



WGD OPPORTUNITY FUND

Q3 2021 Update

With travel loosening up throughout North America, WGD joined more than 32,000 industry participants at the MJBiz and MJUnpacked conferences in Las Vegas in late October. It was great to reconnect in person with portfolio companies, investment partners and prospective investees. While the consensus is that US legalization is still several years away, the political landscape can be quite unpredictable. In early November, Rep. Nancy Mace, a first term Republican from South Carolina (R-SC), surprised both parties by introducing legislation titled the States Reform Act which proposes to de-schedule cannabis and create a federal regulatory scheme while ensuring existing state markets are not overly burdened by new rules. Her initiative threatens to upend the prevailing narrative that cannabis is a partisan issue and suggests that Republicans may claim the cannabis issue as their own - better aligning themselves with the vast majority of the US voting public.

In September, we travelled to Toronto where we received very favorable feedback from existing and prospective WGD fund investors. A number of them asked if we

would consider re-opening the WGD Opportunity Fund to allow them to increase their commitments and to allow new investors. While we are thrilled to get that type of feedback and endorsement, re-opening an already closed fund would be very complex and our first and foremost objective is to preserve value for our existing investors. As such, we are considering raising a second fund which could invest in tandem with the WGD Opportunity Fund.

Existing Portfolio Activity

Below is a summary of recent activity at our seven portfolio companies. A short description of each company is included [here](#).

Birchmount Network, the pre-paid gift card platform in which we made an initial investment at the end of Q2/2021, completed its \$2.5 million financing round in September. Birchmount has come out of the gates strong and has already signed over 500 stores in the US and Canada. The company plans to be fully implemented in those stores in time for the busy year-end gift giving season. We have been able make several strategic connections for the company, including with some of our other portfolio companies, in an effort to bring value to our ecosystem.

The Blinc Group, which manufactures vaporizer cartridges to the highest quality and safety standards, recently launched its latest patent-pending vape technology, the Halo System, which consists of two bands one at the base of the mouthpiece or “tip”, and the other at the base of the cartridge. Halo is designed to allow brands and licensed producers to brand their products “on-the-fly” as well as enabling them to manage their cartridge inventory more effectively. Blinc also launched new sustainable child-resistant packaging for all of its oil-touching products.

Elevated Signals, the provider of manufacturing execution software for cannabis growers and processors, has continued to grow its topline revenue. Elevated Signals now has roughly 50 Canadian clients and has landed some pilots in the

US. Elevated Signals has expanded its US team as they focus on securing some marquis accounts in this new market.

Headset, the leading market intelligence platform for the cannabis industry, also continues to grow - generating record quarterly revenue in Q3/2021 which positions the company for a strong 2022. Headset's retail footprint continues to expand, closing Q3 with 2,151 active storefronts and visibility into \$24.5 billion of transactions. The company continues to roll out its market data insights products to new markets, having added Arizona, Illinois, and Maryland in October. **Headset also recently completed its \$8.6 million financing**, in which the WGD Opportunity Fund also participated.

Petalfast, a full-service marketing agency that handles cannabis marketing, merchandising, and branding, has been overwhelmed with demand for their unique incubator program. The company has been on a fast ramp since our investment in May and recently added Emerald Sky Edibles to its growing portfolio of companies. Other cannabis brands represented by Petalfast include Wana (recently acquired by Canopy (by way of a warrant to purchase Wana)), Space Coyote, KUDA and Smarty Plants. Petalfast, through its incubator program "Pilot by Petalfast", also provides new and recently launched brands with direct access to leading retailers and opportunities to gain first-hand market analysis, while also offering select retailers the opportunity to see future brands before they formally hit the market.

SōRSE Technology, the leading water-soluble emulsion technology company for infusing functional ingredients into beverages, food items, nutraceuticals, and personal care, entered a relationship with Vext Science which will see SōRSE enter the lucrative Arizona cannabis beverage market. SōRSE is also the ingredient provider to the two leading cannabis beverages in the US – Cann and Major – and continues to gain traction in this market. SōRSE recently debuted its hop-derived brewery product line at the Craft Brewers Conference in Denver.

Using SōRSE's patent-pending water-soluble technology, the company is emulsifying hop oil and other functional ingredients which are being used as a simplified one-step integration into the brewing process and can be customized in terms of aroma, flavor, and opacity.

Treez, the point-of-sale (POS) software and payments solution platform for cannabis retailers, is considered the market-leading software used by dispensaries in California and operates in six other states with rapid expansion underway nationwide. Treez's success with retailers and brands has resulted in nearly \$4 billion of gross merchandise value being transacted through its platform. The company has successfully built out "three legs" to its strategy – POS software, data analytics and payments – and has been making solid progress in each of these areas. Treez was recently ranked #13 on San Francisco's Business Times Fastest-Growing Private Companies in the Bay Area List for 2021 and ranked #225 on the Deloitte Technology Fast 500, a ranking of the 500 fastest-growing technology, media, telecommunications, life sciences, fintech and energy tech companies - both public and private - in North America.

Market Update and Outlook

The cannabis market has continued to expand aggressively. According to Headset, several state and provincial markets continue to show year-on-year growth rates of over 30% including Arizona, British Columbia, Illinois, Massachusetts, Michigan, and Ontario. These jurisdictions are still early in their market development and are expected to continue to grow for the next several years. More mature markets, such as Colorado and California, have seen their growth rates slow to single digits, or even fall slightly as heightened competition has led to falling prices. WGD is and has been all over this theme and has backed several companies whose products and services increase production efficiency or provide competitors the marketing tools they need to compete effectively. We have had a long-held belief that flower prices will continue to decline and that efficient, high-quality operators will prevail.

According to Viridian Capital Advisors, approximately \$9 billion of capital was raised YTD in 2021, more than double the comparable period in 2020. Annualized, the capital raised in 2021 is expected to outpace 2018 and 2019. The same goes for M&A activity, with almost 250 deals having been completed so far this year. We see this as a positive indicator of an expanding market and base of consumers as additional states enter the legal cannabis market. Additionally, we see this as a sign of preparation for an upcoming consolidation wave as we move towards federal legalization sometime over the next few years.

There have been several notable deals recently: (i) in August, Hawthorne announced an intended acquisition of HydroLogic, which provides water filtration for cannabis growers, for \$65 million, (ii) also in August, Jane Technologies, an e-commerce provider for one of the largest online cannabis marketplaces, raised \$100 million in Series C funding at what we understand is a \$450 million pre-money valuation and a rather large multiple of revenues (iii) in October, Jane's chief competitor, Dutchie, announced a blockbuster \$350 million Series D round valuing the company at \$3.75 billion, more than double the company's valuation set less than seven months earlier. Additionally this month, Harborside announced a three-way merger of retailer chain Urbn Leaf, and brand producer and distributor Loudpack - expected to be able to serve 75% of the California market. This rollup is expected to be financed by a \$77 million debt deal with Pelorus Equity Group.

Political progress is also continuing, albeit slowly. New York's recently appointed Governor, Kathy Hochul, appointed members to its Cannabis Control Board and is starting to pick up the pace of implementing legalization in stark comparison to the pace set by Governor Cuomo. But there's still no consensus on when the first retail stores will open in New York state, with a number of pundits pushing back their estimates from late 2022 to sometime in 2023. Senator Chuck Schumer in July released a draft bill to federally legalize cannabis in the US, however, this bill is currently stuck and awaiting revisions before re-submission. Most political observers do not believe the Senate will significantly advance any of the cannabis

reform legislation proposals until after the mid-term elections in 2022, though we continue to believe that the Safe Banking Act (or some form thereof) has the greatest chance of making near-term progress.

Please reach out to us if you are interested in learning more about our fund activities. All the best for the remainder of 2021!

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Michael Mitgang, Sam Znaimer, and Ido Simon
November 30, 2021

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 Palo Alto, Vancouver, and Tel Aviv.

WGD Capital is an offshoot of WGD Partners, a San Francisco Bay Area-based financial advisory firm focused on providing tailored financial services to emerging and middle-market growth companies, including syndicating investment/capital-raising opportunities, mergers and acquisitions, and other financial advisory and corporate development services in the technology and legal cannabis sectors.

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