

OTC Markets Advisor Insights Podcast

Viridian Capital Advisors Season 1 | Episode 5

OTC Markets Group: From OTC Markets' global headquarters in New York City, you are listening to Advisor Insights, where we feature professionals that will address the issues that affect the small cap companies that trade on the OTC Markets.

Joining us today is Scott Greiper, President and Founder of Viridian Capital. Welcome, Scott.

Scott Greiper: Well, thank you, Matt. Good to be with you again. Thank you.

OTC Markets Group: Scott, can you give us just a little bit of background about Viridian and your role there?

Scott Greiper: Sure. Viridian Capital Advisors was launched in June of 2014. So we're in our seventh year, amazingly enough. We launched as the first investment banking firm in the legal cannabis industry in the US. So we were quite early in the evolution of not only the cannabis industry as a business, but in the evolution of the capital markets in cannabis, meaning capital in M&A. We started the firm and entered the space because we thought bringing a group of highly experienced advisors and bankers that had decades of institutional experience financing, buying and selling, advising emerging growth companies, would be a valuable addition to the cannabis industry as it evolved.

We've had a fortunate good track record of success, advising public and private companies. Raising capital both in the form of debt and equity for public and private companies. Acting as M&A advisor for public and private companies in the cannabis industry. And acting as a general advisor, helping to build boards of directors, establish financial controls, drive strategy, drive joint ventures. We really are a very embedded advisor to our clients. It's not just transactional, it's a partnership. So far, on behalf of our corporate clients and investors, we've been able to establish a good track record.

OTC Markets Group: That is a great overview. Thank you, Scott. And you talked about capital raises and some M&A as well. Can you talk about the performance of both in the cannabis-hemp space in 2020?

Scott Greiper: Well, as I'm sure you're well aware, Matt, it has been a wild and interesting ride. Never a dull day.

OTC Markets Group: I think that's to say the least, Scott.

Scott Greiper: Oh my gosh. It's kind of mirrored the craziness we're going through as a country and the world. We started off the year in Q1, Matt, very, very depressed levels of transactional activity in both capital raises and M&A. This was really a continuation of the first correction contraction we saw in the cannabis market. Particularly the public companies, which started in the second quarter of 2019, a real first downward correction in valuation and stock prices that started with the Canadian LPs in Canada, and then began to impact the multi-state operators here in the US. Coming to almost a grinding halt in the fourth quarter of last year, and continuing very, very weak level of transactional activity in the first quarter of this year.

Strangely enough, the impact of COVID ... and I hate to talk about anything positive in regard to COVID. But as you know, cannabis was deemed an essential service, an essential good by almost every one of the red and blue governors of legal states in March and April. And it just caused a boom in consumer buying of both medical and adult use cannabis products.

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Companies were issuing record results. And as those results began to be seen in the public companies, and you started seeing Q2 results being delivered, which were above analyst estimates, and that continued into Q3, you started seeing a recovery in the public cannabis stocks. Particularly the large MSOS, the large Lps.

And as the stock prices recovered, so did those companies' aggressiveness with raising capital, both debt and equity. And as those larger public companies began to raise more capital, it put them in back into a very strong position as buyers, as acquirers. So a very weak start to the year, improvement through Q2, Q3. And now we're seeing levels of transactional activity in just the last couple of months that is rivaling what we saw in 2019. So, been a bit of a rollercoaster ride, but certainly on a strong upward trajectory, currently.

OTC Markets Group: Scott, interesting and exciting to hear about the upward trajectory of the cannabis market, given how much of a negative effect COVID has had on pretty much everything. Now, another thing I'd like to ask you about something much more recent. What is the effect of President-elect Joe Biden winning the election and what effect will that have on the cannabis market?

Scott Greiper: Well, it was not only Biden winning on November 3rd, it was seven new cannabis states that had ballot initiatives either for medical use or adult use. And there was a clean sweep. All of those states' citizens approved those ballot initiatives. So this is what we saw in the November election in '16, and I'm not talking the presidential side, Matt, I'm talking about the legalization side where California won adult use. New York, Florida, won medical use, the first big east coast states to go medical in '16. And of course, Massachusetts, the first east coast state to go rec adult use. And that drove an upward leg in the performance of public cannabis stocks and the amount of investment activity coming into the industry.

Similar kind of thing we saw in this year's November 3rd election, seven states legalizing. And of course, the Democrats coming in. Much more pro-cannabis legalization than the Republicans. So it's just added more fuel to the fire, positively, that has kept pushing cannabis stocks up, kept pushing valuations up. And as a result, led to much more transactional activity, both in terms of capital raises, debt and equity. And that's something which we should talk about for your listeners, Matt, is the emergence of debt capital in the cannabis industry. But generally speaking, it was an election that really favored growth in the cannabis and hemp industry, both from a business consumer perspective and from a capital markets perspective.

OTC Markets Group: You mentioned debt as a source of financing for cannabis companies. What does that mean for the entire industry?

Scott Greiper: It's a tremendously positive sign for the maturation of the industry, and obviously of the larger companies that a slew of lending groups, both traditional lenders and cannabis specific lenders, are now seeing the ability to lend to cannabis companies knowing or believing what lenders always know and believe in order to lend a dollar. Which is that the company is going to pay my coupon. They're going to keep current on paying the interest on the debt. And they're also going to be in a position to pay back the debt at maturity. We have not seen that in the industry heretofore.

And we haven't seen it because we haven't seen the companies gain scale, gain the

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infrastructure, gain the management sophistication, such that some of these larger companies are showing visible and consistent revenue growth. And visible and consistent profitable revenue growth, such that the cashflow is there to service the debt and, or the underlying real estate collateral is there to act as collateral to support the debt. It is a very positive sign to the industry, the emergence of debt, for two reasons. It's another source of capital alongside equity, and a less dilutive source of capital. Obviously, you're not selling shares. So a great alternative source of funding. We're in a growth industry. These companies need growth capital, perpetually.

And secondly, as I just said, it's a very good sign of the maturation of a certain number of the larger public cannabis companies in particular, that have the infrastructure, the real estate collateral, and the cash flow to attract lenders.

OTC Markets Group: Now, I would like for you to address what I believe is a common misconception in the cannabis industry, the investor base. Now, there seems to be a belief that it's only the retail community that invests in cannabis companies. However, that's wrong. There are many institutional investors as well. That being said, when will the institutional investors jump into the cannabis market in size?

Scott Greiper: Boy, that's a question we've been watching and researching and fighting for since we started our business, Matt. The institutional investor, really up until this year ... and I'll get into the specifics of that. Has not, in the main, been in the cannabis industry. They haven't been able to place large bets because companies just didn't offer them the size and scale level of profitability they needed. But the real main impediment to the institutional investor, as you well know, has been Schedule-I federal illegality. And the caution, the fear of even investing in a state licensed cannabis operator or a multi-state license cannabis operator, that those companies are breaking federal law. And can be claimed to be aiding and abetting in the production and distribution of a federally illegal narcotic.

That's where the rubber meets the road for the larger institutions. And for most of them, it's been a hard wall, an impossible line to cross that has kept them out of investing in the industry. However, the emergence of the cannabis and hemp SPAC this year, the Special Purpose Acquisition Corp ... actually last year and this year. In which there were about 18 SPACs that did traditional IPOs ... these were not reverse takeovers or reverse mergers. These were traditional IPOs where these companies are trading on the senior exchanges in the US, New York or NASDAQ. And in Canada, typically on the Toronto, the NEO, or the Canadian Securities Exchanges. About \$2.6 billion in cannabis and hemp SPAC IPO proceeds raised. Well, the average raise for these SPACs, Matt, was over \$200 million.

OTC Markets Group: Wow.

Scott Greiper: That is not a retail driven, retail invested IPO. That is an institutionally invested in IPO. This is, at least in Viridian's research, the first significant wave of institutional investor funding in the cannabis industry that we've seen since we've come into the industry in 2014. So despite no change in the Controlled Substance Act, Schedule-I status of the plant, you're starting to see the institutional investors start to dip their toe in the market. Most significantly so through these SPACs.

OTC Markets Group: Scott, we have a minute or two left. Do you have any advice for our OTC listed cannabis

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companies going into 2021 after this tumultuous year?

Scott Greiper:

Yeah. As you know, Matt, we just added one of the top sell-side equity research analysts to Viridian, taking him from Canaccord. And we're going to be launching coverage on a number of OTC listed cannabis companies. I guess my advice would be, we're developing some tailwinds for, not just the biggest MSOS and not just the largest Canadian LPs ... which number about 30 or 35. That's where all the attention is? Well, one of the reasons we brought over this equity analyst is there are several dozen OTC listed, OTC trading cannabis companies that are a little overlooked and a little misunderstood. And certainly not as visible as the big MSOS.

And we think there's great value there. And that's where we want to start pointing our investors towards, our research coverage towards, our M&A activity towards. So my advice to those companies, Matt, which are your clients, there is an upward draft that we can get behind the larger MSOS and raise capital, raise debt, raise equity, and also be in a position to be an acquirer. So although those companies might be a little under the radar now, that won't be for long once we launch our research coverage. So it shouldn't be just the 30 or 35 top MSOS and Canadian LPs that are capturing the majority of the investor capital, and that are driving most of the M&A activity, which is the case today, Matt.

There are several dozen companies beneath that, that have built sustainable business models, sustainable revenue growth, profitable revenue growth. Very strong asset bases in terms of real estate, cultivation, manufacturing, production, even technology companies that should be more visible to the investment community. And that's our mandate in bringing over this research analyst.

OTC Markets Group:

Well, congratulations on having your new analyst join you. That is great for Viridian. And I look forward to see what you do for all our clients in the coming year. Scott, I wanted to thank you for joining us today. It's been a great conversation, and I hope our issuers have appreciated it as much as I have.

Scott Greiper:

Thank you, Matt. It's always great to speak with you.

OTC Markets Group:

If you have any more questions for Scott, or want to learn more about Viridian offerings, you can find Viridian Capital Advisors listed in the investment banking section of the Premium Provider Directory.

**This is an autogenerated transcript and may contain typos.*