



 Extra Crunch

Where these 6 top VCs are investing in cannabis

Matt Burns @mjburnsny / 8:17 am CDT • May 19, 2020

The cannabis market was in the midst of a correction when the COVID-19 crisis hit and could emerge stronger than ever. After a breakthrough period of growth, cannabis startups entered 2020 with depressed values and an uncertain future. Now, with millions sheltering in place, many companies are seeing unprecedented demand and growth opportunities as many states classified the industry as an essential business.

TechCrunch surveyed top investors focused on the cannabis market to gather their thoughts on current trends and opportunities. The results paint a stunning picture of an industry on the verge of breaking away from a market correction. Our six respondents described numerous opportunities for startups and investors but cautioned that this atmosphere will not last long.

Three key takeaways

Cannabis is an essential business. Per the investors in our survey, most see the the pandemic as a turning point for cannabis thanks to increased demand and the industry's



designation as an essential business. Sean Stiefel, CEO of Navy Capital, notes that states will look to cannabis to help resolve budget deficits and said his firm is especially excited for legalization in New York, New Jersey, Pennsylvania and Connecticut.

“Cannabis went from illegal to essential in about two weeks flat,” said Matt Hawkins of Entourage Effect Capital. “Cannabis is now listed right alongside hospitals, doctors, grocery stores, gas stations and fire departments as an essential service.”

Cannabis is one of the bright spots in the pandemic.

According to our survey, investors are keen on capitalizing while startups look for additional capital to fuel growth while valuations driven by the market correction are still low. Mitch Baruchowitz of Merida Capital Partners said it’s a great opportunity for investors as valuations are down 50% while revenues and momentum are rapidly growing. He notes that this dislocation generally does not last long.

Karen Wadhera of Casa Verde Capital LLC and Matt Hawkins had similar thoughts. Wadhera says “funds with dry powder will be in an envious position to invest in some of the most attractive opportunities in cannabis.” Hawkins points to the cannabis market’s prior cash crunch and says there is not enough liquidity and capital to take advantage of all the current opportunities.

Investors expect cannabis companies to be tech-savvy Investors are looking to cannabis operators who employ the latest technology. From growing to selling, several investors said they expect operators to use technology to deliver data-driven results. Green Thumbs are handy, but data is critical and there are countless ways to utilize the latest technology.

“Because we are effectively building this industry from scratch,” Wadhera said, “almost every part of the ecosystem requires some bespoke/new/unique technology, making cannabis one of the most tech-forward industries in the world.”

Larry Schnurmacher, Managing Partner at Phyto Partners, says he expects licensed growers to use AI and machine learning to increase yields while decreasing cost.

TechCrunch spoke in greater depth with Merida Capital Partners Managing Partner Mitch Baruchowitz.



Mitch Baruchowitz, Merida Capital Partners

What trends are you most excited about in cannabis from an investing perspective? We think medical research, new form factors and the continuing stability/safety of the legal market will attract cannabis patients and consumers to really drive the next leg of growth in the industry as they accelerate the cannibalization of the black market.



How much time are you spending on cannabis right now? Is the market underheated, overheated or just right? We only invest in cannabis, ancillary companies and cannabis-related or adjacent companies.

What are you looking for in your next investment? We look for an asymmetry in information, behavior or an undiscovered/emerging subsector as first gating factors. Couple the opportunity with a company with the mindset/professionalism to adjust on the fly in order to take advantage of that with deep expertise on the specific opportunity, and we start to really get excited.

Are there startups that you wish you would see in the industry but don't? Not really — it is all happening very quickly in the cannabis industry. As of right now, the entrepreneurship and pioneering spirit is a wonder to behold. There are an incredible number of entrants in every vertical in the industry and many of them have a creativity and innovative spirit that makes portfolio selection an art and science.

How has COVID-19 impacted the cannabis investing landscape? We just put a piece out about this — we think it will be a huge catalyst for good by driving changes in the consumer/patient to want more certainty and safety in the products, and governments have made a wide variety of adjustments to show that they are finally taking the industry seriously in every way. We don't know if the investing landscape has ever been this good for investors — many companies see valuations down 50% or more from the highs and the revenues and general momentum have never been growing this fast as spending gets more rational. That dislocation just doesn't last very long in the market.

How has COVID-19 impacted cannabis startups operationally? It has forced them to put a great deal more value on liquidity and access to capital. Companies are far more investor-friendly than they were a year or more ago as they realize that capital is



what keeps growth moving forward unless you are throwing off strong cash flow, which only a few companies do so early in the industry's life.

What advice do you have for your portfolio companies facing unprecedented surges right now? Focus on building rock-solid foundation and think through what the return is on every dollar deployed, because you cannot un-spend money. Make sure if you are increasing headcount or spending, that revenue capture achieves something like profit, reduced burn, etc. Basically, don't distort your vision or operation to chase shiny objects.

What part of cannabis do you think is most apt to adopt technology? Cannabis is a tech-savvy industry. I think companies are starting to use data in innovative ways and as critical mass of consumer data builds, the area of business intelligence is about to go on hyperspeed in the industry.

