

Key Priorities for Cannabis Executives in Acquisition Targets

Acquiring a company can be a strategic move for businesses seeking growth, diversification, or market expansion. The process involves a series of steps, from identifying potential targets to negotiating terms and completing the transaction. However, in a highly regulated industry such as cannabis, acquiring a company can be tricky. Despite the broad acceptance of cannabis in recent years, marijuana remains illegal in several states, adding layers of complexity to acquisitions.

What to Look For

Even in states where marijuana is legal, regulations vary significantly. Raj Glover, founder and CEO of High Tide, a Calgary, Alberta-based cannabis retailer, emphasizes the importance of due diligence. High Tide, which boasts 170 brick-and-mortar stores, acquired high-end brand Queen of Bud in March.

“If you fail to do your due diligence, you can have regulatory noise that can shift under you and tank your asset,” Glover said. High Tide typically views acquisitions as real estate plays, with about 40% of their properties acquired rather than built from scratch.

Brands versus Companies

Queen of Bud marked High Tide’s first brand acquisition, encompassing all intellectual property, trademarks, and other assets. The acquisition cost was 1 million Canadian dollars (\$740,000), with CA\$100,000 paid in cash and the rest in High Tide shares.

“I didn’t have to invest millions of dollars to set up facilities to grow or extract cannabis,” Glover noted, explaining the benefits of acquiring an established brand that can leverage existing licensed producers.

Acquisition Considerations

When contemplating acquisitions, companies should evaluate several factors, including the strategic rationale for the acquisition, its potential to add value to the bottom line, and the regulatory landscape. “Every brand you acquire should be accretive to your bottom line,” Glover said. “We care about how the business is performing today rather than historical data.”

Portfolio Building

For Glover, Queen of Bud enhances High Tide’s portfolio of brick-and-mortar stores. Although he remains open to acquiring other brands, his current focus is on strengthening the Queen of Bud brand before expanding further. “I like to walk before I run,” he said.

Major Cannabis Acquisitions

Chicago-based PharmaCann targets acquisitions that complement its business, said Greg Fodell, chief investment officer and head of corporate development. PharmaCann recently finalized its acquisition of LivWell Enlightened Health in Colorado, a move designed to gain critical mass in a specific market.

Due Diligence is Critical

According to Fodell, due diligence is crucial. Ensuring the target company is current on taxes, payments to vendors, and commitments to municipalities is essential. Background checks and fingerprinting are also key steps to avoid delays in the acquisition process.

Background Checks

Having a local lawyer who understands the municipal regulations can be invaluable. “It’s impossible to know everything, so you have to structure contracts to account for post-acquisition issues,” *Fodell* said.

Growing the Brand

Smaller multistate operators like Colorado-based Native Roots Cannabis are also on the lookout for expansion opportunities within their operating states. Native Roots, with 22 locations in Colorado, aims to grow to 30 stores.

Retail Locations

Location is paramount when Native Roots evaluates potential acquisitions. Using tools like Google Maps, the company assesses nearby competition to ensure strategic placements. “The customer’s No. 1 reason for choosing a dispensary is the location,” said Buck Dutton, vice president of marketing at Native Roots. “It’s about meeting the customer where they are.”

Brand Recognition

Native Roots also considers the marketing and branding strength of potential acquisitions, including customer loyalty programs and promotional strategies. While the company currently focuses on retail acquisitions, discussions about brand acquisitions occur periodically.

Why Acquisitions Are Available

Avis Bulbulyan, CEO of California-based Siva Enterprises, underscores the importance of understanding why a company is available for sale. Identifying the reason behind a sale, especially if the company is distressed, is crucial.

Acquisition Investigation

Bulbulyan advises treating the acquisition process like an investigation. “You don’t come up with a conclusion and investigate toward it. Go in with a blank slate,” he said. Red flags include inconsistent information and limited points of contact within the target company.

Red Flags

Buyers should be wary of companies that provide only one point of contact or offer long-winded answers that fail to address specific questions. “You want answers that get to the heart of your questions,” *Bulbulyan* said.

Flexible Approach

Navigating the cannabis market requires a flexible and adaptive approach. “In cannabis, there is no cookie-cutter approach,” *Bulbulyan* noted. “The assets and regulatory environment are unique. You have to go into it with an open mind.”

Acquiring a company in the cannabis industry presents unique challenges and opportunities. From due diligence to strategic planning, understanding the regulatory landscape and market dynamics is crucial. As the industry evolves, flexibility and thorough investigation remain key to successful acquisitions.

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