
Valuations: Cannabis Retail and Cultivation Operations

Marko Glisic, CPA
Partner – GreenGrowth CPA

Agenda

- About GreenGrowth CPAs
- Recap of Part 1: Valuations 101
- Cannabis Retail Business Assumptions
- Cannabis Cultivation Business Assumptions
- Notes on Cultivation Facilities
- Wrap-up

GreenGrowth CPAs



About Us:

- Tax Preparation: completed over 500 Annual Tax Returns for cannabis operators spread across all verticals: dispensary, distribution, cultivation, manufacturing, delivery and testing.
- >300 clients based in California, Colorado, Michigan, Oregon and Washington
- Performed over a dozen audit related projects in the last year
- Expected to hit 7-digits in revenues in our second full business year (2018).
- Thorough and deep understanding of tax, compliance and assurance related requirements for the cannabis industry

To Recap...

There are three common ways to value a company or group of assets:

1. Discounted cash flow (DCF)
2. Guideline public company method
3. Guideline transaction method

From our experience, DCF is the best method for understanding the value of cannabis companies.

What should investors look for in a cannabis company?

To Recap...

A cannabis company is a good value if...

1. It does not have a lot of debt.
2. It's more mature (5+ years is good).
3. It has well developed sales, distribution, and procurement channels.
4. It can show clear financial reporting.
5. It has a system of internal controls (cash reconciliations, inventory counts, etc)

Cannabis Retail: Business Assumptions/Cash Flows

Understanding **business assumptions**:

- Unique to each vertical in the cannabis market
- Drive cash flow
- Factor into DCF calculations

Cannabis Retailer Business Assumptions

1. **Average transaction size:** How much are people spending every time they go to a retail establishment?
2. **Average number of transactions:** How many transactions occur in a day, in a week, in a month?
3. **Repeat customers:** how many are returning customers and how many new customers? (A higher number of returning customers is better!)

Cannabis Retailer Business Assumptions

1. **Retail mark-up:** how much the product is acquired for and how much its sold for.
2. **Marketing budget:** how much goes into acquiring a customer? What are the recurring marketing channels? (E.g. social media, print, PR, merchandise, Weedmaps)
3. **Fixed costs in the operating budget:** are they properly justifying their expenses such as rent, utilities, security, payroll, software, accounting.

Cannabis Retailers: Business Assumptions

1. **Accuracy of the Point-of-Sale (POS) system and receipts:**
 - a. Average transaction amount
 - b. Average number of transactions
 - c. Average number of customers (returning vs. new)
 - d. See markups by product category
2. **Accounting Software & Payroll Software:**
 - a. Sales, overhead expense
3. **Contracts & Invoices**
 - a. Marketing & other misc expenses

Cannabis Cultivators: Business Assumptions

1. **Square footage:** the total square footage isn't the only thing you need to look at when valuing a cultivation business. You need to understand and see how the space is divided into specific areas.
2. **Facility type:** is it indoor, mixed, outdoor?
3. **Cost per pound:** the highest cost per pound (in terms of expense) is for products grown indoor due to the high cost of utilities and nutrients, technology, and equipment. How do these costs that go into production compare to Industry Standards?
4. **Yield:** how much yield per square foot? How many harvests per year?

Notes on Distressed Businesses

Retail:

- (1) Average Spend per Transaction Low: Sales training, introducing new brands
- (2) Low # of transaction: More/Better marketing, running deals
- (3) High cost of marketing: Increase recurring customer count by introducing a loyalty program

Cultivation:

- (1) Low Yields: changing master grower, using different nutrients/soil, replacing lights more often, changing growing methodology

Key Takeaways



- Understanding key assumptions driving the business valuation
- Do due diligence over them by looking at POS systems, payroll systems, accounting software, visit the operation
- Always opportunity out there and bad companies can be turned around
- Are they compliant - taxes, licensing etc.

Questions or need help with a valuation?

Contact GreenGrowth CPAs today!

www.greengrowthcpas.com

(800) 674-9050