

Future of the U.S. Cannabis Industry

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What is the future of the United States (U.S.) [cannabis industry](#)? While operators wait on the Biden administration to reschedule the herb and for Congress to pass some banking legislation, several states have provided tax relief within their borders.

But what is the overall trajectory? What is the potential of the future U.S. [cannabis industry](#)? CLN chatted with Nawan Butt, Portfolio Manager at [Purpose Investments](#), for answers.

“It’s very important to understand that there has been many times before that regulation has seemed to move forward and come to a full stop,” says Nawan. “So even though there is a progress, hope remains very disdained given the history.”

Handicapping the U.S. Cannabis Industry

Inaction in Washington, D.C., handicaps the future of the U.S. [cannabis](#) industry.

While some suspect the Biden administration will reschedule cannabis by the end of the year, others think Biden will dangle the [legalization](#) carrot for the 2024 election, much like Justin Trudeau did in Canada in 2015.

Regardless, the [repeated failures of the SAFE Banking Act](#) to pass the Senate have frustrated cannabis operators across the nation. Cannabis operators are dealing with large quantities of cash. Banks deny them essential services, like access to lines of credit.

“Most recently,” Nawan reminds us, “[Visa and Mastercard](#) pulled all their operations from cannabis businesses. That’s the handicap that these businesses have had to deal with.”

However, there are actions state governments can take to take the pressure off their local cannabis industry. Several states are looking into tax relief.

“The tax relief has just started,” says Nawan. “It’s important to understand it’s only very few states.” Right now, New York and Illinois are in the spotlight. But it’s too early to tell how effective this relief will be.

“We will see positives come out of it,” says Nawan. Since allowing businesses to deduct operating expenses from gross income means they can keep more of their money.

But Nawan’s interest is in federal regulation. “Right now,” he says, “It’s a very, very onerous taxation on these businesses.”

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Nawan hopes for a future U.S. cannabis industry that doesn’t harm operators or punish consumers. Specifically, federal regulations that “allow for the financial system to get involved within cannabis.” Then, he says, “People can pay for their cannabis with their credit cards.”

“On the business side,” he says, “we’re talking about growth capital coming back into place, which means the opportunity to borrow money and open stores or open cultivation that will be offered to more and more people so more people can get involved in the business of cannabis.”

Current barriers prevent less capital-intensive producers from competing against those with deep pockets. As well, location matters.

If we take a look at something like Florida, Florida has hundreds and hundreds of stores, but they’re only medical. And if we take something like New York, even though adult use is legal, we’ve only seen about a dozen stores or so open. And that’s because different states rolled out their regulation in a different manner.

Nawan hopes that federal regulation means “access to growth capital, something that they have been missing for a good part of two and a half years now.”

But it isn’t just the lack of access to capital and banking that threatens the U.S. cannabis industry. The banks themselves view anything cannabis related as tainted.

Bank of America, says Nawan, “made a lot of investors actually liquidate their holdings” that were cannabis related. “We’ve seen a lot of people not be able to participate within the space as they’ve wanted to. That will also be lifted if we have either a federal de-scheduling or if the Safe Act goes through.”

Nawan says regulatory change is in the future of the U.S. cannabis industry. It’s not a matter of “if” but “when.”

TerrAscend Leading by Example?

What is the future of the U.S. cannabis industry? And when will it happen?

Many cannabis operators aren’t content to sit around and wait for changes from Washington. Many, according to Nawan, are asking themselves:

How long can we keep on making good money, and how can we better our operations so we’re making more money with the same footprint that we have right now? Because we don’t know necessarily what the picture looks like going into next year, and how much capital we need to have on our sheet given the onerous taxation that we are paying.

Nawan adds that if it weren’t for excessive taxation, “a lot of these companies would be in a much better picture for growth. It’s an exorbitant amount and it does hold the companies back from their growth.”

But while most companies play the waiting game, others have been proactive. TerrAscend is one of these companies. They’ve gone from the Canadian Securities Exchange to the Toronto Stock Exchange.

The latter provides greater access to liquidity, leading to TerrAscend’s removal from blacklists from institutions like Morgan Stanley.

With more access to investors, TerrAscend has raised \$25 million in commercial loans with Stearns Bank. Their stock is up 30%. Nawan calls them a trailblazer in the cannabis industry’s attempt to find regulatory workarounds.

“What they’ve done is,” says Nawan.

They’ve said that as long as you have a shell that is Canadian and holds Canadian assets,

you can consolidate your holdings up to the Toronto Stock Exchange, which is what TerrAscend has done. We think this is a brilliant move from TerrAscend to really allow the proliferation of access to their stock. It allows even institutional investors now to start picking up some of that stock as well. So we think this is sort of like a gateway. It's at the end of the day, it's a Band-Aid. It's not a, you know, comprehensive solution. But nonetheless, it allows TerrAscend access to a whole new investor class where they can actually go and raise money either on debt or on the equity side, but it gives them access to capital. And then now we're starting to see a lot more MSOs begin to focus and shift and see if they can have a small Canadian operation with which they can list on the Toronto Stock Exchange and get access to investors again.

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Will other multi-state cannabis operators follow TerrAscend's lead? Time will tell. Nawan suggests they "find a position where they do have somewhat access to capital."

For, if all of your competitors are holding back and not investing, "you want to be the company that actually is investing the money that you have so that you have that head start on those competitors."

Nawan suggests establishing a good footprint because "all of a sudden regulation gets looser, that footprint is going to be worth its weight in gold."

Overall, "I think a lot of these companies should be focusing on is smart growth," says Nawan. "There's light on the other end of the tunnel because it is pretty much seen as inevitable, this sort of proliferation of cannabis."