

# Cannabis Equipment Financing

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Cannabis equipment financing is available through private money lending pools such as private equity funds, family offices, and hedge funds that participate in the growing cannabis industry. Cannabis related businesses (CRB's) face challenges with banking, merchant processing, and obtaining the typical credit facilities available to businesses in other industries. Our partnering lender has over the years provided equipment financing and leasing options for hundreds of CRB's. Having operated in the cannabis finance space for over 3 years, our partnering lender has encountered thousands of equipment leasing and credit scenarios in the industry.

Our partnering lender employs an in-house underwriting team, along with a capital lease manager, specifically committed to reviewing equipment leasing for the Hemp/CBD, CBG, and marijuana (MJ) industry. Our equipment lease financing underwriting team has reviewed thousands of equipment loans including, but not limited to, the following examples:

- Extraction Equipment
- Cultivation Equipment
- Lab Testing Equipment
- Remediation/Chromatography Equipment
- Aeroponic Systems
- Reverse Osmosis Systems
- Generators for Cannabis Grow Operations
- LED Lights
- Hydroponic Systems
- HVAC/Climate Control Systems

In addition, our partnering lender offers leasebacks to help borrowers obtain capital from their existing equipment. In most scenarios, new equipment leases and leasebacks require a UCC1 filing against the title of the equipment until the lease or leaseback is paid. Typical lease terms in cannabis are 2 years with full amortization with a \$1 buyout at the termination of the lease. Some lease terms require a fair market value buyout of some percentage at the end of the lease, but most larger leases do not.

Cannabis equipment leases are typically available from the \$100,000 to \$3,000,000 range. In some cases, in addition to the equipment, borrowers may need to cross collateralize another asset if the company is a pre-revenue startup. That said, cannabis startup financing is available so long as the

borrowers have a strong credit package, a down payment of around 35%, and some liquidity left to operate the business.

Post-revenue, profitable CRB's will have access to a better rate and term than startups, but cannabis equipment leasing carries a higher cost in terms of points and interest rate than most other industries. Although the profit margins of CRB's may be a risk reducing factor to a degree, the default rates in the industry have been high, especially after the volatility in the hemp/CBD market and corresponding massive price drop in the production vertical causing many CRB's to fold. Cannabis Marijuana businesses have increased risk due to basic banking limitations and reliance on cash to operate the business. Also, despite potentially large profit margins, CRB's have had a high default rate due to operators who were successful at obtaining licensing, but not successful operating their startup business. In a newer industry, it is expected that the pool of experienced operators is limited. Fast evolving technology in the sector is also creating higher risk for lenders. With rapid innovation in the sector lessors might have more trouble liquidating older technology on the secondary market in the event of a loan default and repossession.

Over the years, cannabis equipment financing has changed as funds have entered and exited the lending market. Demand for capital is on the rise, and the aftermath of the CBD/Hemp bust is still fresh in the minds of lenders who have tightened underwriting criteria as a result. As the market changes, it may be beneficial to work with a firm that underwrites a higher volume of leases on equipment for a few reasons. First, firms that are regularly closing loans understand which lessors are offering financing, and which ones have dropped out or changed their lending criteria. Also, finance houses that underwrite a larger volume of loans tend to enjoy better communication and greater speed of processing because of the trust they have earned by advancing consistently qualified files. On the contrary, working with brokers who have not regularly engaged in the space might unwittingly lead borrowers down rabbit holes.

Our partnering lender acts as a conduit for 139 independent ISO's who white label cannabis financing services. With underwriting done in-house, speed and efficiency are maximized for borrowers. Having reviewed and helped hundreds of businesses in the cannabis industry to obtain equipment financing, our partnering lender is the go-to source for CRB's looking for startup financing or expansion capital for their existing operations.