

diffusetap
Virtual Event Series

Cannabis is Crushing it

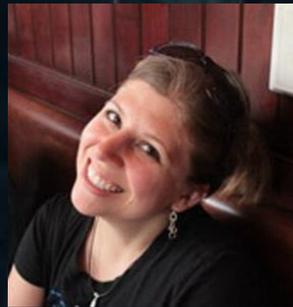
Guest Speakers:



Benjamin Richardson
Director of Research
7thirty



Helene Servillon
Founding Partner
JourneyOne Ventures



Jennifer Piro
Founder
The Cannabis Syndicate

Hosts:



Kenny Estes
CEO and Founder
Diffuse



Ayla Kremb
COO
Diffuse



DiffuseTap: Cannabis is Crushing it

Last time on DiffuseTap, Benjamin Richardson of 7thirty, Helene Servillon of JourneyOne Ventures, and Jennifer Piro of The Cannabis Syndicate talked to us about the current landscape of the cannabis space and why it's gaining crazy momentum, the challenges that loom large over the space, and practical advice for canna-curious investors looking to tap into the industry. Want to make friends from the Diffuse Fund Ecosystem? Email contact@diffusefunds.com.

Meet the Speakers



BENJAMIN RICHARDSON has decades of experience building leading companies in innovative industries. He is currently Director of Research at [7thirty](#), an early-stage growth equity fund that focuses on private cannabis-related technology investments around the world. LinkedIn: [@barichardson](#)



HELENE SERVILLON is an investor and strategy officer who has an eye for underestimated markets. In 2020, she became a Founding Partner of [JourneyOne Ventures](#), a cannabis VC that helps founders build scalable businesses in a complex and highly regulated industry. LinkedIn: [@hservillon](#)



JENNIFER PIRO is a cannabis advocate on a mission to help investors tap into the potential of plant-based technology without worry. She is an Angel Investor in [The Cannabis Syndicate](#), which helps investors meet with cannabis companies to invest in and helps seed stage companies find investors. LinkedIn: [@jepiro](#)

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DiffuseTap

This networking session is part of our weekly virtual events series. Networking (you'll bump into at least a dozen high caliber fund managers) meets purposeful (you'll tap into brand-new sources of ideas) ... straight from your armchair like a boss. If you want to spin up your own fund, get in touch with us at contact@diffuse.vc. We would love to see how we can help.



KENNY ESTES: Today's speakers are Benjamin Richardson, Helene Servillon, and Jennifer Piro. I'll let them do their own introductions, so Benjamin, do you want to briefly talk about your background and how you got into the cannabis space?

BENJAMIN RICHARDSON: Sure, I'll kick it off. Thanks for having me. My name is Ben Richardson. I'm Director of Research at 7Thirty. We are a cannabis VC, and we've been active for about two and a half years. We raised a single fund of about \$11 million to start. That was a fund spun out of [CanopyBoulder](#), where my colleague [Micah Tapman](#) co-founded in 2014. In that time, he founded a number of companies, including [BDSA](#) where he's now CEO, so we have a really good view of the space. We're really data intensive, and we're developing all the data products through BDSA's assets, and I'm also investing around the space. I placed about 16 investments in 12 companies over the past 30 months. So, that's that. Glad to be here and would like to introduce my panelists.

KENNY: Thanks for that, Ben. Short and sweet, I love it. Helene?

HELENE SERVILLON: Hi guys, Helene Servillon, based out of Boulder, Colorado, but currently in Cape Cod (which doesn't really look like Boulder). I've been in cannabis since 2017, and prior to that I started my career with PUMA and Reebok corporate. I have worked in the electric vehicle industry and then enterprise tech. I really love working in cannabis because of the opportunity for the diversity of faces and industries that come together in the space, and the power of the plant. I grew up in San Francisco, so cannabis is close to home to me.

JourneyOne Ventures is a firm that I founded last year. We focus and look at cannabis as a go-to market strategy for the next wave of unicorn companies. What I mean by that is that when you launch in cannabis, you can also disrupt other industries. When I talk to companies, like CPG brands for example, and they want to be the biggest cannabis brand, my approach towards it is we have to be the biggest brand possible, period.

I not only live in cannabis but expand outside of that. Some of the things that we look for are high velocity growth startups. I'm very sector agnostic. I focus on themes and look at the previous year and the current year. Some of the themes I'm looking at right now are the future of work in cannabis. It's the fastest growing employment market in the US. [Leafly](#) says we have over [321,000](#) jobs this past year, but I think that number is definitely bumped up.

That goes for products as well. I would say on the CPG-side, beverages and services that solve for [sleep pain](#) and [anxiety](#), which you call ease and relief, have really great potential. Those are some of the top things I'm looking at the moment. I'm excited to be with everyone. Thank you for putting this together, Diffuse.

KENNY: All compliments for this should always go to Ayla, I just speak more. But thank you, Helene. That's great, I love that thesis. I've not heard that before. And Jennifer?



JENNIFER PIRO: Hi, everybody. Jen Piro. Lovely to join you all this morning, thanks for tuning in. I've been investing in cannabis for about five years as an angel investor, and I also see some [ArcView](#) folks on the call. So, shout out to ArcView and the member managed fund, which I'm also a part of. I really joined the cannabis space because plant medicine was very personal for me, and life-changing.

And so, I wanted to make sure that I put my money where my mouth is. Not only did I come out of the cannabis closet, but I also fund companies and products that I want to see in the future making cannabis easy, accessible, and not scary for all. And because of that, I've also started syndicating cannabis deals.

I run the aptly named Cannabis Syndicate (you can see the creativity on full display). Basically, I'm trying to help canna-curious investors dip their toes in the cannabis space, without asking them to put a lot of time and effort in. The way it works is that I show you deals, and if you're interested, I'm happy to have you on board. I look forward to talking to you guys more as we get into things, thanks so much for having me.

AYLA KREMB: Wonderful. First, we want to talk about a bit of a background on the landscape of cannabis, and how it's evolved over the last three to five years as a business. We've seen this talked about all over the news all the time, but it would be fabulous to get a quick snapshot of where we've been, and where we're at today in terms of what's possible from a business perspective and product perspective. Maybe I'll let Helene kick it off.

HELENE: I think in terms of future-forward areas that I'm looking at, and where I think high growth companies are at, cannabis at scale is what that exactly is. Every product in the market right now is primarily derived from a plant, and it typically takes three to four months to even harvest. So, it's very interesting to look at [cellular ag](#) companies where you can produce CBG in a week, versus, the usual three to four months at scale.

And so, a lot of these technologies are evolving outside of the cannabis industry, such as [Beyond](#), which made it possible in those sectors. And so, I'm really intrigued by that space. It's a little bit of life sciences and biotech, and there are also some companies that are approaching it from a synthetic angle. It can actually be naturally derived from cells, which is one theme that I think is huge. Pharma also has great applications for cannabis.

Once we get to that stage, I think there will be some things that will have to happen from a legal standpoint. When you're looking at forecasting how to invest in this space, you want to look at the timeline. There're so many different applications for cannabis, but the legal ramifications and the market fragmentation is what's going to create a domino effect. Those are some few things on my end.

AYLA: Jennifer, you want to pick it up with this one?

JENNIFER: Yeah, I would say the momentum is in the favor of cannabis here. It's no longer if, but when, as we think more of what federal legalization is going to look like over the next few years, or what it's going to look like if states continue to come online. Even a year ago, I don't think many of us could have



imagined that cannabis would be labeled essential during the pandemic, or that we would see so many states come into the recreational-slash-adult use market.

I think it's one of these things where you really don't want to sit on the sidelines at this point. You do want some cannabis exposure in your portfolio. But I think the way you think about cannabis is really going to come down to a lot of personal theses about commodities versus product and federal legalization, and when that may take effect.

I would say that you have to really think strategically about, like Helene said, your timeline, and when you're looking to exit. You also have to be a little wary of companies who promise exits in two to three years. We saw that happen with a lot of folks going on to the Canadian market, and the market has not been kind to them.

So, look for people who are really in this business for the right reasons, and who are looking to grow their companies very strategically, and not try to just get you out as soon as possible. You really want to think about who you're starting that relationship within this space.

AYLA: Beautiful advice. And Ben, do you want to chime in there as well? What are the trends that you're seeing? What are the developments that you observed over the last few years?

BENJAMIN: Sure. I come from the ag and chemical space where I covered Dow and DuPont and ScottsMiracle-Gro components, and all these big companies. But this industry is small. It's been grown through grassroots efforts, including private wealth and family office money. We've created this institute via pseudo-institutional capital to grow the industry.

And this industry is now set to double and grow again by 50% over the next five years. Clearly, there's going to be some change, and you can hang your hat on that, or maybe not. Legalization may come in a long time, and it may not. So, in a capital-starved environment, how do you best operate as a company? How do you run lean?

I think some of these brands came out of the gate early and had a really hard time scaling. It's not like liquor. You don't have thousands and thousands of outlets. You have very constrained retail, so you can't move volume. These are the fundamental challenges that I think will be overcome over the next 18 to 24 months, and a real capital injection is expected. I think we all expect that. I think groups like ours are here to chaperone those people into the industry.

You can always start small in this industry, investing in bigger slugs and trying to help people get involved. This goes all the way down to your neighbor, who wants to start a home grow installation operation, and you want to lend them 10 grand to start the business. There are a lot of ways to get involved in this. You just have to reach out to your local cannabis groups to get an idea of where to start.



KENNY: You mentioned a couple of times about the institutional capital dearth. I hear about a lot of cannabis funds, and there's a few guys here on the call right now. But where are the capital inefficiencies? Where do you think there's a lot of opportunity for large amounts of capital, more institutional capital, to come in? And how would that have an impact on the industry?

BENJAMIN: I think at the bottom, you have the whole accelerator environment, which I think will heat up and increase. You'll have a lot of innovation there, which, as Helene pointed out, will hopefully migrate out of the cannabis space. We've all already seen a company like [PathogenDX](#) create a microbial detection solution, which pivots to [COVID](#). That, I think, is brilliant. And they're all over the cannabis industry.

But fundamentally, you're going to need capital to build those assets, which might not be sexy. The extraction, the cultivation — this is like horticulture. It's like growing lettuce. It's not so simple. But fundamentally, you need those assets. And that's what can't be built out easily state-by-state. There are incredible [inefficiencies](#).

I think we should start with [lending rates](#) coming down, so that people can finance working capital in an effective way. And that probably requires some legal changes at the banking level, to get those rates down. Because right now you can get 20 points and up doing [lending](#) in this space. That's the inefficiency.

KENNY: That's crazy. I didn't realize that interest rates are that high, but it makes sense. Jennifer, do you want to expand on that? Where is the capital right now? Where does it need to grow? Do you see a lot of Greenfield for Series B, Series C equity investments? What are your thoughts on the industry there?

JENNIFER: I think it's amazing. We've actually seen several companies this year in cannabis raising massive funding rounds that feel a lot more like tech, that I did not think we would see this quickly. I think there's room to play in all stages. I particularly really like the seed stage, pre-series A, just because there's not as many people playing there anymore.

Like Ben was saying, we need more accelerators. We need more people at that start of the funnel to help grow these companies. I know a lot of you from the tech world, what you do is you exit your company, you make your billions of dollars, and then you become an angel and go start funding the beginning of the ecosystem. But in cannabis, that really hasn't played out. We don't have a lot of folks who own a ton of their company. They gave away a lot of equity early. So we don't really have cannabis billionaires ready to fund the next generation.

I think there is a bit of a [lack of capital](#) that people are still looking for. But I don't think that capital doesn't exist. I just think people are a little more on the down-low about it. Most cannabis funds are not as out there with their branding as I am, for example, for cannabis. They're a little more stealth. There are a lot of folks out there playing in this space.



It's just that you have to kind of look around to see what stage you want to play in, and who is actually investing at that stage. Because I think there are folks doing every single level, but it's not as quick or as easy as going into CrunchBase and sorting by recently-funded cannabis companies. There's still a little bit of homework to do. But there's a lot of folks out here who want to see these companies succeed, and who are looking to push things back into the ecosystem.

HELENE: To add on to what Ben and Jen are saying, in the pre seed and seed stage rounds, companies are still being traditionally funded by angels. It's really difficult to get institutional capital at that stage. And I would say, something around 95% of traditional institutional venture funds are not participating in cannabis. The biggest and most obvious blocker being, it's a vice clause within their LPA, so they can't touch cannabis for a variety of reasons.

The other thing is the lack of domain expertise. Even if they could, and they're a specialist, in b2b marketplaces, it's almost difficult for them to wrap their head around the legal side and the risks of cannabis.

Primarily, family offices are still heavily investing in cannabis. I'm seeing a lot of executives from cannabis companies who've had a lot of success, investing \$50k, \$100k to \$250k checks. But what I would say for all of you out there is, don't get caught up and try to find a lead if you're raising capital. It depends if your lead is trying to set terms for your series A or B, but just raise as much capital as possible from your internal network.

If you are opening up a retail dispensary, look for some commercial real estate investors, people who understand the dynamics of the deal outside of the domain. In terms of growth stage capital, there's pretty limited growth stage capital. I would say funds like Merida are raising something like north of 250. Even funds like Entourage Effect, which I think are doing a \$50 million fund that started at \$10M.

As the industry matures, we're starting to see more of these cannabis-first funds that started at 10 to 15 million, get to upwards of \$200M. But there's still not a ton of them. So that's why you're seeing companies go public faster than they typically would, like Weedmaps, for example. They just listed for 580 million. Traditionally, they would try to get bigger than that. But I just don't think they had too many options out there.

AYLA: Really, really good points. And you mentioned a really good one there, especially when it comes to Angel investors coming together as an SPV-type structure to be able to do diligence-specific deals. Somebody in the audience asked you, Jen, a little bit about your comment that some of these companies thought they were going to be massively successful but fail, which kind of links up to that question around diligence.

What do you think went wrong with these businesses? And how can investors in this space, that are nascent into both the business models and the underlying operational complexities do due diligence on these deals as they get involved?



JENNIFER: That's a great question. I would say a lot of the tuition that I paid in this industry was because I tried to go in alone. I thought that I could figure this out. I've done angel investing before, and I thought it couldn't be that different. And that was a huge mistake. I really should not have gone alone at all. And I'm really glad that I found other people in my network, and really jumped feet first in cannabis to have a wider range of people to share due diligence with and talk through these things.

For folks who are thinking they don't know anything about cannabis, and wonder whether they should even invest, I would say think about your own domain expertise, and then how that can apply to cannabis. If you know a lot about CPG, there are a ton of people trying to make CPG brands in this space. Or if you know a lot about banking and finance, this industry needs help with that probably more than anything else at this point.

Or if you understand agriculture and vertical farming, there's lots of folks who want to go that path. I would say take some of the stuff you know and see if you can find companies in that space. Even in marketing and analytics, or CRM, or pretty much whatever you can think of — there's a cannabis equivalent right now who you would be able to do diligence with. As opposed to someone like me, who's a little more broadly focused, I would need to look for experts in this space to talk to so I wouldn't be afraid of the space, just because I might not understand how to get the perfect flower out of the stuff that's behind me.

You will learn that, and you will find other people in your network who can help you with diligence. That includes asking questions like, does this dispensary know what they're doing, or can this get off the ground. Leverage your existing expertise to figure out where you want to play in the space and start there.

That way, you can start to realize what the differences are between cannabis and these other verticals, and then hang out with as many cannabis people and cannabis events as you can. You'll find out that the industry is very small compared to almost any other industry out there. And that people here are really, truly willing to help, because they're usually in it for the plant and seeing the industry grow, instead of being just in it for the money.

I feel like you can't really say that about a lot of other sectors. There are folks out there who want to help, and I would definitely take advantage of that network and not try to go through it alone.

AYLA: Ben, do you want to touch on that subject matter a little bit, in terms of due diligence on individual deals?

BENJAMIN: Sure. To echo what Jennifer said, I think knowing what you're good at is key to analyzing a company. If you're looking at, for example, a delivery platform that focuses on geo-fencing, and you don't understand it, then find someone who does. More especially, I think in all these deals, the most important thing for us to have lined up is legal expertise.



I basically play with big kid blocks and let smart people do the work in detail. You can't know everything in this industry. It's too broad. You're over at ad tech one second, and then you're over at ag tech the next. It will take you in every direction. So, understand what you know, and then look for people in the industry who have done other things.

In our case, we have a group, Trym, that does test management for us. They come from the same space, and they do installations. That's how we ended up partnering with them. We felt they were really proficient at what they do, and their space applies to our case. I guess, in a similar sense, finding veterans in this space is incredibly accessible. Other spaces are different, and public companies are different. But this is a space where you can actually talk to founders, which is a good way to ally yourself with people that you find compelling.



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Dennis Chookaszian
Corporate Director, CME Group

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Sharing his decades-long expertise on corporate governance, Dennis discussed how to avoid a co-partnership going sour, the problem with overly idealistic CEOs, and the importance of keeping your board in check. [Read on](#)



Susan Brazer
CEO & Founder, LionShare Media

DiffuseTap: Media Metaverse 2022

Susan talked about the 2020 digital media landscape; the evolution of media distribution; how converging, emerging technology points to the metaverse; and the prospect of having an open, decentralized, and free Web 3.0 marketplace. [Read on](#)



Raj Mukherjee J.D.
VP/Global Head of Tax, Binance.US

DiffuseTap: Crypto Taxes Decoded with Binance.US

Raj explained the complexities of the US crypto tax landscape, how he built a dynamic tax information system for Coinbase and Binance from scratch, and how investors can profit from crypto without getting caught in a taxation mess. [Read on](#)

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