



WGD OPPORTUNITY FUND

2020 Year End Update and 2021 Outlook

With the recent inauguration of President Joe Biden and Vice President Kamala Harris, it feels like 2021 has re-started. This is a fresh new year of renewal and transition to a post-COVID, post-Trump world.

We completed the initial close of the WGD Opportunity Fund (the “Fund”) in Q4 2019 and have since made three investments (detailed below), and are actively looking at new investment opportunities with due diligence and early term sheet negotiations with several companies ongoing.

Additionally, we have continued to raise capital for the Fund – both from new investors and from existing investors who have chosen to increase their commitments and we will continue to raise additional capital for the Fund through mid-April 2021.

If you are, or anyone in your network is, interested in learning more about the cannabis sector and our Fund's diversified portfolio of cannabis related companies, please reach out as we plan to host several virtual group “breakfasts” and

“lunches” this month to share more about our investment strategy and focus. If you are interested in attending, please get in contact with us at info@wgdcapital.com and we will forward you a Zoom invitation.

Recent Portfolio Activity

In Q4 2020, the Fund completed two investments into:

- Treez as part of the final closing of their Series B financing;
- The Blinc Group’s \$1.5 million pre-Series A bridge round ([see press release](#)).

Including our earlier investment into Elevated Signals, we now have three companies in our portfolio. Here are brief descriptions of each company:

The Blinc Group is a full-service vaporizer hardware solutions company, based in New York, mainly serving middle-market and enterprise customers in the US and Canada. Blinc designs, sources raw materials, and oversees the manufacturing and assembly process of cannabis vaporizer cartridges and devices to high technical standards. Blinc is known for their high quality, thoroughly transparent supply chain, and adherence to the highest safety standards.

Elevated Signals, based in Vancouver, BC, provides production management software for cannabis cultivators and processors. They provide “need-to-have” software which customers implement to maintain compliance with regulatory requirements and pass Canadian (Health Canada) audits. Like some other SaaS software vendors, their business model features strong recurring revenue streams with high margins, sticky software with low customer churn, and low capital intensity.

Treez is a California based point-of-sale (POS) software and payments solution platform for cannabis retailers. Treez is a market leader, with over \$2 billion of

annualized gross merchandise value (GMV) flowing through its platform. In addition to serving a growing number of customers in its existing markets of California, Arizona, and Michigan, the company will be entering Maryland, Colorado, Massachusetts, Montana, Oregon, and Nevada this year. Treez also has a growing payments platform which leverages its POS solution, positioning Treez to capture an increasing portion of the GMV flowing through its platform.

Market Update and Outlook

As expected in the year of COVID, 2020 was challenging for capital raises, with 298 financings totaling \$4.2 billion according to Viridian Capital Advisors, compared to 531 financings totaling \$11.7 billion in 2019. M&A activity was also down, with 89 transactions in 2020 compared to 301 transactions in 2019. However, some sectors did see more activity last year. In 2020, there was an uptick in software and media capital raises compared to 2019, mostly fueled by debt. There has also been continued strong investment into cultivation and retail, and continued M&A activity in the cultivation, retail, and infused products sectors. There was a small uptick in M&A activity for biotech and pharmaceuticals, which is reflective of the larger industry-wide trend of increased biotechnology activity, likely in response to the COVID-19 pandemic.

In tandem with rapidly increasing special purpose acquisition company (“SPAC”) activity in the overall market, cannabis-focused SPACs raised approximately \$2.7 billion in 2020. Towards the end of 2020, a few notable deals were completed with SPAC shareholders approving the acquisition of target companies. In late December, the Schultze SPAC completed its takeover of Clever Leaves, a Latin American cultivator which now trades as CLVR on NASDAQ with a market cap of \$220 million. In mid-January 2021, the Subversive Capital Acquisition SPAC completed its RTO with California vertical operator Caliva and brand house Left Coast Ventures, and aligned with celebrity rapper Jay-Z Carter’s MONOGRAM brand and his Roc Nation agency. It now trades as GRAMF on the OTCQX with a market cap of \$640 million. It will be interesting to see how many more SPACs will

be able to secure deals and make them stick with their SPAC investors, who must vote to approve the acquisition of the target operating company.

While the transaction volumes in Q4 2020 did not much improve over the previous quarter, according to Viridian Capital Advisors, valuations began to move up on the back of strong MSO earnings and Joe Biden's successful presidential race. Then, in early January after the Democrats took control of the US Senate, valuations and fund-raising went parabolic. MSOS, one of the marijuana ETFs, was up 26% in the first two weeks of 2021, for example. The rise in prices has spurred fast action in the public equity markets with several companies including Curaleaf, Ayr, Village Farms, and Columbia Care each raising well over \$100 million in the early weeks of January. We have yet to see this enthusiasm spill into the private markets where equity capital is still scarce but would not be surprised to see entrepreneurs try to ratchet up valuation expectations.

Demand for cannabis and cannabis products in the legal market steadily increased in 2020. Nine states more than doubled their 2019 sales and data analyzed by Leafly shows that nationwide cannabis sales increased by 67% to \$17.9 billion compared to 2019's \$10.7 billion. Five additional states (including New Jersey) voted to legalize cannabis in the November elections. Cannabis is now legal for adult-use in 15 states and for medical use in 34 states. We expect these numbers to continue to grow as New York and other north-eastern states are expected to legalize in the coming year or two.

With a new president in office and the Democrats securing both the House and Senate, there is renewed optimism that some form of legalization will occur in the US in the next couple of years. The MORE Act, originally sponsored by Vice President Kamala Harris, passed a vote in the House in late 2020, and is expected to progress to the Senate. The MORE Act decriminalizes marijuana, removes it from the list of scheduled substances under the Controlled Substances Act and eliminates criminal penalties for individuals who manufacture, distribute, or

possess marijuana. A parallel piece of legislation, the SAFE Act, which protects banks and insurers from federal punishment for doing business with cannabis-related firms, may also achieve progress. In our view this legislation, or something similar, will progress slowly this year while more pressing initiatives are addressed in the legislatures. Additionally, Senator Chuck Schumer recently commented that he intends to merge cannabis bills into a single package to move in the Senate. Earlier this week, Senator Schumer joined with two other senators to announce that a comprehensive reform bill will be introduced in the early part of 2021. That said, changes like this do not happen overnight. We expect some form of these legislations to pass in 2022 or 2023, though likely prior to the midterm elections. While no one in the industry hopes for any delay, the extra time allows young companies to gain critical mass and become increasingly attractive acquisition candidates.

In Canada, the market continues to evolve positively. Monthly sales of adult use cannabis were C\$154 million in January 2020 and were set to grow to over C\$300 million by year-end 2020 ending the year at an annualized run rate in excess of C\$3.6 billion. Meanwhile the Canadian medical market has remained steady at a run rate of C\$600 million per year.

Israel also grew its medical cannabis patient count to an estimated 100,000 patients by year-end 2020 from approximately 60,000 patients at the start of 2020. This growth will facilitate more extensive clinical trials for the therapies being developed there. Israel has also announced a legalization ballot which seems to have garnered some initial support. Legislative action, however, will likely be delayed by yet another round of federal elections being held in March 2021. In general, our interest in Israel focuses on R&D capabilities, rather than on access to their internal market.

Overall, we have a positive outlook for 2021 as we anticipate an improving economic and political climate. We are always available to answer any questions

you have, or to just talk about the state of the industry, so please reach out. We hope that you and your families are staying safe and healthy.

All the best for 2021!

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February 3, 2021

About WGD

The WGD Opportunity Fund, L.P. was formed to capitalize on the rapidly evolving and expanding legal cannabis industry. The Fund is uniquely positioned to support market-leading businesses while mitigating risk through professional management, diversification, structured investments, and corporate governance. The Fund is strategically located in key cannabis, technology, and capital market locations, with offices in Palo Alto, Vancouver, and Tel Aviv.

WGD Capital is an offshoot of WGD Partners, a San Francisco Bay Area-based financial advisory firm focused on providing tailored financial services to emerging and middle-market growth companies, including syndicating investment/capital-raising opportunities, mergers and acquisitions, and other financial advisory and corporate development services in the technology and legal cannabis sectors.

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