

David Kretzmann: David Kretzmann here in the offices of Green Thumb Industries, and I'm joined by founder, chairman, and CEO Ben Kovler. Ben, thanks so much for taking the time. I figure, let's just jump right into it, what led to the founding of Green Thumb Industries or GTI?

Ben Kovler: Thanks David. Happy to be here and glad to share the story. Appreciate all your efforts. Let's see, I started Green Thumb Industries in 2014. It was after I'd been studying the industry for a while. I actually voted for Prop 215 when I went to school in California in 1996. After governor Quinn, who was the governor of Illinois in 2013 signed a medical cannabis pilot program, the MCPP. I read it, and it read to me like a regional gaming license.

So, I thought, "Okay, there's only going to be 20 operators who are able to provide supply to the state of Illinois and a lot of demand, and let's start investigating the industry."

Went with a team out to Colorado, talked to several people in California and studied the industry, studied the product, the efficacy, the patients, the industry, the potential for jobs, for tax revenue made a lot of sense. Primarily in the business side is their ability to have pricing power because of the commodity, thinking about brands, and emerged with a thesis in 2014 which is equally true today, and the same business plan, which is essentially, this is prohibition 2.0. We've seen this movie before, and the way to win is brands distributed at scale.

We've been putting the pieces in place in order to realize that strategy, and that's where we are today.

David Kretzmann: Before we get any further, what does Green Thumb Industries mean as a name? What's behind the name?

Ben Kovler: Well, we're growing, and we're doing a lot of different pieces of the supply chain, and want to be active in several different places, but we are plant touching.

David Kretzmann: Mm-hmm (affirmative).

Ben Kovler: There's a lot of quote, "Picks and shovels," in the industry. In the gold rush, you can make a lot of money in picks and shovels, and the same is true in the cannabis rush, whether it's POS, or other kind of things, but we are plant touching, we are licensed operators. We are granted licenses by states in the United States, and we take that seriously. So, that's part of it.

David Kretzmann: Yeah. At this point, what do you see that separates GTI from the rest of the pack when you're looking at the US landscape of cannabis operators?

Ben Kovler: Yeah. I think that we've had a very clear business strategy that we've been executing now, that this business actually exists, that the people are on our team, they've been on our team. We've organically grown this, we've won or bought licenses, and built a team of, now over 400 people who are all part of GTI, who bleed GTI and are part of that culture.

So, as we build these facilities, and as we build the retail chain, we see that uniformity here. Second, that I think really differentiates us is the alignment. We talked about a little bit before, but alignment is key here. I'm a big believer in incentives, and so you talk about water finding the lowest point. Having business culture around alignment, which includes proper corporate governance, and something that everybody should look at, to checks and balances from the management, owner mentality, owner,

operator mentality, and a full share-holder, ownership culture, where we promote owning a piece, eating your own cooking, and something that really differentiates us.

This is not a quarter of a quarter business, this is not take advantage of a hot IPO situation, this is a multi-year platform of building in a brand new industry that we believe is really at the early innings.

David Kretzmann: Mm-hmm (affirmative).

Ben Kovler: The game has started, companies are going public, there is capital markets formation, but it is in the early innings.

David Kretzmann: So, as you mentioned, you're vertically integrated. What does a breakdown look like as far as retail, selling through your own stores versus wholesale, if you're in that business as well? In other words, where are you generating revenue these days? What does that look like?

Ben Kovler: Yeah, great question. We look at the business essentially like two businesses within one.

David Kretzmann: Mm-hmm (affirmative).

Ben Kovler: There's the house of brands, which is branded, consumer packaged goods in cannabis, so these are our brands, like Rhythm, and Dog Walker, which are vape pens or pre-rolls, or concentrate, various products. We believe those products should be branded, that they can develop the unique consumer relationship, and we sell those to all stores available in the various states we're in.

At the same time, we're running a high growth retail chain that is buying for many of the operators, stocking the right brands that the consumers want, and we have 14 open Rise stores today.

In terms of just the breakdown, high level, last quarter was about 65, 35. 65 retail, 35 wholesale. That's to be expected at this point of the cycle, and over time, as I talked about, we believe the brand at CPG, which is the wholesale as these business scale, because if you look at our portfolio we're often in these early medical markets that have yet to tip over in terms of real penetration into what the size of the markets are, which is where our wholesale business will scale.

David Kretzmann: Mm-hmm (affirmative). What's the difference between how you're approaching medical versus recreational, minor things that medical at this point is still the primary focus, at least with the states you're currently operating in, but you also are developing kind of that recreational focus? So, maybe can talk about that breakdown between medical versus recreational, and maybe how you potentially see that evolving with the company going forward?

Ben Kovler: So, we run the business, we think about the business every day. People first, consumer first, patient first. So, whether it's a medical program with a medical card, or an adult use program, or chronic pain, or an opioid replacement, where the lines are getting very gray across the country, we're trying to leave it, "What does the consumer want? What does a patient want? How is it dosed properly, packaged, branded, communicated properly, and whether it's thought of more like a medical product with a proper dosage for an epileptic patient, which is very true, and very real, or a stress relief, or a help with a night's sleep, or an appetite stimulant, we think the lines are gray.

What we are focused on is a real consumer promise, and a consistent brand to that consumer. So,

we're studying things like who the consumer base is, what the use case is, what the dosage should be, what the form factor matters, and how that category should be, and then developing a true, authentic product.

Fortunately, unfortunately medical is not through the FDA in the US, and so the capital markets have spoken. The product is ramming through in other ways, and we're seeing a very robust, highly regulated medical program in a place like Canada and several other countries. The US is not going to have a national medical program, it's very clear.

David Kretzmann: Mm-hmm (affirmative).

Ben Kovler: So, in general, we're trying to deliver a high quality product led by the consumer, and in our retail locations, some of which are adult use, often times the only differentiator is the tax structure that the product is sold.

It's the same product, tracked, and regulated, and dosed, but a medical patient avoids the taxes from the state.

David Kretzmann: Got it. You touched on this in one of your earlier answers, but just curious to get your input on what's needed to build a sustainable brand in the category? I know you mentioned some of the keys to building a brand, but what do you see as ... Or, what does GTI's approach to building a brand in this up and coming category?

Ben Kovler: Yeah. High level, we believe in the house of brands. So, none of the product we sell is called GTI. We're delivering out a consumer promise. The main thing a brand needs is a consistent reason to believe, a consistent product delivery, and authentic promise with the consumer.

Look at the best American brands, it's a simple promise, and we think the same is ahead for Cannabis brands.

David Kretzmann: Mm-hmm (affirmative). How does your strategy differ by state, if at all as far as what products can be sold, what you have to produce or process in any given state? Can you just talk about what that landscape looks like on a state by state basis for GTI at this point?

Ben Kovler: Yeah, it's bottom up and top down. So, it's first lead with the consumer or the patient. So, if you're in a tight medical market like Illinois, or a place like New York, or what Pennsylvania started at, you have to look at the rules and understand what that is, but then as you move to a market like Massachusetts, or Nevada, or Florida as product sets open, and as patient access increases, it's about consistent delivery of product and what we can build at scale.

So, for us it's about having the same product in a replicable lab, and process, brand, communication with the consumer across different markets, but in the early stages in the Cannabis market, what you're seeing today, is a little bit land grab, a little bit people getting open, and doing it as they can build them, and we'll see what happens as the truth comes out, what people's operations are or not, which is to be expected at this stage of the cycle frankly, but for us it's about building a consistent process, so that we can deliver.

We joke, we're delivering the Oreo, and we need the Oreo to be the same, the crispy cookie and the

right cream inside every time, and that's our ethos.

David Kretzmann: Mm-hmm (affirmative). You recently went public this summer on the Canadian securities exchange. Can you walk us through what your process for capital allocation looks like, and I think that could dovetail into another question I had like, what are the company's strategic priorities over the next three years to expand?

So, I think that's a long way of asking how do you approach capital allocation to drive forward your expansion strategy over the next three years or so?

Ben Kovler: Yeah. High level ... You know, we are building what's best for the shareholders, and thinking about return on invested capital, or IRR's, or what builds the best equity value for our shareholders overtime. So, it's not things like highest revenue, or biggest this, or largest that. Oftentimes those coincide, but at our core we're thinking what's best for the shareholders over a three to five year period of time.

Our business plan is quite simple as we talked about, is enter, open, scale. So, it's entering a market ... We're US operators so it's 50 different markets, which ones do we want to enter through buying a license through M&A, or actually winning it. We've had a very good track record of winning. Opening, it's figuring out how to get open, and scaling.

And so, scaling is where the most interesting part of this market is heading as we get open, and entered, and everywhere. And so, we're thinking about capital allocation on that dynamic and then again, return to what I said before, distributing brands at scale is how to win. So, every dollar we spend has to serve that mission, and serve the larger good of you know, build the equity value overtime.

And so, we're looking at the balance sheet, we're thinking about the capital markets, how to take capital, and how to take one plus one and make it equal four, five, or ten.

David Kretzmann: Mm-hmm (affirmative). What would you say is the biggest misconception that you hear about GTI at this point? Whether it's from investors, from the media, from consumers, I imagine you see some confusion being listed in Canada with base in the US. Like a lot of other US operators just navigating the regulatory landscape, but is there something that sticks out to you that most commonly one of those groups, or maybe all those groups seem to always miss about GTI?

Ben Kovler: So, I think it's more sector. You know, there's a miss-education, or really lack of education on what the US operators are, and how legitimate they are, and what the revenue potential is. So, I think often misunderstood is that the US players broadly have a total market cap of ... Call it seven or eight billion. We have an addressable market or TAM of 80 billion. So, the misunderstood fact is, Canada is the exact opposite and at the major arbitrage the place to go in on is US cannabis operators, and then it's figuring out who or where.

David Kretzmann: Yeah.

Ben Kovler: So like we say, we take this huge beta trade here to play in the up, and then figuring out who the real operators are and how to take advantage of that alpha. So, I think the big misunderstanding is, what's the difference between Canada and US? What about where you're listed? And then really, where is your revenue from? And what should that look like?

David Kretzmann: Mm-hmm (affirmative). And speaking of the US, how would GTI Strategy, if at all, change if, say next year the federal government decriminalizes Cannabis and either leaving it up to the states, or just fully decriminalizing it, whatever that looks like. How would that impact your strategy as far as what states you're looking to get into? How you're able to scale your operations across the country? Just curious your thoughts on that.

Ben Kovler: Yeah. I mean, we're focused on the places that we had edge, and then we can have pricing power. Large scale, you know, outdoor cultivation is not something that we would do. So, certainly that would be a major change, but that's not where we're investing to build our edge. We think regardless of policy we have protected licenses, certainly as the states act as you mentioned, passes which would recognize states rights. We are sitting in a very fortunate position with lots of licenses that states don't want to expand.

David Kretzmann: Mm-hmm (affirmative).

Ben Kovler: So, we think that's interesting, but we're heavily watching the federal policy, and watching to see what would change, and every day is a new day.

David Kretzmann: And what are you looking for with the US market, whether it's regulatory, or just the competitive landscape over the next three to five years? Any key trends or developments that you have on your radar in the US?

Ben Kovler: I mean, just pure mass adoption. You know, mass acceptance via regulatory change, education, efficacy, quality product, there's a domino of positive events set up for this industry, and so we're excited to watch it happen, participate in it, take advantage of it for our shareholders, and really, at the end of the day offer people an option for a better way to live through a product.

David Kretzmann: Mm-hmm (affirmative).

Ben Kovler: And so, it's a pretty exciting opportunity.

David Kretzmann: Yeah. Getting down to my last few questions, but also was curious to learn more about ... On a state by state basis do you see any dramatic differences in certain markets as far as what products, or product forums consumers are gravitating towards? Whether edibles or particularly popular in a certain state versus other forums in other states? Or is it pretty consistent state by state as far as what consumers are buying?

Ben Kovler: Well, we're watching the data extremely closely. Let's see ... I can share with you one interesting thing, and it may not be that big a surprise, but there's a lot of consistency in the basket. So, we refer to that as a consumer basket, but there are trends. The trends are not ... They're from places you would expect. Somewhere where other consumer trends are born. One of the interesting things is, we see Colorado has a much larger percentage of edibles and that's to be

expected given the regulatory structure, and how people are coming there to potentially bring product out. So, we see that as an interesting thing, but broadly we're starting to see flour come below the 50% mark, which means that the processed products, the branded products, or consumer packaged goods is moving above 50 and that's where we want to be investing.

David Kretzmann: Yeah. And at the Motley Fool we're business-focused investors — whenever we buy a recommended stock, we have a minimum holding period of three years in mind so, what should business-focused investors like us, what metric should we focus on with GTI to best gauge the underlying health and progress of the company say, over the next five years?

Ben Kovler: That's a great question. I think we are in the stage of building it out. So, you should measure on the revenue as we get to open. You know the enter open scale. As we see open and see scale, and you should start to look for differentiated pricing power across our brands.

So, the growth in the Rise stores will be sent back here in three or five years of how many stores, and how is that growth looking? And what are the brands that the business has? And how protected are those?

David Kretzmann: Nice. Final question from me. Thanks again for taking the time and inviting me into your offices today. What personally gets you most excited about GTI over the next five years? We talked about a lot of different initiatives, but what personally gets you personally excited?

Ben Kovler: Yeah, I find it quite fun to figure out what's going to happen to this industry. It's a brand new space, yet history doesn't repeat, it rhymes and so, we've seen this before in certain ways and I'm fascinated to watch this unfold. You know, when you have the cross hairs of an opioid epidemic killing thousands of people, states that are broke that need tax revenue, people want jobs, there's an opening up of an opportunity and there's a brand new 70 billion dollar consumer package goods industry that should have 100 billion in market cap, that doesn't exist. That's interesting, that's exciting, that's what I'm focused on.

David Kretzmann: Ben Kovler, the founder, chairman, and CEO of Green Thumb Industries thanks so much for taking the time, and look forward to continuing the conversation in the quarters and years ahead.

Ben Kovler: Awesome. Thanks David. Thanks for having me.

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