

10 Firms Steer Pot SPAC's \$1.2B Deal With Jay-Z

By Jack Queen

Law360 (November 24, 2020, 8:52 PM EST) -- The biggest blank check company in cannabis on Tuesday created a marijuana powerhouse valued at nearly \$1.2 billion and featuring rapper Jay-Z as its leading visionary, in a deal steered by 10 firms including Paul Hastings LLP, Cooley LLP and Reed Smith LLP.

Subversive Capital Acquisition Corp. announced a pair of acquisitions: Caliva, a direct-to-consumer brand, and Left Coast Ventures, a cultivator, manufacturer and distributor of cannabis products. The deal includes \$36.5 million in upfront equity commitments and will create a yet-to-be-named holding company that intends to shake up the industry's leading business model. Jay-Z will be the company's chief visionary officer, helping the company develop top-shelf cannabis brands.

The deal represents a break from the strategy pursued by publicly traded multistate operators, or MSOs, which build patchworks of self-contained supply chains because cannabis can't cross state lines. SCAC executives say the new company will initially focus only on California, the country's largest pot market, but has an eye on national expansion if recreational marijuana use is legalized nationally.

"Going into every state and putting down \$20 to \$30 million for vertical integration doesn't make sense in the long term," SCAC adviser Steven Yoo told Law360 on Tuesday, referring to ownership of all rungs of the seed-to-sale supply chain.

Dominance in California will give the company the scale to go nationwide after the "inevitable" end of prohibition, Chairman Michael Auerbach said, though the timeline for legalization remains hazy if Republicans hang on to control of the U.S. Senate.

"Unlike incumbent publicly traded MSOs, we can scale nationwide, with a brand IP focus, asset-led approach versus the duplicative, [capital expenditure]-heavy approach we have seen most publicly traded U.S. operators undertake," Auerbach told investors on a call Tuesday.

California's size, talent pool and cheap wholesale cannabis make it the ideal place to start, Auerbach said. The Golden State is the "largest, most fragmented" marijuana market in the country, making it ripe for an aggressive merger and acquisition strategy, he added.

Cannabis special purpose acquisition companies have **lined up billions** for investments this year, and dealmakers say political and market tailwinds have **primed** the industry for M&A activity. SCAC is one of the most well-capitalized players, with \$575 million in cash. Executives say its deep pockets and revenues from Caliva and Left Coast — estimated to hit \$334 million next year — will allow it to gobble up competitors.

Chief visionary officer Jay-Z, meanwhile, will help SCAC develop cannabis brands with national appeal, the company said. The rapper, producer and entrepreneur also wants to invest in Black-owned businesses to redress the harms of the war on drugs.

"Today we're talking about the path forward: what the end of prohibition looks like and who's building it," he said on Tuesday's call.

The company plans to invest an initial \$10 million in minority- and Black-owned businesses and

dedicate 2% of its annual revenues to "rectify the wrongs of prohibition" and advocate for criminal justice reforms.

Canaccord Genuity Corp. is serving as financial adviser to SCAC. The deal is expected to close in January.

SCAC is represented by Blake Cassels & Graydon LLP and Paul Hastings LLP.

Caliva is represented by Benesch Friedlander Coplan & Aronoff LLP and Bennett Jones LLP.

Left Coast Ventures is represented by Cooley LLP and Cassels Brock & Blackwell LLP.

Jay-Z and his companies are represented by Cummings & Lockwood LLC, Reed Smith LLP and Aird & Berlis LLP.

Canaccord Genuity is represented by Stikeman Elliott LLP.

--Editing by Bruce Goldman.