Jason Wild - From $80k to $1.7Bn
The Business Brew

Jason Wild is the founder and President of JWAM, an SEC-registered investment adviser with over $1.7 billion under management. Jason found investing during his last year of pharmacy school. Taking Peter Lynch seriously, he invested every other paycheck in pharmaceutical ideas he thought were undervalued. His theses were correct far more often than they weren't and he made himself almost a half million dollars in the market. After proving his competence, he started a fund with a mere $80,000. Today, that fund manages over $1.7Bn.

Jason's initial strategy focused on specialty pharmaceuticals. His knowledge base enabled him to assess asset bases and M&A quickly (and correctly). After pitching a company on an M&A opportunity, and getting nothing in return, Jason decided to take matters into his own hands. He decided to purchase Arbor Pharmaceuticals for $2.5mm dollars and built the company via M&A. After 3 years, KKR bought a portion of Arbor; valuing the enterprise at $1.1Bn.

Today, Jason is Chairman and Interim CEO of TerrAscend Corporation, a cannabis company with multi state operations in the US. His official Bio is as follows:

"Jason Wild is the founder and President of JWAM, an SEC-registered investment adviser with over $1.7 billion under management. After starting his first fund in 1998 with only $80,000 AUM, Jason achieved early success by leveraging his background as a pharmacist to find undervalued specialty pharmaceutical companies and by managing the firm’s investments for long-term growth. After building a strong track record as a stock picker, Jason expanded his investment universe and applied his experience and extensive healthcare network to private market opportunities. He has since established himself as a highly respected investor and sought-after partner for both public and private companies."

This was an awesome conversation to have. Highlights are as follows:

~1:00-6:00 - Early career highlights

~6:00- Finding cannabis as a potential investment opportunity

~9:50 - Applying the same learnings from pharmaceuticals to cannabis and getting control of TerrAscend

~13:50 - When the US cannabis thesis got derisked

~16:44 - Applying for licences in New Jersey and what that means

~18:50 - Buying Ilera

~23:30 - Discussion on incentives for East Coast regulators and how they may think about supply/demand balances

~26:30 - The strategy of density vs spreading out the retail footprint

~28:58 - Homegrown cannabis as an alternative

~31:00 - Federalization/interstate commerce and what that may do to the thesis.

~34:49 - The social justice impact of legalization

~37:13 - Consistency in edibles and what is difficult about getting those products consistent

~44:00 - Whether the illicit market will keep its customers

~49:00 - What Jason is doing with Chris Webber to help minorities profit in the cannabis industry

~55:00 - Why issuing equity right now was the right choice for TerrAscend

[The Business Brew theme]

Bill: Ladies and gentlemen, welcome to The Business Brew. I'm your host, Bill Brewster. Super excited to be joined by Jason Wild, today. If you don't know who Jason is, you will soon, and I suggest that you do a little bit of research. He did a fantastic interview with Real Vision, and there's a couple other ones on YouTube. For a primer on the space that we're going to be talking about, you can listen to Aaron Edelheit's episode that dropped on April 20th. So, this is going to be a cannabis-focused interview, but I think on top of cannabis, Jason's a super interesting guest. So, we'll have a little bit of a combination of money management, plus some morphing into cannabis, plus entrepreneurship. So, it's going to be a fun one. Jason, how you doing?

Jason: Good, good. How are you, Bill?

Bill: I'm good. I was trying to think about how I can do a different interview with you without making you repeat the same story that everybody wants you to, but I do think it's a super fascinating framing where you're coming from, if you could talk a little bit about how you started in investment management. That's a pretty cool story.

Jason: Sure. Absolutely. I'm originally a pharmacist, and I grew up in New York and my dad is a pharmacist as well, so I grew up in his drugstores in New York City. I got my pharmacy license in 1997. In my last year or so in pharmacy school, I got into the stock market. I read the Peter Lynch books, *One Up on Wall Street* and *Beating the Street,* and it was all about what you know. I was all excited to go out and investigate some different drug companies and invest in some of them. I started investing last year in pharmacy school, and I realized that I was a good stock picker. Back in the day, Warner Lambert was launching a new drug, Lipitor. I thought that was going to do really well.

Bill: Good call. [laughs]

Jason: Yeah, thank you. Thank you. Then, I got my pharmacy license, and I was so excited. I was going to be making $65,000 a year, and amazingly, I only needed about half of that to live on. So, I was taking every other paycheck that first year as a pharmacist, putting it in my Charles Schwab account, margining it two to one, because I didn't know any better. After that first year, I made $65,000 as a pharmacist, and I ended up making about a half a million dollars in the market investing in pharmaceutical stocks. I was bored out of my mind filling prescriptions, and loved the market. I was completely passionate about it. So, I ended up-- There was an ad in the back of Barron's and said, “Do you want to start your own mutual fund or hedge fund? I called the guy up, he ran one of these fund administration companies. He gave me the whole scoop, cost me $20,000 in legal fees, got the fund up and running. My view was, if you build it, they will come. I started with $80,000 under management. I didn't really care what I started it with. I felt as long as I had an audited track record for a long enough period of time, eventually, we'll be able to raise money. That's how we started.

For the first two years, I actually moonlighted at, I don't know if they have them at **[unintelligible [00:03:01]** Shoprite, that’s a big supermarket chain. I worked at the Shoprite pharmacy in Paramus, New Jersey two nights a week just to pay the bills, because running $80,000 wasn't really going to fully cut it, even though I didn't have the expenses that I have now. So, I did that for the first 12 years we did only public equities got the funding up to about $25 million under management by 2010. We were up 23% a year net to fees. My real wheelhouse was what's called specialty pharma companies, which are the joint companies that are not the big cap guys like Mark, and, Pfizer, and Abbott. I really like the ones that were doing M&A, because I knew the products, and I knew when a company would announce a deal, and they said, we're buying this company or product XYZ from this other company, I could pretty quickly in my head, calculate how creative it would be whether it was a good product when they were good sustainable patent life, things like that.

I ended up around 2007, I refer to a deal between one company I knew and another company I found, this company, a product that was available for sale. They bought this product for $10 million, had a couple of things break their way, and over the next five years, they did over $150 million in earnings on this product. I put that whole thing together. I found it, they wouldn't have found it if I didn't shake it loose. What did I get? I got a pat on the back.

Bill: [laughs]

Jason: So, that's what put the idea in my head--

Bill: Said I got to make more money from this.

Jason: Right. It's nice to be back, the whole good karma and all that, but it made me realize that I gave something pretty valuable away. So, that's what put the idea in my head to start a drug company, or to buy a very small one to use as a platform. I worked on recruiting a CEO for a couple of years between a 2008 and 2010. Then, finally it all came together, I found this great CEO, Ed Schutter. He partnered with me. We bought this little company called Arbor Pharmaceuticals for $2.5 million. They were doing a million and a half dollars in sales. The product they had were nothing special, but it was a platform.

They had their licenses in every state, and it was just able to help get us up and running a little bit quicker. But it was really to go out and find some deals. That first year, we got really lucky, we found three amazing deals, very creative and structured so that we didn't have to raise a lot more equity.

By the end of that year, we had those products in house, and the next year in 2011, with those products in house, we did $127 million in sales, and $55 million in pretax profit, and then, it grew from there. By three years later, we would do over $100 million in pretax profit, and we sold a third of the company to KKR. The cool thing was that they bought all secondary shares. I was able to actually cash out for my investors not, usually, they would just put money into-- The primary shares that would go into the company, but here it was actually, we were able to sell a third of our stake and my investors were able to sell a third of their stake to KKR. It was at a $1.12 billion valuation. It ended up coming out to 155 times the price that the per share that they originally invested at, and it really ballooned the size of fund. My fund going in was $25-ish million, coming out, it was over $300 million, and we had $140 million in cash from selling a third of our stake to KKR. It just aligns well with that-- it was right around the time that I got a call from a banker up in Canada, raising money for one of these new medical cannabis companies up there. I didn't know anything about legal cannabis up in Canada, but I do like to get off my butt and leave the office and try to go meet with companies as much as I can, because I find that I always learned something, even if I don't find something to invest. I went up there met with this company, Metrum, and they really gave me the whole lowdown about cannabis in terms of all of these true medical uses for it. First time, I've ever heard of CBD or that there were all of these different cannabinoids. I came out of that meeting on fire that I needed to meet as many companies as I could in the space. I thought the Canadian companies were going to do really well, because it was legal nationwide. It wasn't like the US, where due to conflict between state and federal law-- To be honest, I was worried at that point, I wouldn't have been comfortable in investing in the US, because I was worried about getting arrested.

Bill: [laughs]

Jason: But in Canada--

Bill: That's a fair worry, I think. [laughs]

Jason: Yeah, absolutely. Its funny, people laugh now, and it's 2021, but even a couple of years ago, it was not-- [crosstalk]

Bill: No, [crosstalk] kept me out also. I was always worried that they would-- the federal government would come in and take all the cash of the state operators and stuff like that. I was never comfortable with Colorado sovereignty in the beginning and all that stuff.

Jason: Yeah, absolutely. I agree. The issue with Colorado, I think you couldn't even be an out-of-state investor up until a couple of years ago.

Bill: Hmm.

Jason: But yes, I do know actually a couple of California companies that did have their cash seized.

Bill: Oh, really?

Jason: More towards 2011 or 2012.

Bill: I remember back in the day, when they were driving basically Brinks trucks between, I don't even know if they couldn't keep it in a bank. So, I guess you had an alternative banking relationship or whatever. It was all cash, they had to have armed guards, it was like, “This is crazy.”

Jason: It's a lot of cash. Still a ton of cash. That's definitely an issue. Now, you can make a little more, but even in California, there's a big presence of the credit unions banking a lot of these cannabis companies, because still a lot of the bigger banks won't do it. It's just spotty. Some of them, they'll do it. Some of the bigger firms, they'll do it for you for two years, and then they just decide that they don't want to do it anymore. Like what's been happening, or what the worries have been more recently over custody of some of these stocks in the US where some of the prime brokers are just changing their minds.

But anyway, after that Metrum visit, I just started doing trips to go up to Canada, crisscrossing the country, starting Vancouver, worked my way to Toronto, over about five days meet with as many companies as I could. They were all private at the time. We ended up investing mainly in about five companies, those first couple of years, say, 2015 and 2016. Fortunately, they became some of the more successful public companies. Up until the end of 2018, we were a top six or seven shareholder in Canopy Growth, top 10 in Cronos, big shareholder, and Organigram, and CannTrust and a couple of these other ones. We invested in them all privately. It's interesting, though, because most of them, we were not up a lot on the investment when they went public. We made most of our profits after they went public, holding on to them as they had that big ramp up until legalization at the end of 2018 in Canada.

Then, towards the end of 2017, I was up at a conference in Canada, by that point, we had invested probably about $30 million in the Space, and it was worth probably around $175 million, and that's when it hit me that hedge just followed with our first part of the same arc with cannabis investing that I had done in pharmaceuticals, which was for those first 12 years. I invested only in non-controlled positions in pharma companies, learned the space, built the network, made some money, and my goal with Arbor was to bring all that to bear as the lead investor and the chairman, and hopefully, really be able to impact the results.

Arbor worked beyond my wildest dreams, but I realized I just done the same part in cannabis. We've been investing for three or so years, three or four years, learned the space, all not controlled positions, learn the space, build a network, made some money. But in terms of in this industry, I felt if we went out and started a company from scratch, that I felt pretty confident that we were going to be able to build a pretty substantial company, because the level of competition was just a lot lower than it is in pharma.

So, that was my idea. It ended up manifesting itself through this investment in TerrAscend. I had invested a quarter of million dollars in TerrAscend in January 2017. It was now, November of 2017.

They had about a $50 or $60 million market cap by November. They were public. They had a facility up in Canada. They're already on their license to grow, but the facility still it was functional, but it still needed a lot more build out. I convinced them to take a $52.5 million private placement into the company, which is what we did. It was around a $1.10 a share. Like Canopy Growth and Canopy Rivers, which is a VC arm of Canopy Growth, which we were the second largest shareholder, I let them coinvest in that deal with me.

So, I did 60% of it for my fund, and they each did 20% and I became the chairman. I really pushed myself, and by that point, my fund was around $700 million in AUM. I find that as funds get bigger, they diversify. They start looking at positions not from a percentage of the portfolio perspective, but just from dollar perspective, and start taking less risk, and maybe part of it is because they're running a money management business, and they don't want to screw up a good thing.

Bill: Yeah, it's a nice life.

Jason: Yeah, right, exactly. But I've always run my fund as more like my family office, and I want to have the best returns that I can. I feel like if you overdiversified, it's a lot harder to swim against the market, because you are the market.

Bill: Yeah. Going back to when you turned the $80,000 into half a million or whatever, how many positions were you running?

Jason: I was very concentrated, yeah, probably three or four.

Bill: Wow. That's cool. But you had unique insight, so, that's when you got to bet it.

Jason: Unique inside, and I think when it comes down to it, you can't teach people how to invest in stocks in business school. I'm saying that because I went to pharmacy school, and I didn't go to business school, but certain people just have a good feel for the market, and other people don't. It's just the way they're psychologically built. Most people are built, that they hold their losers, and they sell their winners, which Peter Lynch calls that, pulling out the flowers to work, what are the weeds?

Bill: Yeah.

Jason: For some reason, I'm hardwired, that if I have a stock that keeps going up, and if the fundamentals-- usually it's because the fundamentals were better than I originally thought that they were going to be, I have no problem buying more of that stock a lot higher than where I originally bought it. Alternatively, if I have a stock that's beating the hell out of me every single day, very often, I'll just sell it just because I can't take the pain and have to feel like I have to keep watching the stock that's hurting me every day. So, that's different than most people in terms of how they act. A lot of it I think is subconscious. Most people just they can't do it. If they have a stock that's going up a lot, they feel they have to do something. To me, I tell people, you should be worrying and thinking about whether you should do something, if you have a stock that's going down a lot, not if it's going up. So, my view is most people I think don't make money in the market in individual stocks, and it's just because you have to be wired the right way to be able to make money and not have too much emotion about it.

Bill: This is the old losers, average losers thing, right?

Jason: Right. I've never heard that, but that's good.

Bill: Yeah. All right, so, you get yourself into cannabis, and you got the green light in your own head, if I remember this correctly, to invest in the US cannabis when John Boehner went on a board, right?

Jason: Yes, exactly. So, December of 2017 is when the TerrAscend deal closed, and I became the chairman. For the first six months or so I was still doing my whole only Canada thing, and that was from 2014 or 2015 when we started, it was a conscious decision A, like I mentioned I was worried about getting arrested but B, I felt it wasn't too much of a give, because I felt the Canadian companies were going to be the first companies to attract other institutional capital, and it was going to be a lot of people trying to get through a small doorway and push up the value of these stocks, and that worked from 2014 till around 2018. So, in terms of TerrAscend for those first six months or so, we were still doing Canada only, and we bid on a few deals, and we just kept getting outbid for everything, because the other Canadian companies had too much cash at that point, they were able to raise money pretty easily, and they were just like-- we would be bidding on something, and the management team would really like us and think we were credible, and they would take less from us than from somebody else, but they wouldn't take 70% less from us, may be 25% less, right?

Bill: Yeah, there's a limit to how much liking somebody goes. At some point, money talks.

Jason: Right. Exactly. So, we ended up missing out on all these deals, and it was very frustrating. Then, John Boehner, like you said, I think it was April or so of 2019, he announces that he was going on the board of Acreage, and I was like, "That's it. Nobody's getting arrested. John Boehner's too powerful of a person. They'll go after him before they'll go after somebody else in it." I just didn't think they were going to go after anybody, and so that is when we pivoted my funds and TerrAscend and into the US, or at least to start looking at things in the US. Took a little while we had a restructure Canopy Growth and Canopy River shares, because they were on the TSX, and Canopy was on the New York Stock Exchange at the time, and this would have gotten them kicked off if they owned a plan touching business in the US. So, it took a little while. We came up with that exchangeable share structure, where they exchange their regular shares for new shares that were only monetizable upon federal permissibility in the US. We ended up having a shareholder vote in November of 2018, that all got restructured, so that we can actually go and start buying some assets in the US. Actually, in summer of 2018, we applied for a license in New Jersey, because we were told that we wouldn't get **[unintelligible [00:16:49]** if we applied, it just wouldn't-- even before we get the Canopy shares were changed, obviously, we're not going to be able to operate it until all of that was cleaned up.

Bill: Okay. So, you can get the license approval, you just can't operate before it's cleaned up.

Jason: Right.

Bill: Okay. So, it's almost like you can buy an option to operate, you just can't operate.

Jason: Right. Exactly.

Bill: Yeah. Okay.

Jason: That's right. We didn't think we were going to win. They were only going to-- Jersey had six licenses, fully vertically integrated already, and they were going to give out another six. They were going to be well over 100 applications, but we figured we'd give it a shot. It was next door, I'm based in New York. So, we applied, and we ended up by in December-- and when was that, December of 2018, they announced the winner, and pretty much we were the only company that swept all three regions of New Jersey. Jersey had split it up into north, mid and south, and they were giving out two licenses in each, and we had the top score in each region, but unfortunately, they only gave us one license, they gave us the northern region, which is the best region-- [crosstalk]

Bill: Oh, that's close to New York, right?

Jason: I'm sorry.

Bill: That's close to New York, right?

Jason: Yes.

Bill: Yeah, so, that’s not a bad region.

Jason: Very easy access to New York. It's the best in New Jersey, and it has the most people and an even bigger piece of the economy. Now, New Jersey's coming online, and it's going to be a huge driver for us. But it's been a long haul there and lots of problem solving along the way. But our first deal that we actually announced and bought in the US was about six months later. In the beginning of 2019, we announced that we were buying the Apothecarium Dispensary chain in San Francisco, one of the nicest dispensary groups that I knew of. When you talk to people in California, and you bring up the Apothecarium, everybody's like, “Oh, wow. Those are the nicest dispensers.” In Northern California, they've got a really nice market share in San Fran and it was the first of the really nice dispensaries I would say.

We bought that in 2019, and then we did a deal, which I would say is our best deal so far, which was the purchase of Ilera Healthcare in Pennsylvania. They were the number one cultivator and manufacturer in Pennsylvania, owned about 20-ish% of the market. We did a deal to buy them for $125 to $225 million in total consideration. We structured it. I think one of the reasons I feel I've been able to do relatively well in M&A is that I'm creative and I'm good at figuring out how to solve for both sides’ needs. In the case of Ilera, like most mom and pops, the sellers wanted mostly cash. So, we figured out a deal that got them about 90% cash, they just didn't get it all right away.

Bill: Yeah. [crosstalk] through earnouts and whatever.

Jason: Yeah, what it was, we closed on that deal towards the end of the summer of 2019. We gave them $25 million in cash and $25 million in stock upfront. And then, we owed them I think another $20 million the following January. But the major final and majority payment was due in March of 2021, so just a couple of months ago, and it was calculated we were going to go look back at 2020 sales multiplied by three, essentially give them three times sales with a cap of $225 million and only as long as their EBITDA margin was over 35%. Ilera, we ended up doing a few major expansions there. They blew way past the $75 million that would have taken them to the $225 million cap, and their EBITDA margins were more like over 59%, as opposed to 35%. So, this deal, it ended up being that we paid about 3.7 times 2020 EBITDA for Ilera, which has been obviously a great multiple to pay. But it's even better than that, because we owned it since the summer of 2019, and it built over $30 million in cash over that time period-

Bill: Oh, nice.

Jason: -and we got to use that $30 million towards that final payment. So, we actually paid even less than 3.7 times. Which actually, now that I think about it, I remember when we announced that deal, I had several other multistate operator CEOs that told me that they thought that we overpaid for this deal, and that it was I was going to artificially or somehow set the precedent in prices for other deals, that I was screwing things up. It ended up obviously that-- I think they just didn't understand the structure, or what we were buying, and what a good asset we were buying because it ended up being probably one of the least expensive deals I've ever done, or certainly the best based upon the quality of the asset. That made me realize, I think that-- I've always known this in terms of stock picking. I really don't care what other people think about what-- I want to hear opinions from people whose opinions I value and who have good insights. But generally, I can't structure my portfolio to make other people happy.

Bill: Yeah.

Jason: Because if you end up doing that, it's almost like you're running your portfolio by committee, and that's the best way to not have really good market-beating returns. I think I realized the same thing about deals. It's like, don't judge me on the-- or maybe withhold your judgment on it now and wait a couple of years, and we could look back, and you'll tell me whether you thought it was a good deal, or really to tell you the truth, I don't really care what you think, I know that that's going to be my judgment, two, three years, four years out of whether it was a good deal, it's going to be based upon that, not what people think when we first announce it.

Bill: Yeah. I hear those margins, and one of the common pushbacks on the cannabis spaces, can't anybody enter it, how are they competing against the illicit market? Do you want to frame what a license enables? Let's take New Jersey, for example. What does a license enable your company to do, and why are the gross margins, what they are structurally, if you don't mind describing that a bit?

Jason: Sure, absolutely. What ended up leading-- New Jersey, we applied for ourselves, but say, even Pennsylvania, what happened was, when we originally wanted to get into the US, all the revenue in the

US or most of it was out west. California was the biggest market in the world, and that was where we went first. But then, say in the first half of 2019, on the fund side, I started seeing all these companies that were coming in to see me that were operating in these limited license East Coast markets. These companies were printing money compared to the companies that I was meeting on the West Coast where, it’s unlimited license. It's almost getting a driver's license, you just have to qualify. It makes sense, because the West Coast markets already had a major cannabis economy, and legalization was an attempt to bring them all into the fold in this legal framework so they couldn't be exclusionary. But on the East Coast, there really wasn't a cannabis economy other than maybe some drug dealers that were buying weed on the West Coast and bringing it to the East Coast and selling it to people.

So, they could start with a clean slate, and they wanted to have it and have less licenses, it's easier to regulate it that way. Also, the state government is your partner essentially through the tax dollars. So, they don't want this big imbalance where there's a lot more supply than there is demand, because it's going to end up hurting their economics as well. Around the first half of 2019, I realize all this money was being made on the East Coast, and that was what made us gravitate towards the Ilera deal and a couple of other ones that we were working on, and it just comes down to there just being a lot less competitors. Therefore, your pricing is better, and also, on the East Coast, you pretty much have to mostly be fully vertically integrated. You're going to be able to capture a lot more margin if you're essentially-- if it's seed to sale. That's really the main reason. I had looked at it back to my specialty pharma days and following all the generic drug companies, it was always much more attractive to invest in a company that had a generic drug filing against say $100 million drug, if they were the only filer, or they were only two generic filers and potential competitors on $100 million product, I had realized over the years that you would make a lot more money than if you were one of 30 generics filed against a $3 billion product. That's what I looked at California, as it was this big revenue number, but there was so much competition that there was actually less profit dollars available than there were on the East Coast with lower total revenue numbers, even though much higher growth rates, but just so many less competitors that you can really capture those 50 plus percent EBITDA margins. That's, I think, the big driver, and like I just said, the growth rate in on the East Coast is so much more than the West Coast, just because it's so much more of an immature market.

The other thing that I learned just from having met with a lot of these East Coast companies is that the ones that did the best were the ones that had a deep footprint and had a lot of scale in terms of their cultivation and manufacturing. It was amazing to me. The less states an operator was in, the better their margins were. And also, I realized, and I joke internally for the last couple of years, I had this motto, I would say, you have to go big early. If you go into some of these less mature states on the East Coast, if you go in there and you build one of the biggest facilities in the state, you're going to have the best margins in the near term, and then over the long term, if and when pricing gets more competitive, if you have the most scale, there might be a price at which that it goes down at which a smaller say, a 30,000-square-foot grow won't be able to turn a profit anymore, but 150,000-square-foot grow can still make a good margin.

So, that was my view on going big early, and really being more focused. We didn't want to have flags all over the map and say we're in 20 states, because if you're in 20 states and you're competing with another operator that's in one state or two or three, there's no way that 20-state company can have the same bandwidth and have the same chance to succeed as somebody else that's more focused. Trulieve is a great example of a company that's been very focused, and that's why they were so dominant or they still are so dominant in Florida. So, that whole approach to me, we want it to be deep, maybe a little more wide than say, a Trulieve being in two or three states and then add additional ones very slowly as we felt those operations were really humming, because I just felt if we did that, we'd have the best chance of winning. Because we were more focused, we would have been more scale wherever we were, so, we're going to have the best margins now. Over the long term, like I said, if prices came in, we would still have the best margins, and it would just give us the best ability over the long term to compete. My view was like an operator, and I've seen a lot of other MSOs that are the other side of the coin here, but if you're an operator, you can make so much more money having 200,000 square feet in one state than having 40,000 square feet in five states.

Bill: Yeah.

Jason: There's no comparison. That 40,000 square feet in five states, I would say you probably cannot even turn a profit. And 200,000 in one, you can make it a 50 plus percent EBITDA margins.

Bill: Well, something that I like about your strategy is-- when you're talking, I'm just hearing local economies of scale, it ringing in my head, and then, the other thing that I like is that you're almost used-- Well, you are focused on the East Coast. So, you turn a local economy of scale into a regional economy of scale, and just build it out through that and keep going.

Jason: That’s right.

Bill: How do you think through, if you have fewer competitors and you can price higher, isn't there an umbrella that the illicit market can capture? Where does the illicit market come into this? Because I think one common pushback is well, anyone can grow weed, and you can't-- Booze is different. Nobody's drinking really homemade alcohol, but weed is different. How do you think through that as it morphs going forward?

Jason: Yeah, well, the interesting thing is that it's not the prices. I don't believe the prices are so much higher on the East Coast than they are in, say, California. It's just that there's more people in California with their hand in the till, because-

Bill: Okay.

Jason: - you can't, or it's hard to be fully vertically integrated there. because there are tons of great growers, great cultivators, and there is companies that are great at making vapes and doing extraction, there's edibles companies. So, it's not necessarily that the price is so much lower in California, it's just that there's too many people with their hands and they're trying to take a piece of it. California happens to just be an expensive place to operate overall, and that's probably why partly the products are still not cheaper out there than they are, say in New Jersey or Pennsylvania. I think that's really been--

And the other thing is, the West Coast, those operators are really sophisticated. They've been doing this for a very long time. Not that there aren't strong competitors on the East Coast, but there's less strong competitors on the East Coast. I joked that because we have our West Coast presence, and we have some sophisticated brands and sophisticated operators out there, we also own a super-premium flower cultivation brand and facility out in San Francisco called the State Flower, which we just quintupled the capacity of and we own a edibles brand, Valhalla.

So, since we have these great growers and retailers out in California, we could take that. We take some of those formulations and brands and know-how to the East Coast, and I felt it was, we were playing in the pros out on the West Coast, and now we're coming to the East Coast, and we're playing against the junior high team or something like that. Or maybe a team that's only got a basketball team that's got three players or something. I'm not sure.

Bill: Yeah, that's right.

Jason: Yeah.

Bill: We'll say it nicer. We'll say it's just a private school or something that's drawing from fewer people. So, there's fewer and less competition, if that makes sense.

Jason: Yeah, exactly.

Bill: So, let's play it forward and say, okay, well, eventually, this is all going to be federally legalized. Why doesn't California or one of these states that has great soil just dominate growing, and would that then create an impediment to your margin structure? Would that start to create less vertical integration on a go-forward, perpetual basis?

Jason: Yep. Absolutely. By the way, I didn't answer your question on the illicit market. So, I'll come back to that.

Bill: Oh, we'll come back to it. We're just going in the conversation.

Jason: Right, yeah. Interstate commerce, I think a lot of people or most people think that it will eventually come. I think most people think or my view is, it's not going to come for three to five years. But if that happens, then that also means that we have something closer to full legalization where all the companies that are currently operating will be allowed to list on the US exchanges, and you will have companies that are currently listed on US exchanges that can buy their way into the space. My view is that, when that all happens, it's probably going to be less fun than it is right now, because I feel like we're the adults in the room-- in terms of TerrAscend, I feel we're one of the acquirers of choice by a lot of the targets just because they think that we're legit and have a decent track record, and have my fund which at this point is a little under $2 billion backing it, which is nice to have, and these companies realize the value of that.

I think that if we do get interstate commerce like you mentioned, at least in between now and there, we'll all get paid in terms of the value of these companies should go up a whole lot. Then, the question is, it does get a lot more competitive, and there's less profit dollars to be made. There's a good chance that's the truth, that it will be more competitive, like, every industry always gets more competitive over time. But if you're one of the better operators, you always figure out a way to stay ahead of that. In terms of growing and making products in California and shipping them out to the rest of the world like it is done in the produce industry and all of that, I think that can serve part of the market. I don't think it will ever be cost effective to grow high quality indoor flower in California, and ship it anywhere beyond the Mississippi, because there's no cost advantage. The cost advantage in California is that, if you're growing outdoors, the conditions are close to perfect and you can grow things for a much lower price.

I could see that being done and interstate commerce really supplying a lot of lower quality outdoor product, or biomass, or even turning manufacturing, those extracting them into vapes and edibles and things like that, and shipping those from California. But my view is high-quality flower, you're going to make your money back if you build high quality indoor warehouses on the East Coast and grow flower there. Like I said, there's not going to be any cost advantage to shipping it from the West Coast. In fact, if you ship stuff like that from the West Coast, by the time it gets to the East Coast, the flower is not going to look like it looked when you put it into the jar, just through all the motion and the shaking and all of that.

Bill: Yeah, you don't want to lose the crystals. Then, it doesn't sell like it could otherwise.

Jason: Exactly, especially on the high-quality side.

Bill: Yeah.

Jason: If somebody that’s just a new medical patient, a 60-year-old guy that's coming in and using it for his arthritis or whatever it is, they're not going to notice the quality differences and that's going to be something that could be probably supplied through interstate commerce. But the people that are the connoisseurs and really like the premium indoor flower, they're the ones that are going to notice if the bugs are all broken apart and things like that. So, that's how I see it. Really having people stopping, not getting arrested anymore, I want things to move as quickly as possible, because it's crazy that there's something like 40,000 people sitting in jail [crosstalk]

Bill: Yeah, [crosstalk] such bullshit.

Jason: It's such bullshit, and that they're getting arrested every day in other states for doing the same things that we're doing in the states where we're doing it. That will make the change immediately. But in terms of all of the other things that we're talking about, in terms of legislation, that would have full legalization, all of that, I think when you-- might have said it to you before, my view is, we will make a lot more money, if all of that happens later. It’s sort of pay me now, or pay me a lot more later, because we'll be able to continue to build our businesses, TerrAscend and many of the other top MSOs, continue to build the businesses without these bigger companies that can throw billions of dollars at it. If it takes five years, that hopefully our business will be 5 to 10 times bigger than it is right now. The stock price should follow that. And then, when we get the opportunity to uplist on to the US exchanges, we'll double or triple from a higher point, as opposed to from this point.

That's the way I see it, and I don't really-- My view is that it's not going to happen this year. It's going to be very tough for it to happen in the next year or so anyway, because Schumer and most democrats are more focused on the social justice aspect of legalization than they are about letting some MSOs pay less 280E taxes and things like that. Even though that does impact, it may be even more impacts these smaller businesses, many minority owned that are operating on a legal level, on the state level, they're getting hit by 280E too, but I think Schumer and the other Democrats, they want to prioritize the social justice aspects of it, and the problem is, this is a razor-- If they were going to get anything done, it's going to be a razor-thin margin anyway. The fact is most republicans do not like social justice. If you add however many republicans you thought you were going to get to come over your side, a lot less of them are going to come over if there's a major social justice component to it. That's why I think it's just going to be too hard to get it all done.

But you know what? Take whatever I said there with a grain of salt, because predicting what's going to happen from a legislative perspective, practically never been right, and often, you can be right and still not make money on it.

Bill: Yeah, that's fair.

Jason: Yeah.

Bill: There's a couple things that I want to circle back to. I think the question that's coming up in my head is you had mentioned that some of the lower quality flower goes into edibles. Is that part of why edibles are hit and miss? I have found-- Friends tell me, no, I'm kidding. I enjoy weed.

Jason: Yeah. We don't want to perpetuate the stigma. You're right. Exactly.

Bill: No. I did it a 420 episode. I'm an advocate. Edibles, I do think that it's hard to-- I don't want to say predict what the experience is going to be, but it's not as predictable as flower. Is that because of the quality of cannabis that's going into the edible?

Jason: I don't think so. Any cannabis that goes into an edible has to be run through extraction first anyway. It should be of similar quality to vape pens, whether they use distillate or something else. I think that the reason, and I have the same experience myself, it affects people differently, because it's being absorbed, it's being taken orally, it gets broken down by your liver. It's got a longer time for it to kick in. That's why a lot of people feel like they're not feeling anything and then take another one, and then they're freaking out.

Bill: Yeah, that's a bad train to get on. That train doesn't stop. [laughs]

Jason: Yes, totally. You know what? Just for me personally, and it sounds like-- I know for a lot of people and sounds like for you too, it just makes me feel different.

Bill: Yeah.

Jason: Because it hasn't been absorbed through the lungs-- Absorbing it through the lungs, that's the quickest way to have the effect. Also, the effect goes away the quickest, which is good. It gives you a bigger margin for error, if you do consume and not feeling so great, as opposed to edibles. But also just for most people I talked to, it just has a different effect on them, because it's being processed through the liver. But a lot of people-- there's obviously a huge market. I find that a lot of people like to take edibles for sleep.

Bill: Yeah.

Jason: When I take edibles, it's crazy. I feel like the next day. I can smoke or use a vape all I want and the next day I don't feel any hangover effects. But if I take an edible, I actually have often visual disturbances where things look weird, and I'm almost hallucinating. It has a completely different effect on me.

Bill: I've found that you can eat your way out of smoking too much, but once the edible train leaves the station, you're just on the ride.

Jason: That's funny. Somebody told me, and I don't know if it's true or not, that CBD, if you're having a tough time, because you consumed too much THC, that CBD if you take that or you smoke that it knocks the THC off of your cannabinoid receptor and will actually bring you down.

Bill: Huh? That's interesting.

Jason: Yeah.

Bill: Smoke more to get rid of smoking too much.

Jason: Right.

Bill: Just a different thing.

Jason: Yeah. Exactly.

Bill: I've heard you bearish on the idea of branded drinks. Part of the reason that I believe in brands is what we were just talking about. There are certain edibles I used to buy in Illinois when I lived there. So, shoutout to Green Thumb for providing me. There were a couple brands, PTS, I thought they did a pretty good job. There's a couple more. But do you think that is there a reason that you're less enthusiastic about drinks versus edibles and flower or am I not even characterizing your position correctly?

Jason: Yeah, I wouldn't say-- I'm less bullish on it than I am on other form factors, just because it's such a small percentage of the pie right now. I think drinks are like 1% or 2%. Personally, I know that people are thinking about it as opposed to drinking a beer or having a cocktail or something like that, but maybe it's more of a personal thing for me. I don't find that cannabis is a social lubricant for me, the way that alcohol is. I don't necessarily want to go out in a bar-- thank God, we're finally going to be able to start going out and having normal lives again hopefully, but I don't necessarily want to go out in a bar and be--

Bill: Yeah, stoned.

Jason: Under the influence of cannabis, it doesn't make me more social. If I consume cannabis, I want to be in a more controlled setting with the people that I'm like close with or even more so maybe in nature or doing something else or being creative. So, I don't think that it has the same appeal as going out and drinking a Budweiser or something like that. The other thing is, I feel I want the market-- To a certain extent, I want to let the market tell me what people want. Right now, if it's 1% to 2% of the total of all the dollars spent on cannabis, I just feel there's better places to focus. 45% or 50% of people want flower.

Bill: Yeah.

Jason: When you grow really high-quality flower and you're known for that, your sales are even skewed to be well over 50% flower.

Bill: Yeah.

Jason: As we just discussed, I think it's also more protected against interstate commerce over the over the long term. So, I'd rather focus on the bigger pieces of the pie right now than the smaller ones. I rather, there's lots of other companies that are out there developing these products, and proving them out, and spending money marketing them. GTI just licensed I think the Cann beverage, CANN, which I think is a California based company. I'd rather not have my opinions influence me too much. I'd rather look at the data, and if the drink start taking off, then there'll be a way to get in there.

Bill: Yeah, you can acquire brand. You don’t have to prove it out.

Jason: Yeah, it's not that hard to [crosstalk]

Bill: Yeah. I'll push back just a little on you, but I do think you're right. I could see a scenario where you have cannabis lounges where you have a sativa or a hybrid drink that you mix with club soda or something like that, I could see that. But I agree with you. It's not like you're going to go to the strip in Miami or whatever and go sip on a cannabis drink. Maybe some people will, but I think mass adoption of that it's probably a little bit of a longer shot.

Jason: Yeah, I think that's right. Because there are consumption lounges around the country, San Francisco, there's a few of the dispensaries have consumption lounges, but even there, usually you’re not there for more than a couple of hours, so why take back to the conversation about ingestibles? Why take something that is going to take longer to have an effect? If I was going to do that, I'd rather use a vape or smoke flower or something like that.

Bill: Yeah, that’s right. Yeah, that way, you ramp into the experience quickly.

Jason: Right. If you're not into it, then you're out of it quicker as well.

Bill: That's right. [laughs] Then, you can stop it. Yeah, that's fair. Is brand how you think that the illicit market is going to get fought? Is that a reasonable characterization? Because that's what people say to me. They're like, “Well, look at the illicit market, and why don't people just keep buying there?” For me personally, it's because I'm not going to risk my family to go buy some weed off some drug dealer. I'd rather just go to Trulieve.

Jason: Yep, absolutely. I think it's that. I think it is also that personally, my view is, I cringe when I think of especially back in college all of the illicit market product that I consume, because I know now how stringent these state-level programs are in terms of what you're allowed to use on the products when you're growing them and how hard it is. I know that the illicit market growers are not following the same rules that the legal market growers are following. Therefore, to me, it's more of a safety thing. Who knows what's on that product? It hasn't been tested. It's probably more likely to have something that wouldn't be allowed in the legal market, and also it is not tested and it's not tested for anything pretty much.

To me, that's the argument that I often use when people say, why should I buy legal stuff over illicit market stuff? I think, we're clearly see-- That's really the competition. To me, I don't even look at most of these other MSOs say for TerrAscend as competitors to them, because there's a huge opportunity out there that's available. It's not a zero-sum game. Really, the illicit markets still owns the majority of the market. I think that's really the competition, and we are seeing every year, there's more sales that move from the illicit market to the legal market. Also, now that over the last few years, we've been bringing so many new patients and consumers into the market, and those are people, say 68-year-old grandmother, she's not going to be comfortab-- she's going to be one of the more newer users, she is not going to be comfortable buying-- [crosstalk]

Bill: Calling up some random guy? [laughs]

Jason: Yeah, right. Exactly. It's going to come delivered to our door or something. The legal market, I think is definitely more appealing to the newer, less experienced consumers as well. But it's appealing to me too, because if I can get something-- It's like, would you buy Tylenol that was made in somebody's bathtub if you needed it, or we did choose the J&J product?

Bill: Yeah, I think that the difference between those two things is people are used to consuming the stuff just off the street, but--

Jason: It's true.

Bill: There is a real difference in quality that I've seen from the stuff that you can buy at the store versus-- I remember in college, if I could get stuff that was half as good as what you can just walk in and buy at a store now, I'd be like, “Oh, my God, I'm buying from this guy all the time.” There was no consistency-- So, I do think that the store adds and a level of-- I guess, comfort and certainty would be how I would characterize the two things.

Jason: Yes, I definitely agree with that. You don't have to worry about getting shorted if-

Bill: Yeah, that’s right. I don’t have to have my own scale, and be this asshole sold me oregano. [laughs]

Jason: Yeah, right, exactly. You don't have to do it. Now, you know, whatever it says on the jar, that you're essentially getting it and that's another thing. To me, there's no reason to buy stuff from the illicit market anyway at this point. The thing is, a lot of it is actually grown-- there's a lot of California operators that operate in the legal market, and then the stuff that doesn't necessarily pass their testing, they're selling that stuff out the back door. That's what ends up working its way out to New York, or to the East Coast and things like that. Either way, it's either grown in a place with methods that are not as safe, or it was grown in a legal place, and it's the stuff that's not as good.

Bill: Huh. That's interesting. How do you think through-- to me, the relationship with the consumer exists at the retail level and with the bud tender in many instances. You had mentioned this social justice component. Is there a push to get more licenses in minority-owned businesses hands, and how do you as an incumbent, protect yourself from losing that relationship on a go-forward basis? Or, alternatively, is the relationship with the regulator so good, that it's probably going to be protected to a certain extent anyway?

Jason: I think there's going to both. Especially, now on the East Coast, New York law, and what's happening in Jersey and other places, there are licenses set aside for minority, social equity applicants, and then you have the other ones that are set aside just for for-profit operators. They're both for the minority [crosstalk] that would make money too.

Bill: Yeah. But some is specifically carved aside to remedy a wrong that was done in the past, and some is just a flat-out, apply and see how you get a license.

Jason: Yeah, exactly. I think that there's room for both. This might be a good time to bring up this impact fund that I started with Chris Webber to actually fund social equity applicants and just businesses run by people of color. Because my view is-- well, the fact is that four times as many black people are getting arrested every single day than white people. They're not four times the users versus white people. That coupled with the fact that I think only 3% of the state level legal licenses right now are owned by people of color. So, they're underrepresented in terms of ownership. They're overrepresented unfortunately in terms of being incarcerated.

Bill: Incarceration.

Jason: Yeah, and to me, if we don't even that out a little bit and at least get the ownership levels up closer to what their normal percentage is of the consumers and all of that, then this whole industry is going to have been built on a foundation that had cracks in it. It's going to almost be like, how can we say that we righted any other wrongs for the last 50 years of all, how these laws were essentially used as weapons against people of color? How can we say that we've righted any of that if we ended up having a legal industry that's 3% owned by people of color?

Bill: Yeah, that would be some real bullshit. If you study some of the history, my understanding is that a lot of people of color back in the early 1900s really couldn't afford alcohol for price reasons, and then it almost became this propaganda machine where it was like, "Oh, well, if you smoke weed, you're black people, or whatever," and then it got scary to whatever. It was all just a marketing propaganda-

Jason: Propaganda.

Bill: -thing. Yeah, that's right. Then, if the outcome of all of this is a whole bunch of white people owning everything, that would be way fucked up. I didn't mean to laugh when I said it, but that would be offensive in many ways.

Jason: Yeah, we like they really are-- The war on drugs, that's sort of the racist one, because they locked everybody up-- so many people up in jail for over so many years, and also caused them to not be able to have the level of ownership that they should have in the industry. Therefore, I think we do need to have these programs on the state level. I don't think that they are major, major threats to all of the other multistate operators. If some of these, and I hope that many of these black-owned businesses I do go on to be very successful, and go into multiple states, and all of that. But to me, it's a bigger threat to not have the industry look more overall what the consumers of cannabis look like. It can't just be 98% white people owning these businesses.

The other thing is in terms of the reason we started the fund is, this business is hard. No matter what color you are, this is a really, really difficult industry, because there's so many hoops you have to jump through about every little thing that if you were starting an accounting firm, or something like that, you wouldn't be dealing with it. There's such a shortage of even people with experience in the space, because it's been a legal industry for such a short period of time. If I was starting an accounting firm or a drug company, I can go--

Bill: Yeah, there's plenty of mentorship out there, right?

Jason: Yeah, there's plenty of people. I can find accountants that have been doing this for 30 years. If I go, and I want to start a cannabis business, and I find somebody that's got 30 years of experience in this business, they're even more willing to take risks than I am and most people are right now. So, you don't have a ton of experienced people, it's hard to bank, it's hard to-- Half of all the service providers won't do business with you. That's if you're well financed, and you can go to the capital markets and all of that. It's even harder if some of these companies that we're going to be looking to fund, if they don't have that access to the capital markets, and they don't have the experience that unfortunately-- now

I've got a lot of scars from mistakes that I've made in the past that I'm not make going to going forward. Chris and my view is that let's help fund these companies but let's also give them the benefit of the experience that I've had, and having them not make the same mistakes that I had. I'm sure we'll make new mistakes there, but at least we won't make the same dumb mistakes that ended up costing us a lot over time.

So, we're not looking to just-- you hear this a lot in private equity that we're not looking to just write a check, that we're going to be there to support and help make the business better. I hope that based upon my track record with my other companies that people see that, we really do that, we don't just say it. We need to make sure that this fund is successful, and that we invest in companies that are going to be sustainable, profitable companies over time. Because we want to do more of this, and if we're not-- we are going to prove out the business model, because if we can't, then we're not going to be able to sustain this and go out and do a $300 million fund the next time. So, that's what Chris and I are totally and completely aligned on this. We feel the stakes are high, because there's a lot riding and we feel we can have a real impact on these communities. In the past, a lot of these social equity applicants, it was just a pay day for one or two people that were on the application. We want to be able to help build real businesses by social equity applicants so that they can have a positive impact on their community, and use that-- whether there’s lots of people in the community that are part of what's being done there, and then that's a multiplier and sends more people through college and ends up spawning even more businesses from out of those communities.

Bill: Yeah, man, that's cool. I've heard you talk about it now twice, and I like the passion that I hear in your voice when you talk about it. I don't know Chris, obviously, but he seems like a cool dude. It's nice to see somebody getting in the space for the right reasons, and use their fame and fortune to help people that really could use a lot of help.

Jason: Yeah, that’s [crosstalk] He's going to [crosstalk]

Bill: I'm going to let you go, but I’ve got to ask one question that help people with the research. When I looked, you had issued some equity, and from the outside, I think you could say, okay, well, here's a guy that that has a fund that's long cannabis, says he sees it in the early innings. Why issue equity when it's presumably cheap to raise funds? So, maybe giving people a sense of how you were thinking and some of the capital constraints that are on you as a function of the industry might give some good background.

Jason: Sure, absolutely. It's a lot harder to borrow money at attractive rates, because it's an illegal industry. Rates are more like all hand with paying points upfront and different things. Rates are still probably in the 12% 12-ish%, 13-ish% at that level, if you want to borrow money. So, that option is a little less attractive sometimes versus thinking about raising equity. And also, I've just learned over the years from investing in companies that it's always safer to raise equity than it is to raise too much debt, because if you have a lot of debt, and you have a bad quarter, you can be out of business. If you don't have a lot of debt, you have a bad quarter, you just had a bad quarter.

Bill: Yeah. That’s right. [laughs]

Jason: It just makes it a lot tougher. So, that's one reason to raise equity versus some other alternatives. The other thing is this is a very expensive business to be in. These facilities, you want to build a nice facility, it's going to cost you over $30 million. And 280E tax, which I mentioned earlier. It's really [audio cut] a cash flow. So, you end up having to raise more money just to very often fund a lot of that because less of it falls back to the bottom line. What happened in January was, we had raised some debt in December, so we didn't really need to raise any more money, but we figured well, we're going to raise $50 million just to give us some optionality, look at some more deals, maybe we do some bigger expansions in some of the states where we already are, and we just felt like it would be--

Over the prior year, the capital markets were so constrained, and it was so tough that-- this was a post election in January, where the democrats picked up those seats, and all of a sudden, there were a lot more new investors that were calling us up that were very interested. So, we decided to go out and raise 50, we were going to bring a few few firms over the wall, so we can get an indication of how much they might want, and on Monday, the next week, we're going to announcing that we're raising 50, we've already got 25 or 30 circled, and we're open on the rest. What happened was, that's when I realized that things that really changed for the better in terms of new investors, we went out to raise 50, and we made four or five phone calls, and we had almost $200 million [crosstalk].

Bill: Yeah, a little oversubscribed. [laughs]

Jason: Yeah, just a little bit. Then, the conversation was, internally, what do we take? My thought was, I don't want to be one of these **[unintelligible [00:57:57]** depression that is always still thinking, they don't have any money, and therefore should we really take it all when we don't need it, because we're thinking of how we felt a year ago, right?

Bill: Yeah.

Jason: But we talked through it all, and really-- because as I said, it's an expensive business. If you want to do capex and you want to do acquisitions, having a better balance sheet certainly puts you in a much stronger position. We decided, we ended up doing that 175. The fact is, there's so many really good deals out there that can really even supercharge the profitability that we have now, and whatever deal you're negotiating, if some portion of it is cash, you get so much more value for it than you would if you use equity. So, we just felt like we'll be able to sleep a little bit better at night, knowing that we have a fortress-like balance sheet, and it will help get us better deals, and just help us accelerate the build outs and maybe get them done a little bit quicker. To me in these undersupplied markets, the sooner you bring those facilities online, where there's less competition out there, when we add on to-- we're in the process of adding a good amount of capacity to Pennsylvania again. The math when you're adding to an existing facility that already has the drying rooms and break rooms and all that, the math on adding that additional flower space, you wouldn't believe the payback. It's less than seven or eight months.

Bill: Yeah. I was talking to a guy that's converting some stuff in Las Vegas to Bobby Flay restaurants. He works for that entity, and he was like, the cash on cash is crazy with the incremental and as you were talking, I was like, “Yep,” I think I understand what Jason’s saying in here. So, I dig. I know your time limit, man. So, I'll let you get out of here, but we're going to call this Part 1 and know that you can come over on the pod anytime. It's been fun getting to know you, and I look forward to future conversations.

Jason: Absolutely. Looking forward to Part 2.

Bill: All right. Ladies and gentlemen, Jason Wild.

Jason: Thanks.