

# FinCanna Capitalizes on California's Surging Cannabis Market

Cannabis sentiment in the United States has surged since the November election.

Tailwinds pushing the legal cannabis industry include being deemed "essential" during the current COVID-19 health crisis, five U.S. states passing legalization ballot initiatives, and the Joseph Biden election win that could result in easing some of the cannabis restrictions at the federal level.

This year could be another inflection point in the U.S. cannabis industry and the beginning of a multi-year growth cycle as more states legalize medical and recreational cannabis use.

A top cannabis market research firm recently pegged the United States cannabis market at more than US\$18 billion in 2020 and expects it to grow by a staggering 33% to US\$24 billion in 2021.

## **FinCanna is a Royalty Company**

FinCanna Capital Corp. (CSE: CALI | OTCQB: FNNZF) is a cannabis-focused royalty company and does not operate as a cultivator, manufacturer, or dispensary. Instead, it is a capital company, looking to invest in businesses in California's cannabis industry and earns revenue from royalties paid by its investee companies.

FinCanna's royalty structure focuses on top-line revenue, enabling the company to fully benefit as sales grow and not be impacted by cost inflation. Currently, the company owns a diversified portfolio of royalties, lowering the overall

company risk, and continues to search for other investment opportunities.

As a royalty business, FinCanna operates with low corporate overhead, making the business easily scalable as it does not have to worry about operations and can focus on the next investment. Also, as the cannabis supply increases, retail prices have been under pressure which makes royalties a better business to be in.

FinCanna's investment model is to seek "best in class" businesses, provide capital to reduce the need for debt or equity financing, and are structured to align with the business' long-term goals.

To fund the coffers, in July 2020, FinCanna closed a \$2.5 million convertible debenture financing with FinCanna's management subscribing to \$500,000 of the offering.

### **Portfolio Companies**

FinCanna made its first investment in Cultivation Technologies Inc. (CTI) in 2017. CTI, operating as Coachella Manufacturing, runs a 5,200 square foot cannabis extraction facility in Palm Desert, California.

CTI produces butane hash oil (BHO), which is a type of cannabis concentrate that is produced using butane. CTI has been operating for three years and FinCanna started receiving royalties in the second half of 2020.

CTI provides licensed BHO concentrates for white label manufacturing, toll processing, and packaging to brands and cultivators in California. FinCanna recently commented that CTI's management team is working on growing their core business and expanding into other large-scale activities. FinCanna expects these activities to result in an increase in royalty revenues in 2021.

FinCanna's second portfolio company is QVI Inc (QVI), doing business as The Galley, and is FinCanna's largest investment and potentially the largest source of royalty revenues.

The Galley is a modern, 8,300 square foot, cannabis facility located in Santa Rosa, California. It operates as a co-manufacturer to provide large scale production and packaging for all types of edibles, topicals, and tinctures in California.

The Galley began operations in July 2020 and has already onboarded 25 established brands. FinCanna expects to start receiving recurring royalty payments from QVI starting in early 2021.

An important note to make is that edibles market growth outperformed the overall cannabis industry growth in 2020 as consumers chose edibles over inhalables. This surge prompted edible manufacturers to invest more in product development and manufacturing making QVI an important player in that market.

FinCanna's third portfolio company is ezGreen Compliance, which offers Health Insurance Portability and Accountability Act (HIPAA) compliant point-of-sale (POS) software for cannabis dispensaries. Features include integrated management and multi-store functionality with taxation and reporting functionalities.

In August 2020, FinCanna announced the acquisition of ezGreen and in October completed the transition of ownership. Recently, ezGreen began a marketing initiative with a marketing partner to focus on sales efforts, targeting dispensaries in California.

### **California is King of the Cannabis Market**

California ranks as one of the largest legal cannabis market in the world and over 30% of the U.S. legal cannabis market. The COVID-19 shut-in measures resulted in higher purchase

volumes and a very substantial and positive shift for the cannabis industry.

In California, legal cannabis retail sales are expected to exceed US\$5 billion in 2020, up almost 70% from US\$3 billion in 2019.

## **2021 Outlook**

FinCanna's management recently reported that it expects to see a "sizeable increase" in royalty revenues in 2021 and the positive cannabis market outlook, especially in California, should help generate operating profits that will grow throughout the year.

FinCanna is currently trading at \$0.11 with a market cap of \$8.5 million.