The Non-TSX Cannabis Play to Make

Description

Lost in the news when **Canopy Growth Corp.** (TSX:WEED)(NYSE:CGC) listed on the NYSE was the latest addition to the Cannabis Stock Exchange, legally referred to as the Canadian Securities Exchange.

MedMen Enterprises Inc. (CSE:MMEN) began trading on the CSE May 29 after completing a reverse merger with Ladera Ventures that saw its shareholders end up with one share in MMEN for every 9.263 shares in the predecessor.

A reverse merger, reverse split. How often do you see that? I guess anything's possible in the uber-growth cannabis industry.

Don't overlook MedMen

On the surface, this does seem like a cash grab by MedMen CEO Alan Bierman and president Andrew Modlin, who are paid and incentivized handsomely by the company — each executive will earn US$1.5 million annually, receive a US$4 million bonus when it hits an enterprise value of more than US$2 billion, and receive US$40 million in units over the next two years — but the mere fact the duo has been able to bring MedMen this far suggests they're not just a couple of guys off the street.

Sure, MedMen doesn't make money, but how many cannabis companies do?

In the latest six months ended December 31, 2017, MedMen generated a loss of US$15 million from net sales of US$3.3 million. Keep in mind that most of the revenue comes from the retailer's seven California locations.

Bierman's got much bigger plans.

He's locating stores in urban markets where marijuana is legal such as Los Angeles, Las Vegas, and New York. Stores range in size from 2,000 to 10,000 square feet depending on the market. Interestingly, where possible, MedMen is also buying the real estate, which makes a lot of sense when you consider it will eventually want to work with commercial banks to obtain non-mortgage loans, rather than issuing more shares.

For example, in February it acquired a dispensary in San Diego plus the real estate the shop sat on for US$20.4 million. In 2017, the dispensary operated as a medical-only dispensary, but it has since been approved for recreational cannabis sales.

At the same time, MedMen paid US$19.4 million to acquire prime Venice Beach real estate and is in the process of relocating another location in southern California to this high-traffic section of Los Angeles.

Looking to be a vertically integrated retailer, it has one 47,000-square-foot cultivation and production facility in northern Nevada with two other 45,000-square-foot facilities planned for New York State and the California desert.

Why do I like it?

If investors are honest with themselves, almost every cannabis play in Canada or the U.S. is a crap-shoot at this point. That even applies to Canopy, despite its 9.9% investment from **Constellation Brands, Inc.**

Bierman is smart in that he has gone after the high-traffic locations in Beverly Hills and Fifth Avenue to draw the crowds. In that respect, the recreational pot market isn't much different than the retail shops already located on those exclusive shopping strips.

Instead of making it a sterile medical environment, MedMen is providing a shopping experience that both educates customers while making it pleasant enough to stay longer.

I have no definitive answer whether it will be successful in the long term, but if you're going to throw down a few thousand on a cannabis company, MedMen seems like as good a bet as any.

I'll be watching its progress closely.

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