



# FTI Consulting's Cannabis Practice



# Our Services for the Cannabis Industry

Navigating the overlapping state and federal regulations that affect cannabis in North America, while understanding the cannabis marketplace worldwide, requires deep knowledge in many disciplines and commitment to the evolving cannabis industry. In the U.S., individual states continue to approve its use for medical and adult recreation, while the federal government continues to treat all cannabis products as illicit and dangerous narcotics, except for legally grown industrial hemp.<sup>1</sup> Globally, countries such as Canada, Colombia and Israel are advancing the growth, study and innovation of cannabis to position themselves as leaders in the worldwide industry.<sup>2,3</sup> Laws, regulations and enforcement will continue to be murky, leading to new threats of business disruption – and new opportunities.



## Let's Grow Together

At every phase of the business lifecycle, from entrepreneurial startup to multi-national corporation, FTI Consulting offers the cannabis industry a suite of solutions and services that address specific business challenges around regulatory compliance, financial and operational discipline, business disputes, mergers and acquisitions, brand integrity and reputational enhancement.

Our team understands the unique challenges of the cannabis industry from local, national and global perspectives as one of the first major U.S.-based business advisory firms to establish a cannabis-specific practice. FTI Consulting is committed to helping the industry grow and succeed.



## Cannabis Startups

Startup companies are the seeds of the industry that will determine its future. FTI Consulting ensures that startups have the basic operating structure and governance in place to avoid interruptions or compliance failures that could impede growth or even threaten survival. From license applications and investor pitches to streamlined accounting operations, financial controls and business valuation, we can accelerate business processes to handle increasing market share and to achieve scalable, sustainable growth.

<sup>1</sup> "Deep into the Weeds: Cannabis and Compliance," Tilcia Toledo et al, ACAMS Today (June-August 2021)

<sup>2</sup> "For Canada's and Israel's marijuana industries, a budding partnership," Paul Lungen, The Canadian Jewish News (Feb. 16, 2017)

<sup>3</sup> "The Emerging Frontier: A Pivot Toward Colombian Cannabis," Michael Cullen and Miguel Salcedo, FTI Consulting web site (May 18, 2020)





## Established Cannabis Operations

As companies grow, needs evolve. Compliance moves from a plan to an operational practice. An established labor force and supply chain bring tax and insurance obligations. Accounting and financial operations become more complex. Gathering, analyzing, and utilizing data, both client and operational, will separate the successful companies from the struggling ones. Established cannabis business owners can find themselves overwhelmed, especially in tight labor markets where harvesting talented industry executives is a challenge. FTI Consulting can help close the gaps in operations and streamline the processes needed to fuel and sustain growth and to prepare for whatever comes next.



## Multi-State and Multi-Country Vertical Operations

Given the additional complexities that come from heavily regulated industries, mature, multi-jurisdictional cannabis companies may require a broad suite of traditional business services. FTI Consulting offers services that protect these companies from the pitfalls that often occur with success, such as growth outpacing controls, litigation, internal and external fraud and unwelcome takeover attempts. We also help companies conquer obstacles with complex investigations, regulatory enforcement inquiries, internal control analysis and remediation, due diligence, financial accounting advisory, SPAC and IPO readiness, compliance, M&A support and strategic communications to markets and investors.



## Industry Investors

The lack of access to certain traditional sources of capital means that private equity firms, family offices and other investors in the cannabis industry are looking at a bountiful crop of potential investment targets and may need help with both the initial and ongoing assessments of financial soundness, regulatory compliance and viable business models. Our comprehensive due diligence assessments include services such as quality of earnings, working capital requirements, net asset analyses, evaluation of projections and the assessment of compliance and corporate governance programs. We can also conduct reputational due diligence of executive management and other investors to uncover hidden liabilities and fraud indicators or to trace the source of funds for previous investors. We help assess balance sheet and working capital requirements and risks associated with the company's forecast to identify value enhancements and value issues.

# Where We Can Help



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## Compliance and Investigations

- Reputational and Financial Due Diligence
- Anti-Money Laundering
- Forensic Accounting and Investigations
- Regulatory Compliance Expertise

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## Business and Operations

- Intellectual Property
- Reputational Enhancement
- Insurance Advisory
- Data & Analytics

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## Disputes

- Expert Testimony

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## Financial Transaction Services

- Accounting and Finance Operations and Readiness
- Technical Accounting and Financial Reporting Advisory
- Tax Advisory
- Business Valuation
- Transactions and IPO/SPAC Readiness Services
- Turnaround and Restructuring
- Carve-Outs and Spin-Offs

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## Cybertech

- Blockchain and Cryptocurrency
  - Cybersecurity
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## Compliance and Investigations

The shifting nature of the industry's regulations can make financial reporting and compliance a challenge. We help clients build regulatory compliance programs or strengthen existing ones. Our team includes licensed CPAs who maintain certifications in the fields of financial forensics, fraud examination and valuation, many of whom are former "Big 4" accounting firm partners and senior professionals, CFOs, Controllers and regulators with best-in-class experience in all aspects of financial operations and compliance-related investigations that are relevant to growing cannabis companies.

### Reputational and Financial Due Diligence

As companies compete for investors, market share and brand domination, there is a greater need for due diligence. Our global investigations practice, including forensic accountants, provides detailed insight into the investors, companies and executives in the sector and gives clients in-depth business intelligence — not just a simple check of criminal records. We provide a complete profile of persons and companies — growers, processors, potential investors, payment processors and vendors — that allows better decision-making to enhance the bottom line and bolster competitiveness.

We can also help protect your investments by conducting assessments of contractual relationships in order to identify risks and non-compliance. These risks may include everything from quality control, costs vs. benefits, payments, cash flows, cybersecurity, or even distribution or waterfall calculation errors.

### Anti-Money Laundering

FTI Consulting's certified anti-money laundering (AML) specialists can help design a cannabis AML compliance program that meets FinCEN and Cole Memorandum standards<sup>4</sup>, as well as the requirements of state regulators, financial institutions, and investors. We also provide independent reviews to craft new or bolster existing AML compliance, sanctions and anti-corruption programs. FTI Consulting assists banks and other financial institutions serving the cannabis industry with compliance needs as well.



<sup>4</sup> ["BSA Expectations Regarding Marijuana-Related Businesses," Financial Crimes Enforcement Network web site, \(Feb. 14, 2014\)](#)



## Forensic Accounting and Investigations

As with any industry, newly formed cannabis companies need time to develop their internal process and control environments. In the face of inquiries involving fraud, the propriety of accounting and financial reporting, regulatory compliance or corruption, the lack of mature controls can heighten business risks and require formal investigations. FTI Consulting has a proven track record in addressing a variety of accounting and compliance issues, from analyzing and reconstructing corporate books, records and electronic information, to participating in fact-finding interviews and recommending effective controls. We support clients through every step of an investigation, from responding to an incident to ultimately meeting the requirements of a settlement agreement and repairing reputational damage.

Because FTI Consulting does not provide audit or other attestation services, companies can rely on our technical experience without being concerned about violating auditor independence requirements.

## Regulatory Compliance Expertise

FTI Consulting also offers a broad range of solutions to governments and industry to design, evaluate and implement safely regulated cannabis programs, bolster industry profitability and tax collection, enhance reputation, maintain brand integrity, and ensure regulatory compliance. We understand the unique challenges of the cannabis industry particularly in the United States and Canada, but globally too. We assist clients in dealing with regulators and remediate compliance lapses. FTI Consulting's services to governments standing up cannabis industries are focused on Market Analysis and Design, Regulatory Strategy and Implementation, External Engagement and Communication, and Program Evaluation.





## Cannabis Industry Expertise — Internal Investigations

### SITUATION

A global cannabinoid company received a specific allegation regarding improper behavior of certain senior personnel. Upon receipt of the allegation, the company quickly hired outside counsel and retained FTI Consulting to investigate.

### OUR ROLE

The FTI Consulting team, which consisted of accounting and data technology professionals in both the U.S. and Canada, worked closely with Counsel to identify the issues, conduct investigative interviews, review communications, accounting and financial data and provide periodic updates to the Company's board, its auditors, and regulators. Our procedures during the investigation included: (1) significant amounts of data collected, processed and reviewed, (2) complex technical accounting, (3) valuation, (4) internal control assessments and remediation assistance, and (5) multi-jurisdictional regulatory reporting requirements.

### OUR IMPACT

By leveraging FTI Consulting's expertise in cannabis, regulated industries, and cross-border investigations, we were able to assist with both the investigation and with multiple financial restatements in a timely matter.



# Business and Operations

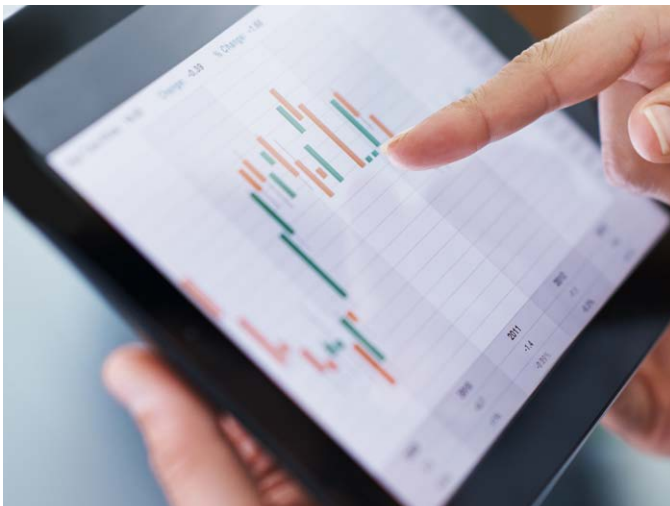
We help clients rapidly unlock profitability by driving revenue growth, optimizing costs and improving operational effectiveness. Our seasoned team of performance improvement professionals has deep experience in resolving accounting operations, financial reporting and auditing challenges for the particular needs of cannabis clients and the unusual hurdles and roadblocks posed by elevated industry risks.

## Intellectual Property

The rapid pace of technological innovation and the emergence of preeminent cannabis brands has driven the increasing importance of intellectual property (IP) in the industry. Dynamic, innovative and knowledgeable IP strategies need to be a critical component of every company's strategy. FTI Consulting's IP experts advise clients on how to maximize the value of existing IP in addition to strategies for developing and leveraging new intangible assets. Our IP professionals are recognized globally for their expertise in emerging and complex industries, including cannabis. The unique IP within the industry includes genetics, manufacturing and extraction processes, consumer products, and brands.

## Reputational Enhancement

Since 2014, FTI Consulting's Strategic Communications professionals have been helping cannabis companies reap the benefits of high commercial credibility that inspires confidence from their business partners and stakeholders. Whether the goal is attracting new capital, overcoming government opposition, or crisis management, our professional communications experts help clients establish their reputations by leveraging national and business media, positioning companies as polished and professional in a sea of more amateur competitors.



## Insurance Advisory

The cannabis industry faces unique challenges — both in terms of the business risks it faces and the complications of acquiring insurance coverage. FTI Consulting's Global Insurance Services practice helps clients develop a strong risk management portfolio and find the best coverage for industry-specific risks on the plant side or the financial side of the cannabis industry.

## Data & Analytics

Our Data & Analytics team has the expertise required to analyze large, inconsistent sets of data, transform them into usable data repositories, and identify trends to help streamline, analyze and ultimately grow the business. The team has assisted cannabis companies by highlighting key areas for performance improvement and delivering strategic business solutions through the standardization and visualization of voluminous, disparate sets of financial, operational and transactional data.





## Data and Analytics in Cannabis

Where's the money? When the systems to track your inventory are outdated and you run the risk of a compliance disaster, how can you use data analytics to get your house in order and identify your revenue?

### SITUATION

Company A was sold to Company B and, to help facilitate the deal closing, Company B pledged to remit 40% of the revenue from Company A's cannabis inventory (plants, buds, distillates, oils, final retail product) once they sold. More than two years after the deal closed, the owners of Company A have not received what they expected in revenue from the inventory and hired Counsel and FTI Consulting to investigate. For a regulated industry, the systems available to track cannabis as it moves through the production process may be inadequate and archaic, requiring advanced data analytics to decipher.

### OUR ROLE

Our Data & Analytics team was tasked with analyzing over 150 disparate files, mostly in Microsoft Excel, that contained sales, inventory, production, and other key data to examine the alleged revenue of Company B's cannabis inventory. The team created a centralized database in SQL to assimilate and analyze the Excel files and then conducted a detailed analysis to track Company A's inventory (1) from the point of transaction, (2) through Company B's production process, and (3) to the end sale/retailer, if applicable.

We also supplemented ad-hoc requests from Counsel with detailed information related to the underlying inventory analysis and/or products status. We also prepared an expert to testify in this case, should the need arise.

### OUR IMPACT

Our work created an invaluable, interactive, and centralized database for cannabis tracking that will facilitate greater compliance with complex and fluid regulatory guidelines. We also delivered critical sales information to Counsel and Client within budget that will be used to resolve the dispute.



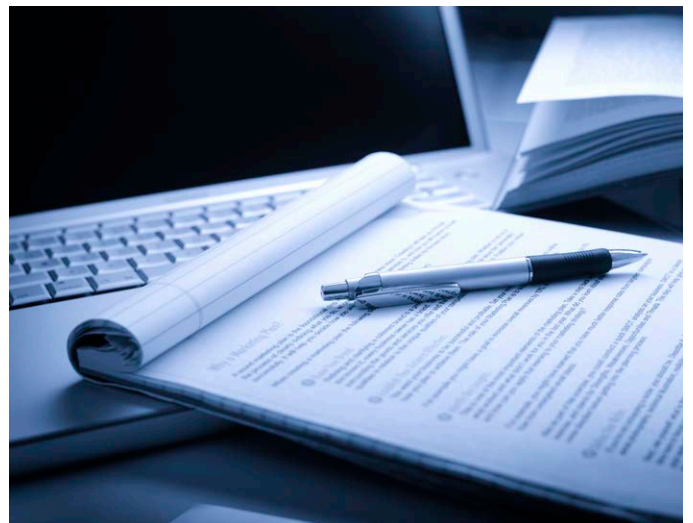


## Disputes

While we hope to avoid them, disputes are a part of today's business climate. Our professionals synthesize financial, competitive and industry information to help clients unravel challenging financial and economic issues in commercial and post-acquisition disputes and litigation. We are highly skilled at communicating our findings through expert testimony, using sophisticated graphics and courtroom technology.

### Expert Testimony

No matter how well you conduct your business, disputes between shareholders, employees, suppliers, customers, and business partners may arise. In the cannabis industry, litigation can also arise from regulators bringing civil actions as a means of enforcement. In litigation and arbitration, parties need experts to analyze and support their position. FTI Consulting provided expert testimony in one of the first cannabis matters ever brought to court in the U.S. Since that engagement, FTI Consulting professionals have provided expert testimony on a wide array of cases in court and arbitration, including those involving allegations of shareholder oppression, breach of contract, breach of fiduciary duty, intellectual property infringement, labor and employment issues and more.







## Cannabis Valuation and Forensic Accounting Investigation Related to Cannabis Shareholder Dispute

### SITUATION

FTI Consulting was asked to perform a forensic accounting investigation into the books and records of a Florida operator and multistate parent company to assess record-keeping, expense policies, and general accounting practices. FTI Consulting was also asked to determine the fair value of the Florida operations. The client sought economic damages equal to the fair value of the minority shareholder's ownership interest.

### OUR ROLE

We performed an accounting investigation analyzing the books and records of both the Florida operator and the multistate parent company. The findings from our investigation were detailed in an expert report filed in support of our client's arbitral claim. Additionally, our team issued a second expert report opining on the fair value of the minority shareholder's interest in the Florida operation, accounting for the operator's vertically integrated structure in a limited license, medical-only market. Following the investigation, valuation work, and associated expert reports, FTI Consulting professionals testified before the arbitral panel detailing the results of our investigation and analysis.

### OUR IMPACT

While some of the details of FTI Consulting's investigation and analysis remain confidential, FTI Consulting was able to assist counsel in presenting an extremely strong case through an examination of the facts, comprehensive review of documents, and sound analysis. The end client and counsel praised FTI Consulting's contribution and our deep knowledge of the industry's regulatory, economic, operational, accounting, tax, and valuation characteristics in addition to our skill as expert witnesses.

Moreover, FTI Consulting's expertise in cannabis was successful in identifying large errors in the opposing side's expert testimony. The parent company's expert witness, under oath, acknowledged committing two substantial valuation errors (\$75M and \$40M) stemming largely from a lack of familiarity with state and cannabis specific regulations. The witness described the errors as the two greatest errors of their career.

# Financial and Transaction Services

The cannabis industry is changing rapidly, with new providers and new investors entering the market every day. FTI Consulting has the resources to help you navigate the business challenges and opportunities that come with rapid growth. Our experts, knowledgeable in cannabis, address the full spectrum of financial, operational and transactional risks and opportunities.

## Accounting and Finance Operations and Readiness

As cannabis companies face rapid growth and ample market opportunities, additional pressure is placed on finance and accounting departments to properly scale operations. Our professionals offer a variety of consulting services to help alleviate this pressure such as preparation and review of financial forecasts, development of pro-forma income statements, complex market research on trends, growth, and regulatory updates, capital structure recommendations, and strategic finance planning, among others. The unique challenges of the industry and a lack of historical precedence also can make financial reporting compliance a challenge. We have experience with both early-stage and middle-market companies and our extensive technical accounting expertise and knowledge of financial operations, technology and data management can help create a solid foundation for growth, acquisitions, and any eventual public offering.



## Technical Accounting & Financial Reporting Advisory

Clients count on our deep technical accounting knowledge and significant experience with complex business challenges facing organizations that operate in the cannabis industry to ensure that important transactions are accounted for and reported on correctly.

Our breadth of experience evaluating and solving technical accounting issues, including those under both U.S. GAAP and International Financial Reporting Standards (IFRS), coupled with our expertise in regulatory reporting requirements provides an independent source of accounting advice. We have assisted cannabis companies in assessing the accounting and financial reporting requirements of complex transactions and significant “one-time” or unique events.

We help determine the most appropriate accounting solution and assist in communicating the rationale for the company’s accounting position, working with independent auditors in a productive and collegial manner. We provide effective and efficient technical accounting research, issue resolution, documentation, and support to complex accounting and financial reporting topics facing both private and public cannabis companies alike.

## Tax Advisory

Our Transaction Tax Services team can develop strategic solutions to cannabis tax issues. FTI Consulting offers our clients a broad range of experience — garnered from their experience in law firms, Big 4 accounting firms, government, and corporate, in-house tax departments. We can advise companies from initial structure to acquisitions, to minimize taxes and maximize economic returns. Our experts have the expertise necessary to address both federal tax issues and the broadly varying state and local tax regimes.



## Business Valuation

Valuing a business requires understanding of pricing risk. The value of an asset is equal to the risk-adjusted present value of future economic benefits. FTI Consulting can help navigate the idiosyncratic risks and nuances in the cannabis industry that make valuation uniquely challenging such as the rapidly evolving and stratified regulatory environment, a lack of historical market data, tax complexities, internal controls and financial forecasting. Our business valuation services have been utilized by cannabis companies for corporate planning purposes, capital raises and investments, disputes, and more.

## Transactions and IPO / SPAC Readiness Services

We have proven experience helping cannabis companies navigate the purchase or sale of a business, roll-up of assets into a new corporate entity, or prepare for a public offering. Our Transaction Services team has performed due diligence and forecast model reviews in the cannabis industry to ensure buyers verify the financial information provided to support investment decisions. We also help cannabis companies increase the value of an IPO by providing a detailed, data-driven assessment of companywide strategic, organizational and operational readiness. Our team works closely with the finance function to adopt Sarbanes-Oxley compliance and SEC reporting requirements – building a sustainable foundation for operational success following an IPO or SPAC acquisition.

Post-investment, we have a dedicated team of professionals that can assist in achievement of integration objectives. Our Strategic Communications team can help build key stakeholder support, including the design of internal and external communication strategies and development of materials that not only ensure you are prepared for a successful IPO launch, but best position the company for success in the aftermath. Further, our Accounting Advisory team provides the technical accounting and financial reporting acumen required to tackle significant and material transactions.

## Turnaround and Restructuring

While the cannabis industry has experienced phenomenal growth in recent years, it has also experienced growing pains. For a variety of reasons, many companies have not delivered the level of financial performance within the time horizon projected during capital raising. Consequently, some operators may now find themselves cash-constrained, saddled with an untenable capital structure and/or being challenged by disenchanted and agitated investors and/or lenders who may have lost confidence. Our seasoned turnaround and restructuring professionals possess the operational and financial expertise, cannabis industry knowledge and standing within the investor and lender communities to help address these issues, including improving cash flow and operational performance, and negotiations with lenders or investors.

## Carve-Outs and Spin-Offs

Our team combines divestiture expertise with cannabis industry-specific financial and operational experience to provide integrated and comprehensive carve-out services. FTI Consulting equips a prospective seller with the buyer's view of the carve-out, while providing an early and transparent view on potential separation complexities and stranded costs by enhanced data visibility. We help prevent surprises with buyer due diligence, to retain value and minimize post-close purchase price adjustments.

We use our deep knowledge of the issues and industry-leading practices to help the carved-out entity build a world-class finance function while managing daily operations. We provide change management, interim management and surge resources to position the company for success from Day 1.



## Cannabis Industry Expertise — Accounting & Operations Readiness

### SITUATION

FTI Consulting was retained by a California-based software platform and marketplace company specializing in cannabis-related services. During its latest financing round, the company needed assistance preparing the financial statements to undergo the scrutiny of a financial statement audit. The scope of our work included: (1) the development of the company's revenue recognition model; (2) preparation of the company's tax provision; (3) accounting for website development costs; (4) accounting for share repurchases; (5) communicating with its auditors; (6) preparation of a cash burn analysis; and (7) drafting the financial statements and related footnote disclosures.

### OUR ROLE

We initially assisted with the creation of the company's revenue model and were engaged during the departure of its chief accountant. During this crucial time for the business, our team recommended a wider scope of work to address multiple areas of concern, which the company approved. Using our financial reporting expertise, we were able to help the company draft a complete set of financial statements from scratch.

### OUR IMPACT

We achieved major improvements in the company's books and records to ensure compliance with generally accepted accounting principles. Critically, we validated and designed the Company's approach to revenue recognition which enabled gross presentation in the financial statements and better positioned the company throughout the financing process. We further assisted with the Company's most substantial areas of technical accounting, which the company lacked the capacity to perform, and achieved substantial long-term cost savings.





## Cybertech

As a highly regulated industry with limited access to traditional banking services, cannabis companies are likely to incorporate emerging technologies into their business plans. FTI Consulting's experts can protect the enterprise from both internal and external cyber threats and provide analysis and financial guidance on blockchain strategy.

### Blockchain and Cryptocurrency

FTI Consulting provides financial analysis and guidance on strategic business applications that can help ensure the success of an overall blockchain strategy. Our team includes leading experts in cryptocurrencies, blockchain economics, initial coin offerings (ICOs), and digital token valuation and performance. We can provide a thorough understanding of the evolving regulatory and enforcement framework for cryptocurrencies and digital assets in the U.S. and abroad.

### Cybersecurity

We provide a full range of internal and external risk assessments to evaluate systems, applications and processes for a wide range of vulnerabilities, including customer and patient data. Our experts, led by former top-level operatives from the FBI and other U.S. intelligence and enforcement agencies, can design and implement a custom-tailored cybersecurity resilience plan that is unique to a cannabis organization's environment and challenges, including assisting when seed-to-sales systems break down, leaving companies on the hook for timely reporting to state regulators.



## Internal Investigations of Application Controls

### **SITUATION**

The client had experienced a massive financial loss due to a controls and compliance failure in one of their applications, although the root cause of the failure was not initially known. The client's application ecosystem included several other internally-developed and third-party applications that performed similar functions, but their risk of exposure to another event was unknown.

### **OUR ROLE**

FTI Consulting's Cybersecurity team conducted a thorough analysis of the client's application ecosystem, their internal, and third-party applications.

### **OUR IMPACT**

We were able to identify the deficiencies that led to the controls failure, which we presented to the client's board, the U.S. regulatory agencies, and the credit rating agencies. We also provided prioritized recommendations to mitigate the risk of future failures.





## EXPERTS WITH IMPACT™

With offices in every major financial center and every corner of the globe, we successfully serve our clients wherever challenges and opportunities arise.

Our clients include Fortune 500 corporations, FTSE 100 companies, global banks, major and local law firms and state and national governments and agencies in the U.S. and other countries. In addition, major U.S. and international law firms refer us or engage us on behalf of their clients.

### 1982

Year Founded and  
\$5.4B equity market  
capitalization\*

### 9/10

Advisor to 9 of the  
world's top 10 bank  
holding companies

### 7,000+

Employees

### NYSE:FCN

Publicly traded

### 98/100

Advisor to 98 of the  
world's top 100 law firms

### 59

59 of Fortune Global 100  
corporations are clients

\*Number of total shares outstanding as of July 21, 2022,  
times the closing share price as of July 28, 2022.

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**FTI Consulting** is an independent global business advisory firm dedicated to helping organizations manage change, mitigate risk and resolve disputes: financial, legal, operational, political & regulatory, reputational and transactional. FTI Consulting professionals, located in all major business centers throughout the world, work closely with clients to anticipate, illuminate and overcome complex business challenges and opportunities.

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