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## As some cannabis businesses struggle to launch, license sales emerge as exit strategy



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Thomas Macre (right), founder of Connecticut cannabis dispensary chain Still River Wellness, said his company has been approached by delivery service companies looking to sell their licenses.

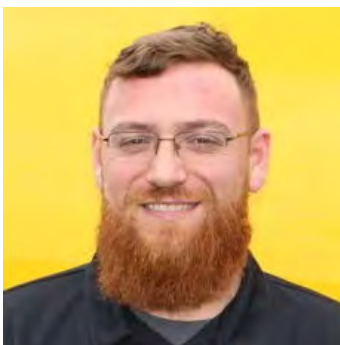
By Skyler Frazer

**W**ith Connecticut's adult-use cannabis market nearing its second anniversary in January, merger-and-acquisition activity could ramp up as more companies reach the final licensure stage and determine whether they want to move forward with launching an actual business.

Some licenses have already quietly changed hands, which is permitted under state law, with some restrictions.

The White Oak Bridge, a cannabis transport company based in East Hartford, purchased its transporter license from another company, NMB BPT LLC, which originally won it via the general lottery in 2022.

NMB's principals — Bridgeport resident Amir Isufi and New York residents Enkelejd Isufi and Agron Gjyriqi — didn't want to move forward with their fully approved license, so they put it up for sale for an undisclosed price, said **White Oak Bridge CEO and co-founder Justin Frytz**.



Justin Frytz

“(NMB) had won its license in the general lottery and didn’t necessarily know how to move it forward, and didn’t necessarily want to invest the money to do it,” Frytz said.

White Oak Bridge’s strategy is to hold several licenses to vertically integrate operations in Connecticut, he added. It’s a model being used by other companies in the state, and licensees know that, leading to behind-the-scenes discussions about possible license sales, industry experts said.

Increasing the potential for license transfers are the numerous challenges cannabis startups face, including a rigorous regulatory process, lack of capital and real estate options, as well as general tough economic conditions, experts said.

### Liquidating a license

**Thomas Macre, founder** of Connecticut cannabis dispensary chain **Still River Wellness**, said his company has been approached by delivery service companies looking to sell their licenses. Still River isn’t sure if it will pursue delivery operations itself – which the state allows it to do as a dispensary – partner with a licensee, or pursue a license acquisition, Macre said.

Nova Farms, a Massachusetts-based cannabis company with a network of marijuana dispensaries and outdoor cultivation farms in three states, has made acquisitions part of its business strategy. **Nova Farms CEO Derek Ross** and **Jason Teal** partnered in Connecticut to win a cultivation license in the 2022 cannabis lottery, and have been navigating the feasibility of adding other licenses to vertically integrate.

The company, which plans to open dispensaries and an outdoor cannabis cultivation facility in the state, announced in May that it secured a \$20 million investment from alternative investment firm Chicago Atlantic to expand in the Northeast.

Ross told the Hartford Business Journal earlier this year that Nova Farms was negotiating to potentially purchase a cannabis product manufacturer business in the state.

“There are people out there trying to liquidate licenses,” Ross said. “People are getting intimidated in the industry in general – there are real operators showing up now, people that have lived and breathed this their whole lives, and it’s not easy.”

Not all licenses and businesses can be transferred. Social equity license holders must keep at least a 50% share of their companies for seven years before selling equity.

The state Department of Consumer Protection (DCP) said non-social equity owners may sell their licenses after receiving final licensure. No backers – the term for people with an ownership stake in a cannabis establishment – may be added to the business between the initial application stage and final licensure.

LICENSE TYPE	FINAL LICENSE ISSUED	PROVISIONAL LICENSE ISSUED, BUT NOT FINAL LICENSE
PRODUCERS	4	0
DIA CULTIVATOR	1	12
MICRO-CULTIVATOR	3	3
DISPENSARY FACILITY	2	0
HYBRID RETAILER	25	10
RETAILER	18	24
FOOD & BEVERAGE MANUFACTURER	3	7
PRODUCT MANUFACTURER	0	7
PRODUCT PACKAGER	0	7
DELIVERY SERVICE	5	8
TRANSPORTER	1	3
TESTING LABORATORY	1	1
<b>TOTAL</b>	<b>63</b>	<b>82</b>

Source: CT Dept. of Consumer Protection

So far, 63 adult-use cannabis businesses have received full licensure, while another 82 are stuck in the provisional license stage, according to DCP data.

The state doesn't specifically track license transfer statistics, so it's not clear how many deals have occurred so far.



Drew Richards

“I think it's definitely something we've seen in other markets, and we'll see more as Connecticut gets more mature,” said **Drew Richards, a CPA and New England cannabis leader at accounting firm Marcum**. “The whole industry is consolidating a bit, and a lot of people think there could be a bit more M&A activity than we saw a couple years ago.”

### Why sell now?

Richards said some companies planning to enter a state's cannabis market would rather purchase a license or business than rely on a lottery. That's what happened to the state's medical marijuana industry: multistate operators such as Curaleaf and Verano Holdings Corp. came in and purchased the original growers to build their Connecticut footprints.

On the seller's end, some lottery winners might just want a quick return on their initial investment.

“The market is hot, so it's going to be lucrative to get out, and maybe they just kind of want that quick play to 'get the money and run' type of thing,” Richards said.



Andrew Glassman

**Pullman & Comley attorney Andrew Glassman** said he's represented potential license buyers and sellers. However, in Connecticut's young industry, with just a few active players, valuations between two parties don't always align.

"I've been in situations where I've had clients that couldn't come to terms on value, so the buyer has walked away," Glassman said. "Buyer and seller sometimes don't agree on value, and sometimes the buyer is just not willing to make that commitment."

And the reality is, cannabis is a capital-intensive industry. Richards said some people who had plans to enter the market have become hesitant over the last several years with the increasing costs of doing business, and product saturation concerns nationally in more mature markets. There has also been a recent pullback in cannabis industry investment from large corporations, Glassman said.

"You can't just go into this business now and expect that there's this trend toward appreciation of values of operations just because it's a new industry — it's now a maturing industry," Glassman said. "It's expensive to run a cannabis operation, and you have to turn a profit."

Ross, the Nova Farms CEO, emphasized that cannabis is a hard business to navigate — his company ballooned from one employee to almost 500, and back down to about 400 in just a few years as economic headwinds and other industry realities set in.

"You're essentially building the fire truck on the way to the fire, and you've got to be able to pivot, you've got to be able to move as it's changing every day," Ross said. "Every day is like 10 days in another industry, so you've got to move quickly. It's a race."

## Due diligence

Glassman said most elements of buying or selling a cannabis license or business align with a typical M&A deal for any other industry. It requires an analysis of profit margins, debt and equity structures, and licensing paperwork needed to complete a deal.

Having a deep understanding of a company's financial records, location, competition and regulatory environment is key in preparing for an acquisition, added Richards, the Marcum CPA.

Companies are typically valued based on multiples of revenue or EBITDA (earnings before interest, taxes, depreciation and amortization), Richards said, but there isn't a lot of public data in Connecticut to gauge how much licenses are going for on the secondary market.

And valuations are even tougher at the pre-revenue stage, when businesses are just starting out, Richards said, leaving it up to financial projections and estimates based on the market.

While M&A activity could heat up in the year ahead, it's been slow in the last few years.

Cannabis industry M&A deals were down 59% in 2023 compared to 2022, according to data from cannabis investment firm Viridian Capital Advisors, with just 69 total deals occurring last year, compared to 109 the year prior, and 220 in 2021.

So far in 2024, about 40 M&A transactions have closed with a total disclosed value of \$313.44 million, Viridian reported.

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