



## This Small-Cap Marijuana Stock Scares Me

### Description

I'm not an expert about marijuana stocks by any means, but the one thing I do know, given the extra risk associated with them, is that the old saying "any news is good news" definitely doesn't apply.

That goes double for **MedMen Enterprises Inc.** (CSE:MMEN), the Los Angeles-based retailer of marijuana products that listed at the end of May on the Canadian Securities Exchange.

Here's my dilemma.

A few days after MedMen's IPO, I [recommended](#) that if you were going to bet on a marijuana stock, it was as good a play as any, primarily because it's staked out the high ground in recreational marijuana retail in the U.S.

About a week ago, I saw a story about how the company is deducting money from its California retail employee's paycheques to cover the fees MedMen pays when customers purchase products using debit or credit cards.

The issue in dispute revolves around tips.

Let's say you go into its Beverly Hills store and buy a gram of pot for US\$15. I'll assume you liked the service you received so, in addition to the tax, you leave a US\$1.50 tip, paying for the entire amount with your credit card.

Typically, those tips are given to the employees at the end of their shift or the next day. As far as I know, that hasn't changed at all. What has changed is the bi-weekly deduction that appears on employee paycheques to cover the fees associated with electronic payments. In some cases, they're as high as US\$550, reports *Equity Guru* contributor Taylor Gavinchuk.

If that's accurate, not only is it highway robbery, it's incredibly illegal according to California State Labor Code Section 351.

"Labor Code Section 351 prohibits employers and their agents from sharing in or keeping any portion of a gratuity left for or given to one or more employees by a patron," Gavinchuk reported. "Furthermore it is illegal for employers to make wage deductions from gratuities, or from using gratuities as direct or

indirect credits against an employee's wages."

In addition to the tip brouhaha, Gavinchuk also reported that MedMen president and co-founder Andrew Modlin recently purchased a US\$3.9 million home in the West Hollywood neighbourhood of LA.

Why does that matter?

Well, it normally wouldn't, except that the founders have negotiated for themselves multi-million-dollar compensation packages, which hardly looks good given the company's penny-pinching ways.

### **Here's where it gets tricky for investors**

The company announced July 17 that it hired veteran marketing expert David Dancer whose stints include managerial roles at several well-known consumer brands including **Visa Inc.** and **American Express Company**.

As of now, the alleged claims made by the California employees are just that — claims.

Why would someone of Dancer's experience join MedMen, unless he was entirely comfortable with the company's commitment to its retail employees, the backbone of its future growth?

He wouldn't.

Also, it's important to mention that MedMen is planning to open stores in Canada through its [partnership](#) with **Cronos Group Inc.** Announced in March, the 50/50 joint venture could open stores in provinces where private retail is allowed as early as the end of 2018.

Cronos has a \$1.6 billion market cap.

Why would it risk that by entering a joint venture with a disreputable organization when it could work a deal with someone like Shoppers Drug Mart instead?

It wouldn't, or at least you would think it wouldn't.

### **The bottom line on MedMen**

As I stated in June, I plan on following MedMen's progress.

However, until I get to the bottom of the tips scandal in California, I can't in good conscience recommend its stock. Should that change, Foolish readers will be the first to know.

For now, though, this small-cap marijuana stock scares me.

### **CATEGORY**

1. Investing

### **POST TAG**

1. Editor's Choice

## **PARTNER-FEEDS**

1. Msn
2. Newscred
3. Sharewise
4. Yahoo CA

## **Category**

1. Investing

## **Tags**

1. Editor's Choice

## **Date**

2025/08/24

## **Date Created**

2018/07/20

## **Author**

washworth

default watermark

default watermark