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Medical-Marijuana Firms Hold High Hopes for Fund Raising

By LYNN COWAN And DAISY MAXEY

In what was once a pipe dream, medical-marijuana companies are courting private investors and even planning public stock sales.

In Colorado, a seed supplier is raising \$500,000 in a private financing round. In California, hydroponic-equipment supplier GrowOp Technology Ltd. has raised \$1 million privately, with plans to launch an initial public offering this fall. Los Angeles-based Medicine Dispensing Systems, a company that has placed 60 medical-marijuana vending machines in 15 states, would also like to complete an IPO by year's end.

Robert Kane, a former Stifel Nicolaus & Co. broker, on is busy planning the launch of a hedge fund next year that will invest in the medical-cannabis industry. He has lined up three individuals who have agreed to put up \$300,000 to launch the hedge fund. He initially plans to raise \$36 million but would like to reach \$132 million for the New York-based hedge fund, which he will call Kaneabis.

"I'm launching it because the market has a need for it," Mr. Kane said. "There are people looking to get into this space."



Linda Banks

Fifteen states and the District of Columbia have decriminalized the use of medical marijuana, but laws vary over what conditions are covered and how patients may obtain the drug. In some states, dispensaries are authorized to sell marijuana to patients who have a doctor's clearance or have registered as medical marijuana users. Other states allow patients to grow and possess their own pot in limited quantities.

Though the match-making dance between capital-seekers and potential investors can best be seen in California and Colorado, the two largest medical-marijuana markets in the U.S., those states could be the vanguard of similar fund-raising ventures. The industry is growing fast as more areas of the country permit pot prescriptions, and investors are slowly starting to explore where to best deploy their capital.

"I prefer seasoned people who have been involved in other investment deals before, not dumb capital," said Ben Holmes, who founded Centennial Seeds in Boulder in 2009 and is raising \$500,000 through a private offering.

High-growth prospects: Centennial Seeds is raising \$500,000 through a private offering. Above, founder

Ben Holmes with a marijuana plant at the company's seed-production facility in Lafayette, Colo.

Mr. Holmes has been featured in several television news segments on the medical-marijuana industry, and each time a show is aired, he receives calls and emails from people who want

to invest in his seed company.

"I could go to these people and do a financing round, and bam, it would be done. But they are unsophisticated, which put both sides at risk," Mr. Holmes said.

Vincent Mehdizadeh, founder of Medicine Dispensing Systems, said he has invested \$1 million in a patented dispensing system and software program that uses prepaid member contribution cards to dispense medical marijuana through a vending machine. Mr. Mehdizadeh opened three medical-marijuana clinics in the Los Angeles area in 2007, which he sold in 2008.

That experience led to his vending machine. Meant to be used inside dispensaries, it ensures a buyer has the appropriate certification to use the product, checks identities through fingerprints, and regulates the amount of marijuana sold. Medicine Dispensing Systems has grossed about \$4 million in the past 12 months, Mr. Mehdizadeh said, and he hopes to take the company public by year's end.

"This is an industry that has a lot of legs, and it's just getting started," he said.

Those on the entrepreneurial side of the cannabis business tend to be dedicated pot smokers who have fought for medical-use laws for decades. Potential investors tend to be more interested in financial performance and are concerned that the drug is illegal under federal law.



Associated Press

The primary sources of growth capital for medical-marijuana firms are likely to be angel investors.

What medical-marijuana entrepreneurs have in common is a desire to move beyond the first line of entrepreneurial seed capital to a broader base of investors. The primary sources of growth capital are likely to be angel investors, typically affluent individuals or small groups of people who are willing to take on risk for the chance at outsized returns.

That is where someone like Ken Maeda comes in. The 39-year-old investment adviser said he has never tried pot but would invest up to \$500,000 if he could find the right opportunity. He has some reservations.

"Because of what I do and the investors I deal with, I'm not comfortable with areas that are illegal on a federal level," said

Mr. Maeda, who is scouting investment opportunities in companies that supply hydroponic equipment or light-emitting-diode-based growing lights to medical-marijuana growers.

In March, a for-profit organization called the ArcView Group formed a network that will connect businesses that don't violate federal drug laws with qualified angel investors like Mr. Maeda. Troy Dayton, the group's chief executive, said investors are "very timid and tentative and peeking over the fence right now."

"There's a lot more interest than rubber hitting the road, but I think that's going to change," Mr. Dayton said. While it isn't unusual for angel investors to keep mum on the types of businesses they are investing in, they are particularly tight-lipped in the cannabis industry, he said.

Ancillary companies outside of the direct growing and sales stream are having the easiest time attracting investors, such as hydroponics supplier GrowOp Technology Ltd., or General Cannabis Inc., which in the last year bought businesses from marijuana-dispensary website WeedMaps to a dispensary-management business that oversees 12 clinics.

General Cannabis Chief Executive Jim Pakulis, whose company already is public, is now preparing a secondary offering of shares from current owners, including himself. He describes his business as "a technology company with an affinity for medical cannabis."

GrowOp CEO Derek Peterson, who at one point in his career worked as a high-net-worth client adviser for Morgan Stanley, said he had an easier time than he expected raising \$1 million in a private financing round.

Mr. Peterson, who began using medical marijuana after multiple back surgeries, said, "It's a passion of mine, but I also saw the economics of it."

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