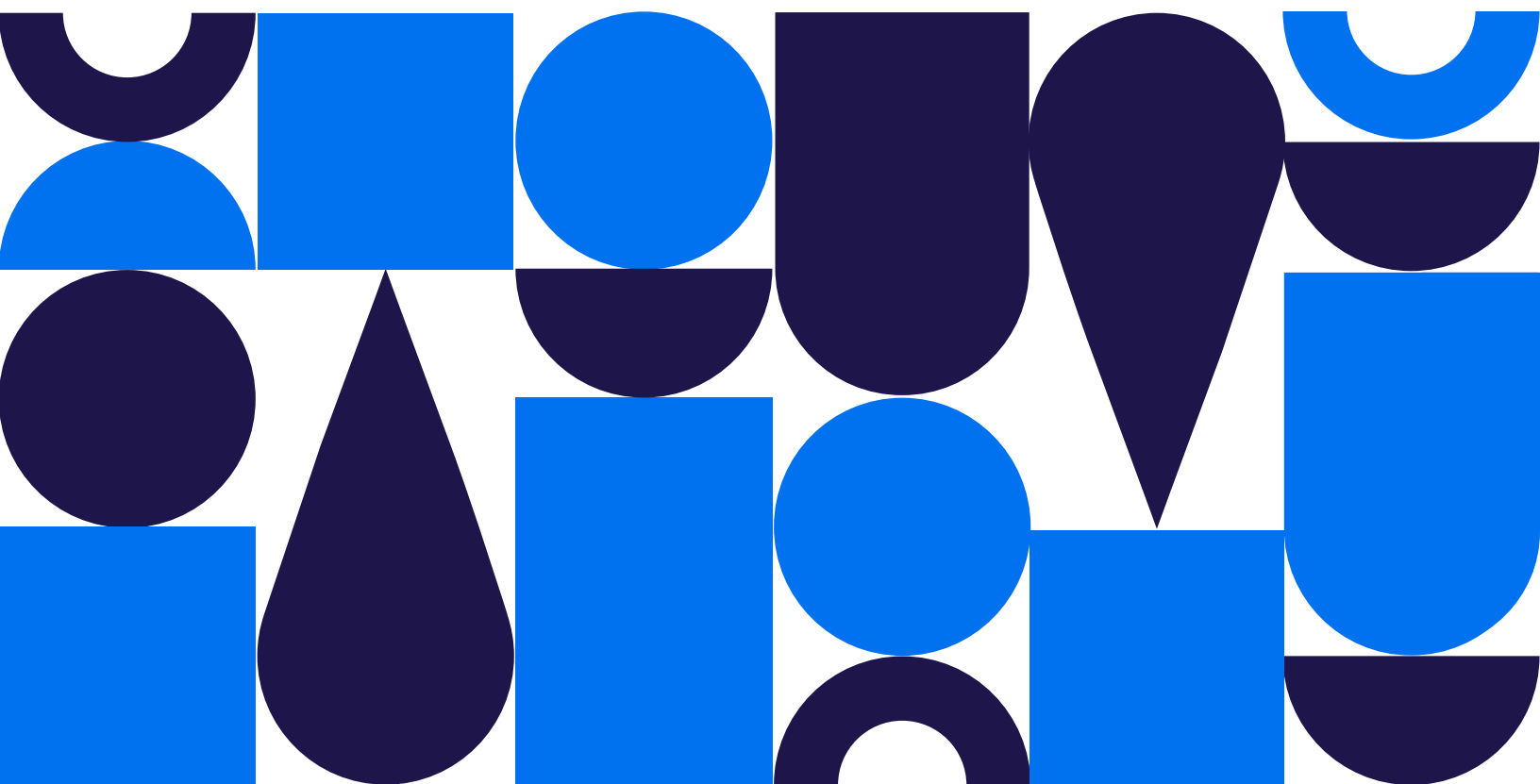




# High Stakes: Financial Opportunities, Challenges, and Insights in Cannabis

January 2024



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## Financial Growing Pains Are Everywhere In Cannabis

As cannabis moves into the mainstream, one might assume that running a cannabis company is just like any other business. But anyone on the inside knows how uniquely challenging it can be.

While it's true that public sentiment towards cannabis continues to improve and a growing number of states have moved forward with legalization, the federal government has yet to enact meaningful reform that would treat cannabis-related businesses like every other business. Markets are volatile in almost every state, as supply and demand still haven't settled into a more predictable fluctuation. The result is a daunting array of financial roadblocks.



Startup capital is scarce for some and unavailable for most.



Retailers pour every penny they have into getting their business off the ground, only to find themselves unable to pay their bills when sales don't rise as quickly as expected.



Brands, in turn, find themselves with a cash flow deficit as they wait for retailers to pay.



Many businesses have no option but to operate entirely in cash, leaving them vulnerable to robbery and fraud.

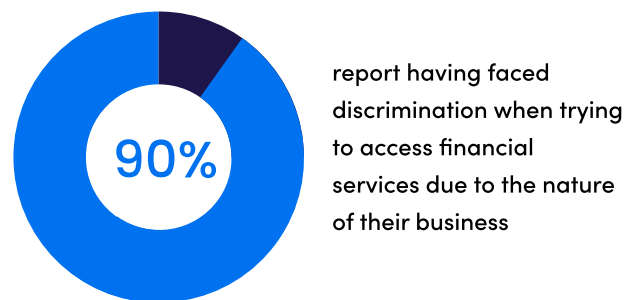
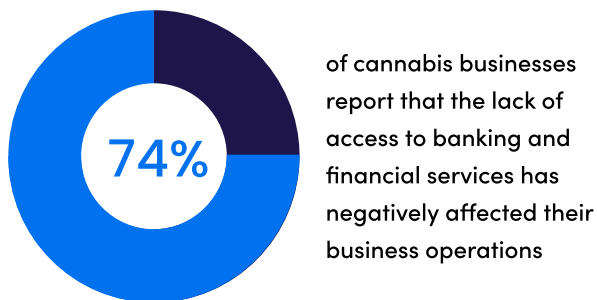


And when it comes to accessing essential business services—say, a bank account—most in cannabis are limited to a small subset of 420-friendly vendors.

We wanted to understand precisely how this chaotic financial climate impacts business owners, so we went directly to the source—our customers. We surveyed **72** cannabis professionals across all types of roles and organizations, and the results underscored the challenges and opportunities in cannabis financial services today. In this report, we'll share what those customers told us and how we believe things will shake out.

## Banking Access

Getting a bank account is an important first step to starting any business. But when you're in cannabis, that's easier said than done. Federal laws still make it incredibly risky (and often illegal) for large bank chains to work with plant-touching businesses. According to our survey:



So how do they do it? Most businesses (74%) work with a local bank or credit union, and they'll be the first to tell you it's not ideal. These smaller banks often don't have the infrastructure to meet the unique needs of cannabis, and most have not invested in the technological upgrades required to provide a best-in-class user experience.

They are also often inconveniently located—one customer in Oregon reported their nearest bank is a two and a half hour drive away. And even worse, some

don't have a banking option in their state at all. Another survey respondent in Oregon told us they bank with a Missouri-based bank, and the only way to get money into their account is to have it picked up in an armored car and driven across the country.

It's no wonder that 7% of our respondents said they don't have a bank account—to them, it isn't worth the trouble.

### Do you have a dedicated financial institution for your cannabis business transactions?



On top of being cumbersome, the banking solutions available today are **expensive**. 1 in 4 customers said that their biggest gripe with banking was simply the high cost required to maintain a bank account. **49%** of those surveyed said they pay \$500 or more to keep their bank account each month, with about a quarter of those paying up to **\$4000**. And that's just the monthly fees—many banks also charge per-transaction fees that add up quickly and can go unnoticed.



Did you know LeafLink is working on a banking solution designed just for cannabis? Scan here to join the waitlist and receive exclusive insider updates!



When accessing startup capital, the pool for plant-touching businesses is small. Few venture capital firms are ready to finance what they believe is still a risky industry, and bank loans are not possible under current regulations. Business owners who don't already have deep pockets will have to solicit investments from family and friends or find other ways to come up with the money.

### Secure And Fair Enforcement Regulation Banking Act

56% of our customers are optimistic that passage of the SAFER Banking Act and other legislation will alleviate some of these financial challenges.

And we agree—these changes will take some of the pressure off and make it easier for banks to offer services and loan capital. But we also know that traditional banks move slowly, and it may take a few more years for them to come around to the industry.

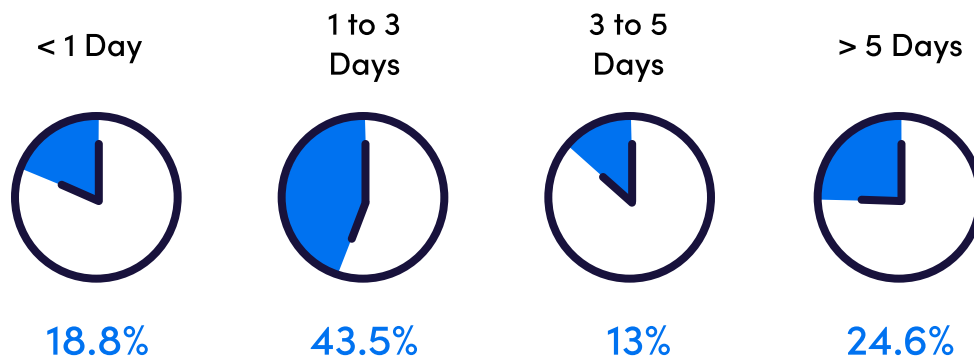
But in the short term, the problems remain.

## Accounting

It's not the sexiest part of running a business, but it's definitely one of the most important. A successful cannabis operator must have all their funds accounted for in order to be able to pay bills on time, maintain financial compliance, and invest in growing the business. So far, it sounds like many of them are still getting the hang of it.

Cannabis business leaders spend too much precious time on the dreaded task of closing their books. **1 in 4** businesses reported spending **five days or more** every single month. That's 5 (or more) whole days that could be spent on more strategic work, and instead, they're consumed by manual data entry and tedious reconciliations.

### Approximately how much time do you spend each month closing your books?



Retailers, in particular, are twice as likely to have a long monthly close—30% of them spend 5+ days on the process, compared to just 15% of brands. This lengthy closing period may be because fewer retailers have a dedicated accounting and finance team

22%

of retailers said their outgoing payments are handled by an accounting/finance team member.

33%

1 in 3 retailers told us the owner/CEO handles their outgoing payments. As if they didn't already have enough on their plate!

If it's impossible to afford a full-time finance employee, business owners should consider hiring an outsourced accounting firm or fractional CFO. These professionals specialize in cannabis and act as consultants for multiple businesses, so they can help ease the burden of work and fill in the knowledge gaps for those of us who aren't CPAs.

Another great way to reduce manual work is to embrace modern accounting software. Most businesses are already doing this—50% are already using QuickBooks Online and another 24% are on QuickBooks Desktop. Another small percentage reported utilizing an enterprise resource planning tool (ERP) specific to cannabis, like Distru (3.5%) or Canix (3%).

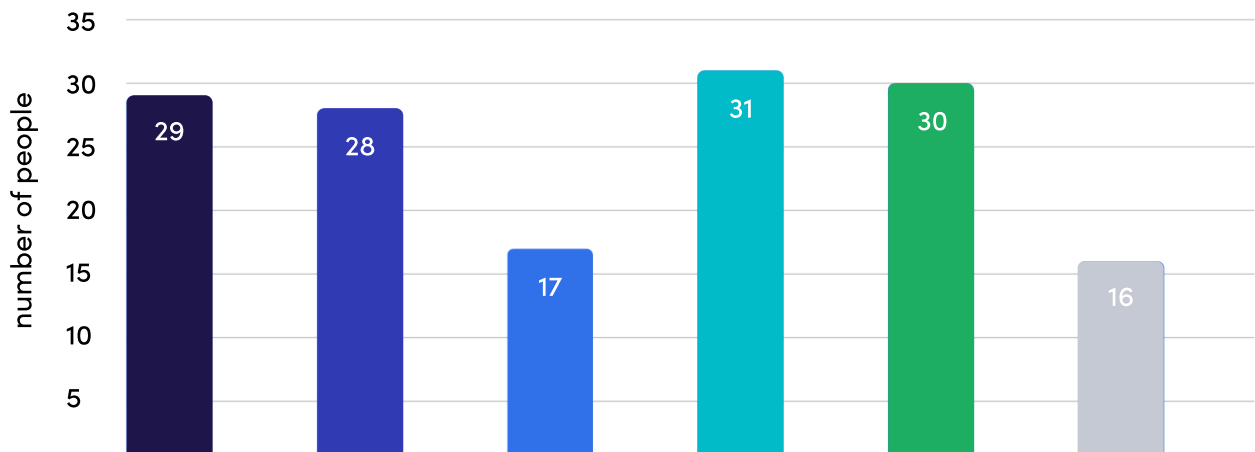
But they'll need their accounting systems to be more connected if they want to achieve tangible reduction of costs and manual work. The best way to do that? Integrating directly into the order management system. This mitigates the breakdowns that happen when systems operate in silos, and eliminates the duplicative data entry.



## Payments

Sending and receiving payments should be the easiest part of running a business. But in cannabis...you get the idea here. Our customers cited a host of challenges when handling payments, the most common being slow payment processing times, high fees associated with sending and receiving payments, and damaged relationships with sellers and partners due to non-payment or other payment issues.

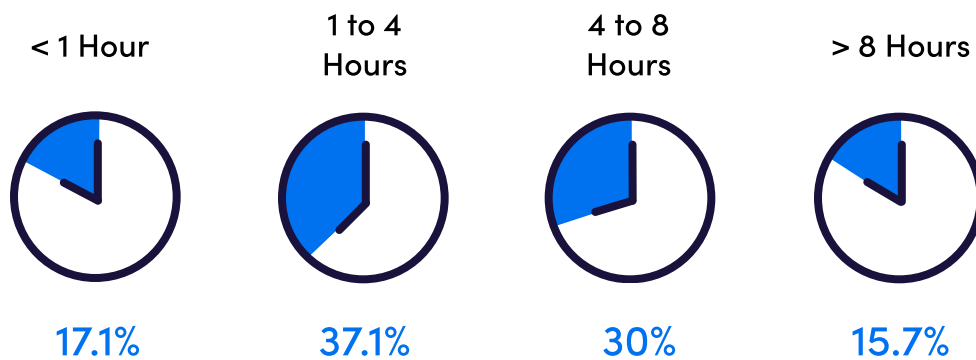
**Which of the following challenges has your business experienced when it comes to payments?**



- Slow payment processing times
- High fees associated with sending/receiving payments
- Trouble keeping track of all incoming/outgoing payments
- Damaged relationships with vendors and partners due to payment issues
- Access to credit / payment terms
- We haven't experienced challenges with regards to payments

Interestingly, fewer respondents identified keeping track of incoming/ outgoing payments as a problem. However, when asked about the time they spend reconciling transactions, their answers made it clear that there is room for improvement. 1 in 3 businesses spend 4-8 hours per week monitoring and reconciling payments, with 16% spending 8 hours or more each week on this task!

### Approximately how much time do you spend each week monitoring and reconciling payments?



The significant time spent reconciling transactions is partially due to the prevalence of traditional payment methods, like cash and check, which are hard to track, costly to send, and tedious to reconcile. But even customers using digital payments spend too much time toggling between platforms to ensure that payments and orders match up.

Inefficiency may feel like the norm, but it doesn't have to be. Leveraging modern technology (like the payment options in the LeafLink platform 🤖) can simplify your process and eliminate the need to waste time reconciling at all.



**“ We do everything with LeafLink. All our inventory controls, invoices, reconciliation—everything is done on the platform.**

**Being able to integrate operations, fulfillment, and financing has been a real game changer. LeafLink is our backbone and continues to help us grow.**

**”**

**Tim Schuler, President and COO of D&K Ventures**

**Want to improve your financial technology, but not sure where to start?**

LeafLink offers a range of financial services products, from payments to banking, that may be able to help. Chat with one of our financial experts today.

## In Summary

As an emerging industry facing regulatory and economic hurdles, cannabis is at the beginning of a long road to becoming stable and predictable. Despite the challenges outlined above, here are the reasons we feel hopeful for the future of the industry's financial services:

- 1 We have now seen states across the political spectrum legalize cannabis for medical or recreational use, and now many holdout states are surrounded by those that have embraced legalization. This makes it increasingly difficult for them to resist the economic benefits of following suit. We predict additional legalization measures in those states in the next couple of years, opening the door to more opportunities.
- 2 As attitudes toward cannabis improve, policy changes are occurring at all levels of local and state government. It's only a matter of time before that pressure overflows and federal officials advance cannabis reforms. When they do, we could see many benefits for the industry, such as relief from additional tax burdens if rescheduling occurs.
- 3 Future policy changes have the potential to further normalize the industry and expand access to business services (e.g., banking) that could make operating a business in this industry more feasible.

The bottom line: we still believe in this business and the people working to make it great, and we can't wait to see where you take it next.

Founded in 2016, LeafLink is the leading technology and service provider for over 12,000 cannabis brands, retailers, and distributors. Our wholesale marketplace connects cannabis businesses of all sizes, simplifying and digitizing daily business processes with key tools like payments, advertising, data insights, logistics, and an array of third party integrations.

To learn more, visit [leaflink.com](https://leaflink.com)

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