

# Hartford Business Journal

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July 4, 2022

## **Cannabis companies turn to alternative financing options to start, grow their businesses**

By [Skyler Frazer](#)

With mainstream banks and credit unions unable to lend to cannabis companies, marijuana entrepreneurs are turning to alternative sources for capital.

Options run the gamut from crowdfunding, venture capital, private equity, and even government support, but the bottom line is access to capital remains a big issue for the industry, particularly startup cannabis companies.



Drew Richards

Drew Richards, a CPA and senior manager at accounting and advisory firm Marcum, said many cannabis entrepreneurs start their fundraising with a friends-and-family round before turning to other options.

Many companies don't want to dilute their equity as they're starting out, which happens when larger investors come onboard, he said.

### **Crowdfunding**

Crowdfunding could be a viable option for marijuana startups, Richards said. It's an increasingly popular financing mechanism for small businesses because it allows "a lot of people to get involved in smaller denominations," he said.

Mainvest, a community investment crowdfunding platform used by craft breweries, restaurants and other small businesses, entered the marijuana space in 2021, and since then, more than \$1 million has been invested by everyday retail investors and community supporters into small cannabis brands.

Much of that money has been concentrated in Massachusetts, but Mainvest co-founder and CEO Nick Mathews said he expects that appeal to grow. Two Connecticut breweries — WeHa Brewing & Roasting in West Hartford and Moxi on the Rocks in East Hartford — have used the platform to try and get their businesses off the ground.

"Access to capital in the cannabis space is incredibly challenging for institutional lenders, due to federal regulations," Mathews said. "The optionality for capital for fledgling and growing cannabis companies is much more limited."

He said crowdfunding is a great alternative for cannabis companies that want to grow or start their businesses, and there aren't federal restrictions on the model. It allows retail investors to make investments in a company they might not otherwise be aware of, he said.

"It basically enables them to go out and have a secure vehicle for raising that capital that checks all the regulatory boxes, so that they're not running any risks of state-by-state filing issues," Mathews said.

### **Venture investment**

Devin Schleidt, owner of Greater Hartford-based business advisory firm Schleidt Works, launched a \$30 million venture fund in 2021 to help finance up-and-coming cannabis businesses in Connecticut.

Schleidt said the fund, Connecticut Cannabis Capital LLC, will invest in companies that already have a majority of their funding in place and final licensing approvals from the state. Since the state has not issued any licenses yet, the fund hasn't begun to make investments.

Schleidt said cannabis businesses he's talked to in other states have faced financing challenges when starting out, so he thought there could be a role to fill for investors like himself.

"This bridge of financing is a huge hump, and those that have, have, and those that have not, have not," Schleidt said.

He declined to say how much the fund has raised since last year but said the goal is still to collect \$30 million for future investments. Schleidt said the intention is to

invest in “hard assets” like manufacturing equipment and real estate, but he’s not limiting what types of businesses the fund invests in.

“We don’t want to own the firm, we only want to own a small percentage of the firm at the end of the day, and give that space for the entrepreneur to take off and benefit from what they’ve built,” Schleidt said.

Nationally, venture investors injected \$4.96 billion in cannabis companies from 2014 to 2020, according to Crunchbase News.

### **Government support**

The state could also provide a lifeline for some businesses. In last year’s legalization bill, Connecticut policymakers earmarked \$50 million for the Social Equity Council to go toward technical assistance and business accelerator programs for social equity applicants.

In March, the state Bond Commission voted to allocate \$10 million from that fund to provide low-interest loans to cannabis entrepreneurs entering the market. Investors can also use Connecticut’s angel investor tax credit if they invest in social equity marijuana companies.

Further, the state’s quasi-public venture capital investor, CT Innovations, announced in May it had made a \$1.25 million investment in a Colorado cannabis pills business, 1906, that’s now relocating to the state. It was touted as the first investment made by a state entity in a cannabis business.

Connecticut Innovations Vice President of Marketing Lauren Carmody said CI put its toe in the water with this deal because it wants to leverage opportunities in an emerging market. However, not everyone was pleased with the decision.

Some criticized CI for investing in an out-of-state company, when many local entrepreneurs looking to get into the recreational market are struggling to find investment capital.

Carmody said she's aware of the criticism, but noted CI is continuing to look at other companies as the recreational marijuana licensing process continues.

"To me, I'll always view it this way, is that we made our first investment, which opens the door for others," Carmody said. "We're absolutely open to investing in more."