

# Financial Services for the Cannabis and Emerging Medicines Industry

Navigating the conflicting state and federal regulations that affect cannabis and other emerging medicines in North America requires deep knowledge in many disciplines and commitment to the constantly evolving industry. The shifting nature of the industry's regulations can make financial reporting and compliance a challenge. We help clients build regulatory compliance programs and strengthen existing ones, including a dedicated practice to help facilitate compliance with existing regulations and tailoring compliance programs in anticipation of the changing climate. Our team includes former audit firm CPAs, industry Controllers, CFOs, risk officers and regulators with best-in-class experience in all aspects of financial operations and financial crime prevention that are essential to growing companies in this space.

## Reputational and Financial Due Diligence

As companies license for different markets and expand their brands, there is a greater need for due diligence to protect the brand and comply with regulations. Our investigative practice provides detailed background information that goes beyond a simple check of criminal records. We provide a complete profile of persons and companies – growers, processors, potential investors, payment processors and vendors – that can impact the business.

## Anti-Money Laundering

Our certified anti-money laundering (AML) specialists can help design an AML compliance program that meets FinCEN and Cole Memo standards, as well as the requirements of state regulators, financial institutions, and investors. We also conduct independent reviews to craft new or bolster existing AML compliance, sanctions and anti-corruption programs.

As a highly regulated industry without access to traditional banking services, cannabis and emerging medicine companies are likely to incorporate emerging technologies into their business plans. Our technical experts can protect the enterprise from both internal and external cyber threats and provide analysis and financial guidance on blockchain strategy.





## CASE STUDY

FTI Consulting was retained to perform financial and operational due diligence on a fast-growing multi-state operator on behalf of a large European investment fund. The scope of our work included (1) a quality of earnings analysis; (2) a review and assessment of business plan and operations; (3) review and assessment of the company's projections model; and (4) a limited tax review.

Our team interviewed management, analyzed a large volume of financial and accounting data, reviewed internal models and forecasts, and assessed the company's operating business plan.

We reviewed the company's operations in each state and provided an assessment of both current operations and management's long-term forecast. Leveraging from collective industry best practices and insight gained from its leading professionals, we adjusted the operating and financial model to more accurately forecast expected company economic performance. We also analyzed and assessed the company's cash burn and all major accounting policies, including internal systems and third-party service providers, revenue recognition, AR/allowance reserves, inventory, labor and overhead allocation, and accruals and AP. We performed a quality of earnings analysis in addition to a tax review.

Based on our work, the client was able to better understand and quantify the operations, financial models, accounting policies and processes, and economic value drivers of the company. Our client gained full appreciation of the risks and issues related to the company's primary accounting functions in addition to the company's operations, long-range financial models, and value drivers.



## CASE STUDY

A large, fast growing multi-state operator wanted assistance from an independent outside consulting firm to review their current regulatory compliance oversight infrastructure and program to identify gaps in leading practices and to help prioritize implementation of key recommendations.

- FTI Consulting developed observations, gaps and recommendations regarding the Client's existing regulatory compliance oversight infrastructure and program using the following key items as a guide to assist with developing the scope of work required to develop an effective compliance program:
- Most recent modifications (2012) to the U.S. Sentencing Commission in its Federal Sentencing Guidelines for Organizations;
- Compliance Program Guidance issued by the Office of Inspector General ("OIG") of the Department of Health and Human Services ("Seven Elements" of an effective compliance program);
- Generally accepted compliance oversight practices gleaned from the our project team's experience working with companies in multiple regulated industries, including Cannabis; and
- Laws and regulations governing various compliance risk areas considered during the assessment.

By leveraging our regulatory expertise our client created a comprehensive compliance program that they, as a multi-state operator, take confidence in implementing for the greater good of the company and the clients they serve.



## CASE STUDY

Payment processors, financial institutions and armored car companies in the cannabis industry needed to be certain that they were complying with Cannabis Anti-Money Laundering (AML) regulations in order to satisfy state regulators, avoid FinCEN scrutiny as well as protect their businesses.

FTI Consulting provided reviews of Cannabis AML policies and procedures including testing of “Know Your Customer” files and transactions. In some cases, we recommended revamping AML policies and procedures to improve programs and hiring more qualified staff to run the programs.

One payment processor no longer encountered difficulties with even the toughest of regulators in obtaining licensing. An armored car company chose not to bank with a financial institution after our finding that the AML program was weak and top management did not seem serious about a “best in class” AML program.



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