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4 Observations From The First Ever 'Cannabis Investor Day'

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The uncertain regulatory environment in the U.S. has not stopped the cannabis industry from putting down roots in the secondary market.

Today, more than 200 cannabis-related companies trade on OTC Markets—an alternative trading system that offers more efficient access to public markets for early stage companies—enabling companies to grow their shareholder base while creating liquidity for investors.

According to Jason Paltrowitz, executive vice president, corporate services at OTC Markets, this trend is the direct result of legacy financial systems (such as exchanges) not always being receptive to emerging industries like cannabis.

“The capital raising, capital formation, secondary market infrastructure really hasn’t changed in any significant way, in a long time, said Jason Paltrowitz, executive vice president, corporate services at OTC Markets. “The one constant has been that [the financial system] really does under-serve, not only just small-cap companies, but new breeds of business. And I would say cannabis is one of those.”

Paltrowitz made the remark at last month’s Canadian Securities Exchange (CSE) & OTC Markets Cannabis Investor Day, a joint investor conference sponsored by OTC Markets and the CSE (there are 177 cannabis companies

cross-traded between OTC Markets and the CSE). A replay of the conference, where you can see investor presentations from Trulieve Cannabis Corp (otcqx:TCNNF) (cse:TRUL), Flower One Holdings Inc. (otcqx:FLOOF) (cse:FONE), AYR Strategies Inc. (otcqx:AYRSF) (cse:ARY.A), TerrAscend Corp (otcqx:TRSSF) (cse:TER), Planet 13 Holdings (otcqx:PLNHF) (cse:PLTH), Cresco Labs Inc. (otcqx:CRLBF) (cse:CL), and iAnthus Capital Holdings, Inc. (otcqx:ITHUF) (cse:IAN), is available here.

Below are four observations from the conference.

Though the average cannabis stock is down about 50% in the last 12 months, enthusiasm on the retail investor side of the market does not appear to have fallen proportionately.

The top 10 companies who have raised the most money on the CSE in 2019 are all cannabis companies, according to the exchange, and the number of cannabis companies listed on the CSE has remained constant despite the dramatic pullback in share prices. Richard Carleton, CEO of the CSE, said that 2019 is tracking just below 2018 in terms of capital raised by cannabis companies on the CSE.

“You’re not looking at a heavy component of institutional investment yet,” said Carleton. “The fact that you’ve got a heavy component of retail investors means that you have to think about and look at the market perhaps a little differently than your perspective peers.”

Paltrowitz noted that many of these investors “cause investors,” meaning they believe in the mission of cannabis.

“Cause investors will follow you irrespective of where you trade,” he said.

A big difference, said Carleton, is that the nature of the money being raised has changed.

Unlike past years, where newly public companies accounted for the majority of capital raised, most of the money being raised by cannabis companies today is coming from existing public companies via methods like secondary offerings.

At the same time, the number of reverse takeovers went from 51% in 2018 to 14% in 2019, according to the CSE, with other types of fundraising like convertible debt replacing it. Carleton said this signifies that the industry is maturing.

“Ultimately it should be about cost of capital,” he said. “If equity happens to be a particular advantage in a situation, then that will rule. But I think it’s healthy that companies have choices.”

When asked about the biggest cannabis trend of 2019, Carleton and Paltrowitz agreed it’s been the growth of international markets.

“2018 was all about the U.S. multi-state operators,” said Carleton. “This year, we’ve seen a lot of geographical diversity. The companies aren’t necessarily as big...but they’re coming from different parts of the world.”

Specifically, he cited the listing of the first cannabis companies from Asia, Columbia, Italy, Denmark, and The Netherlands. He added that the CSE had recently signed a memo of understanding with Jamaica, allowing Jamaican cannabis companies to list in Canada.

Israel has also become a global leader, Paltrowitz said, in part because they’ve been using cannabis for medicinal purposes going back to the 1970’s.

Paltrowitz and Carleton, as well as a panel of experts, were asked for their thoughts where the industry is going in 2020 and beyond.

Paltrowitz: “We’re going to see a lot more consolidation and M&A. I’d also like to see there be a little more thought in the [institutional] investor mindset in the U.S. Certainly here, if it says cannabis anywhere, somehow, it’s this evil thing. What I’ve learned is that there are a lot of things happening for which cannabis comes into play, but it’s not all of it.”

Carleton: “One of the things I would like to see is a decoupling of valuations between U.S. MSOs (multi-state operators) and Canadian LP’s (licensed producers), because the correlations have been high to date. The retail market is extremely challenging. I hope we see a recognition of the fact that

we are seeing an emergence of the winners...and they begin to get rewarded with the valuations that investors are prepared to pay for their stock.”

David Lachman, managing director, Benchmark: “2020 is going to be about the haves and the have nots. “In other words, who has cash and who does not? Who has expanding margins that are worthy of investment and who does not? There are very few public companies in the space right now that are earning a profit. And that means the runway for burning through the cash on the balance sheet is a reality that firms are facing.”

Edward Bechold, partner, Marcum LLP: “I think it will continue to move in the right direction. I don’t think there’s a stigma in cannabis, but if you talk to my mother it’s completely different. I just don’t feel that stigma exists in the same way it used to, so it’s going to normalize. It’s going to have a continued growth pattern, and one day it will be treated the same as any product.”

Philip Carlson, managing director, KCSA: “We’re still at the beginning stages of this industry, so you’re expecting volatility to happen here. But the investment thesis stays the same. Cannabis is in demand, whether it’s medical or adult use, we’re seeing that across all fronts. The value of the market will certainly be shown over the medium term as we fix these short-term issues.”