree of transparency and confidence in the material you share with them. Often investors will make decisions based on who you associate with. For us, having the confidence and being able to describe to the market that we chose the road less travelled – but the one that had the most oversight and most controls in place – we thought would ultimately pay off from the standpoint of giving investors confidence in what it is we do.

Why did you choose a Spac?

Vita: The Spac was structured by one of our counterparties, Canaccord Genuity. It was its first cannabis Spac and incredibly efficient. We elected to go that route because it was the fastest way to actually capitalize the business and it checked all

the boxes, giving us access to a senior exchange and enhancing our relationship with one of the most important counterparties in the cannabis market from a financial services perspective.

What advice do you have for other IR professionals when it comes to using a Spac?

Santo: In a typical IPO, you are putting systems in place, refining your story and actively marketing months before your stock goes live. With a Spac, there is limited market momentum because of the lack of marketing, so you are left to build out your program in real time with an active stock. You need to move a lot faster, with a strong understanding of your business model and long-term strategy so you can quickly identify investors and engage them in meaningful dialogue, making up for lost time.

How is the investor base of a US cannabis company different from other companies?

Santo: The emerging US cannabis sector requires a more growth-oriented investor base that is patient and willing to endure not only the regulatory complexities, but also the need for companies to expend capital in order to achieve scale and profitability. Institutions typically fit this

description, but regulatory overhang is preventing a lot of shops from jumping in, and retail investors have taken their place. Retail investors require a different type of support and messaging. They tend to look to digital and social media outlets for their information, so the channel you communicate through is almost as important as the message, and maintaining corporate visibility is key.

What is the biggest IR mistake a cannabis company could make?

Santo: Not taking the time to cultivate an investor base better aligned with the strategy and growth trajectory of the business. The current lack of liquidity in the market is indicative of an inherent mismatch in shareholder bases. Unfortunately, a number of companies assumed retail investors would act like their institutional counterparts and, in the face of headwinds, demonstrate a flight to quality, when instead they took a broad-brush approach to the industry. A large contributor to the pullback we have seen can be traced to the tendency of companies in this space to over-promise and under-deliver. It's the most basic of rules first taught in investor relations, but one that is often forgotten in cannabis. You need to develop a cadence to

accompany your message and make sure it showcases the strength of your management team, its clear vision and ability to deliver.

What are you doing on the institutional investor front to lay the groundwork for the future?

Santo: Lots of early-stage meetings. In some cases, we are meeting with institutions that are not only working through the usual corporate analysis, but also wrestling with the regulatory aspects and trying to determine whether they are able to even invest in a US cannabis company. We are being strategic in our targeting and tactical in deploying senior management to ensure we are as efficient with everyone's time as we can be and providing reliable metrics that these institutions have come to expect. The more we can explain Columbia Care in the vernacular, the better the chance of gaining traction. It's about remaining front of mind so that when they are ready, Columbia Care is the stock they will want to add to their portfolio.

About NEO

NEO Exchange is a progressive stock market that brings together investors and capital-raisers within a fair and transparent environment. Fully operational since June 2015, NEO puts investors first and provides access to trading all Canadian-listed securities on a level playing field.

The NEO Exchange lists senior companies and investment products that want a stock exchange that enables investor trust, quality liquidity and broad awareness, including unfettered access to market data.

For more information, please visit:
NEOstockexchange.com.





MediPharm Labs

Advertisement feature

Helping cannabis investors see the light

Helping cannabis investors see the light

All in a day's work for Canada's MediPharm Labs

In 2018 Canada became one of the first countries in the world to legalize the recreational use of cannabis. In late 2019 the country's Parliament enacted additional legislation – known as Cannabis 2.0 – allowing for the sale of cannabis-infused beverages and edibles.

As a result of these developments, investors injected billions of dollars into the legal pot industry – but it hasn't been plain sailing for them or for cannabis companies, which have had to contend with long delays in licensing and the slow formation of government-regulated retail dispensary networks.

One company that has successfully navigated the challenge is MediPharm Labs. Founded in 2015 in the town of Barrie, Ontario north of Toronto, it set out with a different vision and business model from other cannabis companies. While others opted for vertical integration, which required the

establishment of costly plant cultivation networks, MediPharm chose to focus only on the highest-value part of the supply chain: extraction.

And while others were content to compete domestically for their share of the Canadian recreational market, MediPharm had global aspirations that included serving pharmaceutical companies and research institutions that were addressing medical cannabis users.

A new approach

Although differentiation is normally considered a virtue by investors, heading off in a decidedly different direction required MediPharm's management to invest hundreds of hours in educating the investment community on the merits of its business model and ambitious global focus. For one, investors questioned the costs of achieving and maintaining good manufacturing practice (GMP),





which is central to the company's vision of using pharmaceutical-grade processes to extract, distill and isolate cannabinoids, which are then sold to licensed producers, consumer brand companies and for medical research.

Additionally, after MediPharm announced its plan to build a multi-jurisdictional, GMP-certified, pharmaceutical-quality platform starting with an extraction facility in Australia, investors wondered

how a small Canadian company – one called *plucky* when it won the 2018 Cannabis Start-Up of the Year – could possibly manage to set up complementary manufacturing platforms in other countries.

As it turns out, the company had an answer to both questions. After receiving its first license from Health Canada in March 2018 – in the process becoming the country's first extraction-only license holder – MediPharm quickly ramped up its flagship facility in Barrie and in 2019 went on to become one of the few companies in the industry to generate solid profitability based on high-quality output to a growing roster of customers.

It also received its first GMP certification, a Cannabis Research License to enable human administration trials in Canada and state licenses for cannabis substances from the Australian Department of Health and Human Services, and finished the initial phases of construction on a 10,000 square-foot specialized extraction facility in Wonthaggi, Australia. Along the way, it became one of the top-performing cannabis companies on the S&P/TSX in 2019, after listing in July.

The say it, do it ratio

In an emerging industry populated by start-ups, MediPharm Labs has never acted like a start-up. From day one, it began to populate its workforce with medical science, pharmaceutical, legal, manufacturing, marketing and sales talent and, under the leadership of co-founder and CEO Pat McCutcheon, followed the tried-and-true principle of doing what it said it would do.



‘MediPharm Labs was built to last and to us that means paying strict attention to the fundamentals,’ says McCutcheon. ‘Cash generation, disciplined capital allocation with a return-on-capital mindset and risk-managed diversification are just as critical to a cannabis company as any other. We have benefitted from our fundamental focus during the start-up phase and it’s giving us an advantage in 2020 as the Canadian industry feels the growing pains associated with nascent retail distribution.’

IR in the cannabis sector

One of the challenges investors in the cannabis sector face is understanding which companies can be relied upon to deliver on their long-term vision



and potential and which ones are not investment grade. After investing to catch the wave, shareholders are now looking for stability, clarity of strategy, a strong balance sheet and trustworthy management. In short, the flight to quality is now underway and short-sellers are circling.

Laura Lepore, MediPharm’s vice president of investor relations and communications, says late 2019 marked an inflection point in the industry’s relations with the investment community. ‘The grace period for the sector is over, which is why the fundamentals are so key,’ she says. ‘Investors and analysts are pushing back and wanting guidance, which is a huge change.’

When Lepore joined the company in November 2018 following a distinguished career in IR, she says the management team openly recognized that it needed to add someone with capital markets expertise who understood the importance of clear investor communications. One of the ways this understanding manifested itself was in granting the IR function a place at the executive table. Another was to apply discipline in the creation of investor communications, which is somewhat uncommon in



a sector where press release volume does not always equal transparency.

As a member of MediPharm’s senior leadership team, Lepore is an active participant in the company’s operational conversations, which ensures she is always current on the scientific developments taking place within the MediPharm system. Despite having an internationally experienced and recognized CFO (whose last port of call was as C-suite senior adviser at George Weston), investment banking relationships continue to be managed first by the MediPharm IR team.

The company now has six covering analysts and is

a regular participant in investor conferences hosted by BMO, Citibank, Canaccord and Scotiabank. Lepore says these relationships have been absolutely critical to communicating MediPharm's story to the right people, but it's the willingness of the company's CEO to 'go on the road to meet owners and investor prospects directly' that makes a critical difference.

Lepore says the company's executive team and board hold shareholders in very high regard – which is understandable since the same team owns a good percentage of the stock – and have created an ownership culture based on taking responsibility and having accountability for outcomes. This attitude prevails at all levels, including in IR.

Bumpy ride

Despite substantial organizational progress, including a good level of customer and geographic diversification, MediPharm has been caught in sector-wide share price volatility in recent weeks. For her part, Lepore preaches patience as volatility will give way to smoother sailing for those cannabis companies like MediPharm that can execute.

In the meantime, she is keeping her eyes on the task, sharing the company's story at home and abroad in a targeted way and enjoying the important status IR continues to earn at MediPharm. In her

words: 'MediPharm gets IR and strives to do better every day. For that reason, it's a great place to keep elevating the investor relations bar and setting the example for every company.'

About MediPharm Labs Corp

MediPharm Labs specializes in the production of purified, pharmaceutical-quality cannabis oil and concentrates and advanced derivative products using a good manufacturing practices-certified facility with ISO standard-built clean rooms. MediPharm Labs has invested in an expert, research-driven team, state-of-the-art technology, downstream purification methodologies and purpose-built facilities with five primary extraction lines for delivery of pure, trusted and precision-dosed cannabis products for its customers. Through its wholesale and white label platforms, MediPharm Labs formulates, develops (including through sensory testing), processes, packages and distributes cannabis extracts and advanced cannabinoid-based products to domestic and international markets.

[Visit \[www.medipharmlabs.com\]\(http://www.medipharmlabs.com\) for more information.](http://www.medipharmlabs.com)



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