Transcript of Interview with Hirsh Jain,

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Interview by Aaron Edelheit

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*Lightly edited for readability

Aaron: Hirsh, thank you so much for doing this conversation interview. I'm really excited to dive into one of the most fascinating topics in the cannabis world, which is California and specifically the opportunities and problems in California. So next week, Governor Gavin Newsom will issue his proposed budget, and I'm hearing from multiple sources the odds are good that he will call for relief or outright elimination of the California cultivation tax. If he doesn't, there's another California state senator who's proposed a bill to eliminate it. What do you think the odds are that there will be tax relief in California this year? And maybe you could also back up a little and explain why it's such a critical issue for the cannabis market and for any company operating in California, just the tax problem that's going on right now.

Hirsh: Yeah, absolutely, Aaron, and obviously, thanks so much for having me. Great to be here. I think the odds are good that the cultivation tax will be eliminated in 2022. If I had to put a number on it, and obviously that's always a dangerous game in politics, but if I had to put a number on it, I'd say at about 70 percent that the cultivation tax would be eliminated. Now, I think one thing we have to acknowledge is that tax reform efforts in California have historically been unsuccessful. This will be the fourth year that the industry attempts to reduce taxes via the Legislature. And I mean, candidly, I was talking to a leading Democrat in the state just a couple of days ago who said, you know, tax cuts, that's something that Republicans do. And as many folks know, California has a has a supermajority of a Democratic Legislature, and that's sort of what he said. Now, I mean, one could comment that the Democratic Party comments about how they like to support the little guy and how they want to support equity applicants and how taxes are really bearing those folks. But that's kind of the attitude in the Democratic Party. But despite that, I'm still pretty optimistic that the cultivation tax will be eliminated in 2022. And the reason is it's just become absurd. You know, as many folks know, the cultivation tax is a flat tax. It's currently $160 a pound. And what has happened over the course of 2021 is the wholesale price of cannabis in California has dropped dramatically. You know, earlier in 2021, it was, you know, between $1,200 and $1,500 a pound, but it has fallen to $300 to $500 a pound. And that, by the way, is a function of the supply demand imbalance in the state. The fact that we have 7,000 cultivators and only 830 licensed dispensaries. And so, what was, you know, at the beginning of 2021, a 10 to 15 percent tax has now become a 30 to 50 percent tax. And that, by the way, is just one of the four ways in which California taxes cannabis. So, in short, the tax went from onerous, very onerous to absurd, and that is generating immense political support for eliminating the cultivation tax. And I'll just note all of the different constituencies that make up California cannabis, which seldom agree on anything, are in favor of the elimination of the cultivation tax. Cultivators, folks in other parts of the supply chain, equity applicants, you know, organized labor, which is a very powerful force in California, trade groups. And so, all of that is generating a lot of political support for the elimination of the cultivation tax. And you know, if you would have asked me, you know, I think you asked Aaron, like, what are the odds that Newsom will include it in his budget that comes out in a few days on January 10th? I would say there's about a 50/50 chance that Newsom will call for the elimination of the cultivation tax in his January budget. And if you were asking me three months ago what the odds of that would be, I would have said like 25% or less. But the, you know, the political outcry that's been happening in recent months has changed those odds. And I'll just note a couple of things, you know, the L.A. Times editorial page, which in Sacramento, which is kind of old school, is considered the paper of record, you know, directly called out Governor Newsom by name, saying that he had a responsibility to eliminate the cultivation tax. Many folks may know that there is a huge group of operators that are threatening a tax revolt. So those are the things that I think will lead the governor to make it more likely to eliminate the cultivation tax. A couple more things I'll say, and then I'll pause. You know, as you noted, the state legislature could also introduce a bill that would eliminate the cultivation tax. And I think it's overwhelmingly likely, I would say, 90 percent or more that Senator Mike McGuire, who represents a lot of small farmers in Northern California, will call for the elimination of the cultivation tax and just to talk through the mechanics of how it works. The governor has the opportunity to introduce it in his budget. If he doesn't, which he may not, then Senator McGuire will almost surely introduce a bill that will call for the elimination of the cultivation tax. And if you were to put a gun to my head and be like, OK, Hirsh, you said 50/50, how might this play out? What I would bet is perhaps Governor Newsom does not include it in his budget, but Senator McGuire introduces a bill to eliminate the cultivation tax. And then in May, the governor has the opportunity to do what's called a “Revise”. It's called the May Revise, where the governor gets to basically amend his proposed budget. So, I could see a world in which the governor doesn't do it initially. Senator McGuire introduces this bill. The governor kind of gauges public sentiment as it pertains to this issue and then swoops in, in May and says, hey, actually, we will eliminate the cultivation tax. And one thing one should note is that if this passes via the budget, it takes effect on July 1st. But if this passes via a standalone bill that's proposed by a legislator, then it would take effect on October 1st. So that's just a little difference in timing, and, you know, maybe the final thing I'll say is that while this would be an enormous step forward, unfortunately it will come too late for many small cultivators who are already leaving the market because of the onerous tax burden and in some instances aren't even harvesting their crops. So that's how this all might play out.

Aaron: Yeah, no. Thanks for that. I mean, one of the things that I see is the current environment is almost like an extinction event, especially for smaller farmers, because just the economics just simply don't work. You're not going to plant a crop where you're instantly losing money, and the cultivation tax is so high. And I think this is what a very interesting thing that I've learned that you've helped me understand is that how everything builds upon the cultivation tax. So, you have the cultivation tax. But then there are more layers of taxation that are built upon that tax. So, the cultivation tax becomes super important to the end consumer because it's jacking up the price and then everything leverages off that increased price, right?

Hirsh: Yeah, absolutely. As you just noted, it compounds as it makes its way through the supply chain. So, there are three other taxes that are applied to cannabis. There's the state excise tax, which is 15 percent. There's a local tax that's imposed by cities, which often ranges between eight to 10 percent. And then there's the sales tax, you know, as all goods are taxed in California. And as you noted, all of those three taxes are applied to the cultivated price of cannabis, which includes the cultivation tax. So, it dramatically increases the tax burden. And I should note, you know, oftentimes people in California say, Hey, you know, legal cannabis is 30 or 40 percent more expensive than illegal cannabis. It's actually much more than that when you factor in the cultivation tax and then all of the subsequent taxes that are applied on the cultivation tax, it's actually almost twice as expensive as illegal cannabis. And so that really shows you the true scope of the tax burden there.

Aaron: Gotcha. And that's another reason beyond just the extreme pain that smaller operators that everyone's experiencing, but the real, smaller operators, social equity applicants, all those businesses are experiencing. But the illicit market is another very compelling reason to kind of eliminate the cultivation to at least get the price down. I wanted to ask you, if California removes the cultivation tax, what do you think this means for the price of cannabis and maybe not in the short term, but we've had this big plunge, we had this big overproduction. Where do you think, you know, because when I look at it, you're talking about $160 a pound. Do you think that that gets competed away and that the price just collapses? Do you think half of it could go to cultivators? Where do you think that lines up with your understanding of the market? And I guess what I'm asking about is the better question is when things normalize, where do you think the price of cannabis on a wholesale level normalizes in California?

Hirsh: Yeah, it's a great question. I think that depends to some extent on how the cultivation tax is eliminated. And what I mean by that is in Senator McGuire's proposal, the cultivation tax would be eliminated, but the excise tax would theoretically be increased. So, as I mentioned before, currently the excise tax is 15 percent. Senator McGuire is envisioning a world in which that excise tax might rise to 18 percent or 20 percent. And I think that's deeply concerning because that would increase consumer sticker shock when they're buying legal cannabis and compel them to buy cannabis in the illegal market. So, I think it would be enormously helpful if the cultivation tax were eliminated. And, you know, the excise tax either stayed the same or went down. But if the cultivation tax were eliminated and the excise tax were increased, I think that would be quite problematic. So, I think it's important to note that there are different flavors in which the cultivation tax would be eliminated. If it is eliminated, I could see the wholesale price of cannabis normalizing to around $800 to $1,000 a pound. So, as you know, right, in early 2021, the wholesale price of cannabis, you know, depending on indoor/outdoor range between $1,200 and $2,000, it's since fallen to $300 to $500. I think as we were just discussing before, regardless of whether the cultivation tax is eliminated, a lot of cultivators are going to be kicked out of the market, right? So those 7,000 cultivators are going to shrink to 4,000 in very quick order. That will help restore the supply demand imbalance and will buffer the price of cannabis, so it increases to some extent, and that's the level at which I could see it normalizing. The other thing I'll say is there's obviously a lot of other factors here. It also depends on the pace of retail licensing in the state. Right now, there's only 830 licensed dispensaries in the state. If we eliminate the bureaucracy that's impeding a lot of those stores from opening that will also have an impact on the supply demand equation.

Aaron: Is that something the state can do in terms of the retail or is that more a local municipality?

Hirsh: I think there's a role for both and you know, we can walk through, I think, you know, sort of what the challenges are at the state and local level. Right now, we are seeing both state and local bureaucracy essentially impeding the will of voters of, you know, in California who by and large support legal cannabis. And, you know, both of the I think, there are significant reforms needed there.

Aaron: Gotcha. And I've heard on other interviews or where you have been quoted that you think there is a path to there being 4,000 to 5,000 dispensaries. And why this is important is if you, I believe if you look at Colorado, they have like one dispensary for every four or five thousand people. In California, it's like one for every 40 or 50 thousand people. This is wildly out of whack. I've heard that you thought in the next three to five years, you could get from eight hundred to four to five thousand dispensaries. Do you still feel that way? And this is based on you seeing where the regulatory process, where the applications are coming in, are you still confident in that prediction?

Hirsh: I'm still confident in that prediction. And so, you know, just to go over the facts a little bit. As you pointed out, right now, California has 830 licensed dispensaries. That's basically the same number as Colorado and the same number as Oregon. California is a state of 40 million people. Colorado is a state of 7 million people. Oregon's a state of four to five million people. So, on a per capita basis, California should have many more dispensaries. A formula that's often used in the state is that there should be one dispensary for every ten thousand residents. That's what's needed to adequately serve the legal market. There's approximately 40 million people in California, and so we need 4,000 dispensaries. The other thing I'll note is during the medical regime, you know, in the early 2010s, there were up to 3,500 medical dispensaries, right, that existed in the state. So, we know the state can support it. And so, what makes me confident is we are seeing so many cities come online. So many cities ultimately pass ordinances for retail cannabis. The challenge, though, is that local and state bureaucracy is delaying the rate at which those stores come online and so we can talk through examples in a second. But you know, what gets me excited is a city like Fresno, right, that issued 21 licenses or Oxnard that issued 16 licenses, or Tracy that issued 11 licenses. The challenge, though, is that, you know, those cities passed ordinances two years ago, and those stores are not yet open, so there's both a pessimistic and an optimistic way to look at this. The optimistic way to look at this is there's a huge universe of cities in California that passed ordinances two years ago, whose stores should be coming online soon. The pessimistic way to look at this is it takes so long for those stores to come online. And so, there's a list of about 45 cities that will pass ordinances in California this year. The question is like, are we going to be waiting until late 2024 and 2025 for those stores to come online? Or can we reform our bureaucracy so these stores can open within 18 months? So, just to summarize, I believe we will see the political support and are already seeing the political support at the local level to authorize retail cannabis stores. The question is, can we reform this bureaucracy that is really impeding stores from opening? And you know, just one thing I'll note, you know, in an example, I live in West Hollywood, which aspires to be the sort of cannabis mecca of the country, the Amsterdam of the country. And three years ago, they passed a landmark ordinance in which they issued 40 licenses. And yet, you know, I think a handful of those businesses are open three years later. So even in a city that wants to lean into cannabis, a bureaucracy has been set up that prevents those stores from opening. And so those are sort of the two sides of the coin.

Aaron: Do you see signs or what would we look for to know that is it a bill that would pass? Is that you'd see news articles that they are removing? I mean, how would I know as a person following the California industry that you were starting to see the positive change that's needed from the regulatory front?

Hirsh: I think the best like data one could look at is the number of state licenses that the Department of Cannabis Control issues. So, in Q2, 2021, the state of California issued 35 new retail licenses. In Q3, the state had its best quarter ever where they issued 60 new retail licenses. And that kind of got me optimistic that we are finally picking up the pace. Unfortunately, in Q4, 2021 we drop down to 30 new retail licenses so you can have a good sense that the California market is becoming healthy, if you see on a quarterly basis the state issuing one hundred new retail licenses. And I mentioned the state because that's the last step before doors open. And so, you know, as we can unpack, I think there are challenges both at the city and the state level, whereby a city will technically issue some number of licenses. And yet, three years later, a fraction of those stores will open because you have to navigate both this local bureaucracy and then move on to the state bureaucracy.

Aaron: So, beyond taxes, beyond the retail and regulatory, we mentioned it before, we come to the illicit market, and I would love to hear your thoughts because I personally believe there's a lot of misconceptions about the illicit market. One of them being that I think primarily based on what I've heard, the illicit market in California feeds the rest of the country or a lot of the country. I'm sure a lot of it still stays here. But I would love to hear your thoughts as a person involved in the industry, what you think of the illicit market in California. What are some things that maybe people misunderstand and how you see the illicit market right now?

Hirsh: Yeah, I think the first thing to note about the illicit market is nobody knows how big it is. You know, I often see this figure cited that the illicit market is seventy five percent or 80 percent, but we have no way of estimating how big it is. We know it's huge, but I suspect it's even bigger than we think it is. So that's just one thing to know.

Aaron: You think it's bigger?!

Hirsh: I think it's huge. You know, there’s sort of a stats thrown out there. This often happens in cannabis, the stats thrown out there and then people just repeat it until it becomes gospel. But yeah, I mean, I think the illicit market in cannabis is huge. We throw out rough estimates, but we nobody really knows how big it is. So that's the first thing to note. I think there are, as you were noting two components to the illicit market. There's certainly a domestic component to the illicit market. You know, Bakersfield has no cannabis stores in that city of half a million people. People are still consuming cannabis, probably at the same rate they are in other cities. You know, Fresno has no cannabis stores open today. People are still consuming cannabis there. So, you know, there are huge cannabis deserts across the state and that's a big contributor to the illicit market. But as you were pointing out, a big portion of the illicit market is shipped to other states. Right now, in New York, where cannabis has been decriminalized, a lot of the cannabis that's being sold there inevitably comes from California, and I think there are two ways to look at this. You know, oftentimes the size of the illicit market is cited as a reason why California is a minefield and why one doesn't want to play there. The other way of looking at it is that there are a number of other states. I mean, even neighboring states like Nevada, like Arizona, like Colorado, there's a number of other states that have legal cannabis industries where nevertheless, cannabis is shipped across state lines. So interstate commerce is already happening in this country illicitly. And of course, it is right. It's been happening in this country for at least half a century. And so, a big portion of the illicit market is being shipped to other states and be sort of the part of the bull case for California is that in a world of interstate commerce, those transactions will be legal and operators who are cultivating that cannabis will benefit as a result. And you know, one other thing I'll note about the illicit market, I think another misconception is that, you know, you often hear about calls for more enforcement and I can understand that, you know, obviously we don't want people selling untested, unsafe products. We want legal operators to be able to compete fairly. But I think it's important for us to acknowledge that enforcement is more optical. You know, anyone who is familiar with the history of sort of enforcement in California knows how incredibly ineffective it is. You know, the camp program in California has been deeply ineffective, and I urge anyone interested in California to read a book called Smoke Signals by Martin Lee, which documents in meticulous detail the state of California's effort to enforce against illegal operations and how incredibly ineffective it is. And so that's the other thing. I understand the calls for enforcement, but only a right sized tax and regulatory regime will usher folks into the legal market. Enforcement will always just be a Band-Aid at best, and not to mention the fact that the California electorate, you know by and large, doesn't want to see a repeat of know war on drugs policies that, you know, clouded the state for decades.

Aaron: You know, one thing that I hear from other investors or other people looking at the spaces, well, won't people just buy, you know, when interstate commerce comes, won't people just buy cannabis from Colombia or Mexico? And then I read stories of how California cannabis is being sold in Mexico. And it's like, you know, California illicitly has been doing this for a very long time. And when you look at California from like an agriculture perspective, there's a reason why so much agriculture is grown here is because the weather what we love, you're in L.A., I'm in Santa Barbara. The same thing plants love. And so, it's really interesting to think through both what the illicit market means and doesn't mean. And that in a weird way, you know, Graham Farrar with Glass House mentions that is that consumers are already choosing California. They're just doing it. Illicitly? Absolutely. So, you know, it's interesting to think through those, what the illicit market actually means in the long term when people have access to good cannabis in a legal way.

Hirsh: Absolutely. I mean, as you were just saying, Aaron, I mean, California has immense cultural cachet. There's a reason why when you're listening to music, people talk about, you know, buying their cannabis from California. Right. It has that association in mainstream culture. I will say, you know, you mentioned Columbia. I will say, you know, Colombia and other countries, they show that California's leadership position on cannabis is not a given though, and I will tell you, you know, three or four years ago when California was legalizing, I think there was the sense that California's leadership, you know, global leadership position on cannabis was a given, and I don't think it's a given, which is why these reforms are so critical. And then the other thing I'll say is, you know, it'll be interesting to think about international commerce versus interstate commerce, and there's probably someone, you know, better educated on those issues than I. But, you know, just because we open up to interstate commerce doesn't mean we will open up to international commerce or at least free international commerce quickly or immediately.

Aaron: Yeah. No, thank you for that. And I think that's exactly right. And that's why California is so fascinating and there's so much opportunity, but so much problems. And this is why I really appreciate this conversation. So, let's talk. I mentioned glasshouse. Let's talk about some specific companies. I'm an investor. You work with companies in the industry. I would love to just go through a couple of the leading companies and get your thoughts. First is a disclosure. I'm an investor, bullish on Glass House. I'd love to hear your thoughts.

Hirsh: Yeah, absolutely. Well, I think first Glass House would disproportionately benefit from the elimination of the cultivation tax as a cultivator. And so, you know, if that policy reform goes through in 2022, which I think is likely, they would benefit immensely from it. And I think the theory, you know, for Glass House is clear, right? So first, you know, they would benefit immensely from the growth of the retail cannabis market in California, as we were discussing, you know, right now there are only 830 dispensaries in California when there should be up to four thousand. Glasshouse, right, as a large-scale cultivator, able to cultivate at a low price would disproportionately benefit from the opening up of those stores. You know, out of the 482 cities in California, only 115 of them, right, so like one in four, have a retail cannabis store open today, whereas 342 of those 482 cities, so 70 percent of them voted for Prop 64. And that was five years ago. Right? Since then, every poll has suggested that the support for legal cannabis has grown in California. So again, going back to our earlier conversation at the grassroots local level amongst citizens in California, there is a desire and a demand for retail cannabis outlets, which is being stymied by local policymaking and by local bureaucracy. But that can't last forever. And so, as those stores open up, Glass House will be in an excellent position, obviously, to supply those stores. And so, I guess the way I would put it is, you know, if California experiences the long tail of growth that Colorado did, then Glass House will be in a very good position. And so, I mean, just to talk about Colorado for a second, because it's a mature market, and I think it can teach us some stuff. You know, it started off in 2014 as a $700 million market, and every year it just kind of gained steam. You know, a few years in, it was like above a $1 billion market, right by 2018 it was a $1.5 billion market in 2020 over two billion, you know, I think $2.1 billion in sales were generated. And as the numbers come out for 2022, it'll be around $2.2. So, in other words, Colorado experienced a long tail of growth, and at every point when we thought that it was done growing, it continued to grow. And in part, that was a function of the fact that it had a local licensing structure. Right. So, there's 272 cities in Colorado, and about three years in, about one in three of those cities had authorized retail cannabis about five years in, about half of those cities had done so. Now, about three in four cities, or seventy five percent of cities in Colorado, have authorized retail cannabis with the last holdouts like, you know, Colorado Springs and Grand Junction finally getting on board. And so, if California experiences that long tail of growth, as Colorado did with more cities coming online, cannabis being normalized than Glass House is in as good a position as any right, a great position actually to supply those stores. So, I think that's part of the bull case for Glass House. I think the second thing and this has been said before is that Glass House is a call option on interstate commerce, right? Obviously, California cannabis has immense cachet. Consumers already demand it. And so, when that opens up, Glass House will be in a great position to benefit from that. And I think it's interesting there's all of these different estimations about when interstate commerce will occur, and I think people make good points about how there's a number of constituencies who are opposed to it. You know, both of these

MSOs with facilities in 20 states and social equity applicants and state regulators. I think one thing you know, which I think we've talked about before is, you know, whether the federal courts might expedite that process at some point. And so, I think that is one factor, if the federal courts say, Hey, you know, I can see a world in which 18 months from now, every state in this country has some form of a medical cannabis regime. It would thus be untenable for the federal government to continue to maintain the cannabis is schedule one and thus has no medical value. And so, I think that could be one factor that none of us see coming right that that could benefit a company like Glass House. And then, you know what one more, I think sort of aspect for the bull case for Glass House, and then I'll talk about, you know, maybe what some of the risks are, I think, you know, one other element of the bull case is just, you know, the environmental angle, right? Obviously, we know that cultivating cannabis can be very environmentally destructive. I think three or four percent of the carbon footprint of the entire state of Colorado is from indoor cannabis cultivation. I've seen stats that say that cultivating a pound of cannabis consumes 5000 times as much energy as cultivating a pound of some other agricultural goods. And so, you know, Glass House is in an excellent position to cultivate not only at scale, but sustainably. And as we all deal with the effects of climate change, you know, not only in California, but across the country, Glasshouse’s approach is going to be looking very attractive. And you know, the other thing that I'll just note there is, as many of us know, California is often a leader on these environmental issues when it comes to things like gas mileage, California is, you know, sort of leading on those issues and the rest of the country follows. And so, I think we will see a world in which within the next 12 to 24 months, the state of California becomes really serious about the, you know, the carbon footprint of cultivators and folks that can adapt to that, those new regulations are going to be in a great position. So, I think those are all the strong cases for Glass House. One thing I would be paying attention to is their retail footprint. I think that's another part of what would make them successful, right, setting the cultivation aside. And I think, you know, their acquisition of Element 7 made a lot of sense, and that Element 7 has this great retail footprint. I think there are some uncertainties about that transaction, and so that's one thing to pay attention to, whether they'll take sort of ownership of those stores. And then the other thing are the licenses that Glass House themselves won, right? Going back to our point about bureaucracy, Glass House won some incredible licenses in Santa Barbara County where you are right, in that licensing competition, when are those stores going to open? Is it going to be 2023? Is it, you know, we really don't know. And so, if they're able to open those stores quickly, then they'll be in an excellent position to just have a great cost structure by supplying their own stores. And you know, last thing I'll say on this is that I think it would be really smart if Glass House adopted the licensing expertise that Element 7 has. I mean, if I can just be very candid here, Element 7 built a team that was really good at winning these licenses across California. These licensing competitions are kind of like a standardized test, right? They have a really, like clear set of sections. It's not that hard to master how to excel there. Elements 7 wasn't a great operator, but they won a lot of licenses. And so, if I were glass house, I would be thinking about how to take, if possible, take some of that expertise and expand my retail footprint across the state because there's not a lot of folks who know how to win those licenses, which are incredibly valuable.

Aaron: No, that's really great. You know, one of the things I tell people, it's like, you know, I live in Santa Barbara and there's going to be one dispensary in Isla Vista, which is where UCSB is. And I just, I can't imagine how much money that dispensary is going to make with 30,000 kids who really don't have cars and like to enjoy themselves. So, thank you on Glass House. The other company that has been in the news recently is Harborside. You know, they had some issues, some problems. They're merging with two other companies. They're restructuring, there's a bunch of debt. I'm not as up to speed on the company, but I'm really curious just what your thoughts are on Harborside, their strategy, where they go from here as one of the major companies in California.

Hirsh: Yeah, absolutely. I think, you know, Harborside represents a different model than Glass House, but also the great potential for success. So, as many folks know, Harborside, just iconic Northern California retailer with, you know, a handful of stores in the Bay Area that do incredibly well. And, you know, Harborside recently merged with Urban Leaf, right, which is a very strong retailer, kind of on the Central Coast with very strong stores in San Diego and Southern California as well, and Loudpack, which occupies other parts of the supply chain, manufacturing, et cetera. So those folks all merged to become StateHouse. And you know, I see the logic here is basically how do we aggregate a bunch of assets and package it up, so when the MSOs come calling in 2023 and 2024 we are an attractive target. And I think it's really as simple as that, right? I mean, Harborside obviously has experienced some operational challenges, as have many companies in the California market in recent months. And you know, that's a concern. But really what they're doing is they're aggregating a ton of assets so they can operate at scale, and I'm sure they're looking to make operational improvements. But really, what I think they're doing is they want to develop a really robust footprint that looks attractive to an MSO who's going to want to find a clean way to come into the state. And, you know, I don't know Matt Hawkins, the chairman of the board, particularly well, I've spoken to him maybe a few times. But when you hear him talking right about their M&A strategy, it seems to be exactly that. How do we build scale in the state? And so, I see Glass House as a company that is potentially positioned for the long term, right, you know, with its sort of like cultivation strategy. But I see State House, you know, the new entity formed by this merger, as you know, an entity formed for the purposes of a future acquisition. And I think there's a whole host of, you know, less well-known names, many of which are still private that are also kind of playing that same game, which is like, how do I build a robust footprint over the next 12 to 18 months so that when the MSOs turned their attention away from New York, right, and turn to California, they're looking at us. And so, these are companies, you know, some folks may have heard of Shryne Group, you know, the leading retailer in California, they have the best footprint, you know, 22 stores open today, I think that'll probably be 30 by the end of the year. Perfect Union, which has a dozen stores open probably will be 20 by the end of the year. You know, other companies that folks may not have heard of, like Catalyst or the Artistry or Grupo Flor. I mean, these are all folks that have really, like Element 7 gotten really good at this licensing game, but also know how to run good retail stores. But ultimately, I think are positioning themselves for an acquisition by a larger party that wants a footprint in California.

Aaron: So, I want to I want to go to something you said because it's super interesting to me. You, you said come 2023, 2024 when the MSOs turn to California. I want to dive into that statement. What do you what exactly do you mean? I know that the entire northeast in the next 12 or 18 months is about to turn on. Why do you think in about a year to 18 months, the MSOs will be turning to California? Does this have something to do with maybe regulatory or tax relief being a catalyst for that? Why would they suddenly turn to California?

Hirsh: Yeah, I think many of these MSOs, like if they want to be a leading cannabis company in this country, right, and in the world, they know they have to have some presence in California. And a lot of them have properly been hesitant about entering the California market and have been ginger about it. But I don't think that's going to last forever. I mean, I will also say I've talking to a number of, you know, those, sort of boutique retail operators in California that have already had conversations with some of those MSOs. So, I think there's good reason to believe that they will ultimately want a presence in California. And unfortunately, you know, for Californians, I think the way that this might play out is, you know, the current regulatory framework is very difficult. So many of the Californians that built the California cannabis industry have had and will have a hard time of it. A lot of these assets will become distressed, thereby making them even more attractive to the MSOs. The MSOs will make acquisitions. And I think as a result of that, those MSOs, by virtue of their size and their lobbying clout, will actually be the ones to normalize the regulatory framework in in California. So, in some ways, the current regulatory environment makes it very difficult for existing operators, which makes those assets potentially, they can be acquired, those distressed assets at a better price that in conjunction with the fact that the MSOs, you know, feel optically or for whatever reason that they need to be in California will motivate them to move there. And you know, you can just listen to someone like Boris Jordan, speak of Curaleaf, who often says, you know, if you're a cannabis company, you're going to have to have a presence in California. And we've seen other companies like Columbia Care, right, and their acquisition of Project Cannabis move into California. So that's all the way of saying I think many of them, they recognize the risks, but they are looking to step in. Some of them have already stepped in, maybe a little prematurely, and maybe they've been burnt by it. But in the future, right, once they are done sort of devoting their attention to the Northeast, they'll likely take another look. I don't think they're going to stay away forever.

Aaron: Do you think if the cultivation tax was eliminated and you had any kind of relief, do you think that serves as a catalyst where all of a sudden, the MSOs are like, Oh, wait a minute, now the state is starting to speak our language? Do you think that serves as a catalyst as well?

Hirsh: I think it could. Right. So, like the cultivation tax is eliminated, but quite frankly, it probably comes too late for a lot of operators who will have distressed assets that MSOs can pick up on the cheap. And then they can ride that more permissive regulatory framework and establish a significant presence there. And you know, we've already seen some MSOs, you know, establish cultivation operations in preparation for interstate commerce. Right, there was Curaleaf's acquisition of Los Sueños Farms in

California or Colorado, excuse me. And so, I can very much see that same model being applied in California, particularly if they feel that regulatory easing is on the way.

Aaron: Gotcha. So, you talked about an amalgamation or a group of assets coming together, and there was one, you know that one company, The Parent Company that came together and just as a disclosure, I was skeptical of the company when it went public because it just it felt to me like a spaghetti on a wall. And it's been a bit of a mess. They've taken a write down and also as a disclosure, I believe you're working with them now and you used to work at Caliva as well. So, you're involved with the company. So, I'd be really curious of kind of the, your perspective and understanding that you're working with them as a disclosure, but your perspective of the challenges they've had, but the opportunity. I mean, the stock has collapsed and it's possibly interesting to look at, but from an investor's perspective, it's very confusing as to what the company is right now and how it's going to succeed. So, I would love to hear your perspective from a person that's been skeptical in the past about the challenges and opportunities at The Parent Company.

Hirsh: Yeah, absolutely. And you know, I can't pretend to be unbiased about them considering that I used to work for Caliva, although I can say that about a lot of California operators. I've either worked with or are friends with, you know, half of the California cannabis industry. So just sort of full disclosure there. You know, what I will say is this, they have experienced the same challenges that a lot of other operators in California have, right, particularly operators that have a wholesale business. And so, I don't think their challenges are sort of specific to them. I will say, you know, where their stock price is trading right now is kind of absurd. It's below cash, right? And so that, I mean, it seems incredibly undervalued to me.

Aaron: As an investor, the thing that stops me just on that cash is, you know, at least as of last quarter, they're burning a lot of cash like a lot of cash is leaving the doors. And so, what I've been looking for, I'm glad they have a new CEO, he seems like a smart guy, and to me, I need more of an assurance that you're just not going to see that cash just, you know, in like five or six quarters, it's just gone. So, that's just one thing as an opportunity for the company to talk through their cash balances, but that from an investor's perspective, that I think that's what's holding a lot of investors back.

Hirsh: Yeah, I mean, so I won't, you know, try to prognosticate what will happen. Maybe I'll just point out, like, you know, if they were successful, here are the factors that I think could really drive their success. So, the first thing that that you know, most folks don't know is the parent company has a couple of stores in San Jose. There are two. They have two of the 16 stores. In the next few months, San Jose is going to pass an ordinance that will allow each incumbent that has a store to open a second location. Many folks probably don't know that, but that will be dramatically beneficial for The Parent Company, so they'll go from two stores to four stores and not to get too far into the weeds here, if anyone is familiar with San Jose, San Jose historically has only allowed cannabis in the least desirable parts of the city, as many cities have, but they're changing their zoning to allow cannabis retail in really desirable parts of the city near places like Santana Row or near the Valley Fair Mall. So, it's not an inconsequential thing and one of the few cities in the state that has a successful cannabis regime to be the dominant operator there and to get those two incredibly valuable licenses there. So, I think that's kind of one thing. The second thing is I think that they are developing a footprint kind of like Harborside that can ultimately be attractive, right? So, they recently acquired Coastal. Some of those stores are in extremely desirable parts of the state. I think the question when it comes to M&A for any operator is, can you integrate those assets effectively, right? Can you ensure that you maximize the revenue generated there? So, I think that's one thing to watch, but those are a really attractive set of assets to have. And as we were just discussing, that footprint in California is significant. The other thing I would say is and we can talk about this in a second, is they’re a company that would disproportionately benefit from the delivery regulations in California being more permissive. So right now, there's a bill in front of the state legislature, AB-1014 that would increase delivery case pack value. So, in short, what that means is right now in California, you can have five thousand dollars of cannabis in your car that would potentially increase to ten thousand. And I think that would really benefit operators in California that have a robust delivery hub. So, if I think about, for instance, their delivery hub in Chula Vista, which is sort of near San Diego and San Diego County is the most underserved metropolitan part of the state, right? If they're able to carry that much more cannabis in their delivery vehicles, they can service a much bigger geographic area, carry a more robust set of brands that will be attractive to consumers. And as we all know, you know, the illicit market thrives on convenience, right? And delivery is particularly effective at cutting into the illicit market. Another example of a delivery hub they have is their delivery hub in Hanford, right, which is in the Central Valley. Big swaths of the Central Valley right now are huge cannabis deserts, right? If you're able to deliver to a much bigger portion of the Central Valley, then you will stand to benefit. One other thing I'll note is sort of on the brand side and this is, you know, kind of out of my expertise. But they recently brought on Tanisha Robinson, who has helped build brands before and will be helped leading the sort of monogrammed brand. So again, I can't really prognosticate what will happen. This is more me saying if they are successful, these, I think, will be the key drivers of their success going forward. And I think there's good reason to be optimistic about a lot of those things. The final thing I'll say is, and again, I can't pretend to be unbiased here. I have been enormously impressed by Troy, the new CEO of The Parent Company, and I can't really recall if any other cannabis company has a C-suite, CPG Fortune 500 background. I mean, maybe there is, and maybe I just can't think of them. And, you know, I think leadership matters for something. So again, you know, I just want to add this caveat again, I can't pretend to be unbiased, but I think if they are successful, those are the set of factors that will lead them to success.

Aaron: Gotcha. Gotcha. When we talk about delivery and it seems like it's a very important issue because it would not only be important to The Parent Company, I think about another company like Eaze that would, obviously, but that's a private company that would benefit from delivery. But I think the whole supply chain would benefit if suddenly delivery was, when would you expect us to see news on the regulatory front or some change, does it have to be a bill? Is it a regulatory issue? What are your thoughts on how delivery could change?

Hirsh: Yes. So, there's been a bill introduced this session, its assembly bill 1014, and it would be the bill that increases case pack value from five thousand to ten thousand. If passed, that bill would take effect October 1st. So that's a little bit down the road. And so, like any bills, you know, we probably won't know for sure until the fall right or close to the fall, whether it will pass. And the next sort of set of months will be sausage making to see if it can get through. I will say what makes me optimistic about the bill is that, you know, the state of California has said that we need to think about retail holistically. In other words, you know, the state has noted, sure, we may not have enough dispensaries in the state of California, but there's many forms of retail, both brick and mortar dispensaries and delivery, which seems to be a signal, at least to me, that one of the ways the state plans to mitigate its illicit market is by making delivery more feasible. And right now, it's a very difficult business in California. You know, you have to do three or four deliveries an hour just to break even, which can really be quite challenging. But if you think about a world in which right, you can have more cannabis in your car, you could serve a greater geographic area, you could carry a more robust set of brands that better caters to consumer needs. And this matters, you know, consumers in California know if you like a particular vape pen, sometimes the only company that can deliver that specific product to you is 40 miles away. Right. If you can change that and you can get that product much more easily than makes you more likely to purchase from that company. And so that, I think, would be immensely beneficial. And I'll also say, you know, this would support some of the policy goals that the state of California has, right? The state of California wants to increase access to cannabis for folks that may be immobile, right? That is something that delivery would enable. There's a sustainability angle too. Right now, delivery drivers often have to make a series of deliveries right and then come back to their delivery depot. But if they can carry more products on them, right, and stay on the road the whole time, what is often thought of as the ice cream truck model, then it's much more sustainable. So, this, I think, is one of the I mean, this is one of the issues that would be one of the most efficient ways to increase legal shelf space in California, cut into the illegal market, allow this huge plethora of brands that has trouble getting on shelves to get on shelves. And, you know, I'll just note the argument against increasing case pack value is security, right? If you have more product in your car, you're more likely to be robbed. But there are other states across the country that similarly have a $10,000 limit. You know, Colorado just started delivering. It has a $10,000 limit. So, there's no reason why in California, where we've been doing delivery for years, we can't, you know that limit wouldn't work.

Aaron: You know, one of the things, listen, I don't know, I'm just meeting you, but you you're making me a lot more optimistic about California. Obviously, there are challenges. Am I just taking this the wrong way, is that you seem a lot more optimistic about just the opportunity and the direction that California is moving in than anyone else that I listen to or hear about. Do you have any thoughts just on that? Should I take some caveats? Have I asked leading questions?

Hirsh: Yeah. I mean, my goal isn't to be overly optimistic. My goal is just to paint a realistic picture of both the challenges and the opportunities in the state. And oftentimes commentary on California is, California sucks and it kind of stops there, and there's no nuance in the debate. My goal is, I guess, just to identify the challenges and how those challenges will be surmounted. And to be clear, the state's approach to cannabis regulation frustrates me every day because I see the immense promise that the state has and I see it being, you know, sort of crippled by regulatory and tax policy that, you know, on some level may lead the state to cede its natural leadership, global leadership position on cannabis. So those challenges are real and they do exist. But the opportunity is immense. And just I think with a slight change of priorities and a change in our approach to regulation, we can ensure that this state really reaches its full potential and part of what I and so many other people in California are trying to do is to push that forward, right? And so, I certainly don't want to give anyone false optimism. The challenges are very real, but they're solvable. And if they're solved, the opportunity, I think, is immense. And that's sort of my goal to communicate that.

Aaron: That's awesome. If people wanted to get in touch with you to either work with you or just to ask questions, what's the best way for people to reach out, whether it's a company investment group or what have you?

Hirsh: Yeah. And you just send me an email. My email is hirsh@anandastrategy.com. Drop me a line. Be happy to chat.

Aaron: Great. Thank you so much. This has been a fantastic conversation. Really appreciate it.

Hirsh: Thanks, Aaron. Appreciate it.