MEMO

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Washington Changed the Schedule.
Nobody Changed the Business.

A memo on what cannabis rescheduling repaired, what it did not, and how to price the difference.

SIVA CAPITAL

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Contents

Purpose and Scope

In April, Washington changed the schedule. Nobody changed the business. The tax line moved; the operating economics above it did not. An allocator reading the sector off the headline is pricing what changed. The money is in what did not.

I have spent more than two decades in this industry and watched too much of what people built, fought for, and believed in get destroyed along the way. The losses were not only financial. The industry became increasingly disconnected from itself: operators from investors, legacy from licensed, policy from economics, and eventually people who should have been solving the same problems disconnected from one another. Somewhere along the way, the argument about who was responsible became louder than the conversation about what actually went wrong. If this memo can help move that conversation back toward the business, the evidence, the culture, and what comes next, it has done its job.

My investment philosophy came from an allocator years ago, and it stuck. If you go into a deal looking for reasons to say yes, you're going to find them. You can stack up all the reasons in the world to say yes, and one missed no wipes them all out. Instead, go into every deal looking for every reason to say no. That search is the diligence and finding the no's is different work. No deal is perfect. The no's rarely reach zero. But I want to walk in knowing as many of them as I can find, what each costs, and which ones I'm choosing to live with. That's why, when I say yes, I'm all in. Because I already know the risk I'm carrying, and I'm rarely caught off guard. This memo is not pessimistic. This memo is that search.

Understand the asset the way an operator would before you price it the way an investor would.

A note on what this has to do with you. Somewhere in these pages, probably more than once, a reader holding public cannabis names is going to ask what a state appellation program or a hemp definition fight has to do with his position. The answer is the same every time. Every topic in this memo is an input to the price of something. The reader who skips the inputs can still buy the sector. He just buys it without knowing what he owns, which is how most of the capital in this industry has bought it for a decade. The only real questions are how precisely you want to price what you hold and how much unpriced risk you are comfortable carrying without knowing it is there. This memo exists to shrink the second number.

On method. To explain what you will and will not find in these pages, I read businesses before I read financials. What is the company actually selling, to whom, does the operation work, can the team run it, have the risks been considered? If a business fails those questions, I never get to its numbers, because precision applied to a broken premise is still nonsense. If it passes, the numbers get their turn, and they do two jobs. They confirm or reject what I believe I found in the business. And when the market's price and the business's reality visibly disagree, they are where I dig to understand the disconnect. That order is why this memo spends more pages on statutes, customers, and operations than on earnings tables. In an established industry the financials can lead, because everyone already knows what the business is. In this one, what the business is remains the open question, so that is where the memo lives. The numbers appear exactly where a business or a disconnect has earned them.

How to use this memo. Readers do not need to approach it in sequence. If the question is where the industry is going after rescheduling, start with Part One; it is less a Schedule III discussion than an examination of what reform changes in market structure, interstate commerce, and asset value. If the question is why sophisticated capital repeatedly misread the operating environment, Part Two is the record: management fit, capital allocation, regulation, M&A, and the businesses underneath the structures investors financed. If the question is what is actually worth owning now, Part Three turns that record into a foundational underwriting framework for separating broken assets from mismanaged ones and pricing the repair. The Executive Summary states the conclusions. The sections themselves carry the evidence, counterarguments, and pricing implications. Throughout the memo you'll find different stress tests ranging from California export economics to one public company's stated thesis and a two-company valuation read. You can go straight to the stress test or you can read the supporting section to better understand the pressure points applied in those tests.

Disagreements. I do not expect the reader or everyone discussed in these pages to agree with every conclusion, and some may take offense at them. Nothing is personal. The judgments here are about strategies, capital allocation, market structure, and operating decisions, not the character of the people who made them. Where I criticize decisions that look obvious in hindsight, two records apply. Many of these calls I made at the time, in public, and the trail is checkable: conference presentations, press quotes, committee work, positions on the record years before this memo. Where a judgment in these pages is hindsight, I say so in the moment, and where it matters I name the warning signs that were visible at the time and ignored.

Vantage. The arguments in this memo were not assembled from filings. I have spent two decades inside this industry, operating in the Prop 215 and SB 420 days, long before the first state issued a license, investing in the industry, securing state licenses, advising license holders through builds, operations, turnarounds, capital raises, and wind-downs. I served on California's Cannabis Advisory Committee and chaired its Distributor Subcommittee, presided over the Los Angeles Cannabis Task Force, and have sat as an expert witness in cannabis litigation in both state and federal cases, where every opinion gets tested by someone paid to break it. Where this memo describes what capital underwrote, what operators built, and what regulators intended, it is describing rooms I was in. I have been on the other side of the table, running diligence for limited partners going into this sector, sitting inside raises, and telling people not to write the check more often than telling them to write it. In this industry, over the last decade, the capital that got preserved outperformed most of the capital that got deployed.

That vantage does not make these conclusions indisputable. It explains where they came from. A reader who entered through public markets, pharmaceutical regulation, institutional credit, state government, or consumer brands will see parts of the same board differently. They should. The practical test is whether the arguments survive serious disagreement, and whether the facts that would prove them wrong exist. Where the evidence changes, the conclusions change with it.

One disclosure. This one belongs here rather than with the full disclosures in the back, now that the reader knows whose vantage this is. SIVA Capital operates and advises in the sector discussed in this memo and has an economic interest in understanding how it develops. The analysis and interest point the same direction, and the reader should weigh that. It is the reason this memo names what would prove it wrong.

Executive Summary

Three questions organize this memo: what federal reform actually changed and where the industry goes from here; why sophisticated capital repeatedly misread the businesses underneath the licenses; and what is worth owning now that a decade of failure has exposed the difference between scarcity and competence. The positions are below. The proof is in the sections, and I would rather be argued with there than agreed with here.

Part One. Where the industry goes from here. Washington changed the schedule and the tax line. It did not change gross margin, unit economics, or whether a customer chooses the product. What the April order built is a sorting machine. The medical cannabis market, as prohibition forced it to develop in the United States, is a distribution business covered in clinical vocabulary (a description of the architecture prohibition produced, not of the plant's medical utility), and what the state-licensed industry appears to be conceding to pharmaceutical companies it never held. Two markets become three lanes, and most of what trades under the word medical is going to be nutraceutical inventory. A sorted market and a repriced market are not the same event.

In public markets, a re-rate is not the sector going up, it is the sector coming apart. The market has not been wrong about this sector; it has not yet been permitted to be right about the individual companies in it. Interstate commerce accelerates the same separation, and the thesis has been priced backwards. Closed-market economics do not travel; the friction does. Scale in an undifferentiated commodity is exposure, not a moat. The first advantage California actually has is brand equity, and it belongs to the state, not the cultivator. The most durable differentiation in American cannabis is held by undercapitalized operators in legacy regions. It is being lost to attrition faster than it is being established and is priced by a market that cannot tell it from commodity biomass. The closest analog for all of this has already run, and Part One walks the interstate thesis, buyer by buyer, through the public company that carried it furthest with a stress test of that company's thesis.

Part Two. Why the last cycle failed. Capital professionalized the management layer before it professionalized the business and hired for the company on the cap table rather than the company that existed. At its most extreme, the money was not funding businesses. It was funding exit-shaped objects. Vertical integration was the favored shape, and it is not a business; it is a structure, and almost nothing inside it was ever forced to answer the only question that matters: would anyone choose it, at that price, given a choice. Capital spent the cycle trying to control the pieces and got outplayed by the board; the operators who understood the board adapted, and the piece-collectors became the mortality table. The layer nobody diligenced was the customer and this industry has two. MedMen had the one asset this memo keeps insisting is durable, the customer, and did nothing with it: it built the store for one customer and underwrote the model to the other, and died in the gap between the customer it courted and the customer it counted on.

California had already run the selection experiment for two decades before a license existed; the licensed regime replaced that filter with capital access and compliance capacity, which is how companies the old filter would have killed inside a year raised nine figures and died in public over six. What a sector spends to prevent tells you what it believes its moat is. 280E was a constraint, then an alibi. The sector's one live bid prices a decade of acquisition-led expansion, and what it prices is the part that survived, not the part that was paid for. The target’s board answered as this memo went to press, and a Post Script reads the answer through an M&A lens instead of a shareholder: the case against the price is quantified, the standalone case includes forecasts and valuation analyses but no public board target for the value shareholders are being asked to wait for, and a no-deal outcome is no longer a neutral one. Hemp put an untaxed competitor on the shelf next to the licensed product, and its future is a congressional deadline, not a market outcome. Every allocator in this category has a partner he did not choose and never priced, and the terms are worse than the tax. California is the case everyone cites and nearly everyone misreads: legalization is not what California did. Part Two takes the operating record, the M&A tape, and the filings, and separates management failure from business-model failure before the next cycle of capital confuses the two again.

Part Three. What is worth owning now. A license is permission to operate, not evidence that a business exists. Cannabis is not one industry. Prohibition is what made those businesses look like one thing. Maturation is the word dissolving into the industries it was always made of. Scarcity value is dying on a legislative clock the holder does not control. Competence value survives, and a buyer pricing a de-scheduling premium into a licensed asset is pricing an event that would cost the asset money.

The result is a market where a broken business, a mismanaged one, and a quality one all carry the same price, and almost nobody can tell them apart. Investors waiting for reform to reveal which operator makes it have the test backwards; the current environment is the harder one, and it is already running. The next imbalance is visible now: assets will be abundant, and buyers who can close will be scarce. Genetics, this industry’s favorite moat, is protected on paper and worth almost nothing in practice; the equity sits in the breeder, walks out the door when he does, and should be underwritten as a person, not an asset. The 2018 thesis was license scarcity. The 2026 thesis is operating competence in assets priced for failure. Duration and price are different arguments, but duration still has a price. Part Three puts two public prices the tape treats as the same story side by side and finds two different companies.

Public companies appear throughout for one reason: disclosure. The same questions apply to the private assets that make up most of this category; public companies simply leave a record that can be tested. Public companies failed in filings. Private companies failed in silence. The value of the record is not that it makes the public companies uniquely bad. It makes the underlying mistakes visible enough to underwrite the next asset differently.

Key Dates and Decision Points

- **September 2, 2026.** The President signed H.R. 6500, the Continuing Appropriations and Extensions Act, 2027, after the House passed the Senate-amended measure on September 1. The law carries the one-month delay of most of the hemp redefinition to December 11, while leaving the November 12 synthetic-cannabinoid carve-out intact. SIVA Capital will publish a separate position paper on intoxicating hemp in the coming weeks. This memo carries only the underwriting consequence.
- **December 11, 2026.** New implementation date for the delayed portions of the redefinition of hemp and the 0.4-milligram-per-container product limit.
- **No timeline.** Post-hearing briefs in the broader rescheduling proceeding were filed August 17. An administrative law judge’s recommendation follows on no schedule. The DEA administrator decides after that, on no schedule. Litigation follows that.
- **Unscheduled.** Any published FDA position on state-legal cannabis products. This is the one almost nobody is watching and the one that matters most.
- **Also unscheduled.** Two pieces of federal guidance that would change operating reality the day they issue: a Cole-type enforcement memorandum from the Department of Justice setting posture for the adult-use market after the DEA administrator’s decision, whichever way that decision goes, and updated FinCEN guidance giving banks a current rulebook for the sector. Neither requires legislation. Both are one signature deep.

Part One — Federal Reform and Market Repricing

2024 Rescheduling Call: What Held and What Missed

The original claim. From page 25 of my March 2024 report: *"Rescheduling cannabis to a Schedule III substance is nothing more than prohibition rebranded."*

As written, that sentence was too absolute and misses on its literal terms. The mechanism underneath it held where it mattered: federal control did not disappear, and the FDA gate remained. What failed were assumptions about how Schedule III would arrive and which gate would move.

At the time, the visible paths to reform were two: Schedule III through ordinary notice-and-comment rulemaking, or a congressional act like the STATES Act. SAFER Banking ran alongside them but was never a path to reform of the schedule, it was banking access and a shot at uplisting. The rescheduling under debate was the first. Which would have been Schedule III arriving through the standard administrative process and therefore arriving with the standard consequences attached: prescription-drug treatment, FDA approval as the price of the medical market, and DEA registration closed to state operators. A Schedule III of that kind would have handed the medical market to the companies built to run the FDA approval process and called it reform. That is capture rebranded as progress.

What arrived in April was not that rescheduling. The executive summary of this memo already said it, and the April order was not the Schedule III anyone was arguing about. It came by a route no scenario had priced, an Attorney General's order under treaty authority, no notice-and-comment, moving a category defined by state licensure rather than product approval, with a registration pathway built for the licensees themselves.

Now the accounting, because a graded prediction is worth something only if the grading is honest. Two assumptions in the 2024 report did not survive. First, the report assumed the DEA-registration gate would stay closed to state operators, because that is how the ordinary Schedule III framework was being modeled. The April order did not open that gate as modeled. It created a registration pathway for qualifying state medical licensees by signature. That answers the scheduling and registration question. It does not answer the separate FD&C Act question for products marketed with health claims. A conditional claim is only as durable as its conditions. Second, the report expected Congress to respond with protections for state-licensed businesses such as the STATES Act. Neither passed. The reform arrived from the executive branch, and no one had that on the board. Those are misses, and they are graded here as misses.

Here is what survived, in the report's own words: "*Without the proper licensure from the DEA required to manufacture, handle, and distribute a Schedule III drug, State licensed cannabis companies would not be able to conduct interstate commerce.*"

And immediately after it, on increased FDA oversight: that pharmaceutical companies are prepared for it, that state-licensed operators are not, and that the discrepancy threatens to edge out state operators in favor of large pharmaceutical entities. The report did not gesture at capture. It named the agency, a consolidation of power "*within federal agencies, such as the FDA"* and it named both gates. DEA registration and FDA approval. The April order created the registration pathway the report said was missing, so that part of the call moved. The separate FDA exposure remains and is now the load-bearing unresolved question underneath the state medical market.

The 2024 report wrote some of this as intent, a "calculated attempt." I do not need that attribution for the argument here and I am not carrying it forward. The structural claim stands on its own. The mechanism does not require anyone to have planned it.

Schedule III: What It Repaired

The April order left three ledgers behind it: what it repaired, what it did not touch, and what it quietly weakened. The first two are short and straightforward. The third is the interstate question and it fits in neither column, so it gets its own section. Two things, and they travel together. 280E relief changed what a company keeps. The DEA registration pathway changed what a company can rely on.

The tax half.

Section 280E disallows deductions and credits for businesses trafficking in Schedule I or II controlled substances. It is the reason cannabis operators have paid effective tax rates that no other legal industry pays on gross profit rather than net income. The April order states directly that state license holders are no longer subject to it, and it encourages the Secretary of the Treasury to consider retrospective relief for prior years. Treasury and the IRS announced within a day that guidance was forthcoming.

It's important to understand which line the tax half lives on. 280E relief changes what a company keeps, not what it earns. It restores below-the-line deductibility. But gross margin doesn't move and neither do pricing powers or unit economics. A fix that touches only the tax line cannot repair a business whose problem sits above it. And it reframes the counterfactual: under the rescheduling my 2024 report addressed, operators would have received this same relief but at the cost of FDA exposure and prescription-drug treatment. That is why I called it a consolation prize. As a standalone grant, stripped of that cost, this is the best version of 280E relief the industry could have gotten.

It also arrives with an unfinished balance-sheet problem. Several companies took aggressive positions on 280E years before any of this happened, filed amended returns, and have been carrying the disputed amounts as uncertain tax positions ever since. Prospective relief does not necessarily resolve a retrospective dispute. Anyone underwriting one of these companies, or buying a distressed one, is underwriting that liability.

The registration half.

Before April, a state medical operator's federal status was a memo of forbearance. Basically, a promise not to prosecute, revocable by the next administration, the next Attorney General, or the next news cycle. That's not hypothetical either, the memo everyone relied on was rescinded outright in January 2018, and the industry operated since then on nothing firmer than inertia and an appropriations rider. The April order replaced that with a registration: a federal legal status that exists on paper, held by the operator himself, created through a portal DEA opened six days after the order. That is the difference between operating under discretion and operating under law. It is also the half with the longer tail. A registration regime is architecture. A structure through which standards, inspections, and conditions eventually arrive. What the operator gained in legal footing, the agency gained in a lever.

Schedule III: What It Did Not Repair

The April order recognized qualifying state medical marijuana under Schedule III without requiring an approved drug application. That answers the scheduling question. It does not separately answer what FDA may do with products marketed with health claims. For underwriting purposes, those are two different gates. So, what did the order not repair? Everything else. But one thing in particular, and it is an argument that survives from the 2024 report. The April order moved cannabis held under a qualifying state medical license into Schedule III without requiring FDA approval of the products being sold. In the ordinary pharmaceutical framework, products marketed to diagnose, treat, mitigate, cure, or prevent disease run into the FD&C Act drug-approval regime. The April order created scheduling status without resolving product approval. Which leaves a question that, beyond Gibson Dunn's early flag, almost nobody is asking and nobody is pricing. A state-legal cannabis product marketed with therapeutic claims can still create an unapproved-drug issue under the Food, Drug, and Cosmetic Act. The Gibson Dunn analysis published within a week of the order noted that it leaves unresolved questions about the legal status of cannabis sold as foods, dietary supplements, or unapproved drugs. FDA to date has largely declined to enforce the FD&C Act against state-legal cannabis businesses, and it may continue to exercise that discretion while a more tailored framework develops.

Now, to restate my position from the 2024 report, and I state this as a claim rather than an observation: the two-market industry everyone prices today resolves into three - Pharmaceutical, nutraceutical, adult use. The full sorting is laid out below. What matters here is that the April order built the sorting machine and most of what trades under the word medical today is going to be nutraceutical inventory.

Discretion is not a right, it is a decision an agency makes and can unmake. It can be unmade the same way the scheduling was granted, by a document, without notice-and-comment, on any given day. That is the unpriced tail risk sitting underneath every state medical-licensed asset in the country. It does not appear on a balance sheet. It has no line item. It has not happened. And the entire medical channel now depends on it not happening.

The 2024 report said the FDA would be the mechanism of capture. It is still the mechanism. The order did not resolve it. It postponed it and moved everyone closer to it, because a registration regime is precisely the structure through which a federal agency eventually asserts product standards.

The Three-Market Split

Here is the part the industry has not absorbed and treats all of this as something being taken from it. It is not.

The state-licensed industry never built the federally approved pharmaceutical product domain. Not one FDA-approved cannabis drug has come out of the state-licensed industry in two decades. The first regulatory frameworks attached the word medical to the plant (it was the only door legislatures could open) and the industry carried it, because the word was the license. There is no application it controls, no indication, no characterized dose, and no efficacy data of the kind that would survive a review division. What exists is flower, concentrate, vapes, and infused products, sold through a licensed retail channel, with a physician’s recommendation functioning as an access credential rather than a prescription.

So, what the industry appears to be conceding to pharmaceutical companies, it never held. You cannot lose a market you never entered. The medical cannabis market, as prohibition forced it to develop in the United States, is a distribution business covered in clinical vocabulary (that describes the business architecture prohibition produced, not the medical utility of cannabis). The industry was given the word medical and denied the federal infrastructure that would have allowed it to build a conventional medical market. Which is why the sorting that is coming is not a loss. What is known as medical and adult-use today resolves into three economic lanes, not three clean statutory boxes: a genuine medical lane owned by organizations capable of satisfying the pharmaceutical evidentiary and approval regime; a regulated consumer-wellness or nutraceutical lane that state medical licensees are best positioned to serve if they stop making claims the product cannot legally carry; and an adult-use lane where a person over twenty-one makes an adult decision to purchase and consume for whatever individual reason. It's the same plant, largely the same products, different dosing restrictions, different pricing, and different tax treatment. The variable that decides all of it is who is qualified to make a health claim and who answers for the outcome.

The nutraceutical lane is an economic and consumer-market category, not a federal regulatory classification. It is the cleanest commercial resolution available to the FDA problem because it does not require a state operator to win the pharmaceutical gate. All it requires is for the operator to stop calling a commodity medicine and to market the product in the lane where most current demand already sits anyway. Claims are the clearest trigger for FDA exposure, but not the only evidence of intended use; product design, composition, labeling, advertising, and circumstances of distribution can matter as well. The operator keeps the product, the customer, the channel, and the margin. He just gives up the health claims he was never entitled to make. FDA keeps its gate without necessarily having to force the entire state channel through it. The pharmaceutical companies take the lane their capabilities were built for. The state keeps its licensees. Everyone gets most of what they actually need and the price of admission is a mental reframe. Think of it as a sector-wide rebrand and a fresh start, not a restructuring of it.

Before anyone says, "but cannabis is medicine." Nothing in this position argues otherwise, and anyone fighting that fight is missing the forest for the trees. Between medical and adult use, the products are largely the same and, in most jurisdictions, identical. Flower sold under adult use programs is the same exact flower, sitting in the same exact jar, sold in the same exact store, in the same jurisdiction under the medical program. The flower changes lanes at the cash register, literally. In general, the main differentiators are dosage restriction in some jurisdictions, tax implications for the buyer, and the customer's intent behind the purchase. The customer's intent changes the purchasing channel, and the seller is indifferent to which. A patient buying for a condition gets the direct benefits. An adult buying because he is an adult gets whatever effects he wanted with the medical benefits being the cherry on top. The product is identical; only the label on the doorway differs. Moral precision about which doorway is the legitimate one buys the industry nothing except another decade of a fight that changes no net result. The sorting costs the industry a word.

Public Markets - What a Re-Rate Actually Requires

A sorted market and a repriced market are not the same event. The rest of Part One is about what would have to happen in the market itself (who would have to show up, and what they would have to believe) before any of this sorting turns into a number.

In the past, and without full rescheduling or de-scheduling for the regulated industry, the public names in this sector have largely been tradable rather than investable. That line moves when the conditions of the re-rate call are met: adult use finalized, balance sheets stabilized, quarters demonstrated, and a thesis articulated. To be specific, because this sector uses “re-rate” to mean “went up.” A pop is the same general buyers paying more for the same story. The sector has had many, and they round-trip within a quarter because nothing underneath changed. A re-rate is different buyers applying a different framework to the same earnings and it has signatures that can be seen. This includes institutional ownership rising in the filings, coverage that comps these companies against consumer businesses instead of against each other, debt refinanced at normal-company spreads (credit re-rates before equity, and credit does not trade on hope), and a multiple that survives a missed quarter instead of evaporating with one. There is a plumbing layer under all of it that gets skipped: custody, clearing, and margin. Institutions do not own what their back office cannot hold, and the day these names clear like normal companies is the day the buyer base can actually change. But the main one that not many are pricing is the names decoupling.

Names decoupling is the mechanism under everything else. For years the sector’s marginal buyer has been basket instruments. When one vehicle is the marginal buyer, its flows price the basket regardless of its weights, and the dispersion inside it is small against the flow. That is not abstract. As of August 28, MSOS held roughly 32% in Trulieve, 26% in Curaleaf, and 18% in Green Thumb. Those are active portfolio weights, not a capitalization-weighted index. The point is not that the manager is wrong. It is that one allocator’s weighting and trading decisions can move share-price flow independently of company level operating quality. And the basket is not only the ETF. The retail money that holds most of this float buys the same way, the theme on the catalyst, not the company. That is exposure buying and it averages the names just the same. When the only buyer acting at scale is buying exposure rather than businesses, everything prices toward the average of the basket: the worst names held up and the best names held down, by the same force and for the same reason. The market has not been wrong about this sector because it has not yet been permitted to be right about the individual companies in it. The re-rate, when it comes, is not going to be the basket rising. It is the basket dying and that discrimination runs in both directions. The day institutions can tell these companies apart is a very good day for a few of them and the day the averaging subsidy ends for the rest.

When the April order hit, the sector sold off on the initial reaction before rallying later in the month. The point is not the monthly return. It is that the event the catalyst crowd said would re-rate the sector did not re-rate everything equally. The market prices lanes. The medical entities got listings, roadshows to institutions new to the category, buybacks; the beginnings of a buyer-base change, sized to the lane that actually changed. The consumer business, where most of the sector's value lives, was not rescheduled; it was sorted out and ringfenced into entities the exchange will not yet consolidate. The market graded the event: it repriced what changed and declined to reprice what did not. Medical is a real business and worth a real piece of the re-rate. However, it is not the whole piece, and the whole piece waits on the lane that has not moved. The registered lane re-rates on registration and tax relief; the FDA tail is what the buyer of that lane owns.

The tax argument gets its answer here, because it is the objection this section will draw. Section 280E was real, it was punitive, and it compressed every operator's results, including the disciplined ones. It did one more thing the failure record understates in that it froze exits. Compressed after-tax cash flows and successor tax liabilities made weak operators nearly unsellable, so failures a normal market would have quietly absorbed through acquisition instead played out in public, for years. But 280E was a common, fully disclosed constraint. Its effective burden varied by business mix, state tax treatment, and tax posture. That variation is real and yet it does not alone explain the dispersion in outcomes. Under the same code, one operator bought back stock while others died. The separating variable was never the tax code. Rescheduling has now removed it for the registered lane, and the removal is the test of the theory: if 280E was the reason, its removal repairs the companies it was supposedly suppressing. Watch what each operator does with the relief (deleverage, repurchase, accumulate, or resume the acquisition spree) and the argument will grade itself in four quarters of filings. **Part Two is the record of what some of these teams did the last time capital said yes, and why the next yes arrives with less excuse and more encouragement.**

The clock itself is longer than the crowd assumes for a structural reason sitting in the filings. Trulieve and Glass House used substantially the same deconsolidation structure to reach the NYSE: a third-party investor holds voting units representing a 10% economic interest, while the public company retains non-voting, non-participating units that convert only after the NYSE permits consolidation of non-medical marijuana operations. The adult-use or mixed-use business is ringfenced rather than exited, with the exchange holding the trigger. The sequence, if a broader rule creates an analogous adult-use pathway, is rescheduling, exchange permission, regulatory transfer approvals, re-audited consolidated statements, and only then a proof period in the filings. Pop first, euphoria second, grading third. Burned allocators will take their time, and they should.

The biggest question that will decide the shape of it: what does the sector re-rate into? A company re-rates against a comp set and a sector needs to earn one. If cannabis stays trapped in its own category, it stays trapped in cannabis-only comps. The prize is absorption: survivors classified by what they actually do and compared with normal companies at normal multiples. The first cross-industry strategic acquisition of a U.S. plant-touching operator on operating earnings (not the Canadian optionality trades of 2018, whose multiples evaporated with the optionality) prints the multiple everything else gets measured against. Deal comps precede trading comps in a sector the market has not figured out how to classify.

The obvious objection is it may become its own industry, or it is its own industry. Maybe. But a handful of listed companies do not make a mature public-market industry or establish a durable comp set. If that is the path to re-rate, the clock is measured in years, not weeks or months. The market needs more listed companies, more differentiated business models, enough depth to separate the businesses inside the category, and enough history to discover what multiple the category deserves. That multiple is unknown today and it’s not something that’s going to be known in the relative near future. The companies that eventually define that industry may not be the public names defining it now. Private operators are waiting on the sidelines for their chance at a public listing. Some will arrive without the capital structures, bad acquisitions, overbuilt footprints, tax disputes, and years of investor distrust carried by parts of the current cohort. What exists on the screen today is not what will exist when the market finally has enough companies to classify the category on its own.

To state my claim underneath all of it: there is nothing special or unique about this industry, because it is not one industry. Manufacturing is manufacturing. Cultivation is agriculture. Brands are consumer packaged goods. Dispensaries are retail. Cannabis is the product running through them, not the industry they belong to. How do you apply the same multiple to a cultivator producing biomass to a manufacturer with a portfolio of branded products even though they're both a cannabis company? Prohibition is what made those businesses look like one thing. If you think about it along those lines, "Cannabis" is not the industry, it is a stage of regulatory development, and maturation is the word dissolving into the industries it was always made of.

Interstate Commerce: Legal Pathways and Economics

The most consequential thing the April order may have done is not in the order. It weakened one of the assumptions supporting the state-by-state market structure without actually resolving it, and that assumption carries the largest repricing risk in the memo.

Hirsh Jain of Ananda Strategy laid the legal mechanism out in July, and I want to be direct about the credit: the regulatory framework is his, not mine. Anyone who wants the full regulatory case should read his piece, and I strongly suggest you do. What follows first is the short summarized version and following that, more importantly for this memo, the business application.

Legal and Regulatory Summary

The state-siloed cannabis market was never required by Congress. It emerged as a practical response to the 2013 Cole Memorandum, which listed prevention of diversion across state lines among federal enforcement priorities. States built self-contained markets to demonstrate they were not the problem. Those laws outlived the memo that produced them.

Dormant Commerce Clause challenges did not all fail in the same way, and the record should be stated more carefully because the split is now part of the investment question. The First and Second Circuits applied the doctrine to state cannabis residency restrictions notwithstanding federal illegality. The Ninth Circuit went the other way in January 2026, reasoning that the doctrine need not protect interstate commerce in a market Congress had deemed unlawful. The Ninth Circuit denied rehearing in April, and as of this writing the petitioners have until September 10 to seek Supreme Court review. The question therefore remains open, and the Ninth Circuit ruled before the April order changed the premise on which its decision heavily relied. The relevant point for this memo is the cases that refused DCC protection leaned heavily on categorical federal illegality. That premise is weaker for DEA-registered state-medical commerce after April.

A substance in Schedule III is one that federal law expressly contemplates being handled lawfully under regulated conditions, and the existence of a federal registration process for the operators themselves makes it harder to argue the activity sits wholly outside lawful commerce. Lamar Central Outdoor v. City of Perris is not a Dormant Commerce Clause case; it is an advertising and First Amendment case. Its relevance here is narrower: the Ninth Circuit questioning described by Jain shows judges pressing on categorical-illegality assumptions in a live cannabis dispute, which is a signal about the premise even if it is not a holding on interstate commerce. Jain identifies three pathways — state legislative reform, constitutional litigation, and interstate compacts. California's SB 1326 is important because it authorizes agreements once specified legal predicates are satisfied, including federal guidance or an attorney-general determination; a favorable court ruling may inform that determination, but it is not a simple automatic switch. He also names the counterweight, and it is the same one this memo has been circling: the FD&C Act generally bars interstate commerce in unapproved drugs.

Why that belongs in a memo about asset values

The sector broadly underwrote one assumption disclosed in PPM after PPM and rarely priced: that its state is a closed market. But disclosure is not underwriting. Cultivation was built inside state lines because it had to be. Facilities were sized to in-state demand. License values reflected in-state scarcity. Real estate was priced against a captive customer. If that assumption fails, on any timeline an investor with a five-year hold should care about, the repricing is not uniform. Cultivation in high-cost states is impaired. Brands, distribution, and retail relationships are not. A cultivation operation in a state with expensive power and expensive labor is worth what it is worth only because nothing can be shipped in. I’m speaking about the asset. A brand that customers ask for by name survives the boundary coming down and may benefit from it. That divergence is knowable today from the public record. Jain’s work answers what the law may permit. The question that prices the asset is different: what is the permitted activity worth, to whom, and who captures it? Everything that follows is the business application of that question.

The Considerations

One clarification so the argument that follows is not misread. This memo is very bullish on interstate commerce. It grows the brands customers ask for by name, the retailers that carry them, the consumer’s price and choice, and the repair thesis this memo ends on: a repaired asset is worth more in a market its product can leave. Cultivation gets disproportionate attention here for a reason. When state licensing opened, much of the market heard ‘cannabis’ and built ‘grow.’ Capital chased canopy, pounds, licenses, and the idea that today’s state producer would become tomorrow’s national supplier, while other parts of the value chain were often treated as secondary. Interstate commerce now looks more plausible than it has at any point in the regulated market's history, and for the cultivators that survived, that makes the original promise feel close to validation. That is exactly why cultivation gets the stress test: it is the part of the original interstate thesis where the economics are least obvious.

Negotiated Terms. Interstate commerce is likely to arrive first as negotiated regimes, not as one clean national market and not free trade. Every state built a tax base on in-state cultivation (excise at cultivation, distribution, and retail, local add-ons, licensing fees sized to a captive market) and no legislature surrenders that quietly. SB 1326 makes the point itself: it authorizes agreements and an agreement has terms. Terms are negotiated by parties protecting their own licensees, their own revenue, and their own interests. That is the opposite of a common market. The Dormant Commerce Clause polices discrimination as such, but that just means states will draft their protection in the language of public health, tax administration, and traceability, and much of it will survive. The underwriting consequence is the same either way: an operator whose model assumes the lines open and his product goes everywhere unrestricted has modeled an event that will not occur. What occurs is a patchwork of bilateral arrangements, each with a cost of entry, each on its own timeline, each subject to renegotiation. Interstate commerce turns into a fifty-jurisdiction compliance problem before it is a distribution opportunity.

The tax perimeter. One more thing the export economics carry that nobody prices. Every state system, California included, was built as a closed loop. License feeds license, product lives and dies inside the walls, and the taxes attach at the points the architecture could see. When California zeroed the cultivation tax in 2022, it did not forgive the revenue. It relocated it, downstream to the retail counter, on the logic that every pound gets collected eventually because every pound ends at a California register. Export breaks that logic in the middle. A pound leaving the state passes the zeroed gate and never reaches the taxed one. The state collects nothing on it at any point, ever. Which means the grower's zero rate on exported product is not a policy. It is the front half of a bargain whose back half just left the state. Anyone underwriting export margins out of California is betting that a legislature which moved this exact tax once already and adjusted the excise twice in two years will watch untaxed product cross the border at volume and leave its own bargain broken. If there is one thing you never bet on, it is a state like California giving up a tax opportunity. The perimeter is one bill wide, the collection point has moved before, and the day export volume becomes a number is the day it moves again, mid-game, and by signature.

Intrastate last-mile delivery. Georgia's Access to Medical Cannabis Commission recently proposed letting its licensed dispensaries mail product to its own registered patients, carriers to include the Postal Service. That proposal is now circulating as the arrival of interstate commerce via US postal service. It is nothing of the kind in two ways. Mailability is a transport question; interstate commerce is a jurisdiction question. A package from an in-state dispensary to an in-state patient crosses no line, whatever truck carries it. And the pipe points the wrong way - in-state retail last-mile to a registered patient, when the export thesis needs wholesale bulk moving licensee to licensee across state lines. A state permitting delivery to its own patients under its own license structure is the silo administering itself more conveniently, with the negotiated-terms world described above, arriving on schedule. The honest concession: a federal instrumentality carrying a Schedule III product without incident would be one more entry in the normalization record.

Oversupply. There is no obvious supply deficit to export into. Performance in a closed market is different from performance in an open market. The strong form of the interstate thesis assumes destination markets that cannot meet their own demand at an attractive cost or quality. Some states may have moments of shortage, narrow SKU gaps, or inefficient local production, but most mature state markets are oversupplied and have been for years. An exporter arriving in that market is not merely filling a gap, he is asking the market to displace existing production or to absorb incremental supply. Either outcome prices through the clearing price and biomass prices travel in one direction.

The analog. The closest thing to national interstate cannabis commerce that has ever existed is the hemp market: the same plant, grown across the country, shipped across state lines, and sold on open wholesale markets with real price discovery. After a handful of years, bulk cannabinoid biomass compressed into the low tens per pound depending on product, volume, and terms. That is not a comparison to premium finished flower, and it does not need to be. It is the price of the input seat. The hemp market is an analog, not a controlled experiment, but it shows what open national competition can do to an undifferentiated cannabinoid input. Anyone underwriting a durable THC biomass premium has to explain why that market ends differently.

Supply Consolidation. Interstate commerce gets described as demand expansion. Mechanically, in the near term, it is supply consolidation: the lowest-cost producers reach markets they could not previously reach, and prices converge downward toward the cheapest landed production basin in the country. Good for consumers. Good for whoever is genuinely lowest-cost, landed after terms, against every producer the open border admits, the outdoor acre and the international one included. Bad for everyone else holding cultivation, and worst for whoever built the most capacity. And the price spread the thesis cites does not survive its own measurement. Take California for example. The headline gap between California wholesale and a limited-license state is mostly measured at the branded-flower tier; imported biomass competes in the mid and extraction tiers, where the spread is smaller and is the first thing to collapse toward the import price on contact. The arbitrage evaporates exactly where the exporter lives.

The buyer set is thinner than it looks. Walk it one buyer at a time, because the interstate thesis never names the customer. The buyer set generally reduces to four economic types, and each one prices imported supply differently.

The licensed operator who grows. The exporter's assumed customer is a licensed operator in another state who would rather buy than grow. The right test is not just sunk cost by itself. It is landed imported cost versus the operator's avoidable forward cost of local production, plus the strategic and regulatory value of keeping local supply alive. That second half matters. A vertically integrated operator may idle inefficient canopy at the margin, but he may also retain cultivation for supply security, premium SKUs, vertical-integration requirements, license optionality, local employment, regulatory goodwill, or simply because the license package is tied to the rest of the operation. The exporter is therefore not competing only against a grower's cost per pound. He is competing against the incumbent's entire local ecosystem: retail shelves, customer data, regulator relationships, lobbyists, employees, distribution, existing cultivation, and the political standing that comes from being inside the state. Also, the exporter is never the only one at the door. The moment one producer can ship across a line, other producers can too. So, the line looks something like in-state cultivators first, out-of-state outdoor with a lower cost basis behind them, followed by out-of-state greenhouse, and international supply behind that. This is the original funding error running a second lap: every operator's projections assumed his own built capacity would be absorbed, almost nobody's was, and the result was oversupply. An open border does not repeal that arithmetic, it spreads it, with the local operators functioning as constituents. A licensed operator with a facility, employees, and a lobbyist has both the incentive and the standing to ask his legislature for exactly the protectionist terms described above, and he will be in the room before the out-of-state producer is. None of this even considers that most of the mature and worthwhile state markets already have a significant multi-state operator presence who has the weight to throw around.

The processor. He wants cheap biomass and does not care where it comes from — which sounds like a customer until you price the seat. Against him, the exporter competes strictly on price, against in-state supply that carries no export terms and no freight, and against outdoor cultivation that beats greenhouse on cost of production before the truck is even loaded. Winning that customer means winning a race to the bottom that the in-state producer starts closer to.

The retailer. Shelf space is finite and in-state options already exceed it. A retailer makes room for out-of-state product for two main reasons: customer demand for the brand or price. A biomass producer arrives with neither a brand nor, once landed costs are paid, a worthwhile price. There is a third scenario that's standard to retail and that is to pay slotting fees. The problem for a biomass producer is slotting fees don't work for biomass producers with thin margins the same way they do for branded products.

The new medical program. One candidate buyer deserves addressing, because Hirsh Jain raises it accurately. Theoretically, it is a state opening a new medical program and importing product rather than waiting for domestic cultivation to build out. It sounds plausible from the patient's side, but it fails on the state's own incentives in three ways. First, every meaningful market already has a program. What remains unprogrammed is small, politically resistant, or both, so the hypothetical buyer barely exists as a market. Second, the licensing economics. A new program is funded and legitimized by its applicants through application fees, licensing fees, buildout capital, and jobs commitments. Nobody pays those fees and sits through a two-year process plus a year of buildout if the market opens to out-of-state supply on day one. Open the border at launch and the domestic applicant pool evaporates and with it the program's revenue, its jobs argument, and its entire political constituency. A state that did it would be strangling its own program at birth, and every legislature knows it. Third, the clock. Twelve months of domestic ramp is nothing in legislative time. Waiting costs a legislature nothing but flooding it costs it the buy-in of every operator it is trying to attract. It is a door no state has ever opened and every state has structural reasons to keep shut.

Four candidates. One is an incumbent with strategic reasons not to give up local production, one is a race to the bottom, one requires a brand or destination pull the exporter has not yet proven, and one is too small or too politically constrained to carry the thesis. The exporter faces a buyer set structurally short of buyers and long on competitors with political access and generally better standing.

Shipping undifferentiated biomass across state lines means competing on price against every producer with the same product, into a buyer with all the leverage and no switching cost. The cost structure makes it worse. Cultivation is largely fixed cost, and a fixed-cost producer carrying excess capacity clears at any price above marginal cost, because the alternative is clearing at nothing. Scale in an undifferentiated commodity is not a moat, it is exposure: the larger the fixed base, the harder it has to be cleared when price falls, and the more the producer contributes to the fall. And quality does not rescue the seat. In wholesale biomass, the customer is a processor buying on price and potency. Quality the buyer does not pay for is a cost, not a moat.

The conditions the biomass export thesis requires must all hold at once, and none are established today. You can call a thesis that needs one improbable thing a bet. But a thesis that needs multiple unproven conditions to arrive together is something completely different. What needs to be understood is that closed-market economics do not travel, the friction does.

The counter argument. The best argument against all of this deserves to be stated fairly, because it is a good one. Agricultural commodities trade nationally all the time - California avocados, Michigan Honeycrisps, Florida oranges. Alcohol crosses every state line in the country under exactly the kind of three-tier protectionism described above. Why would cannabis be different? If you dig into it, the comparison fails on its own terms three separate ways. **First**, regional production advantage. The avocado, almond, and orange examples generally work because climate and seasonality concentrate efficient production in particular regions, creating a reason for destination markets to depend on outside supply. Cannabis has no comparable agronomic exclusivity. The state markets at issue already built cultivation industries because cannabis can be produced locally. Pointing to California avocados does not establish that California cannabis will displace cannabis already grown in the destination market. **Second**, the regulatory asymmetry. Nobody holds a privileged license to grow avocados. There is no state licensing stack, no compliance overhead, no cost of acquiring the right to farm, no red tape between a grower and a customer across a state line. The comparison imports the commerce and quietly deletes the cost structure. It compares denominators when the question is the numerator, the category when the question is the unit. **Third**, alcohol crossing state lines is a finished, branded product. The biomass equivalent is not the whiskey; it is the grain. The correct alcohol comparison for a cannabis biomass producer is a hops farmer or a barley grower. Run alcohol's actual friction stack (the distributor tier, the excise, the destination's testing and repackaging) against the grain tier instead of the finished tier and ask why no barley farmer ever got rich exporting. That comparison, run honestly, is this memo's argument: contract agriculture, thin margins, consolidation around the lowest-cost acre, with the value captured entirely downstream by the brand that turns the input into a product someone asks for by name.

Interstate Commerce State Test Case - California

Why California and why here. Of all the states, the export conversation happens in California because California is the only state holding both halves of the story, a surplus narrative big enough to need an exit, and an origin story the national consumer already knows. Cali grown is a phrase, New York grown is a punchline. Nobody pitches New York export, because no customer anywhere asks for it by name. And of all the operators, the most public positioning for the event comes from a California greenhouse at scale. It is testing the thesis where the thesis lives, and in the one state whose brand equity makes the thesis look plausible. What that equity is actually worth, and to whom it accrues, is the next argument.

If bulk moves interstate, it moves to cheap power, cheap land, cheap labor, lowest taxes, and favorable climate. California has favorable climate, but climate is the one input that does not stay proprietary. Other states offer comparable growing conditions at a fraction of the operating cost, not to mention cultivation technology that generally balances out any climate disparity that exists between any two state markets. When discussing indoor or light deprivation systems, outdoor climate matters less.

With respect to taxes, California eliminated the state cultivation tax in 2022 and collects excise at retail. That looks like a cultivation advantage until the local layer is added. California is a dual-license state, and local governments impose their own licensing fees and, in some jurisdictions, cultivation taxes that exceeded the former state levy. Add annual state cultivation license fees that scale with both canopy and production type and much of the apparent state-tax advantage disappears. That is before the export-tax perimeter discussed above: anyone modeling California exports also has to price the likelihood that the state eventually creates a collection point for product that leaves before it reaches a California register. The tax stack explains why California's in-state market is expensive; it does not decide the export comparison. What decides it is power, labor, land, and the cost basis of outdoor and international producers. With international export the comparison is worse. For cultivation supplying the European medical market, the relevant standard begins with GACP, while EU-GMP requirements apply further downstream to medicinal-product manufacturing and batch release. Glass House itself has said it is working toward GACP compliance for that market. It would still compete with Canadian, Portuguese, and Colombian producers already positioned in those channels and operating at costs a California grower cannot approach. Those are not markets California wins on price.

The first advantage California actually has is brand equity, and it belongs to the state, not the cultivator. It lends it to the cultivator on an individual origin story basis. California is unique in that “California cannabis” carries real recognition with consumers nationally. Decades of cultural equity no other state has. But it accrues to the place, not the producer. For a cultivator to convert it into margin, his own brand needs equity with the consumer at the destination: someone in another state asking for that name specifically and paying more for it. A biomass seller has none of that, because he’s selling an input. Whatever premium California origin commands gets captured downstream, by whoever puts it in a package with a name on it or by a California brand with a story connected to the state’s industry origin. In the first, the exporter carries the production cost and freight while the brand owner in the destination books the margin. In the second, we are no longer talking about biomass, and the margin is carried by the brand itself. The plant is the input, the name on the package and the customer relationship underneath it are the asset.

The second is appellation of origin, which California alone has. California is the only state with a statutory appellation-of-origin framework for cannabis, established under MAUCRSA and codified at Business and Professions Code § 26063. It works the way appellations work for wine: a protected geographic designation tied to terroir, with defined standards, practices, and cultivars, petitioned for by growers within the qualified region and administered by the state. That is durable, defensible, non-replicable differentiation in a market racing toward commodity pricing. It is the most legally defensible, non-replicable origin advantage California cultivation can carry into a national market, and the one asset no other state can create by legislation, because the underlying claim is history and geography rather than regulation. Now the part that matters for anyone pricing California cultivation based on appellation. Senate Bill 67, signed in 2020, limited appellations to cannabis planted in the ground, and expressly excluded structures (greenhouse, hoop house, glasshouse, and similar) and any artificial light in the canopy area. Only full-sun, in-the-ground outdoor cultivation qualifies in a specific geographic location within the state. The exclusion runs on practice, not just merely geography: even if a greenhouse operator whose licensed premises sits inside an established appellation region still cannot use the designation. So, California’s most defensible export advantage is categorically unavailable to industrial-scale greenhouse production, including the operators most publicly positioning for interstate commerce, whose entire cost advantage comes from the structure the statute excludes.

Here is the surprise inversion. The California cultivators best positioned to capture value in a national market are the small outdoor grower with terroir claims and legacy growers with individual brand stories and differentiated products, protected by nothing except the story being real. Two different moats, one statutory and one earned, and either one beats scale in undifferentiated biomass. This is also where the public-market narrative vindicates a legacy-operator complaint that capital dismissed for years: scale alone was never the binding constraint in California. Scale can improve survivability, bargaining posture, and direct production cost. It does not give the producer control over a market-structure problem. Capital optimized for what it could measure such as canopy, pounds, COGS per pound, license count. Operators were warning about what it could not: clearing price, local politics, customer pull, channel power, and whether anyone actually wanted the next pound. Outdoor holds both ends of the trade: the lower cost of production and the only protected designation. Add a verifiable legacy origin story to the brand, and you have a hat trick. However, the operators holding those assets are the ones least able to finance it. CDFA's own 2026 rulemaking record states that licensed outdoor cultivator counts in many growing regions have declined to the point that the three-cultivator minimum required to petition for an appellation has itself become a barrier. The department initially proposed reducing the threshold to one cultivator, later revised the proposal to preserve the three-cultivator rule with an exception where fewer than three licensees remained, and those amendments had not been adopted as of publication; the program itself remains closed to petitions. The underwriting consequence, and the reason this belongs in this memo is that the most durable differentiation available in American cannabis is held by undercapitalized operators in legacy regions, is being lost to attrition faster than it is being established and is priced by a market that does not distinguish it from commodity biomass. That is a mispricing described structurally and not a recommendation.

Interstate Commerce Thesis Stress Test - Glass House Brands

Why Glass House for the stress test of the thesis. They are arguably the most publicly stated interstate thesis in the market. As stated previously, this memo is very bullish interstate commerce and bearish this particular expression of it. The exercise is a pricing test and not a judgment on Glass House or the people running it. The memo could not run this test on private operators because private operators do not give the reader enough operating disclosure to review the work. Public companies do. Glass House is therefore not a target; it is the cleanest available public record for the thesis being tested. The company has publicly articulated the interstate/export thesis, owns one of the largest production platforms in the state, is one of the lowest cost producers in the market, and gives enough data to ask whether scale produces the economic power investors have been taught to expect. Glass House is also the follow-through on that history: it did what much of the first cycle only talked about doing, building extraordinary scale, driving direct cultivation costs down, surviving compression, and positioning itself for the day product could move beyond California. That makes it the strongest public test of whether the original national-supply thesis was merely early, or whether the economics themselves were misunderstood.

The test cuts both ways and if Glass proves that scale plus interstate access creates the returns being priced, this framework has to update. If the economics do not materialize, the case helps explain why capital mispriced the last cycle and why it remains slow to return.

The legacy operators deserve to be heard in this frame. Many of them spent years saying the California problem was not simply lack of scale. Scale can lower direct production cost, but it does not let a producer throw its weight around in a fragmented, taxed, oversupplied market where the clearing price is set by structure rather than ambition. Glass House gives the market the public experiment those operators never had the institutional deck to present. If exceptional scale still raises the same questions about clearing price, fully loaded cost, customer pull, and incremental return, then the legacy critique was not small-operator excuse-making. It was operating knowledge without a Wall Street format.

One. The out-of-state channel now cited during the company's most recent earnings call as proof that demand exists beyond California is the hemp channel, and the disclosed transaction was smokeable CBD biomass rather than intoxicating cannabis. The company's own release called the July transaction its first sale of any product outside California, and the sale was international, to Europe, not to another state. As of the last reported quarter, hemp revenue is not a line item; it is a press release. The July sale is also not an intoxicating-hemp loophole trade. Glass House says the biomass complies with California rules and would remain sellable under the proposed federal intoxicating-hemp restrictions. What the transaction proves is export capability into a lawful non-intoxicating hemp lane. What it does not prove is demand for regulated THC cannabis across state lines, destination-market pricing power, or economics that support the broader interstate thesis. The intoxicating-hemp market is a separate control test. If that loophole survives, national acreage and open interstate competition push cannabinoid biomass toward commodity pricing. If it closes, the lawful CBD lane remains, but it is narrower. Neither branch, by itself, establishes the cannabis export thesis.

And the channel itself is not new ground. The hemp industry has been shipping across state lines for years, at scale, with incumbents, brokers, and spot indices. A cannabis company entering it in 2026 is a late entrant into a mature commodity market, carrying a cost structure built for a regulated industry, against farmers who never carried one. California itself has banned intoxicating hemp at retail, so whatever hemp is grown in the state is grown for export by necessity. The home market for the product does not exist.

And the company's stated posture, in its own July release, is to grow whatever cannabis and hemp it can sell for the highest price, anticipating supply relationships with traditional CPG and pharmaceutical buyers. For a farm, that is exactly the right strategy. It is also a supplier describing the input seat in his own words.

Two. The interstate thesis rests on an event that has not occurred, whose form is unknown, and which will arrive with terms attached. Scaling a fixed-cost commodity operation toward a million pounds against that event is a capacity bet on a market-opening event whose legal form and timing remain unknown. The arithmetic of the bet is on the company's own tape. Year over year, second-quarter production rose six and a half percent while pounds sold fell and biomass revenue was essentially flat. In the first half of the year, production exceeded sales by roughly 59,000 pounds; that timing difference is not itself the same thing as inventory build, but balance-sheet inventory independently increased substantially over the same period. And the ramp crests into the outdoor harvest window, when wholesale price is seasonally weakest. Run capacity to a million pounds and sell every pound in-state, and the weight rises faster than the dollars unless price and mix hold. The damage is not necessarily loss-making liquidation, and a marginal pound can remain gross-margin positive. The problem is portfolio repricing. The price the added supply sets applies to every pound, not just the new ones. Where interstate commerce began as optionality at this scale, it is becoming part of the capacity thesis. The destination is not abstract, it is the buyer set already walked above.

Three. California's brand equity accrues to the state, as the preceding section set out. Glass House has brands with real distribution, and that should be conceded. What has not been shown publicly is premium destination demand: a customer in another state asking for that name specifically and paying more for it. Brand recognition is not brand equity. Brand equity is not pricing power. Pricing power is not destination-market pull. A corporate producer selling biomass captures none of the California-origin premium unless one of those bridges exists.

Four. The thesis is built around pounds, and those pounds are not interchangeable. A constant-ASP million-pound model assumes away mix. Glass House's own quarter shows why that assumption matters: management attributed margin pressure in part to an unusually high proportion of lower-value trim. That does not prove every marginal pound at scale becomes trim-grade, and the memo does not pretend it does. It proves the more important point: production volume alone is not the economic unit. A million pounds only prices like a million pounds if the composition of the million pounds earns the quoted price.

Five. If scale by itself were a moat anywhere in American cannabis, this would be the cleanest test: the largest and, by its own description, cheapest producer in the state, selling into the same policy-constrained market as every competitor, should become a preferred supplier and exert measurable influence on the wholesale tier. The public record does not yet show that. Its selling price is reported as an outcome, guided as a range, and moved by the market's seasons. Q2 biomass ASP was $211 per pound, up modestly from $206 a year earlier. One modest year-over-year increase does not change a market that has generally been a race to the bottom, and it does not establish pricing power. The question is whether Glass House can control price or sustain a producer-specific premium and the public record does not yet show that. A scale advantage that cannot demonstrate pricing power at home has not yet proven it is a moat that travels.

Six. The lean expense base tested against the thesis has an additional consideration. As it stands, Glass has no stores, no meaningful marketing, and minimal distribution: a clean gross profit business. It is clean because it is a supplier's ledger. Every cost the company is praised for not carrying is the cost of owning a customer, and the expansion the price assumes is precisely the act of going out and acquiring customers on a national scale. Those costs do not stay off the books when the revenue arrives. They are how the revenue arrives. So, the choice is the same fork this section keeps finding. Remain the wholesaler and keep the lean ledger, which is farm economics at a farm multiple. Or build the selling machine and buy its cost structure, which is a consumer business, with consumer margins that arrive already spoken for by the costs of capturing them. What the current price assumes is the revenue of the second business on the expenses of the first. No income statement anywhere runs that way.

The counterweight. Glass House has a genuine low-cost production advantage inside California, built on converted greenhouse capacity nobody else replicated at that scale. It is a real operating business run by real operators, under one of the most competent Chief Executive Officers in the industry having accomplished everything he said he would: the agricultural build, the cost position, the uplisting all happened on his watch, and the record should say so. The uplisting itself was a legitimate achievement made possible by a regulatory change nobody controlled. The concession should be as broad as the record allows: Glass has executed the agricultural build, achieved extraordinary direct cultivation costs, generated meaningful production volume, maintained public-company access, and prepared intelligently for a regulatory opening. One number keeps the concession honest: the disclosed cost per equivalent dry pound is a cultivation KPI, not the economic cost of the enterprise. An investor owns Glass House Brands, not a KPI. When biomass is 89% of continuing revenue, the enterprise costs that exist to produce and sell those pounds remain part of the shareholder's return whether or not they sit below the reported metric. If the answer is that those costs dilute at a million pounds, that is not a rebuttal; it is the next underwriting claim, and it should be shown - G&A, working capital, inventory, mix, maintenance capital, and incremental EBITDA per added pound as volume scales. The business is a race between overhead dilution, mix, and price erosion, run into the seasonal trough, by a producer that has not yet demonstrated pricing power. The argument here is not that the asset is bad. It is that the asset is positioned for an event that may not take the shape being modeled, and that production scale is the wrong thing to own if the event resolves into commodity supply. What the market pays for this position, against what it pays for realized operations, is a Part Three question and it gets the memo's closing exercise to itself.

The strongest defense is also the simplest, and it should be conceded before it is priced: a commodity producer does not need pricing power if it sits at the bottom of the cost curve. Grant it fully. Inside California, this memo's own interstate framework predicts that the lowest-cost producer wins the race to the bottom, and Glass House is, by its own account, that producer. Then price what winning that race is worth. Cost leadership can make an excellent commodity producer. It does not answer what an investor should pay for premium-brand economics or interstate optionality. And replacement cost is a ceiling on value, never a floor. Nobody replaces capacity that does not earn its cost of capital, and in an oversupplied licensed market the barrier to entry is not the moat, so entry is not the threat.

The underwriting mistake is blending three claims and awarding the best economics from each: low-cost commodity producer, premium California brand, interstate option. Those claims can coexist inside one company, but they have to be valued separately. The same pound cannot be awarded commodity cost-leader economics, premium-brand economics, and regulatory-option value without evidence for each. Price the first on normalized commodity economics, the second on proven customer pull, and the third on a probability, a timeline, a carrying cost, and a competitive response.

The strongest version of the other side is the option. At the current price, a buyer is paying a premium over what the operating business alone would command for an option that pays if any one of several doors open such as interstate in a usable form, medical export, a national hemp framework, or adult use following into Schedule III. Priced as an option, the position is at least honest. So, price the option honestly, and price the carry with it. The option is not free to hold: while it waits, the capacity that backs it must clear into the home market, the customer base is structurally capital-constrained, receivables and payment terms become part of the economics, and every door it waits on opens for competitors too. The carry is visible at the enterprise level. First-half operating cash flow moved from roughly positive $20 million a year earlier to roughly negative $12 million; cash and restricted cash were about $22 million against roughly $71 million of notes payable; and in July the company updated a $100 million at-the-market program to permit sales on the NYSE. Those are consolidated enterprise figures, not a biomass unit-cost measure. They are what financing the wait looks like. Each trigger also runs through the gate Part One described: a registrant shipping an unapproved drug across a state line has solved the schedule, not the statute. The market is already capitalizing meaningful execution and regulatory optionality. An option with negative carry and a shared payoff is worth something. Something is a number, and that number has to be underwritten.

Two ideas price this structure, and they answer different questions.

The terminal question asks what the business becomes when the story is over. After interstate arrives, after the buildout, after everything the thesis hopes for happens, what is this company? It is a very large, very good farm selling crop into an open commodity market. That is not a criticism, it is strictly a classification, and the classification picks the comp set: agricultural economics at an agricultural multiple.

The equilibrium question asks what that business earns when it gets there. Open commodity markets pull returns toward ordinary. Scarcity attracts supply until the excess profit competes away, and oversupply forces exits until the losses stop. The hemp market already shows where the water settles when cannabinoid biomass trades nationally: commodity-agriculture pricing measured in tens of dollars per pound. Scale changes the quantity but equilibrium sets the margin. The multiple should price the margin.

Which leaves the price of the wait. The stock trades today at a multiple well above what the current business earns. That distance is not an oversight. It is the market paying now for the years between here and the terminal state. The waiting is not free and it is not separate from the price. It is in the price, paid at the door, while the share count, already grown through this summer's warrant exercises at five and six dollar strikes, keeps growing through live sales under a filed $100 million ATM program, and the claim quietly shrinks. If the years deliver the event, the holder needed it delivered to earn back what he already paid. If they do not, the hope in the price comes out, and the distance it travels is the same distance it went in. The duration argument and the price argument are different arguments. Duration says when the good thing happens. Price asks what that future outcome is worth today after probability, dilution, carry, and time. On the current tape, the price requires substantially more forward assumptions than the realized operating business alone supports, with the difference riding on an event that has no date. That is not a free option on the future. It is a prepaid one.

Part Two — What Conventional Underwriting Misses

This industry is at a tipping point and the people in it know it. The operators standing today are the survivors of every prior era. They represent the grass roots years, the caregiver years, medical, the green rush, compression, and now the schedule change. Most have been burned by moving early before and now the field is frozen. Everyone can see the board changing yet everyone is waiting for someone else to go first. Frozen markets do not price well and that is the condition this Part describes. What follows is not history for its own sake. It is the only behavioral record that exists for the teams about to run the next cycle with institutional money, and the end of this Part says why that record is about to matter more, not less.

This Part is not a tour of every stakeholder. It focuses on the exposures conventional underwriting repeatedly missed: capital allocation, tax structure, hemp, state action, and the operating environment around the asset. Each can move cash flow, exit value, or the buyer's ability to control the asset. If it can move the price then it belongs in the underwriting.

Capital

Capital Allocation and the Exit Thesis

Credit first, because it's owed. The first institutional capital into this sector arrived when nothing else would. Banks would not lend. Exchanges would not list. Insurers would not write. Landlords would not sign. Capital wrote checks anyway. Some operators are here today because of that money. Many are gone or on their way out because of it. Some never took a dollar and are still standing on their own cash flow. All three belong on the record. But so does the net: that capital built real growth and it legitimized this industry and every operator now trades on that legitimacy today, whether anyone wants to admit it or not. What follows is about what the money did after it arrived.

One more thing belongs in the credit column. The first generation of these companies was built while the rules, the capital markets, the state programs, the federal expectations, and the competitive conditions were all changing underneath them. Some decisions that look poor now were rational responses to the information and incentives available at the time, and the people who made them were not fools. While context matters, it cannot be an alibi because the environment explains the difficulty. It does not explain the differential outcomes; the same environment produced the operators this Part names in the other direction. The error was not believing federal reform could happen. It was financing the business as though the timing of a political catalyst was controllable. Reform could be part of the upside, but failure of timing had to be survivable. Too much of the capital stack treated the catalyst as an operating assumption, and the distance between those two is the write-downs.

That is what the capital model underwrote. Too much of it placed license value and total market size ahead of operations, unit economics, realistic expectations, the cost of compliance in a state that changes its rules, and what happens when a neighboring market issues hundreds of additional permits. The models had a line for revenue growth and a line for market share and too little room for the thing that actually kills companies in this business: a regulatory environment moving faster than the operating plan. At its most extreme, the capital was not funding businesses. It was funding exit-shaped objects positions taken far enough that the regulatory environment would catch up and somebody else's balance sheet would eventually carry them. Federal reform became the exit, and the timing of federal reform became the operating assumption. The catch-up never lined up with the fund life. That is the story of the write-downs, and it is not a story about cannabis being a bad business. It is a story about underwriting a legislative calendar and calling it a company.

Instead of looking at any one deal, all you have to do is look at the pattern. One bad transaction is a lesson. Two is another lesson. In an emerging market as volatile as cannabis, let's say three is yet another lesson. But when most of the book is losses and, in some cases, the entire book, the problem stops being the deals and becomes the underwriting model, and almost nobody in this sector asked that question out loud, because everyone was raising against the same thesis.

The executive carousel and what the incentives paid for. Capital rewarded announcements, so companies produced announcement machines. Boards paid for deal count, so executives produced deals. A focused in-state thesis with contiguous state expansion articulated in Monday's interview then an acquisition on the opposite coast by Friday, because the interview and the acquisition were both products, and the market bought both. The turnaround hire executed a full three-sixty and collected a salary until the next turnaround hire arrived to run the same lap because nobody in the capital stack was paying for the one-eighty. A subtler version of the same mismatch ran through the hiring itself, and nobody called it out. Capital recruited accomplished executives qualified to steer functioning companies for jobs that required building or repairing one. These were, in the main, competent and polished corporate executives responding rationally to what they were being paid to do. None of these required bad people. It required only bad incentives, which is exactly why the pattern repeated across firms that shared no management, no geography, and no strategy except the strategy of being acquired.

There is a more useful explanation than incompetence. In most cases, the industry hired exactly the executives their résumés said they were: accomplished public-company executives, managers, operators, and capital-markets professionals. The mismatch was the job. It is one thing to fly an airplane. It is another to build one. It is something else entirely to build the airplane while it is already in the air. Those are different jobs requiring different skill sets. Cannabis companies were doing the third while boards were often hiring for the first. The normal corporate sequence runs the other way. A founder builds a company until the organization begins to outrun the founder's skill set; systems mature, the business becomes more predictable, and a professional executive may step in to scale what has already been built. Cannabis often inverted that sequence. These companies had public-company valuations, capital, boards, and titles while remaining startups in the most literal sense: the market was unfinished, the regulatory structure was unfinished, distribution was unfinished, consumer behavior was still developing, and the companies themselves were unfinished.

What happened was capital professionalized the management layer before it professionalized the business. It hired for the company on the cap table rather than the company that actually existed. An executive trained to optimize an established system was being asked to invent the system, operate it while the rules changed, decide which assumptions were no longer valid, rebuild around those changes, and preserve liquidity while doing it. Executive quality was often high. Executive fit was not.

There is a version of this that is less about stage and more about terrain. The executives who came in from outside knew where they wanted to go. What they did not have was a map of what sat between here and there, and in this industry, most of what matters is below the surface and unwritten. Hire the best marketer in consumer-packaged goods and put him in a market with no national advertising, no mainstream media buy, no e-commerce, no interstate shipping, platform bans on paid and organic reach alike, and a different set of packaging rules in every state he sells into. He is not a bad marketer. He has been handed a job that shares a title with the one he is good at and almost nothing else. That was the pattern at every function. The hires were excellent. What they were excellent at was not what the job required, and nobody in the room had the map to know the difference. That does not excuse the decisions described, and it does not change their outcomes. It explains why the same pattern could repeat across capable people. The mistake was not simply who occupied the chair. It was misunderstanding what the chair required and spending money like it didn't matter. That distinction matters now because a bad diagnosis produces the same mistake twice. If the last cycle is remembered only as bad executives, bad luck, 280E, or reform arriving late, the next cycle puts different names into the same job description. If you do not understand why something broke, you cannot know what capability is required to repair it.

The structure that resulted is worth naming, because it is what an LP who lost money here will recognize immediately. Protective terms on the private side (senior secured paper, warrant coverage, control on default) alongside a public story that was directional and long. And operating control taken only at restructuring, which is to say at the moment when it is adversarial and the value that could have been protected is already gone. There are still cases being litigated to this day. I am not going to name the firms because the mechanism is the point rather than the names.

Verdict - Control the board, not the pieces.

Too much of the last cycle optimized individual assets or protections while missing the system determining their value. Capital spent the cycle trying to control the pieces and got outplayed by the board. Vertical integration became piece acquisition as strategy: own the license, the canopy, the stores, the brands, then stack the pieces and call the stack a thesis. In several states vertical integration was a license condition, New York's medical program one of them. The size of the build never was. Meanwhile, the board was moving underneath them: the regulatory structure, the tax code, interstate borders, the hemp definition, exchange rules, and buyer psychology. The operators who understood the board adapted. The piece-collectors became the mortality table.

The era's clearest confession was not in any data room. It was in the lobbying budget. For years, licensed operators spent political capital fighting home cultivation, on the stated grounds of diversion and youth access, on the working theory that the closet grower was a lost store customer. He never was. He was growing before the store existed and would keep growing if it closed. Two populations, one manufactured fight. The same industry claimed the culture in every pitch deck, then walked into legislatures to move against the culture's living practice, trying to force its most authentic customer into a store he was never going to shop in. You cannot claim the culture in one breath and litigate against it in the next. Either the culture is the brand or the customer is the enemy, and the industry tried to hold both. What the fight reveals is worth more than what it cost. A board that lobbies against alternatives is telling you what it believes its moat is: not the operation, not the product, the absence of choice. That diagnostic travels to any regulated sector. Look at what the incumbents spend to prevent, and you learn what they think they are selling.

The one that had it all. One operator is worth naming and the rule above does not apply to it (the company is gone and its record is public) and no better proof of this memo's argument exists. MedMen had the thing this memo keeps insisting is the only durable asset: the customer. The stores were on the right corners. The brand had mainstream visibility no cannabis company has had before or since and it was the cannabis company a person who had never bought cannabis had heard of. The expansion instinct was largely right. Retail visibility at scale was the correct bet, and I want to say that plainly, because the failure gets remembered and the insight does not.

What MedMen did with the customer it had was precisely nothing. No consistency of product. No consistency of experience. A customer who walked into a beautiful store twice bought different inventory at different prices with different service each time, which teaches the customer that the store is interchangeable, and that is the one lesson a retailer cannot afford to teach. The store design itself was a temporary novelty. It was beautiful, characterless, and offering nothing beyond aesthetics that gave the customer an experience he could not get elsewhere. The visibility was spent on press releases instead: acquisitions announced for the announcement, markets entered for the headline, capital raised against the story of the previous raise. It was a company more interested in being known than in being bought from, and it burned capital at a rate its revenue never had a chance to approach on its way to receivership on the trappings of a public company and on announcements.

The reason to name it is not the failure. Those warning signs were visible before the first investor dollar arrived. It is that MedMen disproves the comfortable explanation. The comfortable explanation for this industry's decade is conditions, 280E, capital scarcity, federal illegality, the industry in general. MedMen had capital, visibility, and locations nobody else had at the time, under the same conditions as everyone else. What it lacked was the operating discipline to turn a visitor into a repeat customer, build something durable, and be a good steward of capital. No schedule change supplies that. MedMen was only the loudest version of an industry-wide pattern: transactions done for the press release, deal count standing in for progress, companies built to be talked about rather than returned to. Having the customer and doing nothing with the customer, that is the industry's decade in one company.

There are three buyers whose decisions reveal value in this space: the one who buys the product, the one who buys the company, and the one who buys the stock. Part Three takes up the second and the third. This is the first, because the product buyer is the one that predicts, and it is the layer the last cycle's capital never diligenced. It never appears in a data room. Diligence read the licenses, the footprint, and the projections. Almost nobody checked whether the customer in the model was the customer in the store.

I watched one operator get this exactly right, in the era when everyone else was pitching the same wrong answer. During the years when every deck in the industry promised the Apple Store of cannabis, a retail advisory client of mine wanted the opposite. He wanted the customer to feel like he was walking into a pot shop. Skateboards on the wall, the smell in the air, the music, the character. His rationale fit in three sentences. Those are my base customers. The soccer mom comes in once a month, wants one vape pen, and takes off. Still a customer, not my customer. He made the customer the store was designed for and the customer the model lived off the same person and matched his cost structure to that customer’s actual frequency. When the Medmen of the industry were spending upwards of a million dollars plus on their design and build, he was up and running for fifty thousand with a cost structure built for the customer he actually had.

He was pricing what the data rooms never showed: this industry has two customers, and they do not buy alike. The first is the base: the high-frequency buyer, heavy on flower and concentrates (the waxes and the shatters), brand-loyal where loyalty is earned, and gated on authenticity. He is a minority of the customers and the large majority of the volume. The second is the expansion customer the last decade of legalization brought in: new demographics, low frequency, format-driven, rich per visit and thin per year. Both are real. Both are customers. They want different products, different retail, and different brands, and a company that cannot say which one it lives off has not decided who its customer is. Authenticity is the gate on the volume tier, and it gates harder here than anywhere else. If that is true in craft beer, it is especially true in an industry built entirely by a grassroots movement. The culture reads operations, not ads, and it cannot be bought into respect at any marketing budget.

MedMen made them two different people. They knew who they were building for and built it well. What they never decided was who they were living off. The store was designed for the expansion customer, and she arrived exactly as designed: once a month or two, one pen. The P&L was underwritten to the base customer’s volume, and he never came, because nothing in the building was for him. It was a store built to make him feel like a tourist in his own category. Tourists come once a month, while the model needed locals. The company died in the gap between the customer it courted and the customer it counted on, and the corporate pandering the culture calls phony is exactly that gap, visible from the sales floor. The test travels to any operator a reader holds today: who is the store built for, and who does the model need? If those are two different people, that is the hole the last cycle’s diligence never found.

California already ran the selection experiment that proves which filter works. For two decades and before state licensing, the market operated as close to free-market selection as this industry has ever seen. No licensing moat protected anyone. There were no courts for contracts, no banks, no marketing, credit on nothing more than trust, and relationships. Survival ran on product quality, authenticity, and reputation, because nothing else was available to run on. If the product was not as advertised, you failed. Design and packaging mattered less than whether the thing in the jar was what the label said. That filter selected for operators who could hold a customer. The licensed regime replaced it with a different filter: capital access and compliance capacity. The companies the old filter would have killed in less than a year instead raised nine figures and died in public over six years. MedMen is what the new filter admits.

None of this argues for going back. The stores should be better, the products should be tested, and the packaging should not look like a felony. It argues that the filter changed, the market's memory did not, and runway is not viability. Funds to keep selling at a loss do not demonstrate staying power, they just move the cliff. Capital can extend the search for an identity, but it cannot substitute for one. If the barrier is low and a business still wins anyway, it wins on something real: product, cost, execution, a customer who comes back. If it wins only because a regulator kept the field small, it was never a business. It was a lobbying position with inventory.

Operators That Built Real Businesses

Naming the other direction is fair, and it is more useful.

Trulieve generated $271 million of revenue in the second quarter of 2026 at a 60% gross margin, $98 million of adjusted EBITDA, and $32 million of free cash flow with $325 million of cash at quarter end against roughly $289 million of debt carrying a 9.6% rate. It operates 207 dispensaries. Q2 revenue includes Harvest through June 3, while the 207-store count reflects the post-deconsolidation footprint. It became the first U.S. cannabis company to list on the New York Stock Exchange following rescheduling. It also reported a $406 million net loss in the same quarter, nearly all of it a $407 million non-cash impact from deconsolidating Harvest, the mixed-use operations it segregated in order to list. The company did not sell Harvest, it gave up control and kept ninety percent of the economics, with assets set to transfer automatically as regulatory approval allows. What the transaction did was force a mark. The price of walking onto an exchange was carrying the asset at what it is actually worth rather than what it cost. That is not a write-down the company chose; it is what the gate extracts on the way through, and most of this sector has not been through it. Note also what the structure preserves. If a broader rule creates an analogous pathway for adult use, nothing about this arrangement prevents

Harvest from coming back into the fold, which is the point of ringfencing rather than selling. The company took the accounting cost of the gate and kept the option on the other side of it.

Green Thumb Industries reported $306.7 million of second-quarter revenue, GAAP net income of $4.9 million, $84.3 million of normalized EBITDA at a 27.5% margin, and $283.6 million of cash against $283.0 million of total debt, while repurchasing roughly 7.9 million shares in the quarter. The cleaner evidence of compression is in the operating lines: retail comparable sales fell 1.1% year over year, and management cited price compression and increased competition as offsets to growth. The headline 45% gross margin also carried RYTHM licensing fees, so it should not be used by itself as a scarcity proxy. Even the disciplined operator is being compressed. The winner's prize in this market today is compression you can survive, not compression you escape. And the scarcity objection answers itself here: Green Thumb's competitors held the same scarce licenses in the same capped states, and several are gone. Identical protection, different outcome, which is this memo's own test, and it is what makes the name evidence of competence rather than of scarcity.

Both companies generate cash. Trulieve holds a net cash position; Green Thumb runs its balance sheet at par. Both were generating cash before 280E relief arrived and honesty requires noting that both second-quarter bottom lines got help from it. The underlying point survives the footnote: the cash generation predates the tax change, which is precisely why these two are worth naming in a memo about what the tax change did not fix. Both are real companies with real revenues. They are not proof that every failed operator could have produced the same outcome. They are evidence of a different point: the environment did not make durable cash generation impossible, so the dispersion requires an explanation beyond the shared constraints.

Kim Rivers belongs here by name. She has been chair and chief executive of Trulieve since 2015. Over the two years preceding the executive order, she and other operators met with the President and made the case directly that cannabis should not sit in Schedule I. In December 2025 the executive order issued and in April 2026 the Justice Department order followed. Whatever weight any one participant carries, that is a decade-long federal problem moved by someone willing to engage an administration most people in the industry and the culture surrounding it vote against, and make a policy argument to it. Trulieve funded Florida's 2024 initiative and the 2026 attempt that did not reach the ballot; as chair and chief executive, Rivers was accountable for how that capital was deployed. The Florida section below records what it was spending against, and that it lost. But while much of this industry complained about federal inaction at conferences, and complained about different administrations on the basis of politics, she was spending real money against a state apparatus that was spending public money back. Political tribalism is itself a management failure in a regulatory-dependent industry. An operator that only engages administrations it agrees with is not serious about reform. To borrow Milton Friedman's point about effectuating political change: ***make it politically profitable for the wrong people to do the right thing.*** Policy over politics is not a slogan here. It is operating competence. Her relevance is not that one person can be assigned causal credit for federal tax treatment. It is that she is the clearest operator-level example of treating policy as a board to be worked rather than a catalyst to be waited for.

I could write an entire memo on why these two companies made it, along with a handful of others, while significantly more didn't. The net of that memo would be that the ones that failed, failed for largely the same reasons and the ones that succeeded, did so for largely the same reasons even with different strategies and a different thesis.

280E: Constraint, Then Alibi

280E was a real constraint. It taxed gross profit like income, starved free cash flow, made growth more expensive than it looked, and in some cases killed businesses that otherwise could have survived. None of that gets waved away here. But it was also the most disclosed constraint in the sector and every institutional underwriter knew it was there. A known burden can explain pressure without explaining the dispersion in outcomes, and the operators that cleared it proved something about their businesses by doing so.

So, the sector sorts into three buckets, not two: companies that cleared the burden; companies whose operating problems were later attributed to it; and a third bucket that deserves honest accounting, viable businesses that could not carry the burden long enough to get there. That third bucket is real. The underwriting test is the counterfactual: a distressed seller blaming 280E has to show the business working without it. If the operation still fails on capacity, pricing power, customer pull, or capital structure, the tax was a constraint, not the cause.

M&A and Market Clearing – Curaleaf's Hostile Bid for Aurora

(A Post Script was added to the end of this section on September 2, 2026, following the release of Aurora's Directors' Circular the morning of publication. The sections above it stand as written prior to that release.)

On August 11 Curaleaf announced its intention to launch an unsolicited take-over bid for all outstanding shares of Aurora Cannabis, offering 0.3463 Curaleaf subordinate voting shares plus $0.75 in cash for each Aurora share - an implied $4.00, against a thirty-day volume-weighted average price of $2.75. Curaleaf says its June 23rd and July 7th approaches produced no useful engagement; Aurora says the June letter carried no financial terms and the July letter did not specify the cash-and-share mix. Curaleaf took the proposal directly to shareholders. It puts combined trailing revenue above $1.5 billion, adjusted EBITDA near $350 million, operations in seventeen countries, and at least $40 million of stated annual cost synergies.

The intention became an offer while this memo was in draft. On August 18, Curaleaf filed the formal bid and take-over bid circular: the same consideration, a cap of USD $5.00 on the value per share (binding only if Curaleaf's own stock appreciates past a set level before expiry) an expiry of December 1 unless extended, and no financing or due-diligence condition.

The number in that release that matters is not $4.00 and it is not the 45%. On Curaleaf's cash-adjusted framing, it is 110%, the premium to Aurora's thirty-day VWAP once you strip out the company's balance-sheet cash. Of the $2.75 the market was paying for an Aurora share, roughly $1.62 was Aurora's own cash. On that same cash-adjusted lens, the operating business (the cultivation, the EU-GMP manufacturing, the distribution network, the brand) was priced at about a dollar a share, and the bid values that residual at more than double. Nearly sixty cents of every dollar of Aurora's market value was the cash in its bank account. That is the single cleanest expression of everything in this section.

The circular supplies the longer version of the same arithmetic, and it is the bidder's own filed document saying so. Aurora's balance sheet carries roughly CAD $7.0 billion of share capital against a CAD $6.4 billion accumulated deficit, nearly three-quarters of it from impairments of businesses Aurora acquired, roughly CAD $4.65 billion recognized between fiscal 2020 and fiscal 2026. A decade of acquisition-led expansion, reduced to a ledger entry. My read is that what the bid is principally pricing is the EU-GMP certification and the international medical channel, basically the customer, not the canopy. For the bidder this is a bolt-on acquisition. For the thesis this memo tested above, it is the whole business.

The consideration is mostly paper: roughly $50 million of cash against roughly $220 million of newly issued stock, for a target holding roughly $109 million of cash and effectively no debt. That arithmetic can be read several ways. One lens is straightforward strategic acquisition: Curaleaf is buying EU-GMP cultivation and manufacturing infrastructure, an international medical channel, and a footprint in markets it wants to penetrate. Another is thesis expansion: the buyer is increasing its exposure to the medical and pharmaceutical lane this memo described earlier. A third is capital structure. Curaleaf is issuing mostly equity for control of a target carrying meaningful cash and little debt, which gives the owner options after closing that the standalone shareholder does not have. Integrate what is strategic, rationalize what is redundant, refinance where it is economical, or sell assets that are worth more to somebody else. There is even a breakup case if the parts prove more valuable separately than together. That is a control option, not a claim about Curaleaf's intent. The point is that the same transaction can be an acquisition, a thesis expansion, and a sophisticated financing exercise depending on which part of the value stack the buyer is solving for.

Now the opinion. I do not expect this transaction to close on these terms, not that it won't close. The headline premium and the realizable premium are different numbers. Aurora shareholders hold Nasdaq-listed equity and a cash balance. They are being asked to exchange it for shares of a bidder listed on the Toronto Stock Exchange under CURA and quoted in the United States on the OTCQX under CURLF. Curaleaf has not yet completed a U.S. senior-exchange uplisting, though it has taken concrete steps toward one and publicly stated that it intends to pursue a major U.S. exchange listing when the opportunity is available. By the terms of its own offer, Curaleaf has also attached a cap to the value of the consideration at USD $5.00 per Aurora share, below Aurora's own trading price as recently as last December, which limits participation if Curaleaf appreciates while leaving full exposure if it does not. Aurora has also disputed Curaleaf's account of the pre-bid engagement, and that belongs in the record. As of this writing, a special committee of Aurora's independent directors is reviewing the bid with outside advisors, shareholders have been told to take no action pending a formal recommendation, and Aurora says its dialogue with Curaleaf ran into mid-August. The dispute over engagement has since gone public on both sides: Aurora called the bid opportunistic and published point-by-point corrections of the bid circular, and Curaleaf answered that no conversation on the substance of a deal ever occurred and posted the correspondence between the companies in full. A board and a shareholder base have legitimate economic grounds to prefer the status quo or demand improved terms; a 45% headline premium in capped paper from a mid-uplisting bidder is not the same offer it appears to be.

The end result of this deal is not going to come down to the offer being good or bad. I can make the argument from either side because the value changes with the perspective. Aurora shareholders may value Nasdaq liquidity, the cash balance, and the standalone upside more than the consideration. Curaleaf may value the infrastructure, international channel, cash, control, and post-close options more than Aurora's current shareholders do. That is what makes the transaction useful as an underwriting exercise. Sometimes a deal really is just price. Other times price is only the visible output of a much more complicated value equation. The buyer has to understand the assets before it can value them, and understand the value before it can intelligently structure the transaction. The best deals are not necessarily the ones where one side wins and the other loses. They are often the ones where each side gets what it values most while giving up something the other side values more. Price is downstream of understanding what is being bought. Structure is downstream of understanding what each side actually values. A buyer that cannot identify where the value resides cannot price the asset correctly, and probably cannot structure the transaction intelligently either.

One governance wrinkle belongs in the price. Aurora's directors are not economically indifferent to the stock: the company pays non-executive directors partly in deferred share units and subjects them to share-ownership guidelines. But their economic clock is not identical to an outside shareholder's. Directors are compensated while they oversee the wait; outside shareholders paid cash for the wait and receive nothing for the passage of time except the eventual return. Management has compensation, equity, and change-of-control provisions of its own. None of that proves a conflict or answers the bid and none of that is something out of the ordinary. It simply means the board's recommendation and the shareholder's decision are related, but not identical economic judgments.

What the transaction does establish, regardless of outcome, is that consolidation has restarted and that the first move was made by an operator with cash to bid against one whose operating business the market had written to roughly a dollar a share. Expect more of exactly that shape. The next imbalance is already visible: there are going to be far more targets than qualified acquirers. The last cycle treated licenses as scarce and capital as abundant. The next one reverses it. Assets will be abundant. Buyers with cash, operating competence, regulatory fluency, management bandwidth, and the ability to close will be scarce. That is a buyer's market, and it changes who sets the clearing price. Combining two companies that do not generate cash produces one larger company that does not generate cash, plus integration expense. The transactions worth watching are the ones where a cash-generating operator acquires assets below replacement cost and the hard part of that is not finding the assets, it is knowing which ones are worth having.

Post Script – Aurora Circular - September 2, 2026

Aurora's board answered the morning this memo was to be published: a unanimous recommendation to reject the Curaleaf offer, supported by a fairness opinion, an information agent, and a campaign website. The deal section above stands as written. The following are additional thoughts and opinions on what the response revealed.

If you read the response through an M&A lens rather than as a shareholder, one thing stands out. Much of its quantitative precision is directed at the consideration: the premium calculation, the cap, the bidder's currency, and the relationship between Curaleaf's ownership and voting control. The case against the price is quantified. The circular also contains management forecasts and valuation analyses supporting the board’s rejection, so saying the standalone case has no numbers would be too broad. What it does not give shareholders is a public board target for Aurora’s standalone value or a valuation bridge explaining what they are being asked to wait for. A fairness opinion can support the conclusion that an offer is inadequate. It does not, by itself, tell shareholders what adequate looks like. If price is going to carry the defense, saying the offer is not enough is not the same thing as making the valuation case for a higher price. A hostile target does not have to publish its entire operating plan and Canadian take-over-bid disclosure rules, confidentiality constraints, and ordinary liability considerations give a hostile target legitimate reasons not to publish confidential alternatives or its entire operating plan in a directors’ circular. But the circular is not Aurora’s only communications channel. The company is also using press releases, an information agent, a dedicated transaction website, and other public communications while the offer remains open. Even with those avenues available, it has chosen not to articulate a quantified standalone value case that tells shareholders what the board believes they should wait for. It is still on the clock. A standalone plan has value as a defense only to the extent the board can translate it into a case shareholders are willing to wait for. If the board cannot show why the future value it is asking shareholders to preserve exceeds the value available today, it may never get the opportunity to execute the plan it believes justifies rejection. A board asking shareholders to reject a premium offer on value should give them some basis for understanding what it believes the company is worth instead, and why. That omission is not a concession on strategic fit. But it is information.

If the principal reason to reject the offer is that Aurora is worth materially more on its own, this was the natural place to show the contours of that case: the operating trajectory, the milestones, the intended use of the balance sheet, and what closes the gap between the unaffected price and the value the board says shareholders should wait for. Instead, the response concentrated on price and structure while simultaneously announcing to the public that alternatives are being evaluated. That reads less like *wrong buyer* than *wrong price.* Evaluating alternatives reinforces the point: the company has not withdrawn from the market for control; it has widened it.

Curaleaf's same-day response matters for the same reason. It reaffirmed the offer, added nothing to the consideration, and pushed Aurora back toward its own numbers. That does not tell Curaleaf what price Aurora would accept. It does tell the bidder where

Aurora chose to fight: economics and structure rather than the strategic premise of a combination. The next useful information comes from whether Aurora can produce a superior price, a superior buyer, or a quantified standalone case.

One fair objection deserves a fuller answer. If rescheduling lifts the cannabis sector, today's offer may look cheap six months from now and waiting may prove correct. But start with the consideration. Aurora holders are being paid 0.3463 of a Curaleaf share plus $0.75 in cash, with the total consideration capped at $5.00 per Aurora share. Until the cap binds, the payment itself participates in a rising Curaleaf share price. A broad cannabis rally therefore does not, by itself, establish the case for rejection; much of that tide lifts the currency being offered as well as the target. The rejection thesis requires Aurora-specific outperformance, a superior alternative, or standalone value sufficient to exceed what the floating, and ultimately capped, consideration delivers. The cap is a legitimate objection. Above $5.00, Aurora holders surrender participation in additional appreciation of the bidder's stock under the offer. But that is a criticism of the consideration structure, not by itself a valuation case for Aurora. If the board believes Aurora's own trajectory makes giving up that upside economically irrational, the strongest answer is the trajectory itself. The response chose instead to make its quantitative case principally against the offer.

The current Aurora share price should also be used carefully in that debate. The stock now trades with a live bid underneath it, so it is not a clean standalone reference point. The $2.75 thirty-day VWAP against which the original premium was calculated does not tell us what Aurora would trade at today without the bid because sector conditions have moved since then. But neither does the current quote tell us what the market independently values Aurora at. The offer is now one of the things inside the price. Then ask where the rescheduling catalyst lands economically. Curaleaf is a U.S. operator and the direct effects of U.S. rescheduling (280E relief, federal registration, exchange access, and whatever operating changes follow) run much more directly through its business, while Aurora's current operating exposure is principally international. A U.S. cannabis catalyst can certainly lift Aurora through sector sentiment and through the value of future U.S. optionality, but the immediate operating transmission is much stronger on the bidder's side. Waiting for a generic U.S. catalyst therefore does not obviously improve Aurora's relative negotiating position, but it can strengthen the currency sitting across the table at the same time.

The strongest version of the Aurora counterargument is more interesting than that. Aurora owns an established international medical platform and EU-GMP capabilities that could become valuable if the United States eventually develops a lawful pharmaceutical pathway for imported cannabis medicines. That is real optionality. To be clear, this is not the state medical lane discussed elsewhere in this memo. That lane is probably not a realistic option for a Canadian indoor grower. It is the conventional FDA/pharmaceutical pathway, which requires a different product-approval and distribution framework and may still be years away, if it develops at all. It is also not the same trade as Glass House's interstate biomass thesis, and it should not be analyzed as though it were. The common denominator is the underwriting problem: in both cases, part of the future value depends on market access whose final rules, timing, customer economics, and competitive response remain unresolved. Part One stress-tests the commodity economics of Glass House. Aurora presents a different version of the same discipline: do not capitalize the open door before the door is open and the economics on the other side are known. And Aurora does not own that future lane by default. Glass House itself is positioned and potentially will pursue GACP compliance for international medical markets, and other producers can pursue the required standards and approvals if a U.S. pharmaceutical market eventually opens. The point is not medical versus adult use. It is the price assigned today to a market-access thesis whose eventual competitive field does not yet exist.

There is one more consequence of the board's response that matters more than today's premium calculation. Aurora did not solicit the hostile bid, but once the bid arrived it became an information event. Before August, the market could speculate about what a strategic buyer might pay for the platform. It now has one actual data point. One bidder is not a market-clearing valuation, but it is more information than existed before. That changes the no-deal outcome. If Curaleaf raises the offer and closes, Aurora is sold. If the review of alternatives produces a superior bidder, Aurora is sold to somebody else. If the offer expires with no increase and no competing transaction, Aurora does not mechanically return to its pre-bid position. It returns to the market after a public process in which one strategic bidder made an offer, the target rejected it, alternatives were invited, and no superior transaction emerged. That result would say something about strategic demand for the asset that the market did not previously know. This is the point almost everyone scoring the rejection as simply round one of a price negotiation is missing. No deal is no longer a neutral outcome. It may ultimately prove to be the best outcome if Aurora produces the operating performance to justify the decision. But absent a stronger standalone trajectory, the burden of proof shifts back toward the target as the process runs. A failed transaction does not erase the information the transaction produced.

None of this changes the call above. The offer remains open into December. A recommendation to reject is not a completed defense and it is not the end of the process.

Aurora is evaluating alternatives, Curaleaf has kept its offer alive, the market for control has widened, and the opening number is now public. My call remains that, if a transaction ultimately occurs, the announced terms are unlikely to be the final terms. What changed this morning is not that negotiation became less likely. It is that Curaleaf gained additional leverage and that Aurora now has to produce one of three things: a better price, a better buyer, or better standalone numbers. Until then, it is the bidder's turn.

Hemp

The 2018 Farm Bill legalized hemp so that the United States could grow hemp: CBD, fiber, grain, seed, and industrial uses. That is not what was built. What was built was a chemical conversion industry that turns cannabinoid biomass into intoxicating products comparable to what a licensed dispensary sells, distributed through gas stations, smoke shops, and the internet, without the uniform track-and-trace and testing regime imposed on the licensed cannabis channel, and without the compliance load a state licensee carries. Three features of that channel matter to an underwriter. Products can reach consumers without the testing requirements imposed on state-licensed cannabis, including goods that are inhaled or ingested. A growing share are manufactured in a reactor rather than grown in a field. And the customer at the counter cannot tell licensed product from unlicensed, so the state licensed operator pays the reputational bill for every mislabeled gummy in the cooler, an externality that appears on no income statement but is real.

Where this stands. In November 2025 Congress redefined hemp (no more than 0.3% total THC including THCA, products capped at 0.4 milligrams of total THC per container, synthetic cannabinoids prohibited) with a runway to November 12, 2026. On August 8 the Senate passed a continuing resolution delaying implementation to December 11 and rejected an attempt to strip the delay. On September 2, the President signed H.R. 6500 after the House passed the Senate-amended bill the day before, making the one-month delay law. Thirty-five state and territorial attorneys general urged Congress not to delay. The White House asked for the delay, and the ask is narrower than the industry heard it: full-spectrum CBD, with the restriction on intoxicating products preserved. The delay does not extend to cannabinoids the plant cannot produce; those are recriminalized on November 12 regardless. Delay and alignment are not the same thing.

The underwriting consequence. This is not an abstraction for licensed operators. Intoxicating hemp is a direct competitor with a structural cost advantage, and the question of whether it remains one gets answered within months. Closure moves licensed revenue upward in states where hemp has taken meaningful share. The mechanism is migration, not disappearance: demand does not vanish at enforcement, it moves to licensed channels where they exist and to illicit ones where they do not, which is one more argument for a written lane over a bare ban. Non-closure, or a national framework that legitimizes the category at a national potency standard, strands a portion of the compliance premium licensed operators have been paying for. Either way it is a dated repricing and it is knowable. Assets built to serve the loophole are the mirror image of the same trade.

The policy argument. This short section addresses the implications for the state licensed industry and is not an argument for or against the hemp sector. What should close, what lane should be written, and who benefits on each side is a separate document. SIVA Capital will publish a position paper on intoxicating hemp in the coming weeks. This memo carries only the underwriting consequence, and one disclosure that belongs beside it: a licensed sector the hemp channel cannot undercut is worth more.

State Regulation and Asset Risk

California Implementation and the Illicit Market

Every conversation about the persistent illicit market points to California and concludes that legalization failed. Legalization is not what California did. What California did, what most states did, was build a licensing regime. Stacked taxation at cultivation, production, and retail, on top of state and local sales tax. Local opt-outs that left most jurisdictions in the state without a single licensed retailer. A compliance load requiring capital, counsel, and dedicated staff before the first sale. Testing standards among the strictest in the world, applied to a product competing directly with an untested alternative sold by someone with none of those costs. Clinical-grade compliance infrastructure, imposed on a consumer business, priced against an exaggerated risk profile. That is not a market. That is a permission slip with a fee schedule attached.

A regime that prices legal product above illegal product, then restricts where legal product may be sold, for how much they can be sold, how they can be sold, and legislated nearly every eventuality while taking a cut for itself, has not created a market and then watched it fail. It has created a compliance tax on the fraction of demand willing to pay it, and the fraction willing to pay it is exactly as large as you would expect.

The State on the cap table. The state is the business partner nobody chose: it takes its cut off gross receipts whether the company makes money or not, holds all of the upside, carries none of the downside, contributes no capital, and rewrites the operating agreement whenever it likes. Most people in this industry don't read it that way. Every allocator should because a partner on those terms sets the return before management makes its first decision.

The state's own commissioned estimate puts a number on it. Roughly 60% of the cannabis consumed in California moves through the unlicensed market per the market outlook the Department of Cannabis Control commissioned from ERA Economics and delivered to lawmakers in March 2025. That is the state grading its own policy. So, when people say the illicit market survived legalization, they need to understand that the illicit market survived a policy that made it the cheaper and more available option, and it did so with the entirely predictable arithmetic that any operator could have shown a legislator at the time. Many did, no one cared.

I want to be clear about what I am and am not arguing. I am not arguing that testing, tracking, or age verification should go away. Those are the reasons a licensed product is worth buying. I am arguing that a state cannot impose a cost and regulatory structure that prices its licensees out of their own market and then treat the resulting illicit share as evidence about cannabis or legalization rather than evidence about the policy and the policy makers who insisted on it.

The underwriting consequence. You cannot underwrite a cannabis asset without a read on local and state politics. A municipal opt-out, an excise change, a licensing board's composition, an activist regulator, or a single ordinance moves an asset more than any operating decision management will make in the same period. It is the largest single variable in the model, and it does not appear in the model. An allocator who cannot read that environment is not underwriting the asset. He is underwriting a spreadsheet built on top of it, and the spreadsheet will be confidently and precisely wrong. And the ceiling on that risk is higher than most people assume. Three examples show three different versions of the same exposure: political intervention, political durability, and enforcement.

The State as Counterparty

Florida: Political Intervention

In November 2024 Florida's Amendment 3 received 56% of the vote. Florida requires 60% for a constitutional amendment, so it failed. What happened in the months before that vote is a matter of public record, legislative investigation, and newspaper reporting. The Miami Herald and Tampa Bay Times reported that more than $35 million in state funds was directed toward television advertising opposing Amendments 3 and 4. Ten million dollars of a $67 million settlement with a Medicaid contractor over alleged overbilling was directed not back to state coffers but to a foundation, from which a transfer went to an anti-legalization organization on October 22, 2024, roughly two weeks before the vote. The Orlando Sentinel reported that more than $4 million in opioid settlement money was directed by the Governor's office to media opposing Amendment 3; members of the Statewide Council on Opioid Abatement said they had raised questions about the spending for more than a year and received no answers.

The Florida House Health Care Budget Subcommittee, chaired by a Republican, opened an investigation. Its chair publicly accused state officials of misappropriating public funds. Days before this memo went to print, the grand jury's findings became public. According to a copy of the report obtained by CBS News Miami, the grand jury found the $10 million was misappropriated, describing the transfer as "part of a sophisticated scheme to fund political activities": settlement money intended for children's health coverage, moved through the foundation and intermediary organizations into two political committees and the Republican Party of Florida, and spent to defeat Amendment 3. The same report found insufficient evidence to charge anyone criminally. The Governor has called the report a hoax. All three entries go in the record: the finding, the absence of charges, and the denial. The officials involved deny wrongdoing and maintain the routing was lawful. Both facts belong in this account for the same reason the rest of it does: the record is the argument, in both directions.

I am not going to characterize anyone's motive and I am not alleging a crime. What is on the record is the sequence: the money moved, the advertising ran, officials denied wrongdoing, the grand jury made findings but brought no charges, and the amendment fell four points short of a supermajority. The point for this memo is not criminality or motive. It is that the state itself can become an active participant in the economic environment an operator is trying to underwrite, from both ends. Opioid abatement money spent to defeat a cannabis ballot measure belongs in the underwriting record for the political environment these assets sit in.

The underwriting consequence. In this category, the counterparty in a political fight can be the state itself, spending public money off your balance sheet and outside the model. The Florida measure failed by four points in a campaign environment in which the state itself became an active participant. That is enough for underwriting purposes without proving the election counterfactual.

Massachusetts: Political Durability

Massachusetts shows the exposure without requiring the state itself to take a side. In 2016, voters approved adult-use legalization with 1,769,328 votes. Ten years later, the petition to prohibit adult-use retail cleared the two required signature rounds with 78,301 certified signatures in the first and about 12,500 in the second (roughly 91,000 certified signatures across the process) and Question 8 is now on the November ballot.

My call is that it does not pass. That is not the underwriting point. The underwriting point is the asymmetry: 1.77 million votes created the market; roughly 91,000 certified signatures were enough to put the commercial structure back into play a decade later. The proposal would end licensed adult-use retail and home cultivation while preserving the medical program, and it directs the Cannabis Control Commission to expedite pathways for existing adult-use licensees to seek medical licensure and to move existing inventory into the medical channel. Demand does not disappear. The legal channel changes around it.

The market may survive the vote. But the exposure exists before the vote happens. Operators still carry legal expense, campaign expense, management distraction, lender and investor questions, and a new tail risk around capital deployment. Political durability is not the same thing as voter support. An asset can be operating exactly as planned while the law around it becomes a variable again.

California: Enforcement Error

The ballot box is not the only door the state comes through. I have watched the enforcement version from the inside. I served as the expert witness in a case in which a county enforcement action destroyed a licensed hemp operation and created significant seven-figure economic losses. The legal line between hemp and cannabis is a THC concentration. It is invisible and it cannot be seen from the air or from six inches away, and under a microscope you are looking at trichomes, not a percentage. The field test used that day was, by its own printed instructions, incapable of measuring it. The confirmatory test came months after the seizure, on biologically active material that had been degrading in an evidence room the entire time, which means the test was measuring a different point in time than the crop that was destroyed. The matter reached a favorable resolution several years later, shortly before trial. While this was hemp and not cannabis as we're discussing, the underlying point remains the same. The lesson for an allocator is not that enforcement makes mistakes. It is that in this category the state can destroy a compliant asset by error with the proof of compliance arriving on litigation's clock rather than agriculture's, and a single-harvest business does not survive the difference. That risk appears in no model I have ever been shown and I've been shown a lot of models.

Three exhibits — an advertising budget, a petition, and a warrant. Different mechanisms, yet the same underwriting problem: the legal and political environment around the asset can move independently of management. Sometimes the state is the counterparty. Sometimes the political process changes what the state permits. Either way, the asset takes the exposure. That is what political risk means in this industry, and it is why an allocator who treats regulatory analysis as a compliance function rather than an underwriting function is not doing the complete workup.

This is why the record in this Part is about to matter more, not less. Relief and registration are bringing capital back to the same bench. The tax alibi is gone, so the next yes arrives with less excuse and more encouragement: relief cash, listings, buyback capacity, and a cleaner cost of capital. What a team did with the last yes is the best evidence available for what it will do with the next one, and that record is in the filings.

Part Three — Pricing Cannabis Assets

Everything to this point was the first half of the memo's rule: **understand the asset the way an operator would.** This Part is the second half: price it the way an investor would. The exposures above matter because they change cash flow, control, or exit value.

Start with the asset the industry priced and rarely understood, the license. Then ask what the buyer is actually trying to own, run the tests that separate broken from mismanaged, map the repaired asset to its natural buyer, and finish by reading two public prices against their operating evidence. The market supplies the number and the buyer's job is deciding whether that number is an offer or a trap.

Six questions organize everything that follows.

Board. What can change the asset from outside of management's control?

Asset. What does the buyer actually own - permission, production, customer, brand, real estate, distribution?

Operator. Is the problem structural or managerial, and has management shown it can adapt?

Price. What part of the quote is operating value, what part is scarcity, what part is repair value, what part is an event option?

Repair. What can new ownership change, at what cost, on what timeline?

Exit. Who buys the repaired asset, and what must be true for him to exist?

Those six are the underwriting frame. The nine-question diagnostic later in this Part is the asset-level test inside it.

One principle before any of the pricing that follows so it makes sense. Value is relative, a valuation is a comparison, and a price without a relevant comparison is a value-based opinion. That is the sector's actual problem: the comps are all damaged, so valuing these companies against each other is the blind grading the blind, and the results come out arbitrary because they are. The way out is not a better screen. It is answering the prior question: what kind of business is this? That answer picks the comp set, the comp set picks the multiple, and the multiple is most of the price. Get the classification wrong and every number after it is precise nonsense.

The License Is Not the Business

The entire decade of losses in this industry runs through the title of this subsection heading. A license authorizes an activity. It is not an enterprise. It is not a customer, a product, a brand, a supply chain, or a distribution channel. It is not the business. It is a permission slip to do a thing that other people are not permitted to do. Its extrinsic value is a function of how long the state intends to keep refusing to issue more of them. Its intrinsic value is a function of permitting certain activities required by specific business models.

Most operators in this industry bought the authorization and then assumed they have a business. The assumption was that if you build it, they will come. The order of operations was backwards, and it was backwards in a way that was invisible while license values were rising, at least to many people. The scaled version of this error wears a better suit, literally. A multi-state operator does not say the license is the business. It says vertical integration is the business, cultivation, manufacturing, distribution, and retail, all under one roof, and the roof is the strategy. But vertical integration is not a business either. It is a structure. It describes how activities are arranged, not whether any of them are any good. The tell is what happens when you try to price the parts. In most of these companies, cultivation never had to survive a market test because it sold into captive retail. Manufacturing never had to win a customer because its customer was the same company. Retail never had to source competitively because supply arrived by internal mandate. Every vertical was insulated from the only question that establishes whether a business exists: would anyone choose this at this price, given a choice. A decade later the company cannot answer it for any of them, and neither can a buyer.

That is why so little of this sector has been sellable in pieces. There were no pieces. There was one undifferentiated thing wearing four hats, and the hats were the strategy. A buyer pricing a vertically integrated operator today is not buying four businesses. He is buying one, and he has to work out which one, because that is the only vertical that would still be standing if the roof came off.

Start With the Business Model

The most basic question is: what is the business and revenue model, and which activities within that model require a license?

Which brings this back to where the section started: the license priced as the business. Most multi-state operators had valid reasons not to enter California. It is more competitive, more fragmented, and structurally less protected than the limited-license markets where many of them could deploy the same dollar against fewer competitors. Taxes, capital intensity, and compliance burden were not unique to California; the meaningful difference was that scarcity did less work for the operator. Avoiding that market can be understandable without being analytically neutral.

California is the largest regulated cannabis market in the world and, if the thesis is brand and premium, it is the proving ground. That does not mean a brand has no value because it is absent from California. It changes the question: how much of the brand equity demonstrated elsewhere belongs to the brand, and how much belongs to the protected market structure around it? A brand that performs inside a limited-license state has proved it can monetize that state's structure. A brand that can enter California, compete for the customer's attention, earn shelf space, hold price, and create repeat demand has proved something different. Not being in California is evidence, not proof. Entering and later retreating is stronger evidence. The point is not that every MSO should have gone to California; it is that a brand-and-premium thesis that avoids the market where scarcity provides the least protection has left an important part of the thesis untested. They built capabilities that worked inside protected markets. California is the stress test of how much of those capabilities survive without the protection.

My 2024 report made this argument about MSO moats specifically, that the moat rested on license scarcity, that scarcity erodes as states liberalize, and that New York's licensing expansion was the visible example. The claim held and it has kept holding, in state after state, and it will hold again as states widen licensing, and more so when interstate commerce becomes a reality. Most markets don't become more restrictive over time, they become less restrictive. The same principle applies to local licenses in dual licensing states such as California where state licensing is largely driven by local licensing. Companies acquiring licenses in limited local jurisdictions saw their "moat" erode over the years as local licensing expanded. The market itself has matured past the license-only trade. Early in legalization, paperwork alone could command millions because the buyer was purchasing entry and underwriting his own ability to make the business work later. Enough of those businesses have now operated long enough that the dream has a P&L. Buyers can separate what belongs to the asset, what belongs to the market, and what belongs to the operator. Old license comps increasingly price a market that no longer exists.

Scarcity value has a legislative expiration date that the holder does not control. Nor does de-scheduling set it. New Jersey liquor licenses trade for seven figures ninety years after Repeal because the state caps them; a capped cannabis license keeps its scarcity through de-scheduling for exactly as long as the state wants it to, and loses it the day the state does not. The calendar is the state's. Federal reform only decides whether the state has to justify it under the Commerce Clause. Competence value does not**. That distinction is the whole of the diagnostic later in this section.**

One underwriting distinction because the market tends to price "de-scheduling" as though it describes one outcome and it does not. Full federal de-scheduling means taking cannabis off the Controlled Substances Act. That is one event. A congressional legalization framework that removes cannabis from the CSA and replaces prohibition with a new cannabis-specific federal structure is another. The serious comprehensive bills Congress has considered have generally come with federal excise taxes, permits, product regulation, testing, compliance requirements, and the state layer underneath them. From the perspective of an existing licensed operator, that second outcome can carry real cost. Schedule III plus a workable adult-use pathway may therefore be economically more valuable to the operator than statutory legalization wrapped inside a new federal regulatory stack. A buyer pricing every version of "de-scheduling" as pure upside is pricing the headline and not the mechanism.

None of that is an argument against full federal de-scheduling. Quite the opposite. The social, cultural, medical, and individual benefits of finally removing cannabis from the Controlled Substances Act outweigh whatever economic advantage the existing licensed industry may receive from remaining inside a more protected structure. This memo is pointing out the price risk, not arguing that the industry should preserve it. Schedule III gives the regulated industry the federal guardrails it spent decades operating without. The next objective should be full federal de-scheduling, not another cannabis-specific congressional framework that moves the plant from one exceptional federal structure into another. The industry gets its guardrails. The plant, the patients, the consumers, the people, and the culture that carried legalization this far should get the normalization they were fighting for. And if the political system is not prepared to make that move immediately, let the Schedule III period build the record. Let cannabis operate under federal guardrails and demonstrate whether the exaggerated harm profile used to justify decades of prohibition survives contact with the evidence. It took generations to move from prohibition to this point. The distance from here to full federal de-scheduling should be considerably shorter. Schedule III can be the guardrail. Full federal de-scheduling should remain the destination.

The uplisting trade creates the same problem in a new form. To qualify for major U.S. exchanges after the April order, operators have separated medical from adult-use operations. Trulieve and Glass House did it. The listing and capital access are real, but the trade can separate the listed company from the consumer-facing channel this memo values most. For most operators that is the price of admission, not a strategic preference. It still has to be priced.

Broken or Mismanaged: The Nine-Question Diagnostic

This section is the method the evidence above supports. A broken asset has no buyer at a price worth taking. A mismanaged asset, repaired, is the merchandise eventual buyers can own. The spread between those two is the distressed opportunity. The questions below are not a formula; they expose which side of that line an asset sits on before an investor pays for it.

A broken business and a mismanaged business can look identical on a screen and be worth entirely different amounts. Assets in this sector often trade at dislocated prices because the business operating on top of the asset is impaired rather than the underlying asset itself. Separating the two is a judgment problem before it is a spreadsheet problem.

Some investors are waiting for reform or the next catalyst to tell them which MSO or private operator is going to make it. That is backwards, especially from a distressed-asset point of view. If you want to know who can make it, the current environment is the better test. It shows who can operate, allocate capital, preserve liquidity, keep customers, and manage the board without depending on a favorable event. Reform makes the environment easier. It does not make a bad company a good company. For companies that cannot make it today, reform may simply give them a slight premium at which to trade or be sold. That is useful to a seller and useful to a distressed buyer. It is not proof of business quality.

Market reports can frame a category. They cannot price a specific asset. If a diligence file prices a target off an aggregator’s market report, the diligence has not started. Before interrogating the target, interrogate the buyer. The same asset prices differently against different theses. What is the thesis? What are you proposing that the last cycle did not, and why would yours work? Are you buying the license as a distressed real-estate trade, hold through the trough and sell when scarcity value recovers? Then the license is the trade and the operation is carrying cost. Are you buying it to authorize a specific activity inside a specific business model? Then the model is the asset and the license is permission. Does that model need this license, in this jurisdiction, or would the county next door serve it cheaper? A buyer who cannot answer those questions has no basis for pricing what follows.

None of the questions below are sophisticated. That is the point. This sector had no shortage of sophisticated finance; it had sophisticated analysis built on basic assumptions nobody stopped to test. Once the premise is wrong, more scenarios and sensitivity tables make the wrong answer a more precise wrong answer. Complexity does not cure a basic underwriting error, it just hides one. These are not a checklist that produces a valuation, and they do not replace judgment. They are the first-principles questions that tell you whether the financial work that follows is attached to the right business, the right asset, the right buyer, and if it even needs to be escalated to the point of financial work.

1. Is the decline market-wide or company-specific? Price compression across a state hits everyone in it. Losing share while the market holds is a management outcome. This isn't always a state level analysis either because sometimes the local market is very different than the state environment. Pull the state-level data first and the company second; most diligence does the reverse and mistakes a market condition for a company failure, or worse, the other way around.

2. Does the asset generate cash before debt service? An operating problem and a capital-structure problem present identically on a distressed screen and are worth different amounts. A business that covers its operating costs and cannot cover its debt is a balance-sheet exercise. A business that cannot cover its operating costs is a different purchase entirely. Two more things that present identically on the screen and are not the same purchase. A working-capital hole (receivables quality, inventory aging, vendor terms, prepaid taxes) can consume the purchase discount before the repair begins. An above-market sale-leaseback signed at the 2021 peak can be the obligation that makes an asset broken rather than mismanaged, and it is one of the first things a distressed buyer from another sector should test.

3. Is the cost structure regulatory or discretionary? Tax stacking, local licensing layers, testing regimes, and security requirements are fixed. Headcount, footprint, SKU count, and management compensation are not. Sort the cost base into those two buckets before modeling any improvement, because only one bucket responds to ownership.

4. Was the facility built for a market that existed, or one that was projected? Compare what the building earns per square foot against what it was built to earn. That spread is the cleanest available read on whether the original underwriting was real. An operator running at a third of designed capacity does not have a utilization problem. He has an inherited capital allocation problem, and it does not get fixed by better management. In several states the cultivation itself was a license condition. Its size never was, and the spread measures the size.

5. Is the license transferable, and does the market it authorizes still have barriers? A license in a liberalizing state is a wasting asset. In a capped state it is a wasting asset on a longer clock. Price the runway, not the permit and confirm the transfer mechanics before anything else, because in the majority of states, it's not a simple transfer of license ownership, rather a transfer of ownership in the entity that owns the license with additional caveats. Sometimes the buyer has to carry the seller on the equity table over a period of time before fully exiting the seller. And the April order created a second transfer question nobody has timed: whether a DEA registration survives a change of control or resets. If it resets, every medical-operator transaction has a federal step on no schedule.

6. What did management do in the last downturn? Cut, raise, or change the plan? The answer tells you more about what you are buying than any projection will. Neither cutting nor raising is automatically evidence of discipline. The test is whether management used the tool to adapt or to avoid deciding. Look for what adaptation looks like in the record: projects stopped, footprint reduced, assumptions revised, customer metrics protected, bad decisions reversed before liquidity forced the answer. The question is not whether management ever made the wrong forecast. Everyone did. It is what management did once the evidence started proving the forecast wrong.

7. What tax position is attached? Prospective 280E relief will probably not resolve a retrospective dispute. Beyond 280E, in California for instance, many license holders have been going through years of tax audits and many have tax obligations that will be inherited on purchase. And run the alibi test from Part Two: a seller attributing the distress itself to 280E must demonstrate the counterfactual, the business working without it. Most cannot, and the few that can are the third bucket, priced differently. Several operators filed amended returns years ago and carry the disputed amounts as uncertain tax positions. Those liabilities travel with the entity and most jurisdictions won't allow the entity to transfer the license. Confirm the position, the amount, and the posture before pricing anything. Sometimes the cheaper license is the more expensive one and vice versa.

8. Does the asset own production, or does it own the customer? Production is a commodity input whose value is set by the marginal clearing price and by whatever protection the state boundary still provides. A customer relationship is not. If the answer is production, the underwriting question is whether the cost position survives the boundary coming down and in a high-cost, high-tax state it usually does not.

9. Is the product differentiated in a way a competitor cannot replicate? Genetics and cultivation method are copyable, genetics in particular are a moat in theory and worth little in practice, because plant IP enforcement in this industry is weak and demand for specific strains is cyclical. Terroir and appellation are not. Where a genetic line does carry brand equity, that equity attaches to the breeder, not to the plant. It is a reputation, and it leaves when he does. So, underwrite it as a person and not as an asset. In California specifically, confirm stuff like appellation eligibility rather than assuming it because appellation status turns on cultivation practice, not only on location, and greenhouse and mixed-light operations are excluded by statute.

A real transaction makes the point better than a hypothetical. A client once brought me into the final stages of acquiring a Hollywood dispensary on one of the busiest streets in the city. The store was beautiful, had operated for years, and had significant unused capacity. The buyer viewed the location, buildout, and capacity as reasons to pay a premium. I had not yet seen the financials. I walked the asset. It took nearly twenty minutes to park several blocks away. There was no customer parking in front; the two spaces in back were used by employees; missing the storefront meant another long loop through traffic. The seller's first pitch was location. The location was the problem.

The numbers later confirmed the physical read. Retail revenue had been flat to declining for years, while cultivation inside the premises was carrying the operation. The asset could work for a smaller owner at the right basis. It could not support the premium being asked for traffic, aesthetics, and capacity the customer could not conveniently reach. My client walked. The asset later sold for roughly one-third of the asking price. Nothing in that analysis required a novel model. It required testing the premise underneath the model.

How these assets actually trade, which is not how distressed assets normally trade. Cannabis companies have, to date, lacked meaningful access to federal bankruptcy. Courts have dismissed cannabis Chapter 11 filings on the reasoning that a federal trustee cannot administer federally illegal assets. So distress in this sector does not resolve through the machinery most distressed investors trained on, no automatic stay, no Section 363 sale, no DIP financing playbook. It resolves through state-court receiverships, assignments for the benefit of creditors, Article 9 foreclosure sales, and license-transfer processes that differ in every state and can take longer than the sale itself. Three consequences follow.

First, the sellers are frequently fiduciaries (court-appointed receivers with a statutory duty to liquidate) for whom certainty of close outranks headline price, which inverts the auction logic buyers from other sectors arrive with.

Second, the buyer pool is structurally thin, because closing requires regulatory competence that cannot be hired the week of the bid. A distressed asset with ten theoretical strategic buyers and two buyers actually capable of closing has two buyers.

And one open question the April order created that nobody has answered: whether state-licensed medical operators, now trading in a Schedule III substance, have gained the access to federal bankruptcy courts they were refused under Schedule I. If they have, the venue for a meaningful share of this sector's distress changes, and so does the playbook.

Third, and nobody is writing about it: the lenders. The protective terms Part Two described (senior secured paper, warrant coverage, control on default) produced a class of holders who now decide how distress clears. Whether they want to own or to exit, whether their fund life permits a workout, and whether they will finance a buyer or compete with him sets the clearing price more than the asset does. Underwrite the creditor before the company.

One limitation. These questions sort assets. They do not tell you what to pay, and this memo is not going to, because an asset in one person's hands is not worth the same as the identical asset in another's. What an asset is worth to one person may be worth something completely different to someone else.

What it does say is where the margin has to sit. A good asset is still a bad investment if the buyer pays for the repair before performing it. The spread is not broken value against repaired value. It is repaired value, less price, less the cost to repair, less the carrying cost, less what the time and execution risk in between deserve — and that last term is the one this sector has always priced at zero.

Repairing the Asset and Identifying the Buyer

The questions above sort broken from mismanaged. The next question is what the mismanaged one is worth repairing into, and the answer is a description of market structure, not a strategy.

A repaired cannabis asset looks like a normal consumer business, because that is what it always was underneath the vocabulary. Capacity matched to the market that exists rather than the one that was projected. A cost base sorted into its two buckets, the discretionary one sized to actual volume, the regulatory one carried as the price of the license. A customer who returns, and is measured returning, because repeat rate is the only marketing metric that survives contact with this category. A product someone asks for by name. Books a buyer can diligence in weeks. A license that transfers, and on a timeline confirmed with the regulator rather than assumed. And who buys that? Three natural buyers exist for repaired cannabis retail and brands, and none of them is a healthcare company. Pharma inherits the medical lane of the three-market split, and nothing in this buyer map sits there. Consumer and CPG-adjacent acquirers, once federal normalization lets them touch the category, they are buying the customer relationship and the shelf, and they have waited at this industry's border for a decade, and they buy into the nutraceutical and adult lanes, never the pharmaceutical one. Financial sponsors, once cash flows are legible enough to lever, they are buying the P&L the repair produced, lane-agnostic, because a P&L is a P&L. And the surviving consolidators are buying competence, facilities, and density, the only things left to buy once scarcity is dead, adult-use density most of all. Note what none of the three are buying: the license. The license is the admission ticket the buyer assumes works. Every seller in this industry prices the ticket. Every buyer should price the seat.

Apply this memo's own test to its own buyer map, because the objection is fair: the consumer buyer arrives once federal normalization lets him, and Part Two spent pages examining that bet as one of the last cycle's central mistakes. The distinction is not optimism. The last cycle underwrote an event that had not occurred. Medical has been rescheduled, the closed-state premise has been weakened in court, and adult use sits on an administrative track that has no date and does not need one for this map to work. A repaired asset is underwritten to the two buyers who exist without a date, the sponsor and the consolidator. The consumer buyer is the exit that partial reform makes plausible for the first time. He is upside. He is not the underwriting. The exit exists only for the repaired version. A broken asset has no buyer at a price worth taking, which is why the first two questions matter. A mismanaged asset, repaired, becomes the only merchandise those three buyers will be able to purchase when they arrive. That is the entire logic of owning anything in this sector, stated as market structure rather than as anyone's plan.

One constraint on all of it. Competence is the scarce input, and Part Two has described a stage-fit problem in the sector's executive bench. Where the operator comes from and whether that skill set matches the asset's stage, is a constraint on the trade. Anyone who says otherwise has not tried to hire one.

Reading Two Prices - Green Thumb vs. Glass House

This memo's thesis sentence is a sequence: understand the asset the way an operator would, then price it the way an investor would. Everything to this point was the first half. Here is the second half, run on two companies this memo has already treated honestly, both public, both named for neutral facts drawn from their own disclosures.

One asymmetry in the pages above should be addressed before making the comparison. This memo spent considerably more time analyzing Glass House than Green Thumb. That was intentional, and it reflects what was being tested rather than a different standard applied to the two companies. Glass was introduced as a stress test of a specific investment thesis (scale, low-cost production, interstate commerce, California brand value, and the price assigned to that combination.) Each component had to be examined because meaningful portions of the value proposition depend on future conditions and assumptions that do not yet exist.

Green Thumb does not require the same exercise for purposes of this comparison. Its relevance here is not that this memo endorses its strategy, management, or valuation. It is that the operating evidence necessary for the comparison already exists: revenue, margins, earnings, cash generation, balance-sheet position, repurchases, and an operating history produced under the same federal constraints discussed throughout this memo. Glass required more analysis because its price requires more assumptions about what comes next. Green Thumb requires less because this question can be answered largely from what has already happened. Analytical attention should follow assumption risk. Balance does not require equal word count; it requires applying the same standard to the assumptions carrying each price. This is not a relative valuation exercise. It is a test of what each current price is capitalizing.

Set the lines that matter side by side (Green Thumb Industries first, Glass House Brands second) from each company's own second-quarter disclosures.

Revenue: $306.7 million against $47.0 million excluding retail.

Earnings: GAAP profit and $84.3 million of normalized EBITDA against $5.7 million of adjusted EBITDA in a release that leads with production volume.

Balance sheet: at par and buying back its own stock against a build toward a million pounds of capacity.

Mix: diversified retail and brands against 89% wholesale biomass.

Thesis: operations that exist against an event that has not occurred.

The domains were the exposures, the following are the flows. Now set the prices against the lines. Both companies' market values print daily on the reader's screen; the figures below are frozen only as of their date, and they will have moved by the time this page is read. Ask what each price is paying for. Green Thumb can be tested primarily against realized operations - cash flow, shelf position, customer activity, and the balance sheet. Glass House has real operations too, but its price contains, in meaningful part, assumptions about an event and the economics that follow it. This memo does not say what either company is worth. It says what each price requires the buyer to believe and what each price currently considers. The market quotes both prices side by side every day, and the gap can close in either direction: realized earnings can compress just as a future thesis can fill in. That is what makes the comparison a pricing test rather than a judgment.

The numbers, as of the close of August 28, 2026, from public prints.

Green Thumb: a share price of approximately $7.62, a market value of roughly $1.7 billion on the company's own diluted count, and a positive GAAP earnings line against which the price can be tested.

Glass House: a share price of approximately $9.88, a market value of roughly $931 million on approximately 94.2 million shares outstanding as reflected in the August 28 public print, and no meaningful price-to-earnings multiple, because the trailing earnings line is not there to divide by.

The one thing the numbers settle on their own is that these two companies are not being valued on the same metric: one price can be tested against earnings that exist, while the other capitalizes, in meaningful part, an event that has not occurred. The disconnect is real and it can close from either direction. This memo still does not say what either company is worth.

The operating figures above are each company's own second-quarter disclosures. The market figures are frozen as of their stated date and will have moved by the reading.

Where the Mispricing Is

Two questions price anything in this space, and they are different questions. First, what is this business? Cultivation is agriculture, manufacturing is manufacturing, retail is retail. That answer picks the comp set, and the comp set is most of the price. Second, where does it live? Because whatever the business is, it operates inside a cannabis ecosystem: one enclosure, every piece feeding off the others, sharing suppliers, shelf space, and fate. Position in that ecosystem is worth something, or costs something, and the market today cannot tell which. It applies one crude discount to the whole enclosure and calls it a sector view. The work is pricing the position: what does this piece contribute to the whole, and is that contribution value the piece would carry anywhere, or rent the enclosure pays it for standing in a mandated spot? Value travels. Rent does not. Most of this market still cannot tell the two apart. That is the mispricing.

The cannabis industry spent a decade proving what does not work. That is the most valuable thing it could have done, and almost nobody treats it that way. Capital believes it is early again. It is early to a different opportunity than the one it missed. The 2018 thesis was license scarcity. The 2026 thesis is operating competence in assets priced for failure. The opportunity is more legible now because the market has supplied evidence the last cycle lacked: longer operating histories, reset basis, comparable survivors, a cleaner separation between 280E and operating economics, and a normalization process exposing which values were scarcity and which were competence.

In April, Washington fixed the one thing it was capable of fixing. It could not manufacture sound economics, the right management fit, rational market structure, or disciplined capital allocation. It changed a tax treatment and opened a registration window, and everything else that is broken in this industry is still broken. The assets are real. Buildings, licenses, customers, brands, and in a few cases genuinely good operating businesses trading at prices set by the failures around them. The opportunity is not that the sector is about to be rescued. It is that a decade of misdiagnosis has produced a market where a broken business, a mismanaged one, and a quality one all carry the same price, and almost nobody can tell them apart.

What to Watch

1. Any published FDA position on state-legal cannabis products. The single most consequential item on this list and the one almost nobody is watching. A warning letter campaign, a guidance document, or an enforcement discretion policy statement would each mean something different. Silence continuing is also information.

2. The broader rescheduling rule - its terms, not its timing. Whether the administrative law judge's recommendation and any resulting rule follow the April order's structure, or route adult-use through a different mechanism. If it follows, the practical effect approaches de-scheduling in all but name for the licensed sector. I am not predicting when. Nobody credible can. DEA released the full corrected hearing transcript August 25.

3. The consolidated challenges to the April order, now pending in the D.C. Circuit. Petitions from prohibition-aligned and drug-testing-industry petitioners, a pharmaceutical developer pursuing federal registration, and two states were consolidated in late May; stay motions were pending as of September 1. Relief granted on treaty authority without notice-and-comment is the most challengeable form available. A successful challenge does not restore Schedule I quietly; it unwinds tax positions, registrations, and everything built on top of them. A granted stay would do most of that overnight.

4. Treasury and IRS guidance, and whether retrospective relief arrives. Prospective 280E relief is priced. Retrospective relief is not, and several balance sheets carry nine-figure uncertain tax positions that turn on it.

5. December 11, after H.R. 6500 became law on September 2. Closure, a written regulatory lane, and non-closure are different outcomes with different consequences for licensed revenue and for the assets built to serve the loophole. SIVA Capital's forthcoming position paper on intoxicating hemp carries the full argument.

6. The first interstate compact trigger, or a Dormant Commerce Clause ruling decided after rescheduling. The call, for the record: the first meaningful crack in the state-siloed structure arrives through one of those two routes rather than through Congress, and before any federal cannabis statute passes. What would prove it wrong: a national framework first, or a post-rescheduling challenge failing on the same categorical-illegality reasoning that defeated the earlier ones. Either would begin repricing cultivation assets in high-cost states, and neither requires Congress.

7. Whether Curaleaf's bid for Aurora completes, and on what terms. A raised bid tells you the acquirer's currency is stronger than it appears. A completed deal at current terms tells you a board could not find an alternative, which is information about the whole category. Aurora's board issued its Directors' Circular on September 2, unanimously recommending rejection, and Curaleaf reaffirmed its offer the same day without raising it. That exchange is an interim marker, not a grade; the Post Script to the deal section records what it revealed. The call grades at expiry or close.

8. Whether additional operators complete U.S. exchange listings, and whether it matters. Trulieve and Glass House have completed NYSE listings. Curaleaf and Verano have restructured or taken steps toward the same end. Watch whether the next listings change the buyer base and valuation framework or simply change the venue.

9. The first private operator to reach a major U.S. exchange without the legacy public-company baggage. Watch the capital structure it arrives with, the business model investors compare it against, and whether it trades with the existing basket or outside it. That will be an early test of whether today's public cohort is defining the future industry or merely occupying the screen before it arrives.

About SIVA Capital

SIVA Capital is an operator-led private investment and advisory firm built on a behavioral health thesis, working in cannabis and psychedelics — the regulated substance categories where licensing, compliance, and operating knowledge decide outcomes that capital alone does not. The firm was formed to apply over two decades of inside operating experience in cannabis to the next phase of that market and to the emergence of psychedelics.

The investment side looks for buy-and-build positions across both categories. The advisory practice handles strategy, M&A, turnarounds, crisis management, regulatory affairs, and expert witness work for operators, investors, and legal teams, and has done so across eighteen state markets. The two reinforce each other: work done inside these markets is what allows the firm to distinguish a broken business from one that is merely mismanaged.

The firm’s current work in cannabis is the subject of this memo: separating broken assets from mismanaged ones and pricing the repair. This memo is the second in the series, following Lilly Bought the Molecule. Nobody Bought the Room. (August 2026), and it revisits the calls made in the firm’s March 2024 report, State of the Cannabis Industry. It is analysis, not an offering, and nothing in it describes a fund, a vehicle, or an investment opportunity.

About the Author

Avis Bulbulyan is Managing Partner of SIVA Capital. He has spent two decades in regulated substance markets, principally cannabis: first as an operator building and running businesses under state licensing regimes, beginning in California’s Proposition 215 and SB 420 era before the first state license was issued, then across the table from them, advising operators, investors, and counsel through acquisitions, turnarounds, regulatory proceedings, and litigation. He has worked on how these rules get written as well as on how they get followed.

He founded and operated SIVA Enterprises, a cannabis advisory firm that worked with license applicants and operators nationwide, and authored its March 2024 report, State of the Cannabis Industry, the predecessor to this memo. He was an appointed member of the California Cannabis Advisory Committee advising the three state agencies on the development of California’s regulations, served as Chair of the Distributor Subcommittee, founded and served as President of the Los Angeles Cannabis Task Force, and has testified before the California Department of Insurance. He has been retained as an expert witness in both state and federal court cases involving regulatory compliance, a federal trademark dispute, enforcement actions, licensing disputes, industry standards, and economic damages, and has prepared damages analyses and given deposition testimony in matters resolved through multimillion-dollar settlements and awards. He has run diligence for limited partners entering the sector and has sat inside raises on both sides of the table. He has been cited by Reuters, Bloomberg, NBC News, PBS, Law360, and numerous other publications and media outlets.

That work is where his read on these markets comes from. An operator sees the license. A lawyer sees the exposure. An investor sees the multiple. A regulator sees the risk. Each of those readings is correct and each is partial, and what gets missed usually sits between them, visible from two domains at once and from neither one alone. The argument in this memo comes from that habit rather than from any single one of those seats.

Full background at www.avisbulbulyan.com and www.sivacap.com

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Contact

Second in a series.

If I got something wrong here, I want to know.

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