



## Wall Street Investors Sample Marijuana Industry

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Twenty companies serving the legal marijuana industry displayed their wares on Wall Street last week in search of investment capital—possibly the first baby steps of what some view as a budding sector.

“The writing is on the wall. This is going to be the next great American industry,” said Troy Dayton, cofounder and CEO of the ArcView Group, a San Francisco-based network that seeks to match investors with marijuana-related businesses.

The ArcView Group hosted the road show-style conference, the third of a planned five across the U.S. this year. Investors pay ArcView a \$3,500 annual membership fee—\$10,000 for a lifetime membership—for access to the companies and other services.

The companies represented at the show were ancillary marijuana businesses that do not grow, produce, process or handle the plant. They serve a core cannabis industry that collectively generates about \$2 billion in annual revenue, said Dayton, who envisions stock traders buying and selling shares of companies in marijuana-related businesses and commodities traders making markets in cannabis.

Medical marijuana is legal in 18 states plus the District of Columbia; another six have medical marijuana bills pending. Last November, voters in Colorado and Washington approved ballot initiatives allowing possession of small amounts of marijuana for personal use. The perceived momentum toward legalized marijuana is driving this new industry of ancillary businesses, according to market observers.

Thirty-five of ArcView's 60 investor members attended the event, divided about equally among high-net-worth individuals, investment firms and representatives of other companies in the fledgling industry, according to Dayton.

Companies at the ArcView conference ranged from a manufacturer of indoor growing systems for marijuana and other plants to a maker of equipment that extracts botanical oils.

Denver-based Dixie Elixirs & Edibles, whose representatives attended the event as investors, offers a line of ingestible products infused with the active ingredients in marijuana. Its products include pharmaceutical-grade marijuana capsules for patients who cannot smoke, chocolates, carbonated beverages and, of course, brownies.

Dixie, a portfolio company of Medical Marijuana Inc. (OTC Pink: MJNA), saw its revenues jump 158 percent from 2011 to 2012, according to managing director Tripp Keber, who anticipates 2013 sales will triple from 2012.

“In 2014, we expect to serve 3.5 million consumers, which would include marijuana tourism,” said Keber. “Almost 40 percent of the U.S. population lives in states that offer some form of medical cannabis for adult use, with another eight to 10 states likely to legalize cannabis for adult use in the next three years. So it’s pretty compelling growth.”

Seattle-based Privateer Holdings is the burgeoning industry’s sole private equity firm. Privateer operates as a holding company that sells investors preferred stock in itself, according to founder Brendan Kennedy. The firm has raised \$5 million of its \$7 million target, which it expects to meet by the end of June—all from high-net-worth individuals.

“Most of them are looking for a financial return but all of them are looking for a social return,” said Kennedy. “They’re looking to end the harm caused by [marijuana] prohibition.”

That prohibition continues to cast a legal cloud over the future of marijuana-related businesses. Possession of cannabis remains a federal crime. In states where marijuana has been legalized for medical or personal use, licensed growers and dispensaries that are in compliance with local regulations still face the possibility of federal prosecution.

Another stumbling block is Internal Revenue Service Rule 280E, which prohibits “drug trafficking organizations” from claiming business expenses as deductions. The IRS has used 280E to audit medical marijuana dispensaries and, in several cases, disallowed deductions for standard expenses such as rent, payroll and cost of goods. Some dispensaries ended up owing millions of dollars in back taxes and penalties and were forced to shut down.

“It’s a complicated business,” said Keber. “You have to clearly understand the regulatory model in each state. But most importantly you have to understand that what we’re doing is perceived as illegal at the federal level.”

That may explain the high level of secrecy surrounding the event in New York. The location was not disclosed until the evening before. Media members were advised that participants whose name tags displayed an orange could not be interviewed or shown in any photos or video.

With some estimating that marijuana-related businesses have the potential to generate up to \$40 billion in sales, ArcView's Dayton is hopeful that the power of big business will lead to reform of federal marijuana laws and tax regulations.

Dixie's Keber echoed that sentiment. He participated in the Cannabis Industry Association's meetings with 13 federal lawmakers to lobby for exempting state-licensed marijuana dispensaries from Rule 280E and reforming other marijuana regulations. "We found them to be very open-minded and they received us with open arms," he said.

Investors may be looking to profit from marijuana-related businesses, but they also "want to see a day when not a single adult is punished for this plant," said Dayton. "They see business as the most powerful platform for political change."