

## The Investment Case for Cannabis

### Executive Summary

Amid the evolving public perception of cannabis—from largely *recreational to medicinal, to both*—is the creation of new markets spurred by increased global demand. This trend may present a compelling investment opportunity. As legal use continues to spread worldwide, political momentum and public pressure to legalize cannabis for medical and recreational purposes have also gained traction. These factors have fostered technological and scientific breakthroughs leading to the development of a variety of product-related and service areas for new and innovative uses.

Cannabis has come a long way from its days of “Reefer Madness<sup>1</sup>” prohibition. Today, cannabis and its chemical derivatives are no longer viewed as a recreational novelty, but as an effective therapeutic remedy to treat ailments such as anxiety, chronic pain, seizure disorders, PTSD and more. It is now partially or fully legalized in 51 countries and 42 U.S. states.<sup>2</sup> During the COVID-19 pandemic lockdowns, the cannabis industry was designated “essential” business status in the nearly 30 states with functional marijuana markets, as well as the District of Columbia and Puerto Rico.<sup>3</sup> According to Grand View Research, the global legal marijuana market is expected to reach \$102.2 billion by 2030, expanding at a CAGR of 25.5% from 2022 to 2030.<sup>4</sup> Many investors have recognized the growth potential of this emerging industry. While some remain wary of investing in an industry that is still federally illegal, the macroeconomic and regulatory landscape has nonetheless continued to rapidly transform.

Public acceptance of cannabis has increased to the level that the majority of people in the United States now support its legalization. Moreover, given that it is now legal in some form in almost every state, there seems to be no turning back as the industry’s infrastructure development continues in earnest, bringing with it the potential for millions of dollars in state tax revenue. A key consideration for investors is that momentum seems to remain on the side of federal legalization, suggesting that we may be at a very important industry inflection point.

Many cannabis-oriented companies are not listed on major stock exchanges, or they are listed in Canada where it is federally legal. This lends itself well to a basket-investment approach, as pooled products (as opposed to individual stocks) can provide diversification and broad global access to companies in this emerging industry. It is also important to note that navigating the cannabis investment space is fraught with complexity as the industry continues to develop. This means that a professionally managed, diversified approach may be the best way to gain exposure to this investment opportunity.

<sup>1</sup> Reefer Madness was a 1936 American anti-cannabis propaganda film.

<sup>2</sup> *Legality of Cannabis*, Wikipedia, May 5, 2022, <https://disa.com/map-of-marijuana-legality-by-state>

<sup>3</sup> Sacirbey, Omar, *How ‘essential’ transformed the US cannabis industry amid the COVID-19 pandemic*, MJBizDaily, March 15, 2021, <https://mjbizdaily.com/how-essential-transformed-the-us-marijuana-industry-amid-the-covid-19-pandemic/>

<sup>4</sup> Grand View Research, *Legal Marijuana Market Growth & Trends*, April 2022, <https://www.grandviewresearch.com/press-release/global-legal-marijuana-market>

## A Long History

The use of cannabis is nothing new, as it dates back to Ancient empires of China, Egypt and Rome. Throughout history, the plant has been widely used medicinally by different cultures worldwide. However, in the early 20<sup>th</sup> century, its use went out of favor with both regulators and Western culture. In the United States, a wave of regulations made access more difficult starting in the late 1900s. This culminated in the Marihuana Tax Act of 1937, which effectively made cannabis use a federal offense. Similarly, it was prohibited in Canada for the last 85 years until its recent legalization.

The trend of 20<sup>th</sup> century opposition to cannabis is just a sliver of time when considering its 6,000-year history:



### A Timeline of the Long History of Cannabis Use

#### CANNABIS CULTIVATION

Dating back to the Ancient Empires of China, Egypt and Rome, the cannabis plant has been used by different cultures around the world in many ways. The trend of 20<sup>th</sup> century opposition to cannabis is just a sliver of time when considering its 6,000 year history.



#### Earliest Uses

Major food crop and known as one of the five grains of China. First known use for medicine was in 2037 AD, referenced by the Chinese Emperor Shen Nung as a treatment for over 100 ailments and medical purposes. It was also used for textiles, rope and oil.



#### Sacred Grass

Considered one of the five sacred plants of India by Hindus. Mentioned in Hindu sacred text Arthava-Veda as "joy-giver" and the "source of happiness". Used during daily devotionals.



#### Trade Routes

The Scythians—a large group of Iranian nomads in Central Asia began inhaling the smoke from smoldering cannabis via pipes. Hashish became accepted through the Middle East and parts of Asia through trade routes.



#### Medical Use

Cannabis extracts were commonly sold in pharmacies and doctors' offices throughout Europe and the U.S. to treat stomach problems and other ailments. Used frequently during the Civil War as a remedy and for ropes and textiles.



#### Regulation Grows

In 1906, the FDA was founded and began to regulate cannabis. The 1910 Mexican Revolution started to spread its recreational use in the U.S. as the Great Depression stoked unrest. Cannabis became known as "the Evil Weed."



#### Reefer Madness

By 1931, during the Prohibition Era, over 29 states outlawed its use. The Marihuana Tax Act of 1937 was the first federal U.S. law to criminalize use nationwide. The Act imposed an excise tax on hemp products, for all but industrial uses.



#### War On Drugs

The Controlled Substances Act of 1970 repealed the Marihuana Tax Act. Cannabis became a Schedule I drug, like heroin, LSD, and ecstasy, it was deemed at high potential for abuse with no medical exceptions. In 1989, a NORML\* petition for medical use failed.



#### Legalization

In 1996, California became the first state to legalize cannabis via The Compassionate Use Act. 29 other states soon followed. In 2012 Washington and Colorado legalized cannabis for statewide adult recreational sale and use.



#### Global Acceptance

At least 49 states and 21 countries have partially or fully legalized cannabis. Canada became the second nation in the world to legalize it completely for adult use. New and modern methods of cannabis consumption continue to evolve.



Sources: [Wikipedia.com](http://Wikipedia.com), [MedReleaf](http://MedReleaf), [History.com](http://History.com)

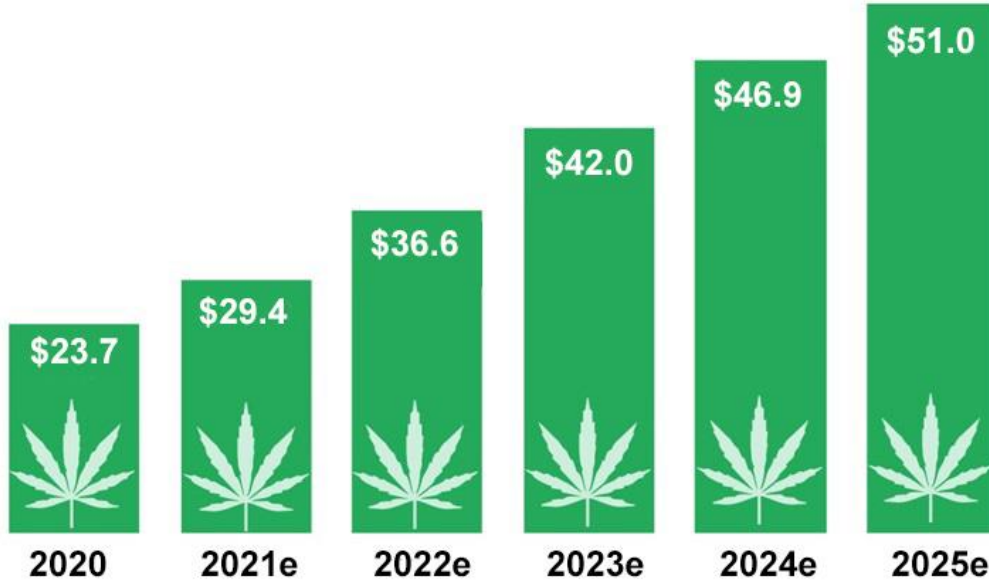
\***NORML** - National Organization for the Reform of Marijuana Laws

## Solid Industry Growth Globally

The trend toward global cannabis legalization is expected to drive tremendous growth. According to Grand View Research, the global legal marijuana market is expected to reach \$102.2 billion by 2030, expanding at a CAGR of 25.5% from 2022 to 2030.

### *Legal Global Cannabis Spending Set to Rise*

Legal Global Cannabis sales are expected to grow 16.6% in the period from 2020-2025



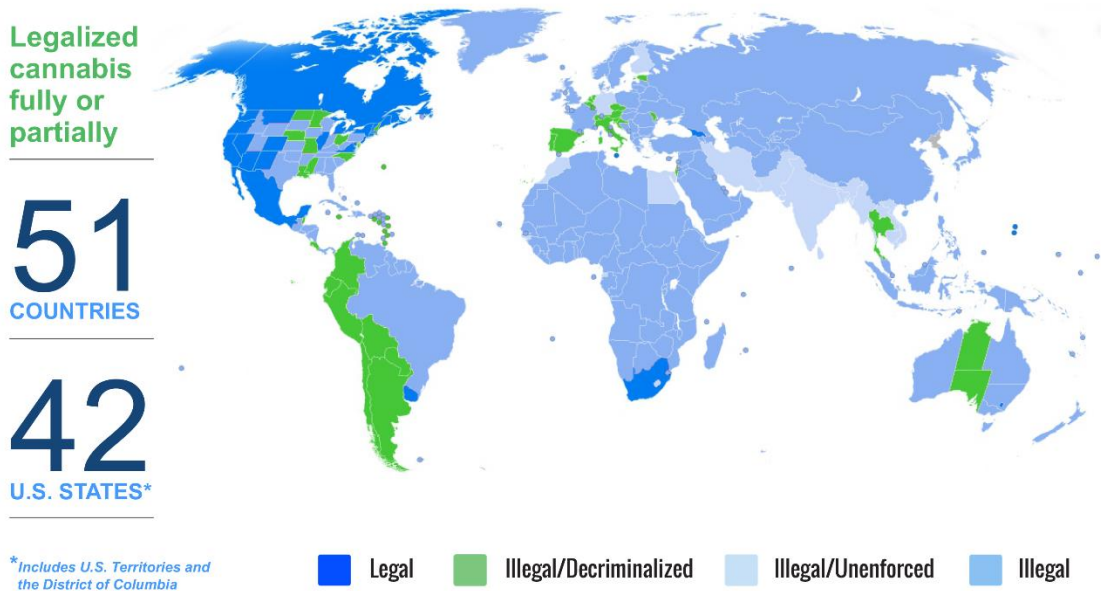
2020-2025 *Estimated*

Source: New Frontier Data, 2021

## Legalization: A Worldwide Trend

Cannabis has created new markets globally as its use continues to spread. Increased political momentum and public pressure to legalize its use for medical and recreational purposes have led to new and innovative applications in product-related and service areas, driving global technological and scientific breakthroughs.

***Cannabis is now legal in some form in 51 countries and 42 U.S. states, territories, and the District of Columbia.***



Sources: Investopedia, CNET EQM Indexes, as of May 2022

Aside from the United States and Canada, countries where cannabis use is legal in some form (i.e., legalized, partially medically legalized or decriminalized) include Adult-Use Markets: Guam, Mexico, Netherlands, Northern Mariana Islands, Uruguay, South Africa, and Spain; and Medical Markets: Australia, Chile, Columbia, Czech Republic, Denmark, Finland, France, Germany, Guam, Israel, Italy, Jamaica, Luxembourg, Malta, Netherlands, Northern Mariana Islands, Norway, Peru, Poland, Puerto Rico, United Kingdom, U.S. Virgin Islands.<sup>5</sup>

<sup>5</sup> New Frontier Data, 2021.

## The Shifting Tide of Public Opinion

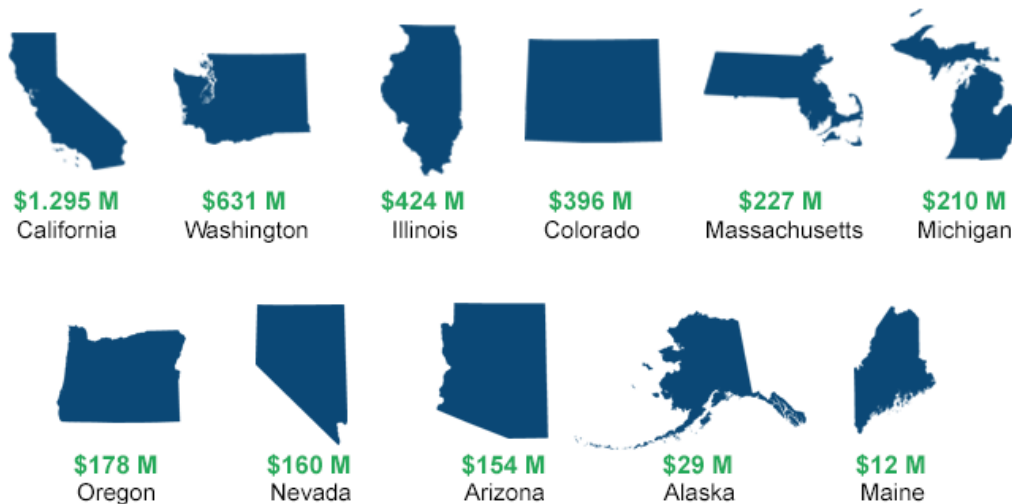
Public acceptance for legal cannabis use continues to increase. According to Gallup,<sup>6</sup> more than two in three Americans (68%) supported legalization as of 2021, maintaining a record-high level set in 2020.

Other recent polls<sup>7</sup> also show a high level of support. One CBS poll puts the number of Americans who believe the use of marijuana by adults “should be legal” at 66%. This is consistent with another recent poll from Pew (68%) showing support for legalization at record or near-record highs.

Tax revenue is a factor causing voters to rethink the legalization of cannabis. According to the Marijuana Policy Project, more than \$3.7 billion in tax revenue were generated in 2021 from adult-use legal states.<sup>8</sup> Even though the U.S. Bureau of Labor Statistics does not break-out cannabis job creation, a 2022 report from Leafly<sup>9</sup> claims that the number of direct and indirect jobs created by cannabis legalization totaled 428,059, growing at a rate of 27% for the past five years. California remains the nation’s leading cannabis employer, with \$5.1 billion in 2021 sales supporting 83,607 jobs.

### Marijuana Brought in Billions in Tax Revenue Last Year

2021 tax revenue in states where recreational marijuana is legal.



Source: Marijuana Policy Project (MPP)

<sup>6</sup> Gallup, November 4, 2021 <https://news.gallup.com/poll/356939/support-legal-marijuana-holds-record-high.aspx>

<sup>7</sup> CBS Poll: *Nationwide Support for Marijuana Legalization at All-Time High*, April 2022. <https://www.cbsnews.com/news/marijuana-recreational-legalize-opinion-poll-2022-04-20/>

<sup>8</sup> Jaeger, Kyle, *States Collected More Than \$3.7 Billion In Recreational Marijuana Tax Revenue In 2021, Report Finds*, April 6, 2022, <https://www.marijuanamoment.net/states-collected-more-than-3-7-billion-in-recreational-marijuana-tax-revenue-in-2021-report-finds/>

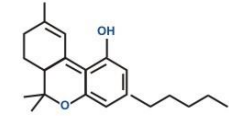
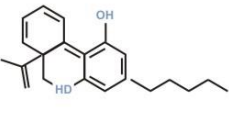
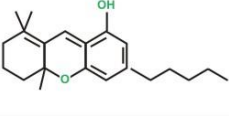
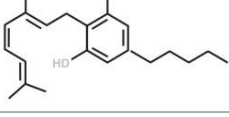
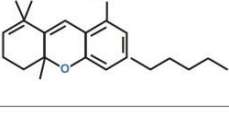
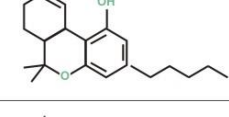
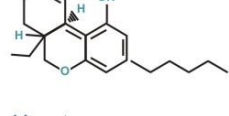
<sup>9</sup> Leafly 2022 *Jobs Report*, January 2022. <https://www.leafly.com/news/industry/cannabis-jobs-report>



## Chemistry and Therapeutic Benefits

Besides the economic benefits of cannabis legalization, one of the key drivers of public and political support has been the plant's medicinal potential. Over 100 naturally occurring compounds are found in the cannabis plant. These compounds are known as cannabinoids—chemical compounds that act directly and indirectly on cannabinoid receptors to help the body maintain stability and health.

While most people are aware of the anti-nausea benefits for cancer patients that cannabinoids offer, there are also a host of other therapeutic benefits that can be derived from cannabinoids. These include pain reduction, reduced inflammation and relief for symptoms such as anxiety, depression, PTSD, and seizures. Additionally, there are clinical trials being conducted, testing its efficacy for brain tumors.

| CANNABINOID                                   |   | BENEFIT/EFFECT  |
|---|---|---|
| <b>THC / THCA</b><br>Tetrahydrocannabinol     |   | ▶ Psychotropic, pain reduction, anti-inflammatory, anti-microbial.  |
| <b>CBD / CBDA</b><br>Cannabidiol              |  | ▶ Relieves symptoms of anxiety, depression, seizures, inflammation, nausea. Acts as a sedative, sleep aid, and muscle relaxant. |
| <b>CBC / CBCA</b><br>Cannabichromene          |  | ▶ Anti-inflammatory, pain reduction, treats acid reflux, anxiety and depression.  |
| <b>CBG / CBGA</b><br>Cannabigerol             |  | ▶ Pain reduction, muscle relaxant, anti-erythema, aids in digestion and stomach function.                                       |
| <b>CBN / CBNA</b><br>Cannabinol               |  | ▶ Mild psychotropic, may stimulate bone growth, anesthetic, anti-convulsive, analgesic, antianxiety.                            |
| <b>THCV / THCVA</b><br>Tetrahydrocannabivarin |  | ▶ Anti-obesity, aids memory, has calming effect, antibacterial, antiviral, boosts immune system.                                |
| <b>CBDV / CBDVA</b><br>Cannabidivarin         |  | ▶ Anti-inflammatory, analgesic, protects cells and the lining of the digestive tract.   |

Sources: [Cannabis.net](http://Cannabis.net)

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There are currently only four U.S. Food and Drug Administration (FDA)-approved cannabinoid drugs. The first one, which is comprised of an active ingredient derived from cannabis, is GW Pharmaceutical's (acquired by Jazz Pharmaceutical in 2021) Epidiolex (cannabidiol) CBD oral solution, used for the treatment of seizures associated with two rare forms of epilepsy. It was approved in June 2018.<sup>10</sup>

- Three other pharmaceutical cannabinoid drugs have been approved by the FDA for medical use in the United States: Marinol from AbbVie, Cesamet from Valeant Pharmaceuticals, and Syndrose.<sup>11</sup>
- **Dronabinol (Marinol® and Syndros®)** is a gelatin capsule containing a synthetic delta-9-tetrahydrocannabinol (THC), which is approved to treat nausea and vomiting caused by cancer chemotherapy as well as weight loss and poor appetite in patients with AIDS.
- **Nabilone (Cesamet®)** is a synthetic cannabinoid that acts much like THC. It can be taken by mouth to treat nausea and vomiting caused by cancer chemotherapy when other drugs have not worked.

Nabiximols is another cannabinoid drug still under study in the United States. It's a mouth spray made up of a whole-plant extract with THC and cannabidiol (CBD) in an almost one-to-one mix. It's available in Canada and parts of Europe to treat pain linked to cancer, as well as muscle spasms and pain from multiple sclerosis (MS). It's not approved in the United States at this time but is being tested in clinical trials to see if it can help a number of conditions.

One important outcome of the decriminalization of cannabis and cannabis-derived products is that it opens up the potential for further medical research and scientific innovation with regard to dosing and delivery mechanisms. Most recently, thanks to the 2018 U.S. Farm Bill, hemp was re-classified an agricultural commodity and not a class 1 drug. As a result, hemp-derived CBD became legal in 50 states and is now available for sale over-the-counter in stores such as CVS and Walgreens. There are currently three states—Idaho, Nebraska and South Dakota—that still place some restrictions on CBD.<sup>12</sup> CBD has been proven effective in treating a range of health problems such as insomnia, pain and anxiety.<sup>13</sup>

***Research and Markets estimates that the global medical cannabis market will grow at a CAGR of 10.4% during 2022-2027.<sup>14</sup>***

<sup>10</sup> FDA News Release, June 25, 2018. <https://www.fda.gov/newsevents/newsroom/pressannouncements/ucm611046.htm>

<sup>11</sup> Zana Medical Health Lab, <https://zanahealthlab.com/blogpost/FDA-Approved+Pharmaceutical+Cannabinoid+Medicines>

<sup>12</sup> World Population Review. <https://worldpopulationreview.com/state-rankings/cbd-legal-states>

<sup>13</sup> Does CBD oil work for chronic pain management, Medical News Today, November 4, 2020. <https://www.medicalnewstoday.com/articles/319475>

<sup>14</sup> Research and Markets, April 2022. <https://www.researchandmarkets.com/reports/5577818/medical-cannabis-market-global-industry-trends>

## Investment Opportunity and Risk

Despite the potential investment opportunity, cannabis stock investing has been rife with risk and even fraud. Most cannabis stocks are not listed on major exchanges nor are they listed in Canada where cannabis is federally legal. Many so-called “penny stocks” have gone public on reverse mergers or by using shell companies. In 2012, when Colorado and Washington state voters legalized cannabis, there was a “Green Gold Rush” which took many investors on a wild investment ride.

The U.S. Securities and Exchange Commission (SEC) announced trading suspensions in 2014 against five penny stocks operating in the industry with two of the five suspected of market manipulation and unlawful securities sales. The SEC issued an investor alert warning that investors beware of:

- **Trading Suspensions.** Beware of any stock with past SEC trading suspensions.
- **Promotional 'Spam.'** Watch out for any stock recommended via spam showing up in your inbox or fax machine.
- **Heavy Insider Ownership.** Large holdings by insiders could represent a red flag.
- **Laudatory News Releases.** Beware of exaggerated press releases about a company's current or future success.

Because so many of the public companies are in the early stages of development within an emerging industry, owning a diversified basket of names to gain exposure to the potential growth of the cannabis industry, while minimizing risk, makes sense for most investors. Having a long-term mindset is also important given that cannabis is not yet federally legal in the United States, which creates barriers to obtaining access to capital given that most banks have federal charters. Another obstacle is geography, as laws differ state by state.



The absence of federal legality has created inefficiency and economic dislocation. In 2019, the State of Oregon, for example, held a six-year oversupply of cannabis, producing twice the amount people were using.<sup>15</sup> Oregon was restricted from selling this surplus to other states or Canada, where there were shortages in some locations. Multistate operators (MSOs) that span across multiple legal cannabis states are still not permitted to bring cannabis or cannabis-derived products across state lines as this trade is regulated at the federal level. Oregon was able to find some balance over the past two years with rising demand due to many factors including the COVID-19 pandemic which increased cannabis usage.

**Multi-State Cannabis Companies Expand Operations<sup>16</sup>**

## MSOs in New and Potential Adult-Use Markets

Indicates licensed operations in state

4  
|  
Number of retail locations

| Company*               | Arizona | New Jersey | New York | Pennsylvania |
|------------------------|---------|------------|----------|--------------|
| Acreage Holdings       |         | 2          | 4        | 0            |
| Ayr Strategies         | 3       |            |          | 0            |
| Columbia Care          | 2       | 1          | 4        | 3            |
| Cresco Labs            | 1       |            | 4        | 3            |
| Curaleaf               | 8       | 2          | 4        | 9            |
| Green Thumb Industries |         | 1          | 3        | 12           |
| Harvest Health         | 15      |            |          | 8            |
| iAnthus                | 4       | 0          | 3        |              |
| MedMen                 | 1       |            | 4        |              |
| TerrAscend             |         | 1 **       |          | 3            |
| Vireo                  | 1       |            | 4        | 2            |

Source: Cannaccord Genuity, New York Department of Health, company reports \*Publicly traded, with operations in at least two of the four markets.  
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Source: MJBizDaily, Marijuana multistate operators set to capitalize on new markets, but small firms face hurdles, <https://mjbizdaily.com/marijuana-multistate-operators-set-to-capitalize-on-new-markets-but-small-firms-face-hurdles/>

<sup>15</sup> Danko, Pete. Oregon cannabis market shifts toward balance, thanks to rising consumption, The Portland Business Journal. February 1, 2021. <https://www.bizjournals.com/portland/news/2021/02/01/oregon-cannabis-supply-demand-report-2021.html>

<sup>16</sup> Source: MJBizDaily, Marijuana multistate operators set to capitalize on new markets, but small firms face hurdles, <https://mjbizdaily.com/marijuana-multistate-operators-set-to-capitalize-on-new-markets-but-small-firms-face-hurdles/>

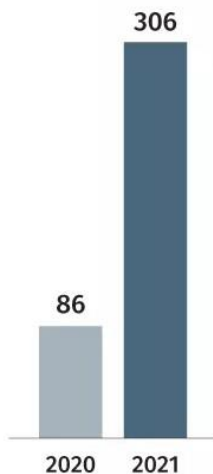
The fragmented, state-by-state nature of the cannabis industry has fueled rapid consolidation and expansion among companies with numerous mergers and acquisitions.<sup>17</sup> Marijuana merger and acquisition activity proceeded at a torrid pace in 2021 – and could accelerate in 2022 – thanks to lower interest costs and pressure on larger companies to expand their footprints and boost revenue.<sup>18</sup>

In 2021, Jazz Pharmaceuticals acquired GW Pharma for \$7.2 billion and Trulieve acquired Harvest Health for \$2.1 billion. And according to Business of Cannabis, several deals are already in place in 2022. Massachusetts-based Curaleaf acquired Arizona-based Bloom Dispensaries for \$211 million, adding a total of 13 Arizona dispensaries and 121 dispensaries nationwide to Curaleaf’s portfolio.<sup>19,20</sup>

## Notable Cannabis Acquisitions in 2021

Merger and acquisition activity heated up in 2021, with almost 3½ times as many transactions through Dec. 17 as during the same period in 2020. Public companies were buyers in 86% of the deals.

M&A transactions



Deals

| Acquirer             | Target                     | Deal Value*   |
|----------------------|----------------------------|---------------|
| Jazz Pharmaceuticals | GW Pharma                  | \$7.2 billion |
| Trulieve             | Harvest Health             | \$2.1 billion |
| PharmaCann           | LivWell                    | Not disclosed |
| Hexo                 | Redecan                    | \$766 million |
| TerrAscend           | Gage Cannabis              | \$545 million |
| Canopy               | Supreme Cannabis           | \$346 million |
| Canopy               | Wana Brands (right to buy) | \$297 million |
| Curaleaf             | Emmac Life Sciences        | \$286 million |

\* Value at the time of announcement

Source: Viridian Capital Advisors, MJBizDaily research

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Source: MJBizDaily, *Marijuana M&A sizzled in 2021 and is poised for a hot 2022*, <https://mjbizdaily.com/marijuana-mergers-acquisitions-sizzled-in-2021-and-poised-for-a-hot-2022/>

<sup>17</sup> Cowee, M. *Multistate cannabis operators rapidly expanding into new markets*, January 14, 2019. <https://mjbizdaily.com/chart-multistate-cannabis-operators-rapidly-expanding-new-markets/>

<sup>18</sup> Smith, Jess. *Marijuana M&A sizzled in 2021 and is poised for a hot 2022*, MJBiz Daily. December 29, 2021. <https://mjbizdaily.com/marijuana-mergers-acquisitions-sizzled-in-2021-and-poised-for-a-hot-2022/>

<sup>19</sup> Spanos, Jennifer, *Cannabis Trends in 2022*, CannaBusiness ERP.

<sup>20</sup> MJBizDaily, *Marijuana M&A sizzled in 2021 and is poised for a hot 2022*, <https://mjbizdaily.com/marijuana-mergers-acquisitions-sizzled-in-2021-and-poised-for-a-hot-2022/>

Navigating the cannabis investment space is fraught with complexity as the industry continues to evolve. In this environment, investors may be best served by adopting a professionally managed, diversified approach as a way to gain exposure to this emerging industry.

## **Cannabis Trends for 2022**

Support for legalization in the U.S. continues to rise and sales are expected to hit \$30 billion in 2022. Washington State alone, which legalized cannabis ten years ago in 2012, is expected to generate \$1.5 billion in sales, up from \$1.2 billion sales in 2020. But Washington's projected sales are small when you compare them to California's projected sales of \$7.6 billion. And as more states legalize cannabis, more sales will surely follow.

Under U.S. Federal Law in the Controlled Substances Act, cannabis is still considered a Schedule I substance. However, as the number of states legalizing cannabis either recreationally, medicinally or both has increased, so too has broader support for federalization in the U.S. government. There are several bills in the U.S. Congress that may positively impact the cannabis industry, especially with banking challenges.

Due to the Schedule I federal classification of cannabis, many banks will not work with cannabis companies, creating tedious banking hurdles that are difficult to solve. Congressional representatives have introduced bills geared towards making much-needed changes to banking processes for cannabis, such as the SAFE Banking Act of 2021, passed by the U.S. House of Representatives in April 2021. It is currently awaiting action in the U.S. Senate with broad support from both sides of the aisle. If it passes both chambers of Congress, the act will allow cannabis companies to have business-critical access to banking and financial services and would reduce their need to operate as cash-only businesses and remove yearly challenges with tax accounting and reconciliation.

In addition to the SAFE Banking Act, there are other bills like U.S. Senate Majority Leader Chuck Schumer's Cannabis Administration and Opportunity Act (CAOA), which is a push for federal cannabis legalization as well as an equity play. If passed, it is a measure towards ensuring small businesses and minority-owned businesses have access to financial services.

However, even with the tide of public opinion and legal momentum shifting in the industry's favor, there remains a challenge with the U.S. tax code. Due to IRS Code Section 280E, if a business is trafficking certain controlled substances, like cannabis, that business is unable to deduct business expenses on their taxes. California has taken steps to address this by signing bills that help cannabis businesses overcome this code, but this is still a prohibitive factor for cannabis companies across the U.S.

## Conclusion

- Cannabis has created new markets globally as its legalized use spreads worldwide.
- The trend toward legalization in many parts of the world is expected to drive tremendous growth. According to Grand View Research, the global legal marijuana market is expected to reach \$102.2 billion by 2030, expanding at a CAGR of 25.5% from 2022 to 2030.
- Public acceptance has increased to the level that the majority of people now support legalization due to the potential economic and medical benefits.
- Pending legislation such as the SAFE Banking Act could help alleviate capital bottlenecks and help facilitate further industry growth.
- The cannabis industry is at an inflection point, which provides both opportunity and risk for investors.
- Most investors may be best served by having a diversified, professionally managed product to gain exposure to this dynamic and appealing investment opportunity.

## **ABOUT US**

### **EQM INDEXES LLC**

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*We partner with issuers and work jointly with other index firms to provide benchmarks for Exchange Traded Products (ETPs) such as Exchange Traded Funds (ETFs), Exchange Traded Notes (ETNs), and other similar products. EQM Indexes LLC also assists firms on a fee basis to design and implement their index ideas.*

*EQM Indexes does not offer investment advice, nor offer the sale of securities.*



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**The EQM Global Cannabis Index (“CANABIZ” or the “Index”) tracks global companies engaged in the cannabis industry including companies that interact directly with the plant, support cultivation and retail, and/or provide ancillary products and services to the broader cannabis industry.**

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### **Definitions**

**Cannabis** – Cannabis, also known as marijuana among other names, is a psychoactive drug from the Cannabis plant used for medical or recreational purposes. The main psychoactive part of cannabis is tetrahydrocannabinol (THC), one of 483 known compounds in the plant, including at least 100 other cannabinoids.

**Cannabinoid** – Chemical compounds that act directly and indirectly on cannabinoid receptors to help the body maintain stability and health. Our bodies make their own cannabinoids – called endocannabinoids because they are produced internally – to work on cannabinoid receptors.

**Penny stocks** – A penny stock refers to a small company's stock that typically trades for less than \$1 per share.

**Reverse split** – A type of corporate action that reduces the number of a company's outstanding shares in order to increase the par value or share price.

**Shell companies** – A corporation without active business operations or significant assets that can be acquired as a financial maneuver to go public without an initial public offering underwriting.

**Multistate Operator (MSO)** – Companies whose cannabis business spans across several multiple legal states.