Some might say it’s high time for cannabis companies to develop IR programs to handle growing investor interest. Well, it’s happening and professional IROs are dealing with critical issues in this unique sector.

BY EVAN PONDEL
To understand the full scope of the cannabis industry from an investor relations perspective, it is necessary to go directly to the source, or shall I say, local dispensary. After all, the frenzy surrounding the industry is a result of consumer interest in the product.

Full disclosure: I did not eat, smoke, or vape any cannabis to conduct interviews for this story. I did, however, peruse the aisles of Atrium, a cannabis dispensary in Woodland Hills, California, to understand how cannabis products are going the way of wine, beer, or any mainstream substance that people consume recreationally.

After all, the legal cannabis market in the United States is projected to reach more than $23 billion in consumer spending by 2022, according to Arcview Market Research and BDS Analytics.

In many ways, visiting a dispensary parallels the excitement and challenges the industry and its investor relations professionals are facing. There are significant barriers from a legal perspective, which coincide appropriately with the Fort Knox-like security at the front door of Atrium.

Then there is the kid-in-a-candy store adrenaline rush of entering the dispensary, which is similar to the euphoria investors have likely felt with certain cannabis stocks.

One such stock was Medbox, which supposedly manufactured vending machines that dispensed marijuana products. The California-based company’s stock ranged between $2 to more than $200 per share between 2012 and 2014. The Securities and Exchange Commission (SEC) took notice and charged the company in 2017 with falsely touting “record” revenue numbers to investors.

Much has changed since the initial contact high from Medbox. Individual investors are more discriminating when it comes to investing in cannabis-related stocks, mainstream investment banks are writing research on marijuana companies, and more institutional investors are taking the industry seriously.

To provide insight on the cannabis industry from an investor relations perspective, IR Update magazine spoke with Joshua Schneiderman, an attorney with Snell & Wilmer in Los Angeles, and Lynn Ricci, director of investor relations for Florida-based “seed-to-sale” Trulieve Cannabis Corporation.

The Legal Perspective

IR UPDATE: What risks do you see from an investor or general communications perspective for U.S.-based cannabis companies?

SCHNEIDERMAN: For now, there is value in focusing on not making yourself a target in this industry. As far as we’ve come in terms of a shifting regulatory landscape, there are still many lawmakers, regulators and law enforcement personnel who are strongly opposed to the cannabis industry. While public relations is important to promote your brand, it’s important to balance the desire for attention with the risk of making yourself a target.

Cannabis remains illegal at the federal level, and when a company puts itself out there (either by aggressively advocating for policy change...
or pushing boundaries with advertising and PR generally), it runs the risk of making itself a target for a federal prosecutor looking to reinforce what is, in fact, the bottom line: Under federal law, this is an illegal industry.

**IR UPDATE:** What types of communications or PR would be useful for cannabis companies?

**SCHNEIDERMAN:** Over time, having a crisis communications team in place is going to be critical for cannabis companies. I believe we are going to see a significant uptick in the number of product liability claims targeted at cannabis companies. These claims could stem from any number of circumstances, including contaminated product, malfunctioning devices such as vape pens, or mislabeled products.

When these claims hit, they may be followed by product recalls. In any event, there will be a flurry of negative publicity, and effective and strategic communications with vendors, consumers and the general public will be a key component to weather the storm.

**IR UPDATE:** How would you classify the current business environment for cannabis companies? Is it still a “Wild West” mentality or are you seeing more tenured management teams surfacing?

**SCHNEIDERMAN:** I can generally only speak to California, where I have a good deal of familiarity, but I would say it is becoming much more tame. When commercial cannabis became legal in California at the start of 2018, there was a race for companies to procure coveted licenses and the regulators largely seemed overwhelmed and playing catch up.

As that process continues to normalize and those operators who desire to comply with the regulations have generally taken meaningful steps to do so, regulators have been able to shift their attention to enforcement against the black market.

While there is still a significant black market in California, it is starting to dwindle as this process unfolds. We have a long way to go, but it’s moving in the right direction. That being said, I would describe the business environment generally as highly competitive with many players trying to enter. I think a lot of that is fueled by the sky-high valuations we are seeing for some of the more prominent brands, often in companies that are far from profitable, and that’s leading other investors to jump on the bandwagon out of fear of missing out, often without conducting adequate diligence or having any meaningful basis to justify the valuation they are buying in at.

At the high end we are definitely seeing more tenured management teams surfacing, but there’s still no shortage of nascent businesses run by young entrepreneurs who know a lot about marijuana but are still figuring out how to run a business.

**Cultivating Credibility**

**IR UPDATE:** How do you think the role of investors relations officer is different for cannabis companies versus companies in older industries?

**RICCI:** While the cannabis industry is on an incredible growth trajectory overall in the United States, there is still significant fragmentation on a state-by-state basis. Currently, state legislatures and regulatory agencies are operating independently of the objectives and considerations of either the federal government or other states.

Until a single regulatory body is established at the federal level, U.S. cannabis companies will continue to operate under this layer of complexity, having to consider the varying degrees of medical and recreational acceptance, regulatory infrastructure, and political and social stances when executing business and strategic objectives.

This dynamic and ever-evolving cannabis landscape also adds many unknowns for the IR professional, such as when cannabis-related legislation will be passed at a state level and the amount of education required for investors as they try to understand a quickly changing and expanding market.

**IR UPDATE:** How would you describe the investors you interface with? Are they mostly individual investors or institutional investors?

**RICCI:** Today, it is split between the two. Canadian investors are more traditional institutional investors that do not face the same legalization issues we have here in the United States. On the U.S. side, I spend a fair amount of time with individual...
retail investors, as well as small family offices and hedge funds. It’s a higher percentage spent with smaller and retail investors than in my past roles where most of my time was spent with institutions.

The smaller firms or retail buyers are in a better position to buy stock since the bigger, traditional U.S. firms are often blocked by their compliance offices. That’s not to say that the larger firms are not actively educating themselves and preparing for a change in the United States. We see that work being done today where there are some U.S. firms finding ways to participate early in this exciting new market.

IR UPDATE: How do regulations governing the cannabis industry affect your role as IRO?

RICCI: Primarily, it is U.S. federal law around marijuana and its designation as a Class 1 controlled substance. This has an effect on how banks and financial institutions interact with cannabis companies. In the U.S. capital markets, for instance, cannabis companies with U.S. operations are unable to list on the Nasdaq or NYSE. As a result, they need to look to Canada to raise the funds needed to continue fueling the incredible growth necessary to address demand. We see that work being done today where there are some U.S. firms finding ways to participate early in this exciting new market.

IR UPDATE: What is the biggest lesson you’ve learned as an IRO in the cannabis industry and what would you say to people pursuing IR careers in the cannabis industry?

RICCI: The principles are the same: Building good relationships with investors, shareholders, and analysts and delivering clear, transparent communications. Setting correct expectations in the market and maintaining credibility. Not jumping into the industry just to ride the wave but maintaining your integrity and professionalism by looking toward cannabis companies with good operational strategies that will deliver shareholder value.

Trulieve is the leader in the Florida market and is expanding into six states by year-end, and we are achieving this while remaining profitable. We are proud of our ability to bring good business sense and financial discipline to what has been described as the wild, wild west of cannabis.

Our shareholders are happy to see that we are building a good strong foundation for future growth, which we have achieved by applying these basic principles to the industry and not being a cowboy.

IR UPDATE: What challenges do you face as an IRO in the cannabis industry?

RICCI: One of the biggest challenges facing the industry is what impacts IROs the most: legalization. I personally believe that it is when, not if, federal decriminalization happens. Given the state-by-state public support, industry growth, and capital markets enthusiasm to participate in this new market segment, the financial benefits are too significant to ignore.

Opening the banking and capital markets, establishing laws and infrastructure, improving financial expectations of U.S. publicly traded companies, and leveling the playing field state by state will allow IROs to effectively face the market and establish IR programs that will help shareholders understand and participate in the cannabis industry.

Evan Pondel is president of PondelWilkinson Inc., an investor relations and strategic public relations firm. He is also chair of the NIRI Editorial Advisory Committee. epondel@pondel.com.