



## **WGD OPPORTUNITY FUND**

### **Q3 2022 Update**

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As of Friday morning, the US 2022 midterm election results were still undecided with the House leaning towards Republicans and the Senate still in an even race and too close to call. That said, the “Republican Wave” that was anticipated was much more of a ripple and reflects the fact that the country remains as divided as ever and that Biden did much better than expected given recent approval ratings and the current high level of inflation. On the march towards Federal cannabis legalization voters approved adult use in Maryland and Missouri but rejected it in Arkansas and North and South Dakota, signaling support gradually growing for legalization even in conservative parts of the country. The results mean that 21 states have now approved cannabis for adult use sending a message to Washington about the continued trend around the country to support Federal legalization.

As you all know, the third and fourth quarters of 2022 have been challenging as equity valuations continued to decline - driven by a challenging economic environment. The S&P 500 dropped 7% in the third quarter and is down roughly

20% YTD. However, this general malaise is in stark contrast to promising developments in the cannabis sector. Significantly, cannabis stocks rallied shortly after President Biden's announcement in early October on marijuana policy reform.

Biden's announcement outlined three major priorities:

- Pardoning individuals convicted of Federal offenses for simple possession of marijuana.
- Urging state Governors to mirror the Presidential pardons at the state level.
- Finally, in a substantial shift in Federal marijuana policy, the President requested that the Secretary of Health and Human Services and the Attorney General initiate an administrative process to review marijuana's Schedule 1 classification.

Biden's announcement adds momentum to the Secure and Fair Enforcement ("SAFE") Plus Banking Act, a bipartisan measure that has already passed the House six times in recent years but stalled in the Senate amid concerns from those who felt that the SAFE Act did not do enough to support communities disproportionately harmed by the nation's drug laws. Even with the current (pending) election results, many pundits believe that this legislation will finally be enacted during the upcoming lame duck session of Congress, but clearly that is not guaranteed.

Furthermore, we have seen major developments since Biden's announcement.

On October 19th, Green Thumb Industries ("GTI") announced a lease agreement in Florida with Canadian company Alimentation Couche-Tard, the operator of the Circle K chain of convenience stores, ("Circle K") to launch ten GTI "Rise Express" pilot stores in 2023. We believe a partnership between the two companies in the U.S. indicates confidence in the nascent U.S. cannabis industry. Of note, the Florida state Health Department has yet to approve.

Canadian company Canopy Growth Company (“CGC”) also announced the formation of Canopy U.S.A., which will allow the company to take full ownership of its U.S. assets and consolidate U.S. results into its financials. Canopy U.S.A. will be utilized to accelerate the Canadian company’s move into the U.S. and if approved, CGC will be able to consolidate its THC plant-touching U.S. assets (Wana, Jetty, Acreage) while keeping its NASDAQ listing. This is a first-of-its-kind initiative within the cannabis industry, as the rule has long been that THC plant-touching operators in the U.S. are not allowed to list on U.S. exchanges. If this strategy survives regulatory scrutiny, we expect the floodgates will open with the entire MSO sector moving to senior exchanges and enjoying a substantial valuation re-rating.

Overall, we believe that both Circle K and CGC’s push into the U.S. despite uncertainties surrounding the lack of safe harbor regulatory measures represent very positive signs. Specifically, companies are becoming less fearful of facing federal retribution upon entering the U.S. cannabis industry while the opportunity in the U.S. is compelling.

Given this conflicting but upward trending environment, 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 they have sufficient runway to survive the current macro-economic headwinds. We’ve participated in two follow-on investments in Q3, and anticipate another two in Q4.

In the current environment, it is important for the Fund to have the dry powder 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 the Fund's capital, and still have room to make three or four investments in new investees.

WGD also recently hosted two events in Silicon Valley. The first, a fund raiser for the Palo Alto JCC called Halloweed where donors were invited to a Halloween

party where only cannabis products were served, and no alcohol was present at the event. We had 11 brands including four beverage brands, an edibles brand, women's topicals and other flower and vape companies which made their products available. We also provided several educational sessions for guests, including topics on women's health and the effects of terpenes in cannabis. We want to take a moment to thank our portfolio companies, Petalfast and Sorse, which were instrumental in helping arrange brand participation. The gathering was very well received by guests and brands alike, as it provided a safe and non-judgemental environment for the curious to get educated and sample a range of products. We expect to see more of these types of events as social acceptance of cannabis continues to grow.





The other event was an intimate salon conversation with Dr. Yossi Tam, Director of the Multidisciplinary Center for Cannabinoid Research at Hebrew University, where he discussed Israel's leading role in the future of cannabinoid research. It was interesting to hear his insights on the pros and cons of using whole plant materials, plant derived single molecules versus synthesized compounds for medical applications. He also shared information on the various cannabis related studies and research being undertaken at Hebrew University including in the areas of pain and inflammation, depression and therapies for treating obesity

and managing diabetes.



## Select Portfolio Highlights



Birchmount has now rolled out its gift card solutions to over 800 retail stores in North America. New point of sale integrations with Blaze, and Dutchie should open another 600 locations over the next nine months. Gift cards are highly seasonal, so Birchmount is focused on supporting their retail network during the crucial Christmas gift-giving holiday.



In Q3 Petalfast initiated its expansion beyond California into [Arizona, Michigan, and Massachusetts](#). The company also cemented a distribution relationship with Consensus Holdings in Arizona and brought on a number of new, high-profile brands such as Airo, Legion of Bloom, and Auntie Aloha.



Last week, Treez [announced the acquisition of Swifter](#), a payment solutions platform focused on the cannabis industry. Swifter was formerly a Y Combinator company and has a suite of existing multi-location operating retail cannabis clients. Through the acquisition, Treez will be able to provide embedded partner-powered fintech solutions for retailers as well as to allow traditional banks and fintech providers to more easily enter the cannabis sector.

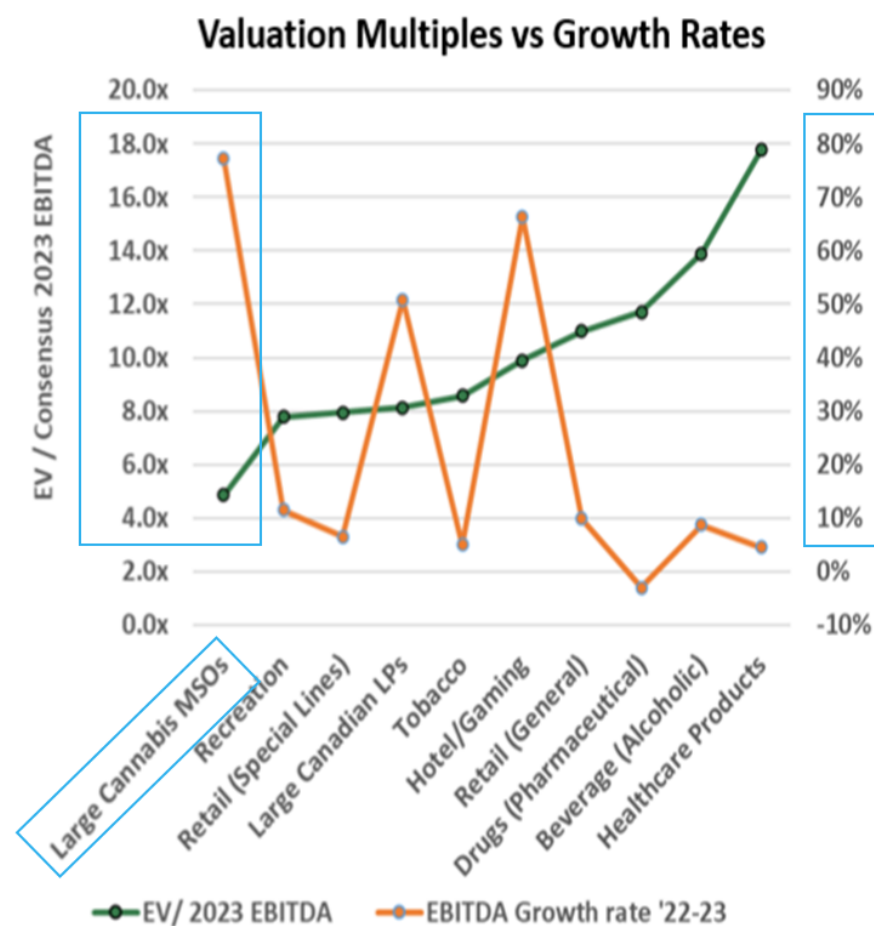
## Market Update and Outlook

Inflation, central bank interest rate hikes, and the specter of a recession in 2023 have dominated macro-economic discussions.

That said, the near-term importance of Biden's cannabis reform announcement boils down to the impact it might have on SAFE Plus legislation which will have dramatic, but indirect, impacts on stock prices. Moreover, any hint that the Fed

might moderate the pace of interest rate increases should help improve the outlook for equity markets. Finally, negative industry trends and tight capital markets are pressuring middle and lower-tier cannabis companies resulting in massive restructurings and industry consolidation. We believe this represents a strengthening of our investment thesis as companies continue to consolidate alongside industry maturation.

While it's easy to focus on macro-economic gloominess and glance at stock market indices as proxies for the true state of private market cannabis opportunities, we prefer the contrarian view that such markers are pointing to



opportunity. As one example we point to the graph to the left, prepared by Viridian Capital Advisors, which shows how the larger US MSOs are significantly under-valued in comparison to other sectors. This is despite that MSOs as a group continue to grow rapidly and are increasing their EBITDA profitability faster than revenue increases.

## M&A and Advisory Services

Through our affiliate, WGD Partners, we are also now offering M&A, financial advisory and other related services to companies that may or may not otherwise be an appropriate investment for the Fund. This leverages our team's nearly 30 years of M&A and advisory services to help companies more effectively navigate the complex landscape of building successful businesses, raising capital and optimizing outcomes through M&A or public listings. Please reach out to one of us if you'd like to discuss this in more detail.

We welcome your feedback and questions and are always happy to share our investment strategy with you. We are always interested in speaking with prospective investors and as such, greatly appreciate any introductions you think worthwhile.

Wishing you all the best for the end of the year and hoping for a better investment market in 2023.

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Sam, Michael, and Ido

November 11, 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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