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This report is sponsored by the Panther Opportunity Fund, a cannabis venture capital fund with over 25 investments in the cannabis industry in the last 5 years.

CANNABIS ARBITRAGE: 7 REASONS WHY NOW IS THE TIME TO INVEST IN CANNABIS

Don't stop reading—this information could be crucial to your investment future. If nothing else, at least remember these two points:

- 1. If your financial goal is to exit your investment richer than you started, in a word—arbitrage, then cannabis is the opportunity you've been waiting for.** Consider that California alone has a higher population than Canada, where the cannabis industry is fully legalized. Annual U.S. legal cannabis sales, which stands at over \$10 billion, is expected to grow at a CAGR of 24.9 percent between now and 2025. By then, the world cannabis market will be worth \$146.4 billion. You can enter today, on the ground floor, with institutional investors who will become the backbone of the industry within the next two years.
- 2. This isn't your parents' cannabis.** This white paper catalogs the sweeping changes hitting the cannabis industry that make cannabis investment more compelling than ever before in American history. Politics, both domestic and international, taxation, farming, market forces and bipartisan goodwill are uniting to create a perfect storm that is ideal for cannabis investors—if they will only act now. Many smart cannabis investors turn to cannabis venture funds to ensure their money only goes to the most promising, robust and exciting cannabis companies.



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These are the reasons why we at the Panther Opportunity Fund feel that the timing is perfect for investment into the cannabis industry:

REASON 1: **TODAY'S POLITICS FAVOR CANNABIS**

In 1996, California became the first state to legalize medicinal cannabis. Today, a generation later, 87 percent of US citizens live in a state where some form of cannabis is legal—despite a federal ban. The X generation are today's politicians and more open than ever to the many benefits of legalization.

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Dems Take the House by Storm

It shouldn't be a surprise that the current Democratic House means a lot of change on the horizon for cannabis in politics. Rep. Earl Blumenauer (D-OR) wrote to his fellow democrats, "We have an opportunity to correct course if Democrats win big in November." (They did.) "There's no question: cannabis prohibition will end..."

To put this in perspective, over the last two years of a Republican led House—not one cannabis related measure has survived to reach a vote. This is so despite increasing bipartisan support, and Gallup polls that indicate up to 69 percent of US voters favor cannabis legalization.

Pete Sessions Defeated

While Pete Sessions, the former Chairman of the House Rules Committee introduced a resolution to "recognize magic as a rare and valuable art form and national treasure"—he had no love for the magic of cannabis. He personally blocked 30 cannabis-related bills from coming up for a vote (yes, 30) despite the fact they had bipartisan support. He choked out amendments that would ease federal cannabis laws, and even barred veterans from medicinal cannabis in non-legal states.

Now that Sessions is out of office, there isn't just a democrat in charge of the House Rules Committee, but a democrat in charge of every committee. Enter the Congressional Cannabis Blueprint, which has a good chance at making a dent in federal policy.



The Congressional Cannabis Blueprint

Rep. Blumenauer sent a cannabis policy blueprint to congress, which aims to change the cannabis policy gap between the Federal and State governments with nine hearings in almost every House committee:

- 1. House Judiciary Committee** hearing to deschedule cannabis;
- 2. House Veterans Affairs Committee** hearing on safe and equal access to medical cannabis for veterans;
- 3. House Energy and Commerce** hearing on cannabis research;
- 4. House Financial Services Committee** hearing on barriers to the safe access of banking services and capital, as well as unnecessary and unwise barriers to banking services for state legal cannabis businesses;
- 5. House Ways and Means Committee** hearing on the unequal and unfair taxation of cannabis businesses;
- 6. House Natural Resources Committee** hearing on cannabis and tribal sovereignty, along with environmental damage to public lands from illegal black market growing;
- 7. House Oversight and Gov. Reform Committee** hearing on access to federal government jobs for veterans who use cannabis in compliance with their state laws;
- 8. House Administration Committee** hearing on access to financial services for candidates who support cannabis legalization; and
- 9. House Education and Labor Committee** hearing on access to higher education loans for students who have been convicted of cannabis possession.

It's noteworthy that practically every House committee has the power to influence some aspect of cannabis policy. Members of Congress are pushing for the government to exert that power. If nothing else, we expect a loosening of federal cannabis laws over the next two years. President Trump has said he is "100 percent" in favor of medicinal cannabis, and supports the STATES Act, which The Marijuana Policy Project considers the most important legislation yet to boost the cannabis industry.



The STATES Act

Since Sessions' ouster, nothing has paved a little green road to legalization as much as the STATES Act. A short name for: Strengthening the Tenth Amendment Through Enstrusting States Act. This bipartisan bill protects legal cannabis use from federal meddling. Passage of the bill would amend the Controlled Substances Act, "to provide that the Act's regulatory controls and administrative, civil, and criminal penalties do not apply to a person who produces, possesses, distributes, dispenses, administers, or delivers cannabis in compliance with state laws."

More Cannabis Bills You Should Know

As the states lead the way on reform, eventually it's increasingly untenable for the national government to keep to its guns. Senator Corey Booker reintroduced the **Cannabis Justice Act**, which seeks to completely remove the drug from the list of controlled substances, which would make it federally legal.

The **2018 Farm Bill**, passed with Republican leadership and bipartisan support, repeals effects of the Marihuana Tax Act of 1937 that banned the farming of hemp.

Many banks have lobbied for years to allow their entry into cannabis.

Risk-averse institutions don't take crossing federal regulations lightly, which is why cannabis dispensaries are often forced to pay their taxes in cash. The **SAFE Banking Bill** will shield banks that do business with cannabis companies.

New Attorney General, William Barr, said upon entering office that he would not "go after" cannabis companies operating legally under state law.

Also noteworthy, the new Attorney General, William Barr, said upon entering office that he would not "go after" cannabis companies operating legally under state law.

Cannabis at the State Level

Whatever rancor remains in the US Congress over cannabis, the fact is that states have been leading the way toward legalization since 1996. The THC trend is growing. In the past six years, more headway has been made than all previous years combined. For example, Illinois' pro-cannabis governor, J.B. Pritzker, has a plan to legalize recreational cannabis.



He is working against the growing-pains of cannabis legalization faced in every state. These include fiscal, judicial and social issues:

- How cannabis is to be taxed
- How cannabis taxes are to be spent
- How cannabis will be regulated and licensed
- What role will medicinal cannabis companies play in a new, legal market
- Whether previous convictions of illegal cannabis will be overturned
- If cannabis can be grown for personal use.
- The disparity between richer, white cannabis producers and poorer, non-white users.

While the news from virtually every legal state is positive—with significant upticks in tax revenues, jobs, medicines and social justice—the transition is a process. Expect cannabis drama to be more intense when a cannabis proponent is at the helm, as it forces many important issues, always under the surface, into debate at one time.

Look for drama in **Tennessee**, where state lawmakers proposed three bills to ease restrictions on medical cannabis, possession and taxation; in **Illinois**, where an adult-use legalization bill is expected to be signed by Gov. Pritzker; in **West Virginia**, where HB 2331 would decriminalize cannabis and give counties the power to produce and sell to adults over 21; in **Minnesota**, where bills aim to legalize recreational use—and Gov. Tim Walz backs them; in **New Mexico**, where HB 356 will regulate and tax adult-use cannabis sales, and counties can place a nine-percent tax on commercial cannabis sales—Gov. Lujan-Grisham supports it; in **Wyoming**, where the Republican House Majority Leader Eric Barlow sponsored House Bill 278 to finally legalize cannabis in the Equality State; in **New York**, where Governor Cuomo is pushing for legalization; in **Massachusetts**, which is pressuring the surrounding non-legal states with its increase in revenue; finally in **Wisconsin**, after cannabis representatives met with politicians, the state's attorney general reversed a previous memo, allowing farmers who raise industrial hemp to produce oil; and finally, in **New Jersey**, where lawmakers have come to an agreement on a bill to make their state the 11th in the country to legalize adult-use of cannabis. The bill has the blessing of the governor and will create the largest recreational cannabis state on the East coast, pressuring Pennsylvania and New York to legalize.



REASON 2: THE WORLD IS STARTING TO LIKE CANNABIS

Canada's Cannabis Habit

Move over, Amsterdam—cannabis is now legal in Canada. (Thanks to the Cannabis Act, bill C-45, which granted legality on October 17th, 2018.) The Canadian government now advises citizens on its official website not to drive cars or forklifts while high, and to please keep cannabis away from kids. It's a brave new world; Martha Stewart has teamed up with Ontario based Canopy Growth, which sells hemp and cannabis products—including Snoop Dogg's cannabis brand, "Leafs By Snoop."

It's noteworthy that Cowen & Co. analysts have said that Aurora Cannabis will be the first Canadian cannabis company to reach viable profitability, with around 20 percent of the market. This places it ahead of Canopy Growth, Aphria, Tilray and CannTrust.

World Health Organization and EU Reconsiders Cannabis

The World Health Organization is calling for the reclassification of cannabis from the highest level (class IV). The WHO has declared cannabidiol of 0.2 percent THC or less, isn't under international control. As the WHO stance on cannabis is embraced, it will send shock waves through the United States, just as it already has through Europe.

Already, based on the WHO's reclassification, the European Union voted on a resolution in February to incentivize EU member states to allow more people access to medicinal cannabis, and to increase clinical research on the drug. This move by the EU is believed to increase the likelihood of the United States following in Europe's footsteps.

REASON 3: LEGALIZATION IS INEVITABLE, AND HISTORY PROVES IT

What do alcohol, gay marriage and cannabis have in common? They've all been illegal. Over time public outcry, grassroots Saul Alinsky-style organization, political lobbying—and money—create major societal change.

*If you want to
predict the future...
Find something
inevitable*

Let's remember

Maine passed the first state alcohol prohibition law in 1846. (Ironically, it's among the first states that legalized cannabis in 2016, albeit by a narrow vote.) Prohibition was in



full force by 1919, with the ratification of the 18th amendment. Enforcement was hard. First it was the job of the IRS, and later—with the rise of speakeasies and Al Capone—the Department of Justice. The costs of prohibition were high, and Franklin D. Roosevelt easily beat the incumbent Herbert Hoover on a ticket that included the repeal of prohibition. In 1933, the 21st Amendment of the Constitution repealed the 18th, and FDR celebrated with a dirty martini. Not everyone joined. The last state to repeal prohibition was Mississippi, which held on until 1966.

This also isn't the first time we've dealt with issues of social justice. Consider gay marriage. Twenty years ago, it wasn't on the map. Finally, Vermont legalized gay marriage in 2009, and today it is legal everywhere, protected and largely accepted. As time passes, it will become an antiquated idea that gay marriage was ever illegal.

The same process is happening with cannabis. It is likely that we will look back on this time, specifically the coming two years, and see it as the final stages in a long battle of acceptance.

REASON 4: **CANNABIS TAX MEANS ARBITRAGE FOR EARLY INVESTORS**

The reason many investors approach private equity and venture funds is because navigating the federal regulations on cannabis companies is complex. What looks like a healthy company on the outside may be a terminal company with months to live.

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They've come down with a case of 280e.

There's a virus, called tax code 280e, which forbids the producers of schedule-one controlled substances (that's cannabis, folks) from taking any tax deductions or credits. This may equate to a cannabis tax rate five to seven times higher than a comparable business, making it harder for even a promising business to stay afloat.

What is bad virus for cannabis companies is a good virus for cannabis investors.

Given the political climate and pressure for legalization, it's reasonable to assume that 280e isn't going to be around forever. Investors, therefore, should be aware they are entering a cannabis business that is worth significantly less than it will be after the



repeal or mitigation of 280e. Investors will find themselves much wealthier after 280e is cut. It's wise to enter the cannabis market before that happens—when cannabis companies could be worth 20 to 40 percent more overnight.

With the benefits in mind, it's prudent before investing to question how a cannabis operator is handling finances in the wake of 280e. These are complex issues, which smart investment funds are designed to help you navigate. Here are some evasive maneuvers cannabis companies can take to avoid being hit too hard, and which the Panther Fund looks for in new investments:

Establishing a pass-through company, which holds the majority of a cannabis company's assets. This can be an asset management firm, REIT's, a separate service line or a leasehold company. The cannabis company pays rental fees each month to the pass-through company, which will itself reap the rewards of 199A, while shielding the cannabis operator from the high taxation of 280E.

The 2018 Farm Bill has removed hemp and its derivations from the list of Schedule I controlled substances. This lifts the ban of 280E, and opens hemp farmers to legal banking, checking accounts and loans with uninflated interest rates. It allows the regulation of the hemp industry by the USDA, regulation of hemp products by the FDA, and the legal interstate sale of hemp and hemp products.

REASON 5: **YOU CAN STILL BEAT THE BIGGEST INSTITUTIONAL INVESTORS**

The years of illegality have made it difficult for institutional investors to see a clear opportunity in cannabis. It's important to know who has invested—and who hasn't. Investors don't want to enter the surf too early, prior to meaningful growth, nor too late, after the investment tidal waves have already passed.

In general, a category is viable for long term growth once major institutions can, and will, invest. Until then it's not much better than a Kickstarter campaign. Consider that major institutional investment requires a long term, sustainable asset class—and without institutional capital, there's not enough to create it.

That wave of capital is coming to cannabis.

Changes in the political winds, both internationally and domestically, will kick up massive waves of investment. We will see hospitals, universities, endowment funds,



pension funds and other major institutions pouring not just millions, but billions of dollars into the cannabis industry across many verticals. These will be followed by financial institutions, and finally, the banks.

Once the institutional investors enter the cannabis market, it will lower the stakes. Once the banks enter—it's over. Everyone who has already invested will be early, and everyone who hasn't will be late. It's like wholesale buying versus retail. Right now, those who invest are essentially buying at wholesale prices, which makes it a buyer's market.

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The cannabis industry, with its hands tied in red tape, has fought and persevered to build viable companies that are today ripe for early stage investment.

- Imagine what the industry will be once even a few of the Senate bills pass...
- Imagine what the industry will be if every state takes the WHO position that medicinal cannabis should be legalized and clinically studied...
- Imagine what the industry will be if the US follows in Canada's footsteps and repeals cannabis prohibition.

Those who can think strategically will be rewarded.

Who Is Investing?

Calpers, the State of California, has already bought cannabis stocks. ScottsMiracle-Gro has invested \$500 million into home cannabis cultivation through its subsidiary, Hawthorne Gardening Company. Now it is entering the industrial side. So is Molson Coors, which bought into Tilray. And of course, there is Altria, the parent company of Marlboro cigarette maker Phillip Morris which owns half the US cigarette market. They've already entered the cannabis market though their \$1.8 billion investment in Canadian licensed producer Cronos. VividGro, which adapts NASA lighting technology to grow cannabis, is now backed by Pegasus, a \$2 billion private equity firm, as well as Merida Capital Partners, one of the largest cannabis private equity firms.

Private investors want to be just ahead of the last of the institutions.



The Coming Cannabis Rush

If we compare the cannabis rush to the gold rush (which also began in California) we can see the progression. First, early-stage prospectors put their money into gold. They were followed by industrial equipment—people who put their money into picks, shovels and dynamite. The fact is, it wasn't the miners who made the most money, it was Levi Strauss, who sold all the miners denim jeans.

The same thing is happening with cannabis. Just as the miners had to deal with a new industry and brave the elements to extract their product—cannabis growers do exactly that—under unfavorable taxation, distribution and market conditions.

Like gold, cannabis is sexy. The famous companies are those that touch cannabis. Aphria, Canopy Growth, Cronos, Cresco, Green Thumb Industries (GTI) and MedMen. But that may not be where the money is. Savvy investors see ancillary companies as presenting an attractive risk-adjusted arbitrage opportunity. This will include windfall gains through mergers and acquisitions. That's why many of the industry's venture funds primarily focus on those companies that you may have never heard of, which are providing the picks and shovels—the infrastructure that every cannabis-touching company needs to operate.

We're seeing these companies enter the cannabis market in stages.

Stage 1: A large percentage of today's cannabis investments are all in agriculture and real estate.

Stage 2: The next stage will be infrastructure—lights, HVAC equipment, software, sensors to measure environmental conditions. These hard assets will lead to the next stage.

There are a lot of gold-rush-style pick and shovel makers—industrial machinery companies—which are working in cannabis or preparing to. By their nature these companies aren't household names yet, and a strategic time to enter the cannabis market is along with these no-name companies. Right now, there aren't yet many industrial companies jumping in with Scotts Miracle-Gro, which means the way is clear for private investors.



REASON 6: DEBT FINANCING WILL LOCK OUT INVESTORS

We're now in the phase of equity financing. The institutional investors aren't willing to finance debt, so growers turn to active **equity financing**. We are now seeing the emergence of debt financing, which increases working capital and allows for more growth. Qualified companies will seek opportunities for **debt financing** rather than private equity. By the time equity comes back into the picture, it will be in large chunks by institutions, effectively putting access out of reach for retail investors.

The up-side of debt financing is shielding against share dilution. When cannabis companies start taking on debt responsibly, they don't dilute the investor shares. They must pay off the debt, but it's less expensive than giving up equity.

Debt financing is already happening in Canada, where Aurora Cannabis Inc. made a financing agreement with the Bank of Montreal for \$200 million. It's the first time that a Tier 1 bank extended debt financing to the cannabis industry. The entrance of institutions—and especially banks—marks a shift in perception that has a massive economic and material effect.

Once banks are bedding with the cannabis growers, we know three things:

- 1. The value of the cannabis industry is on the rise**
- 2. There is an increase in security**
- 3. There are fewer unknowns and regulatory headaches**

You can see some institutional movement on the horizon, such as WFCU Credit Union, which approved \$25 million dollars in debt financing to Aphria Inc., against the company's real estate holdings and material goods. Reich Bros Commercial Finance (<https://reichbrosfinance.com/>) has entered the space and has committed significant funding of debt facilities for asset based lending.

REASON 7: **MERGERS AND ACQUISITIONS— WHERE THE REAL MONEY IS**

Hemp and CBD companies are top acquisition targets. GNCC Capital acquired Bio-Cann Pharma which makes CBD oil in Colombia and Canada, for \$120 million. Youngevity International bought Khrysos, a maker of CBD extraction equipment, for \$16 million.

Which companies are the most likely to be bought? Both local and regional infrastructure companies that differentiate themselves within the cannabis market and multi state operators (MSOs) that look to consolidate in a race to market dominance. This is exemplified by Harvest Health's \$850 million acquisition of Verano Holdings in March of 2019.

The strategy of investing in ancillary (infrastructure) businesses creates a significant safety net in terms of risk-arbitrage. If you were to draw a standard deviation model in the space, ancillary businesses would be up and to the left with high returns and lower risk. It may not be sexy, but funds that take this approach along with low to moderate exposure to plant touching investments offer investors the best of both worlds.

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The objective in this strategy is to be on the cutting edge of consolidation. For example, Vividgro, one of Panther's holdings, is using a rollup strategy to acquire hardware and software companies within the ag-tech market that will be sold to cannabis-touching companies worldwide. In addition, we see opportunities within the cannabis tradeshow and media spaces to implement a similar consolidation strategy.

We see the most prudent investment strategy for building a cannabis portfolio as taking large positions in ancillary infrastructure plays with some highly curated exposure to plant touching businesses.

CONCLUSION

For investors interested in cannabis arbitrage, the time is now.

The political winds favor cannabis—from the democratic house, to the states to the World Health Organization and the EU. Institutions are waking up to investment. It's important to join them before the banks and debt come marching in, before tax laws on cannabis companies are eased, and before the infrastructure companies start buying each other up—leveling the playing field—blocking investors like you.

It's another gold rush.

If you are interested in finding out more about investing in the cannabis space, contact the Panther Opportunity Fund for more information about how you can participate in an opportunity, the likes of which, are unlikely to be seen again in our lifetime.

