

Cannabis Consumer Products Company

ABOUT THE CLIENT:

MACCO's client was a publicly traded cannabis consumer packaged goods company with a diversified portfolio of distinctive brands and products that it distributed across fifteen legal cannabis markets nationwide. It specialized in acquiring and developing market-proven regional brands, as well as launching innovative new brands.

CANNABIS HISTORY:

The origins of cannabis are ancient. According to Wikipedia, "cannabis was first domesticated about 12,000 years ago in East Asia during the early Neolithic period. The use of cannabis as a mind-altering drug has been documented by archaeological finds in prehistoric societies in Eurasia and Africa with the oldest written record of cannabis usage being the Greek historian Herodotus's reference to the central Eurasian Scythians taking cannabis steam baths." There are three major strains: *cannabis sativa*, *cannabis indica* and *cannabis ruderalis*. From these three strains numerous varieties are developed for taste, potency and marketing differential. Cannabis has more than 1,200 slang terms and more than 2,300 names for individual strains.

Canada legalized medicinal cannabis in 2001 and recreational use in 2018. In the United States, during the 1970s, several west coast states began to liberalize cannabis laws through decriminalization; however, it remains a federally regulated Schedule I prohibited narcotic. At the state level, in 1996, California became the first state to legalize medicinal cannabis. This sparked a trend that spread to most states by 2016. In 2012, both Washington and Colorado became the first states to legalize cannabis for recreational consumption with other individual states across the country following suit, first legalizing medicinal, and then later, recreational use. The "**Green Rush**" occurred as entrepreneurs, from every genre, from former illicit growers/distributors to investors, private equity firms, lenders, family offices and retail stock buyers piled into the cannabis industry at every level, cultivation, production, dispensary and cpg/devices and branding.

THE FIRE

After going public in 2019, followed by several subsequent rounds of cash raises and after several money losing acquisitions, the replacement of its founder, burning through cash and seeking a new leader, the company was on Fire.

- In the weeks leading up to the closing for the period between October and November 2021 the Company had a diminishing cash balance, had suspended payments to the majority of its professional service providers and deferred payments to multiple vendors because of the lack of cash on hand.
- It's share price had fallen from C\$2.50/share to approximately C\$0.06/share.
- The Company had ineffective leadership.

- It was saddled with a board of directors consisting of insiders or those with their own conflicting interests who actively meddled in operational decisions.
- Operating management was stymied in enacting meaningful and much needed change.
- Overhead was bloated compounded by the costs of being a public filer.
- Sales and sales leadership was lackluster and floundering.
- Questionable acquisitions, poor decision-making, failed products, high costs, inefficiency, and poor logistics abounded.

The Company was dysfunctional at every level. And with only a few months of cash to support it, it was questionable whether the Company could survive.

THE RESCUE

In October 2021, MACCO was engaged as Financial Advisor and immediately began assessing the Company, its operations and financial condition while planning the turnaround. A US\$17.5MM convertible term loan was negotiated at arms-length and closed in November 2021 coincident with Drew McManigle assuming the role of Interim-CEO and Board Chairman. On November 16, 2021, the MACCO team began implementing its focused and rapid response turnaround plan that included:

- Conserving cash including the detailed development of a 52-week “living” cash flow analysis that traced every penny in and every penny out.
- Enact viable and necessary controls, policies, and procedures across the organization.
- Wind down, shutdown or sell cash-draining and unprofitable subsidiaries, including cultivation and production facilities.
- Take management control of a 3rd Qtr. 2021 Northeast acquisition that had been poorly executed from the outset to assure its integration and management.
- Create a culture of personal accountability while insisting upon clear, accurate and actionable communication across the executive and middle management team, while mentoring key C-Suite employees.
- Establish appropriate boundaries between board members, lenders, and operating management.
- Optimize productivity, while reducing excess headcount, by thoughtfully assessing talent, roles, and responsibilities.
- Assess and clean up prior management’s balance sheet, share issuances, and officer and employee compensation blunders.
- Initiate and drive development of new brands and products while eliminating poor performers.
- As Interim CEO & Board Chair assure, accurate, timely and meaningful corporate governance and active shareholder relations.

THE RESULT

The Company *survived and thrived!*

- Prudently invested approximately \$5.0MM in cannabis cultivation expansion and new Northeast cannabis dispensary business opportunities.
- Reduced headcount by approximately 50% while improving operational efficiency.

- Slashed operating overhead more than \$4.0 million.
- Significantly reduced accounts payable together with improvements in purchasing, ordering, and manufacturing out-sourcing.
- Resolved myriad failed acquisitions/subsidiary, lease and loan obligations related business and finance issues.
- Reviewed and mandated clear financial statements, including clean-up of balance sheet issues from prior mergers and management actions.
- Initiated, obtained shareholder approval, and completed a 1:6 reverse stock event rationalizing stock ownership.
- Justified marketing spends and revamped website improving online presence and sales.
- In a record 10 months, initiated the development, consumer testing and out-sourced manufacturing of a completely new brand of CBD & THC gummies.
- Reformed the sales team, including seating a new Sales Manager.
- Approved efforts to improve operational logistics.
- Directed the rightsizing of Northeast operations displacing ineffective management and personnel.
- Obtained a single recreational cannabis license while approving the development and buildout of a retail recreational cannabis location.
- For the 3-month Quarter ending September 30, 2022, the last quarter of MACCO's engagement, the Company had
 - Beaten its overall Mountain State quarterly sales forecast by 12%.
 - Sustained margin improvements of 44% together with operational cost reductions.
 - Was Cash Flow positive.
 - Had \$12.MM in cash on its balance sheet.
 - Had successfully launched its new brand of attractively package, good tasting, and efficacious gummies.
 - Was set to begin successful recreational cannabis sales at its Northeast location on October 1, 2022.
 - Positively transitioned from MACCO's leadership to a new Company CEO with strong company understanding and ties.
 - Had an independent, culturally diverse, proficient board of directors that included establishment of an M&A Committee to assure independent review of management sponsored acquisitions.