



magazine

FEB 14, 2018

Not blowing smoke: Improving cannabis companies' investor

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Growing industry needs to learn how to succeed on Wall Street

Legal cannabis is one of the fastest-growing industries in North America, with hundreds of companies having shares publicly traded in the US and Canada. Although the US cannabis industry must contend with a federal prohibition against growing and distributing the plant, at the state and local level it employs hundreds of thousands of people and generates hundreds of millions of dollars in tax revenue.

From a capital markets perspective, the industry raises many issues, including how to raise money and invest in cannabis, and for the C-suites and boards of cannabis-producing public companies, how to effectively communicate with key stakeholders.

Regardless of the US federal government's legal stance on cannabis, hundreds of companies are listed on the OTC, Toronto Stock Exchange (TSX) and the Canadian Securities Exchange (CSE). There are even a small number of cannabis businesses listed on the NYSE. Some of these companies – such as Canopy Growth, Aurora Cannabis and MedReleaf – have market capitalizations in the billions of dollars. And one company, Terra Tech, boasts more than 90,000 shareholders.

Although the cannabis industry has long operated in the shadows, many businesses have upped their game, becoming SEC-reporting companies, successfully raising millions of dollars of capital and attracting thousands of investors. But with increased visibility comes increased scrutiny.

It is imperative that management teams follow IR best practices that have been established by their publicly traded peers to ensure the capital markets remain receptive to investing and money continues to flow into the cannabis industry. Investment capital is finite, and investors have plenty of options for placing their bets in the stock market. The following are some basic tenets of investor communications that cannabis companies need to embrace in order to gain their fair share of investor interest:

Clear the smoke

It's not often a historically illegal industry becomes legal, and historical stigmas and negative

perceptions associated with cannabis need to be addressed at the outset. To overcome these issues, both perceived and real, we recommend that listed cannabis companies over-communicate their business activities via press releases, investor conference calls, byline articles and industry conference participation.

The more transparent you can be, the better – particularly for companies listed on OTC, TSX and the CSE – even if there is a lower bar for reporting requirements than for firms listed on Nasdaq and the NYSE. We advise companies to behave as if they were listed on a big board. Doing so will add credibility and rigor that will be appreciated by the investment community. Communicate like the company you aspire to be.

Treat shareholders as partners

Regardless of your market capitalization or the exchange your company trades on, treat your shareholders as if they're partners in the business – which they are. If you're asking investors to provide growth capital, you owe it to them to effectively communicate your business strategy and the use of proceeds. Whether the industry is cannabis, technology or industrials, investors expect management to come to market with a sound business plan and be able to execute against it with great precision.

Ditch the tie-dye shirts

Although the dotcom era and the present social media explosion have loosened the 'suit and tie' mentality of Wall Street, the investment community at its core remains relatively conservative. If you're looking to successfully tap the capital markets and be taken seriously, dress the part and carry yourself appropriately. The idea is to be viewed as a strong, savvy business professional with the credibility and ability to execute. Plenty of successful business professionals are devout 'Deadheads' – you just wouldn't know it Monday to Friday.

Score the dream team

Nothing instills greater confidence than surrounding yourself with a formidable team. From the senior management team to boards of directors and advisers, we urge cannabis companies to build a team that can help them successfully execute their business plan – and lend an air of credibility. As with the early days of the internet boom, everyone wants in on the ground floor of the cannabis revolution. Shoot for the stars: depending on the situation, you'll be surprised who you'll be able to attract.

The growth of the cannabis industry is providing a once-in-a-lifetime opportunity. If management, boards of directors and investors treat this industry properly it will bloom. If it is treated as a black market, the industry will wither and die.

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