

Why 2025 Could Be the Year for Cannabis Investors

Why 2025 Could Be a Banner Year for Cannabis Investors: Seizing Opportunities in a Transformed Market

Cannabis capital markets have faced significant challenges over the past few years. As investors who have been actively involved in the industry since 2019, we have had the privilege of experiencing every market cycle – from euphoric highs to sobering lows. Despite these fluctuations, today’s market environment presents an unparalleled opportunity for discerning investors, thanks to unique deal structures, compelling valuations, and the ability to identify and back exceptional management teams.

Challenges and Opportunities: A New Landscape for Cannabis Investors

The marijuana industry’s struggles with access to capital have fundamentally reshaped the competitive landscape. Over the past two years, funding sources have dried up, leaving many companies to adapt or face extinction. This environment has proven to be a litmus test for management teams. Companies that relied on continuous funding to mask operational inefficiencies are no longer able to do so.

In this Darwinian scenario, two distinct categories have emerged:

Resilient Operators: These companies have tightened their belts, embraced discipline, and demonstrated the ability to run profitable, sustainable businesses. Great management shines in difficult environments, and these teams are proving their worth by achieving profitability and navigating complexities with skill.

Distressed Assets: On the other end of the spectrum, some companies have faltered under the weight of market pressures. While this presents challenges for some, it also creates opportunities for investors to acquire distressed assets at significant discounts, enabling potential turnarounds or strategic value plays.

Historical Parallels: How Past Market Cycles Offer Valuable Insight

Fear and uncertainty dominate the space, creating an environment ripe for those willing to take calculated risks. History teaches us that vintages born out of adversity often yield the most rewarding outcomes.

We believe this vintage of the cannabis sector is poised for success.

Macroeconomic Tailwinds: Driving Cannabis Industry Growth in 2025

The cannabis industry is benefiting from several macro-level tailwinds that are propelling growth and presenting opportunities for investors:

Expanding Market Opportunity: More states than ever are authorizing medical and recreational cannabis, bringing the total number of markets with some form of marijuana reform to 41. According to Oregon-based Whitney Economics, the regulated marijuana market in the United States increased by \$2.6 billion in 2024, reaching \$31.4 billion. The market is projected to grow 12.1% in 2025, bringing the total to \$35.2 billion.

Policy Progress: Bipartisan support for marijuana reform is gaining momentum. The recent movement around SAFE Banking and federal rescheduling signals a turning point. Reclassifying marijuana from Schedule 1 to Schedule 3 of the Controlled Substances Act would drastically reduce tax burdens on cannabis businesses by alleviating the constraints of Section 280E, which would significantly improve profitability across the industry.

Evolving Consumer Trends: Cannabis consumption continues to normalize. A Pew Research Center survey reports that 88% of Americans believe marijuana should be legal for medical or recreational use. This cultural shift underpins the long-term growth potential of the industry.

Right Time to Deploy Capital: Capitalizing on the Current Market Conditions

Investors often are lured by the allure of rising markets, but true opportunities lie in environments like today's. Valuations have reset to more rational levels, and deal structures now favor investors.

Furthermore, the maturation of the industry means that many operators have a clearer path to profitability. EV/revenue multiples for U.S. marijuana operators have dropped from all-time highs of approximately 6X to roughly 1X in both the public and private markets. This reset offers investors a chance to enter at favorable pricing.

Additionally, the potential for federal reform creates a significant upside. The passage of SAFE Banking or the rescheduling of cannabis would act as catalysts, further legitimizing the industry and opening doors to institutional capital, which has largely remained on the sidelines.

The combination of favorable valuations, disciplined operators, and potential legislative breakthroughs sets the stage for outsized returns.

Inflection Point: Why 2025 Marks a Critical Moment for Cannabis Investment

While the challenges of the past few years have been formidable, they have also created opportunities for those willing to navigate the complexities. With more states embracing regulated marijuana markets, bipartisan support for reform, and management teams demonstrating resilience, 2025 has all the ingredients for success.

As we look ahead, we see a unique convergence of factors that make this an ideal time to invest. The marijuana capital markets might have been difficult, but the opportunities they present today are too compelling to ignore.

By investing now, we believe we are not only capitalizing on favorable conditions but also contributing to the growth of an industry poised to thrive in the years to come.

In conclusion, cannabis investors should be ready to capitalize on the market's current inflection point. This may be the most lucrative period for the industry since its inception, with resilient operators leading the way, distressed assets available at discounted prices, and a strong macroeconomic and regulatory backdrop supporting growth. The time to invest in cannabis is now—2025 could very well be a banner year.