



BIG MEDICINE FOR SALE

\$1,000,000.00

MMJ Business Solutions

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Big Medicine Medical Dispensary

For Sale \$1,000,000

Company

Big Medicine began operations in 2014 in Colorado Springs as a medical cannabis dispensary. The business has two locations: the El Paso location includes the retail operations and a grow facility and the Weston location is a grow facility. The Weston location was not built-out until April 2016 and the grow rooms at the El Paso location were not finished until approximately June 2016. July 2016 was the first month that Big Medicine was operating at full capacity.

Big Medicine's locations (El Paso and Weston) are both zoned as 'M1', which allow OPC marijuana cultivation and MIP operations 'by right'. All other zoning classifications are conditional. Big Medicine has three licenses: two OPC (grow facility licenses) and one MMC (retail sales license).

There is currently a moratorium in Colorado Springs on approval of new medical dispensary facilities through at least May 2017. Big Medicine is leasing its facilities and has a five-year lease in force with the option to renew for an additional five years.

The head grower has inherent value to the business in the continuity of product quality that patients have come to expect. Without a proper succession plan of the head grower there could be a material impact on future business operations. The best thing about this opportunity is that the main grow and the dispensary are in the same building.

INDUSTRY

In Colorado, the industry has two arms: recreational and medicinal. Medical cannabis has been legal statewide in Colorado since the passage of Amendment 20 on November 7, 2000. This amendment allows medical cannabis patients to possess up to 2 ounces of medical cannabis and grow no more than six cannabis plants; however, doctors can recommend a higher plant-count as necessary. A majority of Big Medicine's patients are high plant count patients. As a whole, the industry has enjoyed high year-to-year growth in Colorado.

LOCAL REGULATORY MARKET – *with input from Bill Fitzgerald*

Colorado Springs imposed a moratorium on new medical marijuana facility licenses in November 2015. The moratorium was renewed for a period of one year and was set to expire May 25, 2017 (Ordinance No. 16-57). The city council has preliminarily passed three ordinances that would limit the establishment of new facilities as well as restrict sales channels outside the legal framework of a medical dispensary. One of these ordinances would institute a cap of 212 locations (based on the number of current operational facilities) that consist of an MMC license, an OPC license, an MIP license, or any combination of these licenses at a location. The cap would likely decrease over time because any expired

or surrendered licenses would not be available to a new grantee. Also, any license holder that wants to change locations must move all the licenses from the current location to the new location or surrender the licenses not being moved. The other ordinances would make it unlawful to ‘gift’ or reimburse an unlicensed merchant for any cannabis product with the intent of stopping head shops and other businesses from selling cannabis. Cannabis consumption clubs are also likely to be an emphasis of regulation through local and state laws. The three new ordinances passed by the city council, at the earliest, would take effect on April 11, 2017 if they pass a second reading and are signed by the mayor.

In a statewide measure, Colorado House Bill 17-1220 seeks to stop diversion of legal marijuana to the illegal market by placing a cap on the number of plants that can be grown or possessed on a residential property. At the time of this report the bill has passed the House and is currently in the Senate.

VALUATION

Our approach to value Big Medicine varied slightly from our standard valuations for a few reasons, primarily due to accounting and operational differences of the industry as well as limited financial history of the company. Historically, businesses in this industry in Colorado have been valued based on a rule-of-thumb multiple of gross revenue, however there are additional factors that need consideration.

The following discussion details how we view the appropriateness of the three basic approaches detailed earlier in this report to valuing Big Medicine:

Asset Based Approach: There is a reasonable basis to use an asset based approach to value Big Medicine; however there are limitations, including uncertainty about the resale value of the OPC and MMC licenses. As previously mentioned, no cash used in business operations is shown on the balance sheet. According to the balance sheet, fixed assets have not been routinely depreciated nor are they listed with enough detail to reliably estimate fair market value of these assets. For example, ‘grow room equipment’ under Fixed Assets could include grow lights and ballasts. The lights will directly impact the viability of grow results and have a maximum usable life of four crops/grows. The current ballasts have a three year warranty and have a usable life of approximately three to four years. Depending on the installation date of the ballasts, they could be over halfway through their useful life and should be depreciated accordingly. There is also significant owner investment in leasehold improvements; however, these stay with the owner of the property and not the owner of the company.

Income Approach: There is a reasonable basis to use an income approach to value Big Medicine; however there are limitations. This is primarily due to limited financial information after the completion of the build-out. The business has been operating at full capacity for less than 8 months. Additionally, we don’t have access to depreciation and amortization expense.

Market Approach: There is limited information regarding private company sales in this industry. Even with access to more data we are not convinced that there is a reasonable basis to apply multiples derived from these sales. As mentioned earlier, these transactions have been based on industry ‘rule-of-thumbs’ without proper business valuations performed.

CURRENT VALUATION

\$1,400,000.00