



TUATARA CAPITAL: STAKING ITS CLAIM IN THE LEGAL CANNABIS INDUSTRY

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Like many private equity firms, Tuatara Capital boasts a team with backgrounds in top-tier investment firms. Like others, they employ a disciplined investment strategy based on fundamental business analyses with a methodical approach to sourcing, monitoring, and executing investments. However, it is the focus on the legal cannabis industry that sets Tuatara apart from most.

Tuatara is a growth equity/late-stage venture capital investor focusing on opportunities in cannabis – research and testing, cultivation, processing, consumer/retail, technology, and industrial services. The firm concentrates on four sectors: social consumption, cannabinoid pharmaceuticals, health & wellness and industrial hemp. “We are typically significant minority investors, but we do step into controlling stakes in very specific situations,” explains Al Foreman, Partner & Chief Investment Officer. “We invest across the supply chain, but we’re really looking for companies who have business models, protected IP, and management teams that can take their businesses and scale them into category leaders.”

It is a sound thesis. With marijuana fully legal in 11 states and counting, there has been substantial growth in the cannabis industry. That growth is expected to continue with projections of a \$75 billion industry in North America alone by 2030. Once considered an illicit drug, cannabis has proven to be effective in alleviating symptoms of a wide range of debilitating medical conditions, including multiple sclerosis, Alzheimer’s, epilepsy, and Crohn’s Disease as well as a tool for pain management, chemotherapy-related nausea, glaucoma, PTSD, and others. “We believe that legal cannabis, at least a segment of it, will very closely parallel beer, wine and spirits as a 21-and-older end market, and will be largely brand-driven,” Foreman predicts.

1001 USES FOR CANNABIS

Though sometimes used synonymously, cannabis, marijuana and hemp are related, but not identical. Cannabis is a genus of plant with at least three species, so all hemp and marijuana varieties are a type of cannabis. Hemp is reserved solely for cannabis plants containing little to no THC (marijuana’s primary psychoactive ingredient). All have uses beyond the recreational in different market segments with entrepreneurs launching ventures to capitalize on them.

Among those emerging sectors for cannabis is the pharmaceutical end market. This segment emerged in 2018 when the U.S. Food and Drug Administration approved Epidiolex, a cannabis-based drug for the treatment of seizures associated with two rare and severe forms of epilepsy. “That officially marked the opening of cannabinoid pharma because there are 90-plus other cannabinoid-based drugs in the pipeline,” explains Foreman.

Then there are the industrial uses. Hemp, when processed properly, has several applications. It can serve as a biodegradable replacement for plastic, an insulating material for construction and a form of biodiesel can be made from its oils, seeds and stalks. It can also be used to make paper in a more environmentally friendly manner as cannabis is a much more regenerative source of paper products than trees. Hemp seeds are also used as a protein supplement and in other food products.

With more states passing laws and guidelines permitting recreational use, cannabis has experienced significant growth in this segment as well. As of April 2020, there were 12 adult-use markets in the US and two federal markets – Canada and Uruguay. New Zealand and Luxembourg have announced they will permit full adult use in the next 12-14 months. “We believe that the social consumption and the brand-driven [consumer packaged goods] type end market has emerged and will continue to develop over the next five to 10 years as additional states and countries implement programs,” says Foreman.

AN ENTREPRENEURIAL VENTURE

Named after a small reptile native to New Zealand, Tuatara was founded in 2014 by Foreman, along with longtime friends Mark Zittman, who previously provided customized services to financial institutions for Guggenheim Partners Capital Markets Group; and Marc Riiska, a former Senior Director at SS&C Technologies, where he led sales for a range of products and services for private equity and hedge fund clients. Foreman himself is a former Managing Director with Highbridge Principal Strategies (now HCM Capital Management), a \$55 billion alternative investment management business.

In 2013, Foreman was considering a professional shift to a more entrepreneurial role at a smaller shop when Zittman inspired the idea to look into the space. “He sent two books on investment opportunities for dispensaries, one in Connecticut and one in Massachusetts. That was the beginning of the analysis and investigation into legal cannabis,” Foreman recalls. “I thought if a state like Connecticut is moving forward with a program like this, maybe it’s time to do a little bit more digging.”

When Colorado initiated its adult-use program in early 2014, it was a game-changer for the industry. Foreman recounts, “My partner Marc left me a voicemail and said, ‘Hey, I’m watching CNN. It seems a little crazy that legal cannabis is actually happening in Colorado. I wasn’t smart enough to short subprime, I missed the Internet. I’d really like to make sure that I don’t miss cannabis.’” That voicemail caused the trio to sit down and discuss the emergence of legal cannabis and inspired the launch of Tuatara.

RECESSION RESISTANCE

Tuatara’s first fund totaled \$124 million, mainly from high net worth individuals, family offices and co-investment Special Purpose Vehicles, which was actively deployed into 10 discrete portfolio positions. The first exit for Tuatara from Fund I was Organa Brands, a cannabis distributor that Tuatara exited nearly two years after its initial investment when the company was sold to Slang Worldwide for a blend of cash and Slang stock. “We received 10% of our consideration in cash, which at time of private sale was a 3.6X gross MOIC,” Foreman recalls. The acquiring company then went public on the Canadian Stock Exchange. “We haven’t sold any shares yet, but we do hold liquid currency and we have received cash for a partial realization.”

Tuatara is currently raising its second fund and has closed on \$254 million of its \$375 million target. This process will likely slow due to COVID-19, but the firm’s portfolio companies are experiencing a boom as a direct result of national self-quarantine efforts. “In every market that has an adult-use program except Massachusetts, cannabis has been deemed an essential business,” Foreman says. “The direct impact is sales across our portfolio for production companies went up between 50 and 200% in March.” He points out that municipalities, which previously had tighter rules around curbside pickup or delivery, have started to relax those regulations to allow for better patient access to these products.

With a staff of 12 professionals, Foreman is looking to grow Tuatara as the legal cannabis industry expands. "I think as we continue to ramp up, depending on final fund size, we'll be 20-25 people," he says. "Our goal was to create the leading investment firm helping to shape and navigate legal cannabis, and I think we have put ourselves in a strong position to manage institutional investment capital in the cannabis space."