Betting it all on California cannabis global dominance, FinCanna focuses on being the capital partner of choice

written by Frederick Kozak | October 16, 2020

Cannabis is essential in California!

That statement may reflect the opinion of certain members of California society, but in actuality, at the start of the coronavirus pandemic in early March 2020 cannabis retailers were in fact declared an essential service industry by California state.

We were reminded of that in a video conference presentation in September done by CEO and Director, Andriyko Herchak, of FinCanna Capital Corp. (CSE: CALI | OTCQB: FNNZF). We were also reminded that California is the largest cannabis market in North America and in 2019, had legal sales of 21% of the global market – Canada was only 11%, the US was 61% and the rest of the world was only 7%.

Putting that into numbers, in 2019 the global market was $14.9 billion, with California representing $3.1 billion in legal cannabis sales, although black market sales are estimated to be double that number. According to the LA Times, licensed cannabis sales are projected to total US$7.2 billion by 2024, making California the global leader. Keep in mind that the state of California is the fifth largest economy in the world and has had legalized medical cannabis since 1996 with new laws that came into effect in January 2018 which significantly changed supply and demand dynamics.

Key success factors for the cannabis business – go to the biggest market, be the early entrant, keep your cost structure low and be the most profitable. Unfortunately, as many investors will attest, investing in cannabis has been a real challenge to navigate as capital intensive companies continue to lose money quarter after quarter. Recognizing this fact, FinCanna has a business model that is low cost, not capital intensive and is designed to be profitable.

FinCanna is first and foremost a capital company and their vision is to become the capital partner of choice for high growth, rapidly emerging private companies operating in the licensed U.S (California) cannabis industry. Management is focused on delivering high impact returns to its shareholders by way of a strategically diversified investment portfolio. They seek to invest in "best in class" businesses and align the interests of the existing company owner/operators with FinCanna shareholders.

This is done predominantly as a royalty company, which is perfectly designed for this business model. Management of FinCanna invests in various private cannabis industry companies that do not compete against each other – it could be said that they are complementary to each other in the overall cannabis market. So far, this strategy has worked well for FinCanna.

FinCanna became public as a result of a reverse takeover transaction that closed in late 2017. Recognizing the opportunity for a first-mover advantage ahead of new regulations coming into effect in early 2018, FinCanna invested in Cultivation Technologies Inc. who have a cannabis extraction facility in California. Their other manufacturing investment is in QVI, Inc., a contract manufacturer of high demand items, including edibles, topicals, tinctures, chocolates, hard candies, gummies, beverages, among others. Their third company, ezGreen Compliance offers a state-of-the-art enterprise compliance and point-of-sale software solution (“ezGreen”) for licensed cannabis dispensaries and cultivators. The ezGreen software is the only HIPAA (Health Insurance Portability and Accountability Act) certified point-of-sale software in the market. In August 2020, FinCanna acquired from its former royalty portfolio company 100% of the assets and economic interests of ezGreen and is currently focused on sales in California and certain other states.

As a result of this portfolio and royalty approach, FinCanna has low operating costs and once the corporate G&A is covered, the remaining royalty income streams are essentially a 100% margin business. Their largest investment (QVI), a leader in the high-growth edibles business, recently started operations in a brand-new facility.

Management has significant personal wealth invested in the company which should give investors comfort that their interests are in fact aligned with all shareholders. Management sees increasing revenues from all of their business segments in California, which is a positive for cashflow and profitability potential going forward. There is approximately $2.0 million of cash on the balance sheet with a total of just over C$6.0 million of convertible debentures which do not mature until early 2023. This appears to be a company that is well positioned in a market with significant barriers to entry. Actual performance by their private company investments will drive FinCanna’s share price.