

# Detroit Free Press

## MARIJUANA

# A major Michigan pot company is in receivership. It isn't the only one that's struggling.



**Adrienne Roberts**

Detroit Free Press

Published 6:26 a.m. ET March 21, 2023 | Updated 8:33 a.m. ET March 21, 2023

After battling rapidly declining marijuana prices and increased competition, the face of Michigan's 3-year-old recreational cannabis industry is starting to change as some companies shutter their operations and other big companies enter receivership.

The news of the mid-Michigan-based cannabis company Green Peak Industries, which operates under the brand name Skymint and went into receivership earlier this month, is the most notable, and public, example to date of a well-known company struggling.

It's not just big companies that are that are going through tough times. Four other marijuana companies in Michigan also are in receivership, according to Michigan Cannabis Regulatory Agency data obtained by the Detroit Free Press. Receivership is a process in which a receiver steps in and runs a company so that creditors can recover the money they're owed. Marijuana companies cannot declare bankruptcy because that is a federal process and marijuana is still illegal under federal law.

Meanwhile, companies headquartered in other states that expanded to Michigan, like Terrapin — a Colorado-based cannabis company with operations around the country, including a cultivation facility in Grand Rapids — shut down its Michigan operations. Others, like the Boston-based marijuana delivery service Lantern, which expanded to Michigan and offered customers a platform to order recreational marijuana for delivery like they would food through a system such as Grubhub or DoorDash, shut down its service in several cities, including Detroit, earlier this year.

"Two years ago, everybody in Michigan was saying, 'I'm going to sell my business for millions and I'm going to be a millionaire,' " Dave Morrow, CEO of one of the biggest cannabis companies in Michigan, Lume Cannabis Co., said in an interview. "Last year, everyone was saying, 'I just want my money back.' This year — I'm not exaggerating — the deals we're being presented with are: 'Here are the keys. I'm quitting. I don't want to do this anymore.' "

It's difficult to track how many cannabis companies are in Michigan and which companies have gone out of business because there's no complete data.

The industry is still expanding as more cities around the state decide to allow marijuana businesses within their communities. There are 25% more active marijuana licenses (one company can hold multiple licenses) than there were a year ago, according to February data from the CRA. There were 3,167 active marijuana licenses in February compared with 2,527 active licenses the same month a year ago.

However, data from the cannabis market intelligence firm Headset, which tracks sales at dispensaries through the retailer's point-of-sale systems, suggests that the number of cannabis companies in Michigan could be contracting. After three straight years of growth, fewer marijuana brands are selling in Michigan dispensaries in 2023. So far this year, Headset has tracked 612 brands and that's down from 866 last year and 793 in 2021. One company could own several brands.

While available data doesn't tell the whole story of what is happening in Michigan's marijuana market, paperwork prepared as part of Skymint's receivership and the lawsuits that led to it show some of the challenges of running a cannabis company and how the market could change in the coming months and years.

## **Investor wanted its money**

The news that Skymint was placed under the control of a receiver earlier this month came to light after the Canadian investment firm Tropics LP said in a lawsuit filed in Ingham County Circuit Court in Lansing that the company owes it more than \$127 million.

Skymint was burning through cash at the rate of \$37.5 million per year or \$3 million per month, the lawsuit said.

In an emailed statement, Skymint said its priority from day one "has been to create stability and maximize available opportunities for our employees, other stakeholders and company.

This court-approved agreement (receivership) will allow us to improve our balance sheet and financial position, with as little disruption to our day-to-day business operations as possible."

Skymint, once described as one of the "General Motors, Fords and Chryslers of the cannabis industry" by the former executive director of an association that represented the company, employs more than 600 people across 24 dispensaries around Michigan and three indoor grow facilities in the Lansing area.

Canadian cannabis lender SunStream Bancorp, through its affiliate Tropics LP, said existing employees and "certain" key management will remain in place and that it intends to continue to provide working capital financial support to Skymint throughout the receivership process.

Signs outside at least one Skymint dispensary in Hamtramck, which was formerly a 3Fifteen store, say the dispensary "was temporarily closed until further notice" and suggested customers visit the Skymint dispensary in Hazel Park, raising questions about the future of this store and others that were acquired last year by Skymint. A Skymint spokesperson did not respond to questions about why this store was closed.

**More:** Michigan communities will share \$60 million of recreational marijuana tax revenue

**More:** The struggle Black cannabis business owners face, and what they say needs to change

## **Challenges are many, and not just for Skymint**

In its statement, though, Skymint pointed to broader industry challenges in Michigan that led to it entering into receivership. It pointed to "excess supply, decreasing prices, limited access to capital and the increasing cost of capital."

Terrapin's vice president of communications Peter Marcus also pointed to some of these issues, and said in an emailed statement that "... constraining prices and oversupply of product within the marketplace made it difficult, if not impossible, to operate in the Michigan cannabis market. As a result, we have already seen a number of operators exit the state or go out of business completely."

Michigan doesn't have a cap on the number of marijuana licenses. Over the last few years, as more companies have entered the market, the amount of product entering the market exceeded demand, industry insiders say.

That led to a steep price decline, causing profits to shrink. The average price for an ounce of marijuana flower sold at a recreational dispensary was \$86 in February, a 46% drop from the

same month last year when it was \$160.10, according to the CRA.

"For a while, it was really great when the market was good but what we're seeing in the market is this oversaturation of cannabis, both legal and illicit. (It) has really brought a lot of people into a reality check," said Shelly Edgerton, former board chair for the Michigan Cannabis Manufacturers Association, an association that dissolved last year. Skymint was a member of MCMA.

## **'Very bad debt agreements'**

Cannabis companies have limited financing options because marijuana is still illegal at the federal level. They can't get a traditional loan from a bank, for example, because banks must comply with federal regulations that ban or restrict lending money for illegal activities.

Lenders, though, have done sale-leasebacks with cannabis companies, like Skymint, in which a cannabis company would sell its grow operation or dispensary to the lending company, which then leases it back to the cannabis company.

A sale-leaseback offers cannabis companies an infusion of cash, which can be used to run the business or expand, but often comes with capitalization rates, known as cap rates, that can sometimes exceed 15%, Scott Roberts, founder and managing member of Scott Roberts Law in Detroit, said, meaning the cannabis company has a higher lease payment.

That's a higher rate than what companies in other industries would pay because there are few companies that are willing to do business with cannabis companies and thus they can charge a premium.

"The lack of access to capital in the cannabis industry causes these companies to enter into what would otherwise be considered very bad debt agreements," Roberts said.

Morrow, of Lume, calls these sale leasebacks one of the "three deadly sins of cannabis." The other two include getting a high-interest loan with rates as high as 30% and mergers that are either overpriced or underwater, which leave the buyer with more debt than the new company is worth.

Companies committed these "sins," Morrow said, assuming that either cannabis would be legalized at a federal level by now or that legislation would be signed into law that would allow cannabis companies to access traditional financial services, and would thus make their businesses more valuable and they could be sold at a premium. That hasn't happened.

Morrow said he has built Lume to succeed in today's environment and is seeing sales growth (the company said it's on pace to surpass 25% sales growth in 2023) but "when you're in an industry and almost everyone else is failing, something tells you that maybe there needs to be some change."

*Contact Adrienne Roberts: [amroberts@freepress.com](mailto:amroberts@freepress.com).*