

## Armoured trucks to dehumidifiers: next wave of cannabis companies do everything but grow cannabis

*The ancillary market is hopping and could eventually be worth tens of billions of dollars*

By Vanmala Subramaniam

Geoff Brown's first foray into the cannabis industry was sparked by his job selling indoor pool dehumidifiers.

For years, Brown has worked for Ottawa-based Dehumidified Air Solutions, a company that designs devices to detect humidity and zap the moisture out of the air. Moisture encourages mould growth — a problem, it turns out, that cannabis producers also happened to be struggling with in their grow rooms.

"We had been working with our pool product line in different kinds of rooms and we discovered that we could design a product that was specifically targeted for the cannabis industry. So we modified our indoor pool dehumidifier to make it grow-room specific," Brown said.

Eight months ago, DAS launched AgronomicIQ, a subsidiary that exclusively serves the cannabis industry. Today, AgronomicIQ is a "substantial" part of DAS' business, according to Brown, supplying Canadian licensed producers and growers based in the U.S. with their "intelligent grow room control" dehumidifiers.

The operation is one of thousands of ancillary businesses that have sprouted up in the past few years to support the growing legal cannabis industry, a secondary market that could eventually be worth tens of billions and that is the subject of significant investor interest heading into 2019.

The growth of this secondary market was on display at the MJBiz Con conference in Las Vegas in October, where only a handful of the 1,027 exhibitors were directly involved in cultivating cannabis.

Rather, the bulk of companies that had set up booths were displaying products that aided the cannabis supply chain: armoured vehicles geared for the secure delivery of cannabis; automated payment platforms tailored for cannabis producers and retailers; lighting systems designed to maximize plant growth; and even companies developing non-GMO, organic flavours that will be used in cannabis edibles.

"We look at the ancillary market as a US\$75- to US\$100-billion market, and the market for cannabis consumables as a US\$15- to US\$20-billion market. That's how big the difference is," said Mitch Baruchowitz, managing partner at Merida Capital Partners, a private equity firm invested exclusively in



Agronomic IQ's Evolution Series. The company modified indoor pool dehumidifiers for cannabis companies.

ancillary companies. “Think of it like this — for every dollar smoked, there’s probably 25 cents of ancillary cogs. It’s labour, minus the seed, and then everything else is ancillary spending.”

Baruchowitz divides the ancillary market into multiple categories — businesses that support banking and the regulators; those that relate to cultivation, production and processing; the testing and genetics side of the cannabis industry; and startups that focus on innovation at the sales and retail end of things.

***“... the ancillary market is US\$75B to US\$100B, and the market for cannabis consumables is US\$15B to US\$20B. That’s how big the difference is.”***

*Mitch Baruchowitz, managing partner,  
Merida Capital Partners*

One of Merida’s investments is Simplifya, a compliance tool for cannabis companies that aids the documentation of data required by regulatory bodies. Health Canada, for instance, requires that growers keep track of the quantity and weight of each cannabis plant grown in a facility. But plants are often moved around between rooms, and they lose water weight during growth. Simplifya has a system that allows companies to accurately document each data point and cross-reference them.

“The government wants something deeper. They always want validation. So you can tell them look, here’s the dried weight of the plant, but we can tell you how much water it lost,” Baruchowitz said.

Indeed, the compliance aspect of an industry that has only just become fully legal in Canada and 10 U.S. states as well as Washington, D.C. has drawn a significant degree of interest from investors.

Casa Verde Capital, a VC firm focusing on the cannabis industry and is most famously known for its affiliation with the rapper Snoop Dogg, has pumped millions into startups that come up with innovative ways of solving compliance issues. One of its investments is Green Bits, a cannabis tech company that makes payment terminals that can execute the specific compliance requirements for cannabis sales in dispensaries. Another is Metrc, a system designed for government agencies that tracks and traces data of their legal cannabis markets.

“Compliance is a major issue every jurisdiction is dealing with. How do we make sure it gets done in a regulated fashion that doesn’t pose problems to anyone in society? How do we ensure that everything is tracked and there’s no black market activity? Because, you’re battling over a century of stigma with this plant,” said Karan Wadhera, managing partner of Casa Verde Capital.

Then you have businesses related directly to the supply chain, such as AgronomiQ, or Terpene Fresh, a small family-run business supplying packaging material to a host of growers in Oregon, California and Colorado — and soon Canada.

Rob and Ryan Pardee are the father-son duo from Portland, Ore. behind Terpene Fresh, and proudly consider themselves cannabis connoisseurs. When Oregon legalized cannabis for recreational use in mid-2016, the Pardees embarked on a project to develop packaging material targeted specifically for preserving cannabis flower.

“We know the cannabis plant very well, and we know that you need the right amount of oxygen when storing cannabis so that it’ll last,” Rob Pardee said.

“We designed a machine and bags that seal your flower with the perfect amount of oxygen — the bag is not vacuum-sealed, but it’s not letting in air either, because that’s going to ruin your pot.”

Terpene Fresh was just one of at least 20 other packaging companies that had booths in Vegas, which suggests how saturated certain segments of the ancillary cannabis industry are becoming, according to Wadhera.

“Some businesses are going to struggle to survive. When there are low barriers to entry like making packages, and you can develop an offshore relationship with a company in China or in Vietnam to get supply, you’re going to see a lot of competitors similar to what you’re now seeing in the plant-touching side,” he said.



“Those (businesses) are dead on arrival,” remarked Baruchowitz, bluntly. “It’s one thing if you have a company that is already doing industrial applications, and they are going to take a shot to break into cannabis. But then you have this other set of people that are just going after pure cannabis.”

Baruchowitz said he called the latter “‘me too’ products,” because they tend to involve people trying to do whatever they can to jump on the cannabis bandwagon.

Saturated or not, there’s money to be made in the sector, at least in the short run.

Lab1st, a Chinese company selling a complex-looking device that it claims has a special thermal separation technique that extracts THC and CBD from cannabis or hemp, had a presence in Las Vegas.

The company flew out a team of marketers and executives from China to walk conference-goers through the functionality of its distillation system, and hopes to expand into North America.

“We’re based in Shanghai, but we’re looking to set up a sales office in California,” said Shashan Cui, a sales manager at Lab1st. “It’s so exciting here. Cannabis is so exciting.”