

- Introduction: This episode of Beyond the Bottom Line is brought to you by the program on entrepreneurship at the Yale School of Management where we're educating students, business, and society.
- Jen McFadden: Welcome to this week's edition of Beyond the Bottom Line. Today we are delighted to have Tahira Rehmatullah with us. Tahira is a Yale SOM grad 2014 who has become a force in the cannabis industry. She currently serves as managing director at Hyper Ventures and CFO at MTech Acquisitions. She's been named one of the most powerful women in the cannabis industry by Forbes magazine and Complex Media and she's going to go into a little bit of a background on how she got here from the School of Management. Welcome, Tahira.
- T. Rehmatullah: Thank you. I came into cannabis after SOM. It was not the path that I thought I was going to be on when I first came to SOM but you know things work in funny ways. I'd started looking at cannabis my second year of Business School primarily because my grandfather was diagnosed with cancer at the beginning of my second year, which was in 2013. I quickly just realized that it was something that had been illegal for so long, wasn't accessible to communities that clearly needed it and kind of just went down this research rabbit hole when I started to look into it more.
- T. Rehmatullah: Unfortunately, we weren't able to use cannabis for my grandfather but he, that process and I think going through all of that really made me look at it in a different way. Then, I was just really fortunate to be able to find a job in the space that kind of fell in my lap with a company called Privateer Holdings, also started by SOM grads, and was lucky enough to be able to join that team pretty early and in a time when the market was still developing and it was still considered to be pretty early so this was 2014.
- T. Rehmatullah: Started with them as an investment associate, thought I'd be working primarily on investing in assets on behalf of the company but was put into a position to start a brand that was in their portfolio and it was a partnership between Privateer and Bob Marley's family. Then, the brand eventually became Marley Natural, which we launched in the market in early 2016, and it was really one of the first national brands in cannabis.
- Jen McFadden: Can you talk a little bit about the structure of Privateer at the time which was much more of a holding company than necessarily a VC or PE fund?
- T. Rehmatullah: Yeah. I think their structure evolved out of necessity over time. The team initially had thought about a venture capital structure, and then I think realized that where the industry was and this is before I ever got there that you needed just a different style of creating companies and financing companies, and then really became this holding company structure because they went out to try to find assets to invest in particularly when it came to the medical cannabis side

looking in Canada, and they didn't find anything that they really wanted to invest in or that they thought was a worthwhile investment so they said, "Okay, why don't we create it ourselves?"

T. Rehmatullah: Then, that kind of started a different model within the business. They had another asset called, that they'd acquired called Leafly, which was still in its pretty early stages when they'd acquired it, and then helped to build that out. It was also housed in their office. Then, came Tilray, and then Marley Natural and they've had a few other companies kind of developed within their portfolio since then.

T. Rehmatullah: It was an evolution that kind of happens as you go along. I don't know if they necessarily planned on it being that way but it was just, you're reacting to the market and what's available and what's not available.

Jen McFadden: You get tasked with launching this new brand, big name to follow, big shoes to fill I guess. Talk about some of the challenges initially with doing that both in terms of positioning the brand in terms of sourcing the product, in terms of deciding what those initial products might be and look at and be priced at, et cetera.

T. Rehmatullah: Yeah. I mean, I always joke that it was kind of the blind leading blind in that process because I hadn't built a brand before in any space let alone in cannabis.

Jen McFadden: You had been doing finance prior to-

T. Rehmatullah: Yeah. I've been in finance. I mean, I'd worked at Ernst & Young. I worked at a hedge fund called Perry Capital, and then I worked on a non-profit developing a real estate portfolio for low-income households, so very different and brands kind of apply in that space but when you actually go and try to start a brand, it's a whole different beast and anybody who's ever done that can certainly relate, but with this what was interesting is that we were working with and exist brand and in a new context one that was made all the sense because it's Bob Marley and he was known for his cannabis consumption but you're also fighting a brand that had developed around him that was a bit of a stereotype for the industry.

T. Rehmatullah: The goal was to destigmatize, remove the taboo around cannabis as it became a mainstream product that your average American could consume. How do you change that view from where it used to be? Where it's only potheads are cannabis consumers to take it to everybody including the soccer-mom is a consumer and there are all these different types of products.

T. Rehmatullah: That was challenging to just try to navigate, how do you combine this persona as well as a new brand in a space that didn't have brands and creating product that was in different formats and what people maybe were used to in the illicit

market? We decided to take on all the challenges that we could and in doing this like, how can we make this the most complicated?

T. Rehmatullah: Well, let's do this, try to change this brand image and also create a new brand in the space that doesn't have brands, also with products that they've never had before and that they didn't know that they wanted.

Jen McFadden: At a price point that's a little bit higher than you might have gotten traditionally.

T. Rehmatullah: Totally. Yeah. Exactly. At that time too, the concept of prepackaged cannabis didn't exist. We actually had a lot of retailers or dispensaries as they're called fight us on it saying that that's just not how consumers are going to buy their cannabis. It's interesting now if you walk into a dispensary in any part of the country and that's exactly what it is. It's prepackaged. You very rarely, particularly on the adult use dispensary side, do you see the large jars of cannabis anymore where you'll to take some of it out and weigh it, and then that's what they give you.

T. Rehmatullah: Those days are kind of gone because legislation has also moved to prepackaged because it's safer, because it's measured, because it's tested. It's in child-resistant packaging so not too different from how you get pharmaceutical products or the way that you have to buy alcohol and that you have to check your, have IDs checked and go through all those processes. That's been an evolution in the market that's kind of happened over the last four or five years, but even some of that didn't exist when we were starting to create Marley Natural and put that into market where there wasn't a lot of structure. There also wasn't the ability to just go out and market.

T. Rehmatullah: It's a federally illegal product so you can't just do magazine ads or talk about it openly. We were shocked when billboards started coming up in California and that was before Prop 64 passed where it legalized it for adult use. That was still a medical market that kind of operated a little bit on the fringe. It wasn't the most regulated medical market, but you couldn't imagine having a cannabis brand have a billboard, and now you drive all over California and they're everywhere in other states as well.

T. Rehmatullah: The marketing element was also really challenging and so you just going to do what, try to use digital marketing for a cannabis, even now it's a challenge. Like you can't do Google AdWords, so things like that you had to find your way around those and still be able to try to communicate to the end consumer to want to come and get your product and maybe pay a little bit more than what they were used to paying. Sometimes it worked and sometimes it was just a huge failure because it didn't resonate with people.

Jen McFadden: Talk a little bit about operating in an environment that is moving so quickly that is so diverse from a regulatory perspective, but in particular, you've told the

story about the packaging piece being a problem. What were some of the early challenges around trying to figure out how to navigate something that was changing so quickly?

T. Rehmatullah: Yeah. I think a piece of it that was challenging was just trying to do inventory planning. You think about, if you want to get hit better price points or make sure that you have enough supply, you'll buy product or packaging that's like 6 or 12 month supply, but in cannabis the rules were changing constantly, so you would buy something, and then three months later it would be obsolete or you would get all these labels printed and the rules on label printing change, how the font.

T. Rehmatullah: There's very specific rules around the font size and like what you have to make sure is placed on there and where the logo needs to be and every state is different, and so you can't even just have one format either. For me, I was thinking about it three months at a time max and it scared me to think beyond that because it's like, "What if we overbuy?" Then, we're just sitting on packaging or product and we were at times too.

T. Rehmatullah: There's cash management issue that you're constantly going through. It's being ahead of what's potentially happening in the market. In some markets that we decided to go into, we just went in with child-resistant packaging, which is far more expensive than normal packaging to even for a brand to have. It certainly cuts into your margins but it was a safer route because we thought that it's going to get there someday, and sometimes we were a little too early, where it's like you could have had a higher margin for six months but we didn't because we wanted to be able to plan it out a little bit more.

T. Rehmatullah: These markets where things are constantly changing. It's like it really had to shift your mindset on how nimble can you be to navigate these things and shift out of it if you have to, and things certainly happened that we didn't know we're going to happen, and we just, you just have to figure it out and try to make it as cost-effective and as painless as possible. There was always pain but how do you kind of get through that as quickly as you can.

Jen McFadden: You're kind of changing mindsets on the consumer side, you're also trying to change some behavior on the producer side, in terms of sourcing product. Can you talk a little bit about; A, some of the constraints that you had by operating on a state-by-state basis in terms of ensuring quality of product, et cetera, and then; B, just how you navigated that this is an industry that has been around for a long time and has a deep history, how you navigated that in a way where you were creating an environment where everyone felt somewhat welcomed.

T. Rehmatullah: Yeah. The state-by-state part was interesting and challenging in that every state has its own rules, everything operates slightly differently. Newer states that have come online are certainly learning from past states but they're still not that much consistency across how you function and how do you take a product from

one state to another. You can't cross state lines obviously, so figuring out licensing mechanisms or partnerships that allow you to kind of cross into different states, but we had made different packaging in different states because in a state that would let you have clear packaging versus the one that required you to have opaque packaging, you want to have the packaging that people can see your product, but if it's not allowed, okay, then, it's not allowed.

T. Rehmatullah: You have to plan for all of those different environments, and still you're trying to minimize your costs, you're trying to make it most effective, but you're also trying to talk to the consumer in that state and for a state like California, there are so many different consumer groups. Northern California is very different than Southern California in what they like and how they consume.

Jen McFadden: Can you talk a little bit about the difference?

T. Rehmatullah: Yeah. When we launched in California, in Southern California, we had all sun-grown product, all outdoor natural product because that really fit with the brand, and we felt pretty strongly about that and we thought that who wouldn't like outdoor grown natural organic-ish product and it turned out that in Southern California particularly in LA, they did not like it. They wanted the indoor grown, very high potency product that was coming out of those types of facilities and often outdoor product the coloration is a little bit different, and so to them it didn't appear as impactful as what they were used to and they certainly would not pay a premium for it, but often wouldn't pay anything for it because they're just like this is not the type of product that we want or were used to.

T. Rehmatullah: When we released a similar, the same product in the Bay Area which was a couple of months later, they loved it. They liked outdoor grown product more. It was more into the lifestyle that the population there. It was much more suited for that so it was interesting in just thinking that, okay, it's one consumer market. It's absolutely not one consumer market, so then when you start translating that into other states as well, they're different consumer markets all over the country, right? Just based on somewhat the traditional market looked like, what the illicit market was like for them and what they were used to.

T. Rehmatullah: For those people transitioning into now the legal market, but then also for new consumers coming in what are their expectations. Some of them consumed when they were younger and stopped for decades and we're coming back into it now because it's available legally, but they didn't know how to look at things. How do you judge what's a good product, what's not a good product? Some people then started looking at it like, what has the nicest packaging, nicest branding?

T. Rehmatullah: The same way you respond to things in grocery stores or when you're buying skincare and things like that. Once we started to understand that side of it a

little bit more by looking at other industries, we're able to apply similar mentalities to the markets we were trying to go into, but you really had to understand that specific market. It was definitely not a one-size-fits-all and the cannabis market is very regional because there's still a lot of brands that are only available in specific parts of the country, in specific states and specific regions.

T. Rehmatullah: If something's popular in California that doesn't mean somebody coming from Oregon is even going to know about it and vice versa, because you can't cross state line. You see more crossing state lines now because of licensing. That's gotten a little bit more sophisticated on that side, but it's still a challenge.

Jen McFadden: Speaking kind of sticking on the regulatory environment for a few minutes, can you talk a little bit about the state of the industry now? Where you think it's going from a regulatory perspective and how that's driving some of the decisions that you're doing both at Hyper and MTech?

T. Rehmatullah: We think, I think there will be federal legalization but I do think it's going to be, not in the format that everybody wants where it's just full legalization like Canada. I think we'll get some type of federal policy that will allow for banking for cannabis businesses and ancillary businesses, which has been a challenge to date.

Jen McFadden: Just really quickly for those who don't know. Talk about the challenge there and how that impacts maybe some of the employees and some of these companies.

T. Rehmatullah: The challenge is that cannabis is still a Schedule 1 narcotic. It's federally illegal, although several years ago during the Obama administration there was something called the Cole memo, which essentially outlined that if states followed the rules in the Cole memo, the Department of Justice wasn't going to go after them. They weren't going to be pursued by legal authorities as long as they were following their state law.

T. Rehmatullah: When Jeff Sessions came in that was rescinded. It wasn't law anyways but it was how it was a safeguard and like just operate appropriately, be compliant within your state and you should be okay, however, because the Cole memo was not law there still was this discomfort for financial institutions to bank companies that are operating in the cannabis industry, and it's not just cultivators or brands or retailers, it was tech companies whose clients are cannabis.

T. Rehmatullah: You name it, they weren't able to get bank accounts. That has shifted a little bit as the industry has evolved and people were more comfortable with it, but it's also, it's still a challenge like you probably couldn't get Chase to have your business bank account if you're operating the cannabis industry and that's created a highly cash driven business, which is not only inefficient but it's also very dangerous.

T. Rehmatullah: There are technology platforms that have come out to assist with the transaction side of it, but it still continues to be a challenge so when you think of your employees, I mean, you have salespeople who are doing deliveries and collecting payment, which is often, most often in cash, and then by the end of the day they have thousands of dollars of cash on them and they can't just go to a bank and deliver it. It's a pretty dangerous position to put your employees in.

T. Rehmatullah: A lot of businesses have been able to work actually with local credit unions and smaller banks that are not FDIC insured, and they're more willing to take on that kind of business but those also have their own challenges too, and that you're kind of combined to this one, maybe one branch or it has restrictions around it so with federal policy allowing for banking, that'll just make the businesses from my perspective a lot safer, make the industry a lot safer, and I think that policy will still get pushed down to make it a state issue, so every state will still want to ...

T. Rehmatullah: I mean, the reality is every state is going to want their own tax revenue so you take state by state policy away and there are other challenges that kind of come with that. I think the federal policy will start there, and then over time there will probably be legalization where it can move from state to state like every other consumer product, but I don't think that's the first iteration.

Jen McFadden: Can you talk a little bit about the difference between the regulatory environment here in the United States versus Canada and some of the opportunities that that's created and also some of the challenges?

T. Rehmatullah: Canada is the first G7 country to federally legalize it both for medical and adult use. Medical was 2014. They had different form of that prior to that but adult use was in October 2018 and the opportunity is that it's open up the market for Canada, in particular, to become these global businesses that are also able to export and import. Other countries haven't really evolved to that side yet.

T. Rehmatullah: Canada is also producing cannabis that can be imported into parts of Europe and Australia, and what's also happened is the capital market side of it because it's federally legal there is the optionality for businesses to go public in a way that they can in the US, because it's still federally illegal here so a lot of US companies ... I mean, over a hundred easily have IPOed on the CSA in Canada because that particular exchange has allowed for IPOs of assets that may be still operating in federally illegal environments.

T. Rehmatullah: For the US there are companies that are on the OTC, but not on the major exchanges. Not on the New York Stock Exchange or not on NASDAQ. Most of the companies that are listed on those, which are only a handful, are based in Canada and not operating at all in the US. It's created this interesting capital markets dynamic where all this business and capital has flowed to Canada and the US is still trying to get access to it.

T. Rehmatullah: There is an opportunity now and you see larger financial institutions getting into it but it's not at the level that you see in other industries yet. It's coming but not there yet.

Jen McFadden: Speaking of the financing side, can you talk a little bit about what you're doing with MTech and the SPAC that you created and what the acquisition strategy is there?

T. Rehmatullah: A SPAC is a special purpose acquisition company. We launched that last January. January 2018, and the purpose of that was to get a pool of capital, SPAC itself is a shell company that you IPO, and then you have a timeline to do some kind of an acquisition and take a business public through that entity. It has a very specific focus on what you're trying to achieve.

T. Rehmatullah: What we tried to do and are doing was a focus on the ancillary side of the business so businesses that don't touch cultivation or delivery, don't touch the plant. We thought that that, one, was not only a safe way to do a US listing, but a service that is absolutely necessary to the industry in order for it to grow but also gives access to investors to, and still invests in cannabis but not necessarily that side of the cannabis industry.

T. Rehmatullah: My viewpoint is that that side of the industry, the non-plant touching is still has a really long way to grow and probably has a longer timeline because everything right now has been so focused on cultivation and getting products from A to B, but we still need to make it more efficient, more transparent, regulated in a certain way. We have been focused on those type of businesses. We're currently in the process of closing a transaction with a company called MJ Freeway, which is a seed to sale tracking technology.

T. Rehmatullah: The thought process around that was to bring in one asset into the SPAC that then turns into a holding company, and then go on and use the cash that we raised, which was 57-1/2 million to go and do M&A, to not only grow MJ Freeway itself but to bring in other assets that are complementary, so data analytics, other elements of supply chain management.

T. Rehmatullah: Aspects of technology really that can continue to make businesses more efficient. There's still a lot of businesses that are probably using too many spreadsheets to track their information because the technology around that ... I mean, a lot has been developed but it's still not at the level that you see in other industries, and the question that we often get is, "Well, with legalization, won't Oracle or Google or Amazon or any big company that you can think of get in?"

T. Rehmatullah: The answer is absolutely, of course, they will, but they're not doing it now because they are these large companies that cannot operate with businesses that are operating in a federally legal environment. It creates this window of opportunity and a lot of those types of platforms have had to develop for the

industry. Point of sale software, ERP, when you think of just basic data analytics, do I think that those companies will come in and not only participate but be buyers of the best assets? Absolutely.

T. Rehmatullah: That is likely to happen, so our goal now is to build one of the best assets and perhaps it's a partnership, perhaps an acquisition, maybe they both operate in the space but that is definitely going to happen down the road.

Jen McFadden: Like I mentioned, you are one of the top women in the space right now and you've done a lot of work and I think you entered into the industry with this focus on the social side of, and the social impact of the industry itself. You've done a lot of work to increase diversity in the industry. Can you talk a little bit about some of those initiatives and why you feel like that's important particularly given this industry?

T. Rehmatullah: When we think about cannabis and who was traditionally involved in the cannabis industry, it certainly was not the population that is front and center now. The entry of capital markets, your population often shifts and it looks like all the other industries where it's predominantly white men, wealthy populations who are able to not only you know take the risk of coming into an industry like this that is new and developing, but also can you know afford to maybe not make an income or operate in that type of environment. A lot of people who have traditionally operated in the space can't.

Jen McFadden: Just really quickly, I think it was interesting to hear a little bit about New York State requirements for licenses, although it only costs \$200 for a license in order to actually get that license. You have to have leases on three different buildings.

T. Rehmatullah: Actually, the application process was \$200,000.

Jen McFadden: \$200,000.

T. Rehmatullah: Yeah. It's only-

Jen McFadden: When you said 200 before, I was like, "That seems like a small amount of money."

T. Rehmatullah: Yeah, to lose so \$200,000 non-refundable and part of that application process was also that you had to have, leases our options on real estate. It presents a very challenging environment, and on one side of it you want to regulate it as much as you can in order to make sure that the right players are there, and people who are serious about it, and then it's not this flood of applications, but on the other side of it, by doing that type of a structure, you are leaving out so many people who don't have access to that type of capital and/or the ability to go raise it in the timelines.

T. Rehmatullah: Those tend to be minority populations are women, and what we've seen in the last, really in the last two years is this shift from having a much more diverse industry and people who have traditionally worked in it are people who could ... We're getting into it for likely different reasons. We saw an opportunity or had had a relationship with cannabis long before it was ever legalized.

T. Rehmatullah: Now, it's really the opportunity to make money and it creates an interesting dynamic within the industry and capital market, the entry of capital markets creates massive opportunity and growth, and on the other side that we start to follow the similar patterns that we see in other industries where there are less women and people of color at senior levels of companies. Most management teams are white men.

T. Rehmatullah: What we, myself and a bunch of people in the industry try to focus on, and in a less formal way. I mean, I'd like to formalize this in a way but it's still thinking about how do you actually do that that it's impactful, and it's done on a broad base is I work on the investment side and work with a lot of companies that are constantly recruiting and trying to find different management, managers in their company, and also interact with a lot of people who are looking for advice or mentorship or are looking to transition or I have worked with them in another capacity, and so being able to make those connections where a lot of these people maybe wouldn't have access is a big part of it.

T. Rehmatullah: I mean, accessibility is I think one of the biggest things that we're starting to lose within this industry, and it's not only access to capital, access to jobs, access to the opportunity to participate in the industry. Now, the industry has shifted to if you worked in an Apple or Google and it's not taboo for you anymore to come into the industry, so those are all the people who are coming in. It's a lot of people who already had all the opportunities and we're overlooking other populations.

T. Rehmatullah: Particularly, we're overlooking populations that maybe have been incarcerated for cannabis possession in the past, and a lot of markets have made it, so if you have any type of record, you can't be employed in the space, and a lot of companies have, right? If you have some kind of a record, you cannot be employed. But what if it was a cannabis charge that is now legal, what do you do about that?

T. Rehmatullah: Those are issues that we're still trying to work through, not only on a local basis but on an international basis. How do we encourage policy to shift all of that and so people can have opportunity? That's getting involved with local government, trying to get the ear of all the different candidates who are-

Jen McFadden: There are a lot of them right now.

T. Rehmatullah: ... supposedly running in 2020, and seeing how serious they are about making real policy that is going to positively impact those communities, and not in just the, okay, we'll give them a head start so they can apply for licenses but like a real pathway for them to succeed and become leaders within the space. There are a lot of different ways to do that but it starts with making sure that we get all those records changed and policy it provides for support of those communities, which it does in a fragmented way but we need bigger plays.

Jen McFadden: Excellent. We are at the end but I have one last question for you.

T. Rehmatullah: Sure.

Jen McFadden: What is the one book that you are giving for presents this year?

T. Rehmatullah: Interesting. I haven't given any book for presents this year but this one might be a little bit overwhelming to some, but I am currently reading Sapiens and it's a very thick book, which is also very, reading it very slowly.

Jen McFadden: You're reading it slowly.

T. Rehmatullah: Very slowly but it's essentially about the evolution of humanity and how we have kind of changed, not only physically but mentally over time and given the different situations that have happened like the Agricultural Revolution, and how Homo sapiens were hunters and gatherers who then became these farmers and how that's impacted our lives and kind of bringing it towards present day, and I haven't gotten to present day yet obviously because I'm not done with the book, but I have a very ...

T. Rehmatullah: This is a book that I tell people about all the time if they haven't read it, and I know a lot of people who have read it and it's a fascinating perspective written by an anthropologist that I think is very relevant to the world right now, and eye-opening just thinking about history itself and how humanity has evolved.

Jen McFadden: Excellent.

T. Rehmatullah: Or not evolved.

Jen McFadden: Depending on the day of the week.

T. Rehmatullah: Depending on what I'm feeling that day, my view on it.

Jen McFadden: Excellent. Well, Tahira, thank you so much for coming back to the School of Management and for coming to the class and for being part of the podcast.

T. Rehmatullah: Thank you.

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