

EV LUTION 20

Navigating to the NEXT Normal

Virtual Conference Series July 7 – July 28, 2020

NAVIGATE YOUR BUSINESS TO ITS NEW NORMAL



TRIAGE

*STOP THE FREE FALL TO
STABILIZE YOUR BUSINESS
FOR THE SHORT TERM*

- Create models to get a clear financial picture
- Shore up cash by reviewing all expenditures, including staff
- Increase communication to maximize client retention
- Assess infrastructure to minimize risk

TIMING:
2-4 WEEKS



FORMATIVE ASSESSMENT

*CREATE ACTION PLANS
FOR VIABILITY BASED
ON LEARNINGS*

- Analyze products and services to attain best market potential
- Navigate regulations to determine best applications
- Communicate pivots to your stakeholders and gain alignment from your board
- Create or adjust delivery models

TIMING:
1 MONTH



TRANSITION

*IMPLEMENT YOUR PLANS AND
MEASURE RESULTS*

- Roll out new or reposition existing products and services and test pricing models
- Formalize human capital infrastructure and policies
- Reevaluate forecasts and models
- Ensure compliance with applicable regulations

TIMING:
1-2 MONTHS



OPTIMIZATION

*INVEST IN WHAT'S WORKING
AND DIVEST OF WHAT'S NOT*

- Measure business performance to ensure benchmarks are being met
- Invest in modernized technology to meet new customer expectations
- Secure funding for strategic investments
- Re-benchmark key cost centers

TIMING:
3 MONTHS



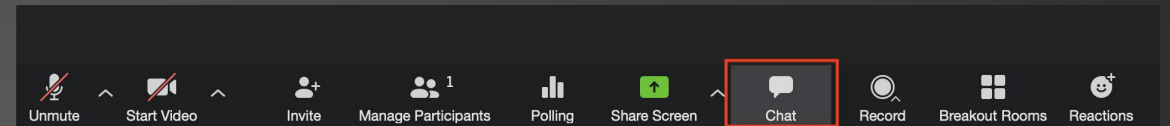
GROWTH

*ADAPT TO THE NEW NORMAL
AND OPERATE
AT A HIGH CAPACITY*

- Form task forces to look for new opportunities
- Add leadership to execute innovative initiatives
- Leverage the latest technology such as AI, bots and mobile platforms to increase business functionality
- Capitalize on expansion strategies and directives such as M&A, geographic growth and new product development

TIMING:
3-6 MONTHS

Use Zoom's chat feature to send the panelists questions throughout the webinar. We will be answering them at the end.



Cannabis Industry Update

Moving Out of Disruption and Planning
for the New Normal





Rick Frimmer

Counsel, Schiff Hardin LLP



Mike Goral

Armanino Advisory LLC



Ken Teasdale

Armanino Advisory LLC



Jason Wild

JW Asset Management, LLC



Wilson Kello

Collective Growth Corp.



Michael Schwamm

Duane Morris LLP



Jason Wild

President and Chief Investment Officer
JW Asset Management, LLC

Cannabis Industry Update: M&A and Current Business Developments



Duane Morris®

Michael Schwamm

Partner
Duane Morris LLP

Cannabis Industry Update: Legal developments affecting the space

Legal/Regulatory Developments

- STATES Act
- SAFE Banking Act
- Federal vs. State Court issues
- Investor Identity Disclosure Issues / Reputational Risk

Impact of COVID on the Industry

- Change in product mix
- Shift from in-store to on-line and delivery

Access to Capital

- Cannabis Funds
- Family Offices
- Private Credit Markets / Secured Lending
- SPACs
- Distressed Investing

M&A Activity

- Distressed M&A Activity

CBD and Hemp

- Other cannabinoids

Wilson Kello

Chief Marketing Officer
Collective Growth Corp.

Cannabis Industry Update: Market development for hemp



Ken Teasdale

Partner, Audit
Armanino

Cannabis Industry Update: Audit Challenges





Is your company even ready to be audited?



Are your books and records accurate and supportable?



If you have inventory, have you performed your own full inventory counts?



Are your costing methods for inventory reasonable and supportable?



Do you have signed agreements that support your equity structure?



Do you have the staffing resources to get the books and records into shape?





Virtual inventory observations and cash counts



Support needs to be provided in electronic format, which could mean a lot of scanning



Utilizing Zoom meetings with sharing screens for walking through questions and IC walkthroughs





If you're a 12/31/19 year end, procedures need to be performed on 12/31/18 balance sheet also



This means inventory observations now! Rollback to both the year end date, and the prior year end date has to be performed



No P&L work needed

First Year Audit?

You Need to Perform Procedures on Beginning Balances

- Most audits standard AICPA audits
- Consolidations going on now based on the industry fragmentation
- Need an audit because you're being acquired by a Canadian exchange or US OTC company, you most likely only need a standard AICPA audit
 - *Unless your assets are considered substantial to the acquiring company or will be used in a registration statement*
- If you are reverse merging into a public shell (Canadian exchange or a US OTC company), you must be audited by a firm registered with the PCAOB



- Canadian Exchange reporting entities have to use International Financial Reporting Standards (“IFRS”)
 - Global standards
 - Principles based
 - Fair value revaluation
 - Capitalization of intangibles
- US based companies would use Generally Accepted Accounting Principles in the United States of America
 - United States only standards
 - Rules based
 - Primarily historical cost
 - Development costs are expensed



There is a new standard out (ASC 606) that changes how revenue is recognized by many companies if they have contracts with customers.



Doesn't generally change for straight forward sales of goods



If there are multiple aspects to performance within a contract, revenue might be recognized differently over the life of that contract



Be on the lookout for contracts you have with your customers and go through the steps in ASC 606 to determine if you're accounting for that revenue correctly



Due to COVID-19, the FASB pushed off the required implementation date for private companies from reporting periods beginning after 12/15/18 (2019 if you are a calendar year end) to reporting periods beginning after 12/15/19 (or 2020 if you are a calendar year end).

Mike Goral
Partner,
Armanino Advisory LLC

Cannabis Industry Update: Developments in tax



Aid Package/Tax Benefit	Cannabis	Hemp
Paycheck Protection Program (PPP) Loan: Eligible companies can apply to borrow up to 2.5 times their average eligible monthly payroll costs, up to \$10 million, and interest rates on the loans will not exceed 1%.		✓
NOL's: Net Operating Loss (NOLs) can be carried back to allow losses from 2018, 2019 and 2020. In addition, these losses can be carried back for up to five years.	✓	✓
Family First Program: The Families First Coronavirus Response Act (FFCRA) temporarily extends and enhances policies relating to family and medical leave for employers with fewer than 500 employees.	✓	✓
Employee Retention Credit: A reimbursement of wages if you meet certain requirements to keep your employees during the qualification period.	✓	✓
Deferral of Social Security Payments: Ability to defer the 6.2% employer portion of Social Security tax for the period starting March 28 through December 31, 2020. This deferred tax amount will then be paid back over 2021 and 2022.	✓	✓
Qualified Improvement Property (QIP): QIP has been restored to 15-year life. Allowing for 15-year bonus depreciation to be taken.	✓	✓
Deductibility of Interest Expense: For 2020, all businesses may utilize the 50% of ATI limit and may elect to use 2019 or 2020 ATI for this calculation.	✓	✓
Corporate Minimum Tax Credit (MTC) is Accelerated: The CARES Act allows corporations to claim 100% of AMT credits in 2019. It also provides for an election to take the entire refundable credit amount in 2018.	✓	✓
IRC Section 471(c) and 280E implications: The Tax Cuts and Jobs Act added this little noticed code provision for all companies that have gross sales of less than \$25M.	✓	✓

Questions or want more information?

Experts@Armanino.com

- Join us for More Sessions in the Optimization Stage
- July 21st – 27th
- Live and On-Demand
- To learn more and register go to armaninollp.com



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