

The Cannabis Industry in the Wake of COVID-19

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The COVID-19 pandemic, also known as the Corona Virus, is wreaking havoc on the global economy as we have seen with the decline in the stock market, business closings, states being put on lock down, and the unemployment rate increasing. While most industries and businesses have been propelled into financial distress, some have not only stayed afloat, but are thriving and doing significantly better than prior to the pandemic.

On March 16, 2020, as the nation came together to slow the spread of COVID-19, the President issued updated Coronavirus Guidance for America. This guidance states that: “if you work in a critical infrastructure industry, as defined by the Department of Homeland Security, such as healthcare services and pharmaceutical and food supply, you have a special responsibility to maintain your normal work schedule.”¹ Being deemed “non-essential” during the coronavirus outbreak has forced businesses across the country to shut their doors. One industry managing to survive lockdowns and stay-at-home orders is the cannabis industry, which is now considered an essential service in many states. The Department of Health clarified that since cannabis has a medical use, dispensaries will be allowed to operate as essential businesses just like pharmacies are allowed to do.

Cannabis, which is still illegal at the federal level and in many states, has now become an essential item for many. When asked to stay at home and stock up essential items, people also stocked up on cannabis. As a result, there was a surge in cannabis demand in the United States.²

Cannabis Industry and the States

In Colorado, the first state to legalize medical marijuana, regulators issued an emergency rule adoption to allow online and phone orders, as well as curbside pickup.

¹ CISA Releases Guidance on Essential Critical Infrastructure Workers During COVID-19, Release Date March 19, 2020, by U.S. Department of Homeland Security.

² The New York Times, article date March 25, 2020 - “Is Marijuana an Essential Like Milk or Bread? Some States Say Yes”, by Dan Levine.

In California, where recreational marijuana is legal, cannabis has been deemed an essential medicine for residents, and dispensary operators are allowed to stay open provided they adopt social distancing rules, according to the state's Bureau of Cannabis Control.

The New Jersey Department of Health said it would improve patients' access to medical marijuana by allowing dispensaries to offer curbside pickup.

Illinois, Maryland, Michigan, Ohio, and Oregon have similarly loosened restrictions. And in New Hampshire, regulators are allowing doctors to prescribe medical marijuana via telehealth. Connecticut, Massachusetts, New Mexico, New York, and Washington have also deemed medical marijuana dispensaries essential.

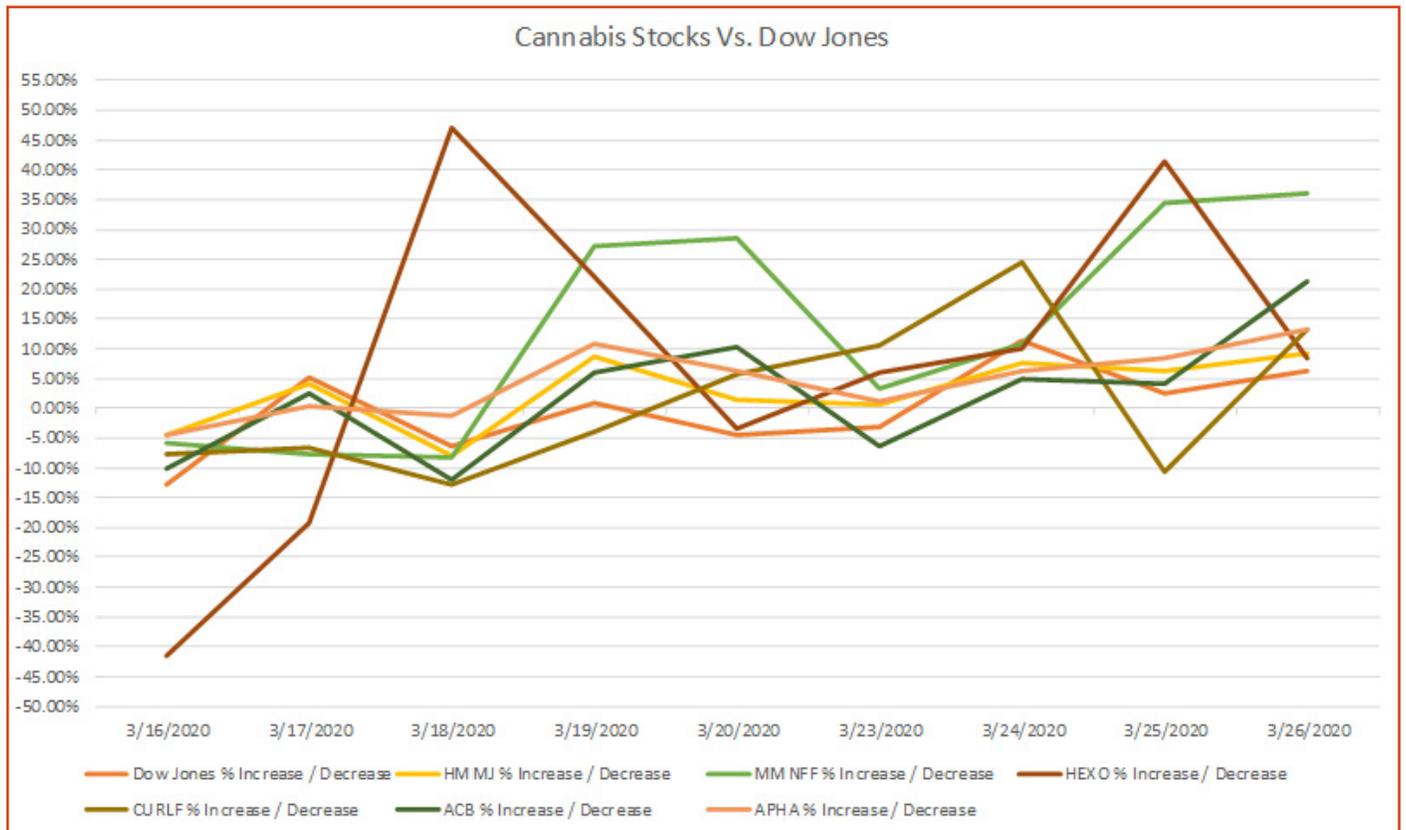
According to the Centers for Disease Control ("CDC"), marijuana can have many therapeutic benefits for cancer patients and people with multiple sclerosis, from helping to prevent and ease nausea caused by chemotherapy and help muscle spasms in adults with multiple sclerosis.

How has COVID-19 Affected the Market

Cannabis stocks are seeing a ray of hope amid the COVID-19 pandemic. The Horizons Marijuana Life Sciences (HMMJ) and MedMen Enterprises, Inc. (MMNFF), along with many other cannabis stocks, have closed with gains since Wednesday, March 18, 2020. As shown in the chart below, even on the days when the Dow Jones and the cannabis companies closed with gains, the gains have been larger for most of the cannabis companies.³



³ Stock information used in the chart below came from Yahoo Finance. The stock price used was the closing stock price at the end of the day.



The above are just some of the many cannabis stocks that were trading in the green. Currently, the demand for medical marijuana is huge, which has helped to drive cannabis sales higher.

Since the government announced self-quarantine regulations to keep the virus from spreading, people have stocked up on cannabis in addition to food, hand sanitizer, toilet paper, and other essentials. The Los Angeles Times reported that on Monday March 16, 2020, Eaze⁴, a San Francisco-based tech platform, saw its average order volume rise by approximately 40%.

MedMen who was in severe financial distress prior to the COVID-19 pandemic also saw a rise in online orders for in-store pickup and deliveries. This increase is good news for MedMen. Other dispensaries throughout the country are also seeing cannabis sales skyrocket. Kiana Anvaripour, the chief marketing officer for an upscale dispensary Sweet Flower, said, "Sales are up two to three times."⁵

⁴ Eaze coordinates in-state dispensary-to-consumer cannabis deliveries.

⁵ The Los Angeles Times article, Dated March 19, 2020 – "Amid Coronavirus Siege, California Cannabis Sales Soar, by Adam Tschorn.

Update on Legislation in New York

In New York, lawmakers have rolled out a revised bill to legalize marijuana as uncertainty abounds about the state legislative and budgetary process amid the coronavirus outbreak. Even as officials work on the health response, Governor Andrew Cuomo has insisted that pushing the reform move through the budget is still the surest way for it to succeed. And, because of the urgency of cutting down on public gatherings at a time when at least two state lawmakers have already tested positive for coronavirus, the budget may actually be considered to be on an accelerated path. On a recent conference call with reporters, Cuomo stated “we have to make the political decisions. The budget is the time to make the political decisions.”⁶

Increase Potential Value During the COVID-19 Pandemic

The number one challenge that the cannabis industry faces is that it is illegal under federal law to grow or sell the product. With cannabis still being illegal on the federal level and in many states, how does one increase the potential valuation of their cannabis business? Based on what we have seen so far in the sales of cannabis businesses, we have laid out a few key points that will help you maximize the value of your cannabis company:

- Buyers of cannabis businesses typically want to see a record of profitability, indicating that the business has good potential to expand future earnings. It is important for the seller to be able to show that its marijuana business has been set up with the necessary infrastructure to allow for its future growth, and to be able to show that it will not be bogged down with unnecessary costs. This includes being able to show that the business is complying with applicable state and local laws.
- Buyers of cannabis businesses want to know that the selling company has locked down its trademarks. A strong and protected brand can add immense value to a company.
- Buyers are generally not interested in taking on existing debt as part of their purchase of a cannabis business.
- Buyers want a cannabis business with a good (preferably long-term) lease and short-term sales contracts.
- Seller financing of the final price plays a key role, and marijuana business sellers who are willing to accept payment of something other than an upfront lump sum check are likely getting higher prices.



⁶ Marijuana Moment Article, dated March 17, 2020 – “New York Lawmakers File Revised Marijuana Legalization Bill as Coronavirus Accelerates Budget”

What's Next

With everything going on with COVID-19 and the market, most people are not thinking about the future but are living in the present with concerns of what the future will bring. If you are the owner of a cannabis business, now is the time to start thinking about and preparing for the future. As a business owner, what you do today, and the ground work that you lay, will set up the future and could very well be the deciding factor as to whether or not you are successful.

Because the industry is continually evolving, it's essential for owners of cannabis businesses to partner with the right professionals early on in the process. We at Empire have the background and expertise, and can become your trusted advisors to assist you and your business in these changing times. Who you partner with can either help make your buds bloom or stunt the potential for your business's growth.

Since our founding in 1988, Empire Valuation Consultants has grown into one of the nation's leading and most respected independent valuation firms, with a staff of over 80 employees in New York City, Long Island, Boston, Rochester, West Hartford, and San Francisco. We bring excellence and integrity to every engagement through our team of highly skilled individuals who are among the finest our industry has to offer. Our valuations are prepared by senior accredited valuation experts holding one or more of the following professional credentials: CFA, ASA, IA, CPA, and ABV. We provide valuations to attorneys, accountants, business owners, private equity and hedge funds, commercial bankers, investment bankers, trust departments, insurance agents, and financial planners, among others.



Pasquale Rafanelli, CPA/ABV, ASA, CVA/CBA/MAFF, CFE, MDFA®, is a Senior Manager at Empire. Pasquale brings more than 13 years of experience providing business valuation, forensic accounting, and advisory services to closely held companies, attorneys, accountants, and financial professionals. He has prepared valuations and forensic examinations of various classes of equity, general and limited partnership interests, carried interest, limited liability company membership interests, C-Corporations, S Corporations, stock options, and warrants. These valuations and forensic examinations have been for purposes including gift and estate planning, employee stock ownership plan administration, financial reporting purchase price allocation, other corporate planning and reporting, buy/sell, merger and acquisitions, family law matters, business damages, lost profits, corporate litigation, and shareholder disputes. Pasquale received his BS degree in accounting with a minor in criminal justice, and his MS with a concentration in information systems from LIU – C.W. Post University.

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