

# Cannabis industry a gold rush to get in on, now

By Lance Rinker, Managing Editor for Konsume Politics

According to the 2005 United Nations World Drug Report, the total value of the world's marijuana market was more than \$140 billion. In the United States alone the black market cannabis industry is valued at nearly \$50 billion, according to research done by Dutchess Capital – the majority of which is provided by the Mexican drug cartels.

The legal cannabis industry, spread across the 23 states that have legalized it in some form, has a value just north of \$2 billion currently – specifically the medical marijuana industry. For investors and entrepreneurs, the \$48 billion gap between the legal and illegal business of cannabis is reason to care.

According to a new report from GreenWave Advisors, a research and advisory firm that serves the emerging marijuana industry

in the U.S., found that if all 50 states and the federal government legalized cannabis, combined sales for both medical and retail marijuana could swell to \$35

its current path, with more, but not all, states legalizing marijuana in some form, the industry in 2020 would still be worth \$21 billion, GreenWave projects.

*“Many investors come from Texas through history,” he said. “It’s hard to speculate what Texas will do regarding the legalization of marijuana for either medicinal or recreational use, but the state could play a large role in the future.”*

— Tony Alfiere  
CEO, Ripley’s Formula  
Boulder, CO

billion a year by 2020.

If the federal government doesn't end prohibition and the trajectory of state legalization continues on

Doug Leighton, co-founder and principal partner of Dutchess Capital, said he expects the legal cannabis industry to more than triple in value, as well, within the next five years – and that’s if the majority of states don’t end prohibition of the plant.

“Even if recreational legalization doesn’t happen as wide spread as some believe, the medical marijuana industry is where the real money is at for investors and entrepreneurs,” he said.

Leighton said he expects U.S. consumers to spend nearly \$2 billion on legal pot over the next 18 months. There are a handful of states that are considering legalization in some

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form over the next several months and, according to Leighton, if just one of those states does so then that amount could grow by nearly \$300 million.

Dutchess Capital, founded in 1996, has invested in companies from health care to homeland security, but has taken a more invested interest in the cannabis industry.

“We have been investing in the medical and legal marijuana space for about two years now,” Leighton said.

It was November 2012 when a medical marijuana initiative passed in Massachusetts and that’s what kicked off the interest from potential investors.

The firm made its first investment in marijuana-related businesses last summer and now has 11 companies in its portfolio. One company produces edible marijuana products, another makes THC-infused personal lubricants for women, and another developed a social media website for cannabis enthusiasts. Others include a branding company and a consultancy that helps license applicants navigate the bureaucracy of the cannabis industry.

Leighton said Dutchess currently has “seven figures” invested but expects to raise its stake into the \$20 - \$25 million range over the next 12 months. It will invest in three or four more companies this year to further round out its portfolio.

“The industry is rapidly growing and is here to stay,” Leighton said.

According to Leighton, there are still many misconceptions about this new, legal industry that people need to be educated on.

One of the biggest misconceptions, he said, is that investors and entrepreneurs believe getting into the legal marijuana industry is easy and will make them overnight successes because there isn’t a ton of competition right now.

“Businesses have these misconceptions about the valuations of their companies, products, or ideas,” he said. “Entrepreneurs need to come up with their great ideas, pitch it to investors, refine the idea, pitch it again, and keep doing it until they have a viable product.”

Leighton offered three tips for investors:

1. Be prepared to lose all of your money as a result of the presumed risks associated with this industry.
2. Laws and rules are constantly changing regarding what can and cannot happen in states where selling marijuana for medicinal or recreational purposes is legal. States still aren’t sure what to do or how to regulate, including the issues trying to work with banks that are hesitant to work with those in the cannabis industry because it is still against federal law.

3. Do due diligence on any product, service, or entrepreneur you are considering going into business with. This industry is full of young, inexperienced entrepreneurs but taking a leap of faith on unseasoned entrepreneurs could be rewarding if you do your homework. Passion drives results.

With more medical marijuana votes coming up this year, a majority of states could soon allow some form of legal pot. A majority of public opinion has already swung in favor of legalization, as a Gallup poll found last fall.

Leighton and Dutchess Capital aren’t the only investment firm, or investors curious about the budding industry either.

Tony Alfieri, founder and CEI of Boulder, Colo.-based Ripley’s Formula, was one of the keynote presenters at the first ever Marijuana Investors Conference in Texas on Oct. 5 and 6, held at The Westin hotel in Houston.

Alfieri’s company produces flavored liquid that it sells to bottlers, that then add cannabis, and sell the drinks in states where marijuana is legal. He refers to his company’s product as the “Coca-Cola of Cannabis.”

According to Alfieri, the goal of the conference was to send the message to investors and entrepreneurs that the cannabis

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industry is a legitimate and peaceful one. Holding the conference in Texas, where tough on crime laws are the norm, was a strategic move that he believes will pay off long-term.

“Many investors come from Texas through history,” he said. “It’s hard to speculate what Texas will do regarding the legalization of marijuana for either medicinal or recreational use, but the state could play a large role in the future.”

Some investors who have spoken with various lobbyists within the industry believe a vote to legalize the medicinal use of marijuana in Texas could take place as early as 2019.

California became the first state to recognize the medical benefits of marijuana, and legalized its use for medicinal purposes in 1991. A landmark study, performed by the Survey Research Group at the Public Health Institute in Sacramento, called “Prevalence of medical marijuana use in California, 2012” was published in the journal *Drug and Alcohol Review* (2014).

The data from the study shows one in 20 California adults, nearly 1.4 million people, reported having used medical marijuana to treat a serious illness. Astonishingly, 92 percent of those participants in the study reported that the drug was helpful for their condition.

According to Suzanne Ryan-Ibarra and Marta

Induni, authors of the study, the percentage of people who reported marijuana was helpful in treating a medical condition was astounding because they weren’t expecting such agreement on the drug. Induni said if it were a placebo effect people were experiencing then the percentage reporting the drug helping would only be around 30 percent, which is one reason why Ibarra and Induni said they stand by the facts and figures in the study.

Despite having one of the most successful medical marijuana programs in place, the state has yet to pass a recreational legalization law.

Today, the use of cannabis is widely cited in the successful reduction of cancerous tumors. Scientists all over the world have conducted studies to show the efficacy of certain concentrations of the plant in treating specific cancers.

Countless cancer patients report success from using highly concentrated medical marijuana oils to reduce or completely reverse tumors and skin cancers, and research in the UK recently found that cannabis can prevent the growth and spread of cancer in mice. Studies in Spain and elsewhere have turned out similar results.

Katharine Neill, the Alfred C. Glassell III Postdoctoral Fellow in Drug Policy at the Baker Institute, acknowledged that legalization could lead some nonusers to begin

using the drug, but she said the public benefits of legalization “greatly outweigh the cost.”

“Mass incarceration” of people for marijuana offenses is prohibitively expensive, she said, and the practice doesn’t make sense because the drug is not physically addictive and has not been shown to cause violent behavior. Furthermore, people convicted of these crimes are stigmatized and can have difficulty with employment, making them less productive over the long term.

And medical research increasingly points to the potential benefit for people with a variety of maladies, from combat veterans dealing with post-traumatic stress disorder to autistic and epileptic children who suffer from seizures, Neill said.

Not everyone accepts that premise, of course, but countless new research shows the benefits far outweigh the risks associated with ending prohibition.

Cannabis may be a growing industry, but it has distinct growing pains.

Those pains revolve around marijuana’s still being a Schedule I drug under the Controlled Substances Act, with medical and recreational marijuana businesses not being treated as legitimate under federal law.

Another key issue is some banking institutions will not

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work with companies involved in the cannabis industry, which forces legal cannabis shops to deal strictly in cash and creates security risks.

The U.S. Department of Justice has issued some guidance meant to reassure lenders and Leighton said he expects the government to fully clear banks to work with marijuana-related businesses within the next 12 months and to reschedule marijuana as a less dangerous drug within 12-14 months.

For entrepreneurs and investors willing to take the risk, getting in while there is still room for early adopters of the legal cannabis industry could create a new generation of wealthy individuals and stock holders.

After all, the demand already exists. It's just currently being filled illegally.