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## Venture capital firm gives marijuana industry a shot of credibility



Privateer Holdings founders Christian Groh, left, Brendan Kennedy and Michael Blue meet in their office near downtown Seattle. The private equity firm focuses on cannabis businesses. (Gilles Mingasson / Getty Images)

Despite growing momentum toward marijuana legalization, big-name investors have largely stayed on the sidelines of the budding industry, content to hold out until federal prohibition is one day repealed.

But legal cannabis now has the backing of a major tech investor — one that could inspire other established financial players to join the green rush.

Founders Fund, a leading San Francisco venture capital firm partly run by PayPal co-founder Peter Thiel, said Thursday that it was making a multimillion-dollar investment in a cannabis-focused private equity firm called Privateer Holdings.

The announcement gives the legal pot sector a shot of credibility as it continues to grapple with conflicting state and federal laws, limited access to banks and no shortage of fly-by-night investors who have sullied the industry with pump-and-dump schemes.

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- Brendan Kennedy, Privateer's chief executive

"This is a milestone," said Taylor West, deputy director of the National Cannabis Industry Assn. in Denver. "It says there are real opportunities within this industry for outsiders to benefit, and it shows the industry is solid enough that an investment firm like this is comfortable stepping in."

Founders Fund is a heavyweight in Silicon Valley circles. The firm's \$2-billion portfolio includes Airbnb, Lyft and Spotify. It's known for its moonshot investments — it backs SpaceX, Elon Musk's private spaceflight company.

Founders Fund partner Geoff Lewis said Privateer was chosen because it had broad, long-term ambitions and owned vertically integrated brands that handled many aspects of the business, including growing marijuana and reviewing strains.

"Privateer Holdings has emerged as the market leader in legal cannabis, which we believe will become a massive industry within the next decade," Lewis said. "We've been evaluating the

cannabis industry for several years, and we haven't seen another company that comes close to Privateer Holdings in terms of strategy, professionalism, talent, expertise and potential for growth."

Privateer's chief brand is Leafly, a website that operates much like Yelp by reviewing dispensaries, strains and doctors. Site visitors contribute to a valuable trove of growing user data that could help market cannabis products down the road.

Privateer, a Seattle company run by three business school graduates (two from Yale), has also invested in Marley Natural, a premium cannabis brand founded by family of the late reggae legend Bob Marley, and Tilray, a Canadian grower, processor and distributor of medical marijuana.



Privateer Holdings, a cannabis-focused private equity firm, has as its chief brand Leafly, a website that operates much like Yelp by reviewing dispensaries, strains and doctors. (Gina Ferazzi / Los Angeles Times)



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Privateer hopes to accumulate more cannabis brands and position itself as a market leader if federal prohibition is lifted — exactly the kind of game-changing gamble Founders Fund is banking on.

"The investment into Privateer actually fits pretty closely with Founders Fund's M.O.," said Mike Dempsey, an analyst at CB Insights. "They used to have a quote on their website that read, 'We wanted flying cars, instead we got 140 characters' [A reference to the maximum number of characters permitted in a tweet]. That spoke pretty well to their penchant for bold investments and disdain for the average tech companies of today."

Tech industry expert Jonathan Roubini said Founders Fund typically likes to invest in sectors in which there's little established knowledge and the regulatory environment is evolving, such as Airbnb and Lyft.

"They invest in companies that are not popular and are difficult to assess," he said. "Privateer hasn't been a popular investment among large VCs because of marijuana's bad image as well as the difficulty in assessing an industry that has been recently legalized in a handful of states," he said.

Twenty-seven states and the District of Columbia have some form of legalized marijuana or have decriminalized marijuana possession.

Privateer's chief executive, Brendan Kennedy, said momentum has shifted toward legalization, and the investment by Founders Fund signals greater acceptance of cannabis in the financial sector.

"Six to 12 months from now there will be investment banks who will have analysts following cannabis like they follow healthcare or agricultural commodities," Kennedy said.

Legal marijuana sales reached \$2.6 billion last year, a 68% increase from 2013, according to the ArcView Group, an Oakland marijuana investment and research group. By 2018, sales could reach \$10.2 billion.

Founders Fund began courting Privateer in 2013 after a friend of Lewis' used Leafly to fulfill her doctor's recommendation for medical marijuana.

The two firms met for 1 1/2 years before deciding to go through with the investment.

Lewis said there was serious but brief soul-searching about the morality of investing in a cannabis firm. But he and his colleagues ultimately decided throwing their weight behind the professionalization of the industry was a positive gesture.

"Ending prohibition is a moral imperative for the U.S.," said Lewis, who objects to drug laws that crowd prisons and favors legalization that creates regulations, labeling and greater tax revenue.

Both Privateer and Founders Fund declined to provide details on the investment amount. Privateer has raised \$50 million in its Series-B round so far and is aiming for \$75 million. The firm previously raised \$22 million in Series-A fundraising and a convertible bridge note, a type of loan.

Until now, cannabis investors were largely wealthy individuals, friends and family.

Troy Dayton, CEO of the ArcView Group, said Founders Fund "is the first really high-profile, decent-sized fund to come in." Large, institutional funds and investors won't risk putting money into pot companies until such firms are safe to list shares publicly — something that likely requires federal legalization, Dayton said.



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"When it comes to getting the industry to the next phase, you need to get out of the private market," he said. "Right now, all the good opportunities exist in smaller seed-stage companies that are private. There still needs to be some maturation to take place before we see Wall Street money."

<http://www.latimes.com/business/la-fi-founders-fund-marijuana-20150109-story.html>