# TRANSCRIPT

## 4FRONT CEO JOSH ROSEN'S REDDIT AMA — Sept. 6, 2019

***Josh Rosen (u/4FrontCEO) – Sept. 3, 2019***
Hello, Redditors.

My name is Josh Rosen, CEO of 4Front Ventures Corp. (CSE: FFNT)(OTCQX: FFNTF), a diversified operator of strategically aligned cannabis-related businesses, including cultivation, production, and retail operations. We currently have operations in nine states, including California, Massachusetts, Illinois, and Washington. Check out our website for more.

On July 31, 2019, we successfully completed a merger with Cannex Capital Holdings. This merger marries Cannex's battle-tested cultivation and production capabilities, honed in Washington state, with 4Front's longstanding retail expertise. Our strategy is to apply these capabilities, along with the corresponding confidence in execution and efficiency, to nascent or early-stage markets. In addition, we are always looking to acquire additional talent and opportunities at the right price that augment our platform and fit our strategy.

We're building our company atop four pillars:

- Committed, experienced leadership;
- Battle-tested operating capabilities at scale;
- Strategic capital allocators and asset base; and
- A commitment to being a magnet for talent

** Edited to add a link to the transcript of our Q2 2019 Earnings Conference Call
In case you're interested, we held our Q2 2019 Earnings Conference Call on Tuesday. Here's the transcript of that call.

I'll see you on Friday!

***Josh Rosen (u/4FrontCEO) – Sept. 6, 2019***
Before I answer any questions, simply wanted to say thanks for the opportunity and great questions. With how dynamic this industry is currently, I can only imagine how my words now will get used against me when something is different in the future; the danger of social media in print. That said, our organization emphasizes agility, so in addition to the disclaimer language noted above, please remember that we're constantly learning and adapting to the changing landscape and view one of our edges to be our network and strategic lens.

I'll also be honest and admit that I cheated a bit by starting these answers last night, which is an accomplishment because I'm a diehard Cheesehead and there may have been a boring football game going on with a good outcome.

**Hi Josh. Thanks for taking the time to join us for an AMA! I've been following both 4Front and Cannex for awhile now, and have been excited to see you put your strategy into action. My biggest concern at the moment are the cash flow and capital raise issues facing the company. I have a series of questions on that topic:**

1) **How much cash does 4Front currently have available? How much debt financing is untapped and available still?**
    a. **How much of that cash+debt is restricted to real estate acquisition/construction vs. unrestricted and available for operational expenses?**
2) **Given the amount of capital currently available, how much operational runway do you project before additional capital is necessary? I realize this is hard to project; big ballpark is all I'm looking for.**
3) **When the time to comes, how will 4Front look to raise additional cash?**
4) **When it comes to personnel, who do you rely on to guide this aspect of your business?**
5) **What does cost of capital mean to your company? Are you concerned about the costs incurred in the most recent raises? For example, the LI loan from LI Lending comes with a 10.25% interest rate plus a 20% repayment premium; the Gotham Green Partners convertible note to Cannex carries a fairly high interest rate, is convertible at a fairly low share price, and provides warrants as well. Should investors expect to see this trend continue? Or do you plan to improve cost of capital going forward?**
6) **Given the crowded MSO field, early warning signs of an impending recession and other factors, do you anticipate it will be difficult to access capital in the coming years?**

**I realize I'm throwing a lot of questions at you here but, as I said above, this is my main concern as a 4Front investor. I'd love to get as much color on these questions as possible. Thanks, again, for the AMA!**

***Josh Rosen (u/4FrontCEO)***
You stated being an investor, so thank you for your support. Also thanks for the questions and you are honing in on what I view as one of the most relevant lines of questions for cannabis companies in aggressive growth and investment mode. Without addressing each individually, I'm going to work from bottom up. I'm a recovering philosophy major (economics too) and I like to start with the big picture.

I suspect accessing capital is likely to remain somewhat volatile and challenging to many in the sector, at least until U.S. institutional capital is more actively participating -- for what it's worth, this is one of the catalysts I try to get our leadership team and investor base aligned around –

our primary focus is building a business that creates value. But for investors that aren't involved in our day-to-day, I suspect some of the better return profiles and monetization opportunities are likely to surface as U.S. institutional investors and U.S. strategics (big pharma, CPG, alcohol, tobacco, etc) are active with U.S. touch-the-plant companies.

We are fortunate to have a good foundation of longtime investors and I believe they have good alignment with our vision and plans; this doesn't mean we have unlimited access to cheap capital, but I don't view that as problematic, as the investors deserve a good return on their capital deployed and we work to deliver that. Overall, I feel comfortable with our ability to access capital, owing both to our existing relationships and background (a few of us come from institutional capital backgrounds), as well as the strength of our platform and our compelling plans (I'm biased) to capitalize on what we think is a great opportunity.

Without getting into great detail, we preferred the LI Lending terms to the standard sale-leaseback terms we've seen in the industry, at least as of six months ago (feel free to drop them into a spreadsheet to compare – we might have done that a time or two). We prefer degrees of freedom to refinance as one element of this. As I noted on our last conference call, we're seeing more interested parties wanting to acquire real estate (likely attributable to the early success of IIPR) and that's bringing return requirements down into a range that those transactions are more enticing and actively being evaluated as alternatives (in real estate lingo, cap rates in 10-11% range rather than 14-16%). In addition, our ability to point at a profitable operation in Washington (if normalized) that operates in an already compressed pricing environment should give real estate investors more confidence that we know what we're doing when we build. Tying this back to the practical, because most of our capital needs relate to heavy capex and infrastructure development, we believe we have a lot of options at our disposal as we look at our project pipeline. In addition to real estate, there are a growing number of private debt options (see recent announcements from iAnthus and Harvest with Torian as examples of a newer player). Another benefit of capital being so tied to projects is if the capital access materially changes, we can also dial things back, though our plans are to keep our foot on the gas pedal. As disclosed in our press release and conference call, we pointed at $38 million of available capital; I'm not going to go into specifics, but will offer the caveat that our real estate related debt is more flexible than what would normally be linked to pure real estate finance (the word "related" is important).

**Hi Josh,**
**Thanks for participating. couple questions:**

1. **Which states have you applied for operating licenses in in 2019 and what opportunities are on the radar for 2020?**
2. **FFNTF appears very undervalued at the moment considering your projected revenue and EBITDA. What would you say is the primary drivers behind this gap?**
3. **You mention acquiring opportunities "at the right price". Is the organization focused more on acquisition or securing licenses independently? A bit of both?**
4. **What does your leadership team look like pre vs. post-merger?**

**Thanks**

***Josh Rosen (u/4FrontCEO)***
The states we're most focused on with respect to new licenses are New Jersey, California and Michigan, as well as a broader social equity push on the licensing front.

We prefer not to address valuation directly ourselves, though I will note that our window for insiders to buy the stock opened this week and I saw the first SEDI filings made this afternoon. We've been told that many don't really know about us yet. For instance, despite knowing the folks at Canaccord fairly well, we are not included in their comparable table for equity research. We view this as an opportunity -- no ill will as we're a new publicly traded company.

We're price sensitive buyers, both because we spend a lot of time thinking through investment returns (different lens, although we think related to equity returns over time). We have spent years building a platform set to scale. We've not been the group that wants to pay $50 million plus for an unbuilt Florida license, but should we find complementary talent or strategic piece that map well to our plan, mixed with identified value to our shareholders, we're prepared to be aggressive.

I have the honor and responsibility of being CEO with Kris Krane as President and most often, the external face of our company driving our network and business development; we recently expanded our finance team with the addition of a new CFO (see press release) and EVP, Finance, next to me in Phoenix. And we have Leo driving production (cultivation, processing, packaging, distribution) and Glenn Backus driving retail as respective Presidents of Brightleaf and Mission.

**Hi Josh, am curious if 4Front will buyout Northwest Solutions in Washington. They seem to have a superior model and product and also are you using their model to implement your own cultivation sites in other states?**

***Josh Rosen (u/4FrontCEO)***
Similar to Colorado (which are being resolved this fall), Washington State has residency requirements for ownership, so we cannot buy NWCS. 4Front (previously Cannex) owns the IP, including brands, etc of NWCS, so the answer to your second question is yes (or could be said that NWCS is using our model).

**Where do you see 4Front in 1 year, 3 years, 5 years?**
**Do you see 4Front merging with a peer, being acquired by a larger MSO or remaining a standalone business?**

***Josh Rosen (u/4FrontCEO)***

In this dynamic industry, it's hard for me to have a confident answer to this question, as I'm motivated to build a great company and drive returns. I clearly see opportunities to drive significant value as a standalone. As I write here today, that's the path we're on. I can say that we've had a lot of conversations over the past few years and we often have a slightly to very different lens than many of our peers. So there's not been a natural fit. We're big on people, so the people fit almost invariably has to be strong for us if we're combining with others (almost a year after starting our strategic discussions with Leo, I remain his biggest fan – well, maybe my kids are after he took them to Din Tai Fung). We pride ourselves on being open minded and the core of our approach is that if we properly cultivate our capabilities (have I mentioned battle-tested?), map them against attractive projects (strategic capital allocation and assets), remain opportunistic based upon market dynamics, and hire and retain great people, we're going to be happy with the outcome as the legalization momentum continues.

I referenced it recently on our conference call, to copy...

"Since early days, we have been preaching to our capital partners that at a minimum, they should be viewing this as an investment to hold through U.S. legalization. We're obviously now in the public markets, which can bring a different element, but as far as our Leadership team and core shareholders, I'm confident that lens remains the same. Our primary focus is on execution and building shareholder value."

**Hey Josh! Thanks for joining us. I'd love to hear more about the company's expansion strategy in the coming year(s).**

1. **What are 4Front's highest priority areas for expansion, both a) within the vertical supply chain, and b) geographically?**
2. **Beyond Massachusetts, which markets are the highest priority for expansion in the near term? Are expansion efforts underway and, if so, how?**
3. **What is the projected timeline for operationalizing new endeavors in each state? When can we expect to see revenue begin to ramp in each state?**
4. **With adult use set to begin in Illinois in 2020, what is your strategy in this state? Your licensed footprint is relatively small compared to most of your competition in this state. Are there plans in place to build your presence?**

***Josh Rosen (u/4FrontCEO)***
Thanks for the questions; I feel like I've answered much of this in other answers. After Massachusetts, it's California, Illinois and Michigan in terms of building infrastructure and scale, and also likely in that order in terms of supporting our anticipated acceleration in revenue. Massachusetts should kick in meaningfully when we get our Georgetown facility approved for recreational, with California layering in through 2020 and Illinois becoming a more meaningful contributor later in 2020 into 2021; similar for Michigan in highlighting these initial priorities.

As for Illinois, we'd love a larger retail presence, but note our commentary elsewhere in these answers about price sensitivity mixed with our feeling that with good execution, there's plenty of room for multiple players. We are continuously evaluating the best way to capitalize on the anticipated market growth in Illinois. We feel great about what Leo and his team should be able to accomplish with our production facility (grow/process) in metro Chicago. And until we ramp our own production, we anticipate being great customers to the existing producers, including many of the independents that remain. Given our retail strategy, we anticipate being great wholesale buyers after that as well.

**The MSO field *feels* crowded at the moment, with a half dozen leaders with "massive" multi-state footprints. Do you agree with this sentiment? Or is there room for this many companies in the sector?**
**Do you consider the larger MSOs (Cresco, GTI, Curaleaf, Harvest, MedMen) your competition? Or is 4Front somehow segregated from them?**
**How do you grow your business in the face of this competition? What differentiates 4Front, and how will that help you compete?**

***Josh Rosen (u/4FrontCEO)***
My lens is a bit different, but fair questions. Outside of competing for limited licenses or real estate, we operate with the philosophy of abundance over scarcity (after all this is an industry that some estimates put at $100 billion domestically) and think a lot of great companies can be built in this industry and expect that to be the case, so don't think of "crowded" per se.

We consider anyone that's particularly good in the industry as both a competitor and potential partner depending on the market. Our retail operations interact regularly with talented MSO operations as well as "mom-and-pop" operations and we both respect and benefit from those doing things really well, depending on where and how the supply chain works within a given market.

The catalyst for the Cannex merger was our belief that time in business and that proven, battle-tested operating capabilities matter immensely when developing sustainable production operations that are expensive to build. Leo and his team have managed through a remarkably competitive environment in Washington and [have already dealt with price commoditization that existing MSO's have not yet had to deal with.] Necessity is the mother of all invention. With his family's heritage in logistics and distribution, Leo was able to continually add efficiencies and volume to stay profitable at a price point we hope is a long ways off in many of our newer markets. We now have the confidence that we can win should markets grow significantly more price competitive more quickly, which makes us more comfortable deploying the meaningful capital that production operations require up front and our ability to quickly be productive as well (we stress test our forecasts). This confidence is important, particularly for us, as we've been more deliberate about things than some of our peers; we try to calibrate our bandwidth against the opportunities in front of us, with the intention that it's the right way for us to build a strong business that holds up to institutional diligence. With the recent choppiness in the equity markets, I've gained more confidence this is the right approach, or at least the best approach for us.

**Does 4front have an Illinois medical marijuana cultivation license or will you be leveraging wholesalers for products? Ive read there are only 19 cultivation licenses in Ill and do not see 4front or any subsidiary on the list of 19.**

**I had seen it mentioned a few times. Initially Josh refers to it as a cultivation facility, then later as a production facility that is licensed. I dont know if there is a difference between a cultivation license or a production license. I dont show 4front or any subsidiaries that Ive come across as having a cultivation license. Josh noted they took full control of the facililty in June, and I dont see where from, So I wanted to clarify.**

***Josh Rosen (u/4FrontCEO)***
IL Grown Medicine is the name. I often prefer to use production facility because in states without separate processing licenses, they are all encompassing through packaging and distribution in most cases.

The "full control" I was referencing was related to the amount of space (the full 94,000 sq ft).

**What books have influenced you personally or professionally?**

***Josh Rosen (u/4FrontCEO)***
A few books stand out for me because of how they shifted my perspective on things and I frequently find myself referencing the lessons. You'll note the decision-making theme, which makes them both personal and professional (I think business is personal, though definitely need some time separation between the two to stay productive).

Fooled by Randomness by Taleb – preferred the first edition, as his base concepts resonate with me, but I find he packages things with an intellectual arrogance that's hard to cut through and his second edition had more of the fluff, as do his follow on books, which also have great lessons in my opinion

Predictably Irrational by Ariely – there are now many more books that take this topic on, but I still feel like this book is the most approachable (admittedly I haven't read as much lately) - he does a solid talks as well

Siddhartha by Hesse – I try to read this every 2-3 years; it's quick and I've always loved the line "I can think, I can wait, I can fast" as he's interviewing to become an assistant to a merchant

And I've not read many books about sports analytics (not even Moneyball, which I watched instead), but I'm a junkie for insightful sports analytics articles and find them to influence my thinking (experience is about applied analogies to me)

**Hi Josh,**
**When developing your strategy and geographical footprint, what is your process / thinking when striking the balance between value creation 'today' (limited license states, vertical integration) vs setting yourself up for value 'tomorrow' (product moving across state lines etc).**
**In your current execution, are you building and planning for a more regulatory relaxed world eg identifying states that can act as national distribution hubs etc - or is the current focus more on immediate execution and value creation in the short term, as the aforementioned is too far in the future and unknown?**
**I'd love some insight from you, as this short vs long term balance is seldom spoken about by your peer-set.**

***Josh Rosen (u/4FrontCEO)***
Given how dynamic and beholden to regulatory the industry is, we tend to recognize our long-term lens is likely much less accurate than our intermediate-term lens, so we weigh that respective confidence level into our decision making and spend more time focused on immediate execution against a 2-3 year lens, always with an eye on how our longer-term lens (3+ years) may be shifting. The underlying take away is to make sure our 2-3 year focus is complementary to how we see the world in 3+ years.

At core, we believe meaningful interstate commerce is a long ways away, yet always keep it in the back of our minds when we're looking at building larger cultivation operations. The Cannex facilities in Washington, particularly the Elma facility, could be greatly expanded. And with its access to inexpensive power (we'd only look at expanding if interstate commerce came into play), could be an indoor cultivation hub, expecting most infused products to then source outdoor grown biomass.  But, other than passive thought, this isn't a needle mover for us currently.

As we've matured, we started focusing our attention on states that have a visible path to recreational, preferably with some limits on licenses, but not necessarily. The Cannex merger fits this theme and added a great deal of confidence in our ability to execute and thrive in even the most competitive markets (not because we wanted to be in Washington).

**Hi Josh,**

- **Knowing Cannex has been operating in a fully-legal state for multiple years, which Cannex-manufactured product(s) are you most excited to deploy across Mission stores?**
- **Will Mission be <eventually> the only retail brand between the combined entity? How does the retail experience Mission offer differ from your primary competitors?**
- **How will you be leveraging Leo Gontmakher and the operations team to boost up cultivation efforts in other states, primarily IL?**

- **I've seen Kris Krane's mantra about 'operations matter.' How specifically is the combined entity looking to leverage operations from both a cultivation perspective, and retail perspective?**

**Thanks!**

***Josh Rosen (u/4FrontCEO)***
It's the infused products that have us most excited; we're confident we can deliver great consistency and value to the markets we're ramping up. It's early in this industry's lifecycle to say "only", but we do plan on using the Mission brand extensively in retail. Hyper trained / educated sales consultants ("budtenders"), great product assortment in a comfortable, accessible environment is our blueprint. Our retail recruiting rests on hiring "happy, humble and hardworking" folks, mixed with making sure we understand the supply chain in any given market extremely well (I suspect you'll hear more from us on this topic as it's something better understood in the competitive markets).

I feel like the Leo question has been well covered in our releases and conference call; the simple answer is extensively leaning on his team's experience, capabilities and operational drive. This also ties to the question about operations matter; our bias is that brands are less important than operations in immature markets. Said another way, it's our experience and belief that brand loyalty is very limited until a market has lived through price compression. I suspect some of our competitors with eastern roots will navigate price compression well, but they largely haven't had to live much of it yet. The other related lens referenced a moment ago is knowing how important managing the supply chain is as markets mature and the better players emerge.

**Hi Josh, glad to have you here.**
**Just a few questions from me,**

1. **What differentiates FFNT from other MSO's?**
2. **What's your focus moving forward, retail or wholesale?**
3. **How many states do you plan to be in by the end of 2019? How about next year?**
4. **Any plan to break out sales and ebitda for each state you're currently in moving forward?**
5. **When do you think FFNT will be profitable?**

**Thanks!**

***Josh Rosen (u/4FrontCEO)***
I'm bouncing around a bit and have largely answered aspects of this. The only thing I'd add to other answers about people as one of the differentiators is we've taken to branding our internal culture, which ties back to our roots... the internal-only brand (for now) is antibition, which represents the principles of freedom, service and responsibility. We tend to prioritize retail and/or wholesale based upon our ability to enter a market (how expensive) and the likely supply chain dynamic. We're now adept at all aspects of the value chain post our merger with Cannex. We don't push vertical integration at retail as hard as some of our peers (not that it won't work very well for them), as we focus a lot on access to product and choice in our retail

environments. But we also don't shy away from vertical integration (surety of supply in many new markets makes vertical integration very helpful).

We continue to evaluate entering new states, with attention paid on cost of entry, the current and anticipated regulatory environment(s), and our bandwidth, as we don't want to get too far out over our skis – we like to be only modestly over our skis (so many opportunities), lol.

As individual markets and data become more relevant within our financial reporting, we will surely be adding disclosure. We try to strike a balance between transparency and relevance. We have a company to run -- and while we want our investors and prospective investors to be informed, we also don't want a litany of less relevant inbound questions about numbers that we ourselves don't spend much time with. I was an equity analyst for years and believe, between myself and our chief investment officer, who was a former small cap portfolio manager, we have a good lens on disclosure. We recognize there will always be those that want more or different. I'm looking forward to having more revenue and data to analyze and work with (something Cannex immediately brought us).

As we look at our current project pipeline, which includes a lot of construction into 2020, we anticipate most of our individual projects will quickly reach profitability on a standalone basis; part of the confidence that Cannex brings us for the bigger projects is building things right (they have been iterating on design for years) and dialing in genetics, processes and controls to efficiently produce at scale. Our overall profitability is likely to be dependent on just how aggressive we stay with new projects, new license wins, etc. When we can add projects with low cost of entry, the anticipated internal rates of return are high and carry less downside risk; it's hard to not want to do those, though being conscience of our own bandwidth, it's one of the reasons we're putting heavy resources into training, including leadership training.

**Thanks for taking the time here Josh- a few questions:**

1. **How is the search going for the your new IL dispensary location come Jan 1? Any specific neighborhoods you are targetting in Chicago? Do you anticipate both stores to be ready for adult-use come Jan 1?**
2. **Do you plan on expanding your cultivation facility to the maximum allotted (210k sq ft) or does your current location limit expansion in any way?**
3. **Which state markets will be 4front's biggest contributors to revenue over the next year?**
4. **Where do you see 4front's primary position in the cannabis market long-term? As a cultivator, a house of brands, retailer, or some mix of the above?**

***Josh Rosen (u/4FrontCEO)***
Not going to give away much with location #2 in Illinois, but really pleased with a couple of prospective spots in particular and evaluating the paths to local-level support. Our legacy 4Front Advisors consulting platform also allows us to be supportive of social equity applicants in some unique ways (we were built for this); expect more to come on that.

Our current facility is landlocked in Elk Grove Village and is 94,000 square feet max. It does have the benefit of being the closest to the City of Chicago and Cannex (now Brightleaf) brings strong manufacturing and distribution capabilities, so we think a long-term valuable asset regardless of the size limitation.

We anticipate Massachusetts to be the most significant contributor to revenue growth over the next year.

Been waiting for an opportunity to say this, I see our primary position as being a “house of operators”, upon which brand building will eventually take on more meaning (outside of the capital markets, which seem to prioritize brand way more than cannabis consumers -- we see brand loyalty as relatively limited or to be wonky, we believe price elasticity is very high in this industry). We have demonstrated through market share in Washington State that our brands focusing on quality products with attractive price points resonate with consumers. As we roll-out these products across the country, all of a sudden we should have “National Brands.” In this way, we will have done it by creating products that our customers love, not just by pouring money into slick branding and marketing campaigns. All that said, don’t think we won’t put attention into brand building, just not as highly prioritized at this stage.

**Is there any update to the status of the Healthy Pharms dispensary at 98 Winthrop St in Cambridge, MA? It was closed/suspended by the state after Pesticides were Found in Marijuana. Ive seen the status that it is temporarily closed or opening soon but havent seen an update about it since 2018. The Georgetown dispensary was also closed but has since been reopened.**
**Thanks.**

***Josh Rosen (u/4FrontCEO)***
We acquired Healthy Pharms as they were dealing with their shutdown (they were a 4Front Advisors client back from many years ago). We actually reopened both retail locations and then in April the City of Cambridge unexpectedly told us to halt operations at that site because they thought there were issues with the City’s Special Permit being valid for the location once it was under new management. After a lot of consultation, we remain confident the Special Permit is still valid and have been working with the City to resolve the confusion and reopen as soon as possible. Meanwhile, we’re working through the adult use permitting process in the City, along with the other existing medical dispensaries there, and expect we’ll have that permit in hand in early 2020. We hope to have more on this soon, as we think Cambridge (Harvard Square) can be a great location for us, albeit it also represents the regulatory choppiness this industry often brings.

**Has Gotham Green Partners provided any guidance or expertise beyond it's financing of Cannex?**

***Josh Rosen (u/4FrontCEO)***
I believe we have great rapport with the Gotham Green team; like any team, they have folks with specific specialties and it's been great to get to know the extent of how they can be helpful (other than capital, which is also helpful). We are very engaged with GGP and have been actively collaborating with those areas of expertise. I've had conversations with them about how we can help benefit other of their portfolio companies (philosophy of abundance referenced elsewhere) and vice versa. They have an awesome network. While they had funded Cannex, Kris and I go back to having spent time with Jason and Daniel prior to their Gotham Green days (I give them a hard time for not investing early with us despite our more reasonable approach to private market valuation and often similar takes on the market – usually while simultaneously complimenting them on moving into Canada aggressively with more vision than we had).

**How does anticipating federal de-prohibition or rescheduling factor into your planning?**

***Josh Rosen (u/4FrontCEO)***
Overall, we spend a lot of time paying attention to what it might look like so that we can adapt our strategic planning accordingly.
Despite the frustrations of operating a business that has unusual constraints (banking as an example), it's the friction that also still keeps out the big strategics from the U.S. markets, allowing us to continue to build our platform, hopefully making it more valuable before the bigger players and financial institutions are involved. We work to have a platform that stands up to true institutional-quality diligence as we want to be sure we're ready for that stage.

Thanks for having me and the great questions.

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