IMPACT OF COVID-19 ON THE CANNABIS CAPITAL MARKETS

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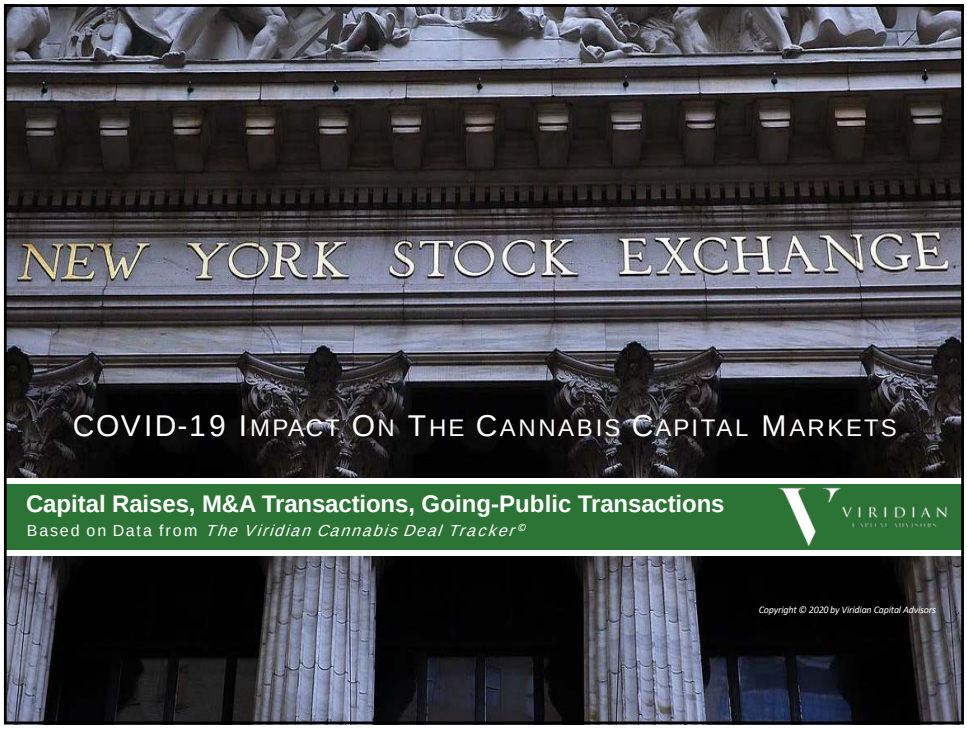

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COVID-19 Impact on Cannabis Capital Markets

We compared data from the Viridian Cannabis Deal Tracker for March 2020 (first full month of COVID-19) vs. the prior months of Q1'2020, the prior quarter (Q4'2019) and prior yearly period (Q1'2019).

CAPITAL RAISES

Transactional Activity

Month-Over-Month

- **Number of Transactions:** **DOWN 38.1%**
- **Total Capital Raised:** **DOWN 69.4%**
- **Average Raise:** **DOWN 57.6%**

Quarter-Over-Quarter

- **Number of Transactions:** **UP 62.5%**
- **Total Capital Raised:** **UP 74.7%**
- **Average Raise:** **UP 6.6%**

Year-Over-Year

- **Number of Transactions:** **DOWN 46.2%**
- **Total Capital Raised:** **DOWN 59.7%**
- **Average Raise:** **DOWN 27.6%**

Equity Capital Falls, Debt Financings Grow

Debt financings in March comprised the highest level of total capital invested since we began tracking these stats in 2015.

- Equity issuances too dilutive at current market valuations
- "Flight to Safety": Investors prefer security of debt position in turbulent market
- "Flight to Quality": Investors prefer to lend to companies with consistent revenue growth and cash flow

Public vs. Private Company Capital Raises

Public companies represented 90.5% of all capital raises in March 2020, up from 40.4% for Q4'19 and 67.6% for Q1'2019. The turbulence in global markets in general, and the cannabis markets in particular, will continue to drive investors to seek liquidity. The capital crunch in the cannabis industry is acutely impacting private companies.

COVID-19 Impact on Cannabis Capital Markets

M&A

Transactional Activity

Month-Over-Month

- **Number of Transactions:** **FLAT**

Quarter-Over-Quarter

- **Number of Transactions:** **DOWN 5.0%**

Year-Over-Year

- **Number of Transactions:** **DOWN 79.2%**

Public Companies Dominate Buy-side M&A Activity

Public companies represented 100% of buy-side acquisition activity in March 2020, up from 85% in Q4'2019 and 62% in Q1'2019.

- Even with depressed market caps, public companies remain the only viable acquirers
- Private company's inability to raise capital, along with the lack of marketable securities to pay for an acquisition, have taken the private company out of the buyside M&A market

Private Companies Dominate Sell-side M&A Activity

Private companies represented 100% of sell-side acquisition activity in March 2020, up from 90% in Q4'2019 and 83% in Q1'2019.

- The depress valuations of private companies makes them attractive acquisition targets
- The closing of the IPO/RTO window makes sell-side M&A the primary path to a liquidity event for private companies

COVID-19 Impact on Cannabis Capital Markets

GOING PUBLIC TRANSACTIONS

In Millions USD	January '19	February '19	March '19	Q1 2019	October '19	November '19	December '19	Q4 2019	January '20	February '20	March '20	Q1 2020
Initial Public Offerings (IPOs)	2	0	3	**5**	1	2	0	**3**	1	2	**0**	**3**
Reverse Mergers/Takeovers	4	4	6	**14**	1	0	0	**1**	0	0	**0**	**0**
Amount Raised in IPOs	$3.9	$0.0	$344.3	**$348.2**	$13.6	$270.0	$0.0	**$283.6**	$200.0	$154.0	**$0.0**	**$354.0**

CAPITAL RAISE ACTIVITY

COVID-19 Impact on Cannabis Capital Raises

In Millions USD	January '19	February '19	March '19	Q1 2019	October '19	November '19	December '19	Q4 2019	January '20	February '20	March '20	Q1 2020
# of Capital Raises	42	51	52	**145**	21	12	15	**48**	28	29	**21**	**78**
Total Capital Raised	$842.1	$635.2	$,2602.1	**$4,079.4**	$271.1	$373.9	$295.5	**$940.6**	$1,097.6	$417.9	**$128.0**	**$1,643.5**
Avg. $$ Tranche Size	$20.0	$12.5	$50.0	**$27.5**	$12.9	$31.2	$19.7	**$21.3**	$39.2	$14.4	**$6.1**	**$19.9**

Source: Viridian Capital Advisors

Capital Raises - Equity vs Debt

In Millions USD	January '19	February '19	March '19	Q1 2019	October '19	November '19	December '19	Q4 2019	January '20	February '20	March '20	Q1 2020
Equity Raises as % of Total Cap Raises	78.6%	68.6%	63.5%	**69.7%**	71.4%	75.0%	73.3%	**72.9%**	71.4%	75.9%	**57.1%**	**69.2%**
Equity Raises as % of Total $$ Raised	51.2%	56.6%	88.3%	**75.7%**	62.6%	89.8%	62.7%	**73.4%**	63.6%	71.6%	**19.2%**	**62.2%**
Debt Raises as % of Total Cap Raises	21.4%	31.4%	36.5%	**30.3%**	28.6%	25.0%	26.7%	**27.1%**	28.6%	24.1%	**42.9%**	**30.8%**
Debt Raises as % of Total $$ Raised	$48.8%	43.4%	11.7%	**24.3%**	37.4%	10.1%	37.3%	**26.6%**	36.4%	28.4%	**80.8%**	**37.8%**

Source: Viridian Capital Advisors

Capital Raises by Sector

Sector	January '19	February '19	March '19	Q1 2019	October '19	November '19	December '19	Q4 2019	January '20	February '20	March '20	Q1 2020
Agriculture Technology	0	0	3	3	0	0	1	1	0	0	0	0
Biotech/Pharma	4	2	1	**7**	1	0	3	**4**	2	5	**5**	**12**
Consulting Services	0	0	0	0	0	0	0	0	1	0	0	1
Consumption Devices	2	0	1	3	0	0	0	0	1	0	0	1
Cultivation & Retail	15	27	21	**63**	**7**	**5**	**9**	**21**	17	16	**11**	**44**
Hemp	3	3	4	**10**	6	0	0	**6**	1	1	0	**2**
Infused Products & Extracts	10	7	10	**27**	**3**	**2**	**0**	**5**	2	1	**1**	**4**
Investments/ M&A	3	5	10	**18**	1	3	0	**4**	**1**	**4**	3	**8**
Miscellaneous Ancillary	2	1	0	3	2	1	2	5	0	0	0	0
Non-Cannabis-Related	0	0	0	0	0	0	0	0	0	0	0	0
Physical Security	0	0	0	0	0	0	0	0	0	0	0	0
Real Estate	1	4	1	6	1	0	0	1	2	1	0	3
Software/Media	2	2	1	5	0	1	0	1	1	1	1	3
Total Cap Raises	42	51	52	145	21	12	15	48	28	29	21	**78**

Source: Viridian Capital Advisors

Capital Raises - Public vs Private

In Millions USD	January '19	February '19	March '19	Q1 2019	October '19	November '19	December '19	Q4 2019	January '20	February '20	March '20	Q1 2020
Public Capital Raises - Equity	*17*	*23*	*25*	**65**	*3*	*3*	*5*	**11**	*15*	*16*	*10*	**41**
Public Capital Raises - Debt	*6*	*12*	*15*	**33**	*2*	*2*	*4*	**8**	*7*	*7*	*9*	**23**
Total Public Capital Raises	23	35	40	**98**	5	5	9	**19**	22	23	19	**64**
Private Capital Raises - Equity	*16*	*12*	*8*	**36**	*12*	*5*	*6*	**23**	*5*	*6*	*2*	**13**
Private Capital Raises - Debt	*3*	*4*	*4*	**11**	*4*	*1*	*0*	**5**	*1*	*0*	*0*	**1**
Total Private Capital Raises	19	16	12	**47**	16	6	6	**28**	6	6	2	**14**

Source: Viridian Capital Advisors

MERGER & ACQUISITION ACTIVITY

Broker-Dealer Services Provided Through Bradley Woods & Co. Ltd. - A Member of FINRA and SIPC www.ViridianCA.com

COVID-19 Impact on Cannabis M&A

In Millions USD	January '19	February '19	March '19	Q1 2019	October '19	November '19	December '19	Q4 2019	January '20	February '20	March '20	Q1 2020
# of M&A Deals	39	30	25	**94**	15	1	4	**20**	9	5	**5**	**19**
Public Co Buyers (%)	69%	63%	48%	**62%**	87%	100%	75%	**85%**	89%	100%	**100%**	**95%**
Private Co Buyers (%)	31%	37%	52%	**38%**	13%	0%	25%	**15%**	11%	0%	**0%**	**5%**
Public Co Targets (%)	13%	17%	24%	**17%**	13%	0%	0%	**10%**	11%	0%	**0%**	**5%**
Private Co Targets (%)	87%	83%	76%	**83%**	87%	100%	100%	**90%**	89%	100%	**100%**	**95%**

Source: Viridian Capital Advisors

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M&A Transactions by Sector (Buyers)

Sector	January '19	February '19	March '19	Q1 2019	October '19	November '19	December '19	Q4 2019	January '20	February '20	March '20	Q1 2020
Agriculture Technology	1	3	2	6	0	0	0	0	0	1	0	1
Biotech/Pharma	1	0	0	1	0	0	0	0	0	2	1	3
Consulting Services	0	0	0	0	0	0	0	0	0	0	0	0
Consumption Devices	1	0	1	2	0	0	0	0	1	1	0	2
Cultivation & Retail	11	17	9	**37**	8	1	3	**12**	5	1	3	**9**
Hemp	4	1	5	**10**	0	0	0	**0**	0	0	0	**0**
Infused Products & Extracts	6	3	3	**12**	2	0	0	**2**	1	0	1	**2**
Investments/ M&A	8	2	3	**13**	3	0	0	**3**	1	0	0	**1**
Miscellaneous Ancillary	1	0	0	1	0	0	0	0	0	0	0	0
Non-Cannabis-Related	1	3	0	4	0	0	0	0	0	0	0	0
Physical Security	1	0	1	2	0	0	0	0	0	0	0	0
Real Estate	0	1	0	1	2	0	0	2	0	0	0	0
Software/Media	4	0	1	5	0	0	1	1	1	0	0	1

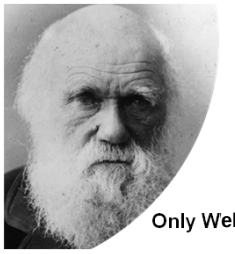
Source: Viridian Capital Advisors

M&A Transactions by Sector (Targets)

Sector	January '19	February '19	March '19	Q1 2019	October '19	November '19	December '19	Q4 2019	January '20	February '20	March '20	Q1 2020
Agriculture Technology	1	3	1	**5**	0	0	0	**0**	0	0	0	**0**
Biotech/Pharma	0	1	0	1	0	0	1	1	1	1	1	3
Consulting Services	0	0	0	0	0	0	0	0	0	0	1	1
Consumption Devices	2	0	1	3	0	0	0	0	0	0	0	0
Cultivation & Retail	9	14	5	**28**	8	1	1	**10**	3	3	2	**8**
Hemp	6	2	5	**13**	1	0	0	**1**	0	0	0	**0**
Infused Products & Extracts	7	4	3	**14**	2	0	0	**2**	0	0	0	**0**
Investments/ M&A	0	0	1	1	0	0	1	1	0	0	0	0
Miscellaneous Ancillary	2	1	1	4	1	0	0	1	2	1	0	3
Non-Cannabis-Related	8	4	7	19	2	0	0	2	1	0	0	1
Physical Security	0	0	1	1	0	0	0	0	0	0	0	0
Real Estate	0	0	0	0	0	0	0	0	0	0	0	0
Software/Media	4	1	0	5	1	0	1	2	2	0	1	3

Source: Viridian Capital Advisors

Conclusions



Debt Financings Will Continue to be a Primary Source of Capital

Only Well Managed, Cash Flow or Asset Rich Companies Will Attract Debt Capital

Companies Will Continue to Restructure to Focus on Core Operations and Cash Flow

Public Companies Will Dominate Investment and M&A Activity

SURVIVAL OF THE FITTEST

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IMPACT OF COVID-19 ON THE CANNABIS CAPITAL MARKETS

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April 7, 2020

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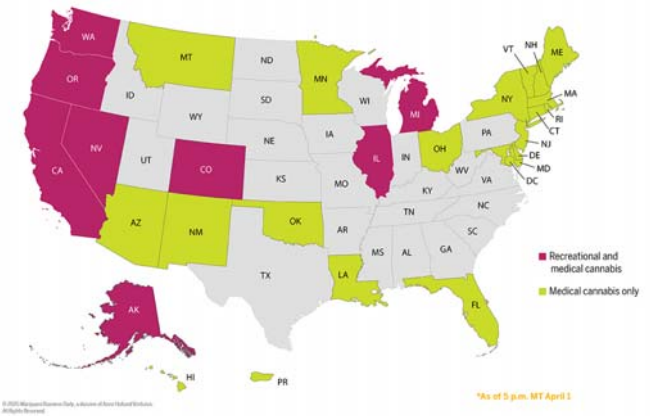
STATES ALLOWING MARIJUANA BUSINESS TO OPERATE DESPITE LOCKDOWN/STAY-AT-HOME ORDERS*



Most state governments around the nation have deemed medical marijuana companies "essential" during the coronavirus pandemic, meaning the vast majority can keep doing business after residents were told to stay at home and many businesses were ordered to scale back or close their operations.

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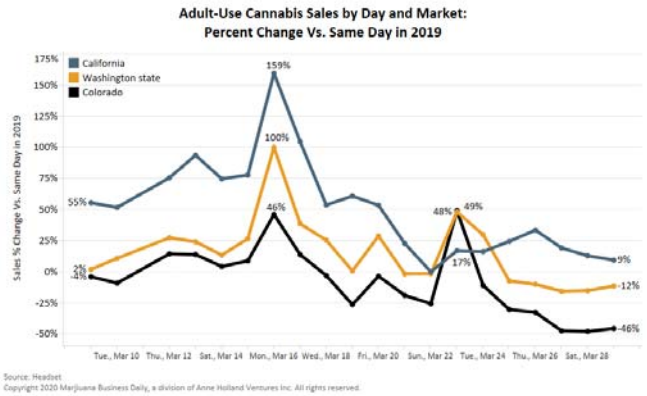
RECENT RETAIL CANNABIS SALES IN CALIFORNIA, COLORADO AND WASHINGTON STATE



Source: Headset

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COVID-19 has disrupted day-to-day operations for many marijuana businesses. In the face of uncertainty, retail cannabis operators have been keeping a close eye on shifts in purchasing behavior.

This chart highlights daily sales trends for select markets during this period.

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THE WEEK IN CANNABIS: 4/6/20: STOCKS BACK IN THE RED, CANNTRUST ENTERS CREDITOR PROTECTION, GOOD NEWS FOR MEDMEN, GW PHARMA

After two strong weeks, marijuana stocks went negative again, with all major ETFs posting significant losses.

Over the last five trading days:

- The ETFMG Alternative Harvest ETF MJ 4.68% lost 13.85%.
- The AdvisorShares Pure Cannabis ETF YOLO 3.35% tumbled 11.58%.
- The Cannabis ETF THCX 5.45% took a 16.49% dive.
- The Amplify Seymour Cannabis ETF CNBS 1.56% shed 10.99% of its value.The SPDR S&P 500 ETF Trust SPY 6.77% closed the period down 2.05%.
- The big news item of the week, beyond the COVID-19 pandemic, was CannTrust Holdings Inc. NYSECTST (TSE: TRST) entering creditor protection under the CCAA and its stock being delisted from the the Toronto and New York Stock exchanges.

SOURCE: BENZINGA, 4/6/20, https://www.benzinga.com/markets/cannabis/20/04/15745871/the-week-in-cannabis-stocks-back-in-the-red-canntrust-enters-creditor-protection-good-news-for-m

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IMPACTS

- Efforts to legalize at federal level take a back seat to other priorities
- Supply vs. demand
- Digital retailing
- COVID respiratory issues and cannabis use
- Operational and financial restructuring in process, investors want to see signs of future profitability
- Many M&A deals on hold

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U.S. CARES Act – FINANCIAL RELIEF FROM IMPACT OF COVID-19, IS NOT AVAILABLE TO THE CANNABIS INDUSTRY

- Since marijuana remains illegal at the federal level, marijuana companies cannot access federal coronavirus relief programs that other businesses can.
- The industry continues to push for inclusion and equal access to disaster relief funds.
- Because hemp is not considered a controlled substance, hemp businesses should be entitled to coronavirus stimulus relief.

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CANADA'S COVID-19 WAGE SUBSIDIES COULD KEEP CANNABIS WORKERS ON PAYROLL

- Canadian cannabis firms of all sizes could be eligible for a three-month emergency wage subsidy program during the COVID-19 pandemic, welcome news for businesses that may be struggling financially.
- The Canada Emergency Wage Subsidy program could help the Canadian cannabis industry and other employers keep workers on payroll during the crisis or give them the ability to rehire staffers who have already been laid off.
- The program for private-sector employers will:
  - Subsidize 75% of an employee's wages up to 847 Canadian dollars ($595) a week.
  - Cover a 12-week period from March 15 to June 6.
  - Make wage subsidies available within six weeks, or mid-May.

Source: https://mjbizdaily.com/canadas-covid-19-wage-subsidies-could-keep-cannabis-workers-on-payroll/

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