



## **WGD OPPORTUNITY FUND**

### **Q2 2022 Update**

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The first eight months of 2022 have been harsh for equity valuations - driven by a challenging economic environment, supply chain constraints, and the war in Ukraine. US stocks saw their worst first half of a year since 1970, as concerns grew over how steps to curb inflation would affect economic growth. In the first eight months of 2022, the S&P 500 was down over 17%, wiping out some USD \$8 trillion in market value, the NASDAQ index fell over 25%, and the energy and commodity oriented TSX was off by “only” 12%. The capital markets have moved to a “risk-off” sentiment, where higher risk, higher growth sectors including technology and cannabis, suffered a severe fall-off in line with their higher beta; the MJ ETF (ETFMG) global cannabis index, for example, fell over 50% during the first eight months of 2022.

The market downturn, as well as increased volatility and market uncertainty significantly constrained access to capital in both the public and private markets for cannabis and non-cannabis companies. Against this challenging backdrop, none of our investees completed new rounds of financing in Q2, although Treez and

Headset both brought in incremental capital into financing rounds which had completed their initial closings in Q4/2021. Moreover, during Q2/2022, the WGD Opportunity Fund (“Fund I”) did not invest into any new companies. While we reviewed over 40, we could not justify valuations and terms that reflected an earlier, more optimistic, environment. Private company equity valuations are notoriously sticky; when public market valuations fall, it takes a long time for entrepreneurs to admit that valuations are similarly being impacted. Reality eventually catches up, so we expect to see downward price adjustments for underfunded companies through the remainder of 2022 and likely into 2023.

Given this environment, rather than fund new investments into new companies, we focused on the financial health and longevity of our investees. We have been in close touch with all our investees with a view to ensuring that they have sufficient runway to survive the current macro-economic headwinds. Several of our companies were already well-financed and have the resources to reach cashflow breakeven. While we are cautious about pre-announcing good news before it is fully baked, a number of our investees expect to complete add-on financings in the near future backed by strategic investors or new outside institutional investors.

In the current environment, it is important for Fund I to have financial reserves to support our current investees and to invest in new opportunities whose valuations, terms, and progress meet our stringent requirements. We have been carefully managing Fund I’s capital, and still have room to make roughly four new investments.

Despite market conditions, we continue to plan our launch of WGD Opportunity Fund II. As the cannabis industry continues to mature and consolidate, we believe that we will be well-positioned to create value and assist companies in scaling up.

## Select Portfolio Updates



Pittsburgh-based agriculture-tech startup Bloomfield Robotics Inc. has won the inaugural Future of Life Online Challenge from global cloud services provider Akamai Technologies Inc. In addition to being the competition's first-ever winner, the fruits of the award also came with products and services from Akamai valued at \$1 million.



Elevated Signals continues to ramp quickly, onboarding a number of new customers, and has extended their run of 100%+ year-over-year growth. These accomplishments are based on their high customer satisfaction scores, which have been echoed by a recent industry award from trade show producer, O'Cannabiz.



Treez completed the second and final closing of its USD \$51M Series C preferred share growth equity financing in April. In addition to the initial USD \$30M investment by Long Ridge Capital, this second closing included participation from two new large investors: Kayne Partners, a Los Angeles-based growth equity group, and Synchrony Financial (NYSE:SYF), a leading consumer (B2C) financial services company. It's very interesting to note that this Series C financing came primarily from traditional investors seeking exposure to non-plant touching, technology enabled software serving the cannabis sector. Also, last week Treez was named one of America's Fastest-Growing Private Companies By Inc. 5000 for the second year in a row.

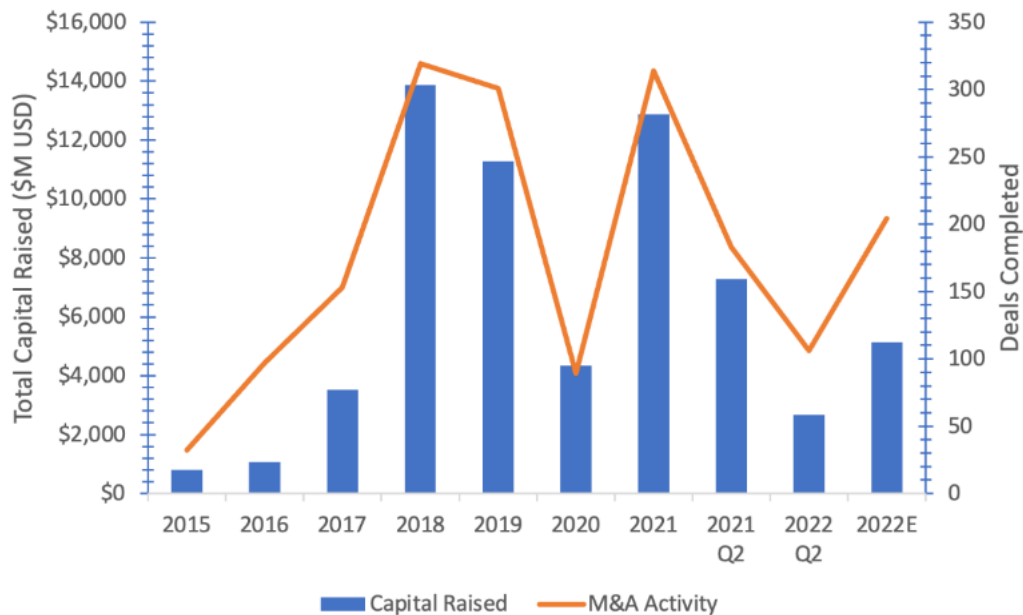
## **Market Update and Outlook**

As the year unfolds, it seems increasingly likely that a continued inflationary environment would be the "best outcome", while a (hopefully mild) recession or even stagflation, are some less pleasant alternatives. Additionally, an uncertain

political environment in conjunction with the upcoming mid-term elections in November adds further pressure to a fragile economic environment.

Inside the cannabis industry, intense attention has been paid to the decline in sales in legacy markets such as California, Nevada, Oregon, Washington and Colorado. For example, average monthly year over year sales in Colorado have declined by 11.3% since June 2021, and that kind of result grabs headlines. But, focusing on one year of results misses the bigger story: sales in all these states are up considerably over the three-year period starting before the pandemic began. In addition, these sales declines appear to be especially dramatic due to the extraordinary sales growth experienced during the pandemic. Moreover, several US states are just coming online and are enjoying huge sales booms. Missouri, Maine, Utah, Arizona, Michigan, and Illinois all experienced annual growth rates varying from 20% to 175% over the last year. And then there's New York, which recently approved the first 15 conditional recreational cannabis processor licenses, allowing for companies to start making infused products such as vapes, oils and edibles. New York is expected to commence retail sales early in 2023, in a market that will reach sales of \$5 Billion within a few years.

Viridian Capital Advisors attributes the sharp falloff in investor interest in the cannabis sector to other factors. They focus on the lack of legislative progress, declines in market valuations resulting in excessive dilution, and the general decline in overall market sentiment. A different reason for less public equity raised is the strong cash positions of many MSOs which are expected to become cash-flow positive in 2023, together with the greater availability of debt financings. Interestingly, software and media companies in the cannabis sector have accounted for 22% of capital raised YTD compared to 7.1% in 2021. Software and media have also taken a larger pie of the M&A sector, accounting for almost 15% of deals in 2022 in comparison to 6% of deals during the same period in 2021. We believe this represents a strengthening of our investment thesis as companies continue to consolidate as the industry matures.



Source: Viridian Capital Advisors

Private companies are generally slower to adjust their valuations than their publicly-traded comparables; we have observed situations where private companies have chosen to “kick the can down the road”, raising expensive and unreliable short-term debt, or refusing to finance an adequate runway, in the hope that they will be able to raise equity on better terms in the future. That said, we and other funds have seen plateauing valuations and some down-rounds, together with more stringent requirements for revenue and customer traction.

We continue to seek out unique and compelling investment opportunities even in this uncertain market environment, as we believe we will look back at this time and find that attractive investments in long-term sustainable businesses will make for compelling investor returns.

We are available to answer any questions, share more about our investment strategy, and discuss any funding needs you or others in your network might have. Wishing you all the best for the balance of 2022 and hoping for a better investment market this fall.

Hope you and your families have an enjoyable Labor Day weekend.

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Sam, Michael, and Ido

September 1, 2022

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## About WGD



The WGD Opportunity Fund, L.P. was formed by WGD Capital Managing Directors Michael Mitgang and Sam Znaimer 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 Menlo Park, Vancouver, and Tel Aviv.

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