

Thinking Outside the Bud

Episode 413 - Paul Weiss

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From Challenges to Opportunities: A Deep Dive into the Cannabis Market with Paper Planes CEO, Paul Weiss

Beginning with market opportunities and challenges, Paul Weiss shares his journey, emphasizing the importance of a balanced management team. The discussion delves into the intricacies of cannabis products and operations, with a focus on strategic decisions, data-driven choices, and the challenges posed by industry volatility. Uncover the challenges and opportunities specific to the California cannabis market, addressing issues like liquidity, regulatory complexities, and the impact of illicit markets. Gain valuable insights into Paper Planes' growth strategy and their perspective on federal legalization.

Paul Weiss is the CEO of PaperPlanes, bringing passion, authenticity and skill to the role. After a career in financial services, Paul left the industry to focus on private equity investing in other sectors. Paul entered the cannabis space as an investor in 2018, and subsequently met PaperPlanes founder Carter Latimer in 2020. Over time Paul and Carter developed a shared vision of how to best develop and build Paper Planes into a world class brand, and Paul then joined the company as CEO in February of 2021.

As CEO, Paul works to keep the company adequately capitalized, raising \$7 million since 2021 to secure the company's operations. Additionally, Paul oversees PaperPlanes' M&A activities and ensures the efficiency and quality of the company's accounting, legal, governance and decision-making processes. Under Paul's leadership, PaperPlanes has grown substantially, increasing revenue by millions of dollars and opening new cultivation and manufacturing operations while expanding the brand into several hundred dispensaries. As a leader, Paul is passionate about shaping the nascent cannabis industry into a great place for job-seekers to land.

Paul graduated from SUNY Purchase with a degree in economics. Beyond PaperPlanes, Paul spends time sculpting bonsai trees, practicing jiu-jitsu, golfing, and biking.

<https://www.paperplanes-ca.com/>

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EPISODE TRANSCRIPT

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You're listening to Thinking Outside the Bud where we speak with entrepreneurs, investors, thought leaders, researchers, advocates and policymakers who are finding new and exciting ways for cannabis to positively impact business, society and culture. And now, here's your host, business coach, Bruce Eckfeldt.

Welcome, everyone, this is thinking outside the bud. I'm Bruce Eckfeldt. I'm your host. Our guest today is Paul Weiss. He is CEO of Paper Planes, we're going to talk about the world of cannabis and what's going on in the market where he talks about investing and some of the business opportunities really what's, where the challenges are, but also where the opportunities are. And what we're learning cannabis obviously continues to grow and change and evolve. We've been in sort of particular, challenging times recently. But you know, I always find that within those there are learnings, and there are opportunities and opportunities to kind of rethink and rescale. So, with all that, Paul, welcome to the program.

Bruce, it's great to be here. Thanks for inviting me.

Yeah, it's a pleasure. Before we dig into everything that's going on in the world of cannabis today, let's get a little background. Tell us how did you get into cannabis? How did your counsel story of Paper Planes give us a little background?

Well, there's always two roads that people seem to take into this business, either your legacy and you came up that way, or you came in from some type of financial background and found your way in on the ladder. I started as a private investor into the space about five or six years ago, and gotten very, very interested in it. And as I learned more about it, I, I saw the opportunity as well as the gaps as well as the challenges. I've always loved the plant personally. So I was always comfortable with it. And as California went recreational, I got very serious about becoming more on the operation side and becoming an operator as opposed to just an investor, I was able to connect with a really great legacy partner named Carter Latimer, who came out of the true OG side of the business. I've often said it's almost like chocolate and peanut butter, where we looked at each other, and we needed each other for different reasons, we were smart enough to know what we didn't know. And we connected. And three years ago, we had an opportunity where I was available he was looking for, to get a permanent space to reintroduce his brand. After about two years out of the market. It's a 12 year old brand. And we found a space to purchase I capitalized that with an investor group. And part of that was I was asked to be the CEO, which I wanted to be very much. And I've been a full time operator moved to California, as corpse Cortez did burned his ships and went on to the new world. And that's really what I grew my hair out and the whole thing. But yeah, that's my journey here. And now I really work as you know, one half of a team that does the block and tackle business side, operational side and making sure that, you know, all the trains run on time, it's capitalized properly, while my partner does the strategic cannabis side sells all the product and make sure that we're heading the right direction from a cannabis perspective.

Yeah, I'm curious. I mean, do you feel like that is kind of a magical partnership setup for cannabis. I mean, given where we are in terms of, you know, understanding the history of cannabis and kind of the nuance of cultivating and processing cannabis. And then the kind of the challenges on the financing the business side, like, Is this, like a match made in heaven? Is this you know, it just happened to work for you. I'm kind of, as you've seen other companies and leadership teams and stuff work? Where do you feel like you've really figured out something secret?

That's an excellent question. dysfunction of most management teams in any industry, you know, comes about where you may have a founder that has a big gap, but doesn't recognize it. Or you have a financial person who comes in with an oversized, ego and sense of themselves. And to try to get the balance right, really transcends cannabis. It's pretty much every industry. But I certainly came into this understanding that the cannabis industry and making products and consumer preferences is a very unique and specific set of skills. Carter also understood that he had no sense on how to capitalize and run structure. In fact, that world looks at that word was the finance side of the great deal of skepticism. Yeah, to be quite generous with it. So yeah, I think we have a really great, I don't know if it's a magic situation, but it's certainly the secret sauce. And the secret sauce is to try to cover all the bases, which is from the cannabis world, and corporate governance world and finding partnership, where each side really respects those lanes. That's the human component. And yeah, and I have found that I've seen a lot of dysfunctional management teams in this business. I've seen companies with great potential Bruce Yeah, just can't get out of their own way. And then their products kind of flame out because they start making money, which is hard enough to do and then starts the infighting. And it's almost like a trope in this industry. So yeah, it is the secret sauce. And I do attribute our success to the fact that Carter and I understand how to do what we do individually and how to work together as a team. Yeah.

I'm curious a little bit about kind of products and branding, like where have you chosen to focus why what's worked out what hasn't worked out, give us some insights on what you've been learning in terms of actually operating and putting product into the market? Well,

I've had a view prior to meeting Carter, that the extract side which is vape carts that bubble products and edibles is going to be the most important part of the market going forward and flower would be less than less. So that hasn't happened dramatically. I'd say right now flour is probably 50 60% of gross sales and the rest is different types of extracts, but the extract sides are growing very, very rapidly. I say that because Carter is really one of the foundational legacy people in the BHO type seven butane extraction world. And he's done amazing things and Award winner for many years and had a vision of creating the absolute best products at the absolute best prices, which of course, is a formula for success. And I came into this thinking to myself, I just can't be working for a company selling flour. Yeah, there is differences, but it's a very commoditized market and it's much harder to compete in. Whereas extracts you can stick out much more if you can find an SOP to bring the plant out. So our company is, at this point, almost 100% extracts, and that would be vape, cards, shatter and deverbal live resin, and some edible products. But we just throughout the last year required to farms in Grass Valley. And we've been using that cannabis to fuel our products that we currently have and to use for feedstock. But in the process, we already have the passion designed of bringing out our own flower brand on the paper planes brand, there's been so much demand for it. We have a grower that we're just very lucky to have named Christian Anderson and Christian is just one of the most talented growers in Cali has been for a long time. And we just feel that if we're only using it for our extraction, or even some bulking out, we're not monetizing it to the best we could nor are we bringing it to the market the way the market should

recognize it. So I'd say next year, if you asked me the same questions, while months, I will say that we're about 20 or 30% of our sales, I hope are in flower sales under the paper planes brand. And the basis extracts. Yeah.

And how I mean, I guess operationally, how does that complicate things? And how have you kind of managed, sort of diversifying products and complicating your lives from an operational point of view? It's

an interesting question, I have a flowchart that's incomprehensible that I used in my presentations to try to explain that. So the answer is a non answer, but I'll give it to you anyway, the answer is we have a lot of optionality, that's usually driven by liquidity. And we have choices. If we had all of the perfect conditions all of the time, we could make optimal decisions on how to implement what flower to bulk out what flower to use for our products, what flower is going to become the best, either vape cards or dabble, live resin products or cured products. But you just don't know how the plant is going to come through for extracts, you don't know where in the cycle your liquidity is, which could drive, say, bulking out flour instead of using it for our products, which is a longer lead time, which means you have to make that choice. So it really comes down to we have a machine that we can constantly use to make decisions. The machine has this big, not vertically integrated, but almost vertically integrated process. And that drives our decision making, which is really where we are in a given point in time.

Yeah, kind of I imagine kind of a flowchart with stages in the process and decision points that you know, pulls in certain data around market and capital. And you know, if 30% is this, then you go this way. And if it's 80% this, then you go that way kind of thing.

Exactly, where's the price in the bulk market? How is the flour coming through our process to make into extracted products, there's so many little variables. And it's actually one of the hardest things to communicate to investors, because you don't really have a lot of earnings visibility, there's so many inputs to it and makes it hard. But at the same time, it's what we deal with, I actually find it to be the most stimulating aspect of what I do for a living, which is, you know, really every month where it's like the Star Trek Deep Space Nine, the adventure comes to us every month, kind of figure out what we're gonna do. So that's our company right now,

I guess how data driven is that? I mean, obviously at a base level, it's data driven, but like how much are you, you know, pulling in data from internal data, external data market data, like where I guess what data it really have you found key? Where do you find it? And where do you feel like you've got, you know, kind of a competitive advantage here around being able to do that.

I wish that we had the resources to generate the kind of data that would allow me to say that we're a data driven company on our decisions, but we just don't have that level of granularity as much as I would love to have it. What we tend to look at is from a data perspective, is our sell through at stores where the market is what the orders are coming in. That's really easy data to grasp, it's always there. Also, how is the plant moving through the process the yields, the color, those types of points are not data points, but they're almost artistic points like craft points. So a lot of our decision making is made, when we're dealing with things almost in real time, we have to make certain decisions in advance, which is always agonizing, which is capitalizing our packaging capitalizing these purchases for things that we're not going to realize for three months or six months. And of course, if you're wrong, you're wrong, you try to get the balance not to over order or under order. And data plays a part in it, but it is a lot of it is just knowing the market understanding what the consumer preferences are, and taking bets.

Yeah, no, it's all about smart bets. Many times

it feels disproportionately towards smart bets. But we do our best with that to try to minimize risk. But it is a business of risk. Because our products are not on the shelf that long our sell through is very fast, we're very lucky that way. So we're constantly rethinking what's going to be relevant in six months in three months. And that's tough to do.

Any big learnings that you can share things that maybe it didn't go the right way or mistakes that you made that you kind of had to then address for that you've changed your model based on?

Well, if I was able to learn from my mistakes, I probably the smartest guy in the world, and I said tongue in cheek, but this industry is about correcting yourself constantly. So let me be specific, I would say that using financial forecasts in this business is a very, very difficult thing to do. And we've raised capital millions of dollars. And either I'm lower, I'm high, but I'm never on it. And there's always changes and pivots. So I've learned that you've really got to be as conservative as possible, and know that your investors are sophisticated enough to know what business they're investing in. Investing in cannabis is a pretty tough environment, it really requires you to have a fairly detailed understanding of the volatile nature in the swings of this industry. So I've learned that communicating with my investors is extremely important. I send out a quarterly update every three months. It's usually 10 or 12 pages. And I've been doing that for three years now. And I get very few calls and questions because I really tried to get ahead of it. And that was a process of learning that I'm always wrong on what I think's going to happen. So I better start preparing people for here's what's going right, here's my challenges, here's the things that we think we hope to happen, and so forth. So that was a big one. Another one is that the rate of change has surprised the hell out of me, Bruce, this industry is throwing fast balls at you just when you think you've got to beat on things, you get an herbal situation that blows up. And then we've got a real pivot from that, or things like that, that really change. We have AR issues, minor ones, but one of our largest accounts, and it would be the least likely offender that you could imagine. And then we're dealing with that. So getting into this business, with a sense of being over capitalized is probably being barely requisite, properly capitalized. And there's very little liquidity in the business to begin with. So the dynamic nature of the business is far more challenging than most people can deal with. Whether they're investors or operators, I've learned a lot every month I seem to get a lot smarter about being guardedly smart about what I'm doing. And understanding that what I think's right today will almost certainly have to be adjusted in 30 days. Yeah.

Do you feel like other companies in the cannabis space in our our have errors on the production side or the capital side? Or is a mix? Like, where do you feel like most other companies struggle?

Well, number one is liquidity, Bruce, it's a fascinating situation. Because it's not that there's allocators of capital that are doing it into a small concentrated group. There's almost no liquidity being spread around right now. The private equity firms are having I'm sure issues with their LPs that are underwater on certain funds they're dealing with. I know that private equity firms have a lot of calls amongst themselves trying to sell each other's portfolio companies to each other, how the great they're all doing and everyone knows better. So when you don't have upstream capital, it's not going to float downstream. So there's really no liquidity going around. People have either levered up their assets already or you know, whatever's left and not nailed down they're doing. So I would say with certainty, the number one challenge in the industry is liquidity. And I talked about this all the time that the companies that could manage this illiquid situation properly and grow through it, not

just sustain themselves, so they're going to be the major major winners. The other side is a corollary to that. The second reason and the second issue is internal dynamics being really squeezing because of the liquidity issue. So for a team to manage themselves properly and not start picking out each other's vulnerabilities and not start becoming defensive or aggressive in meetings because things aren't happening the way they were told they were going to happen. That starts a rot that gets exacerbated by that illiquidity squeeze. So, even though that's the second reason or a second issue, it really comes down to tight times make it really tough. And they expose a lot of underlying weaknesses. There's a couple of really good companies that I know are struggling, and they're struggling because of the internal problems, not necessarily their business model. I'm seeing both.

Yeah, it's kind of the pressure cooker situation that sure is. Yeah, so let's talk about the market a little bit. I mean, obviously, a lot has been happening, both through kind of intentions or changes in regulatory systems, situations, policies, and then kind of the consequences of all that, and it's affecting the industry. And we've got various sort of swings and whipsaws. And stuff going on here. I mean, to give us your kind of take on what the challenges have been, and how have you kind of navigated some of these things over the last 612 months.

So could you rephrase that question, Bruce, I just want to make sure I'm answering because there's a lot to unpack there. I want to make sure I'm,

yeah, I guess for you what have been the big changes in the industry over the last 12 months that have forced you to kind of make changes to your strategy or to business? And how did you respond?

So I'd say the number one change is, again, the illiquidity of the nature of the industry, investors have gotten tired, returns haven't been exactly what they want. And funders aren't liquid to make those downstream investments. So I don't want to go and sound like a repetitive person. But it really is a big one. I think another major problem is, the California market has a major dysfunction in the way it's set up with a four tiered system. Yeah, those four tiers are cultivation, manufacturing, distribution, and then retail. And adding that distribution layer adds cost, it adds delays, it makes it very difficult to deal with, I'm not even going to harp on to at EA and all the things that we all feel terrible about. But I feel particularly challenged in the California environment, that a big part of our job is figuring out how to deal with this complex organizational chart that they've made to get products from the plant into people's pockets. And that hasn't had enough mitigation going forward. I don't know how detailed you want to get Bruce, but the shifting of the excise tax to the retailers. Oh, boy, that was a huge mess, that's created an AR squeeze because everybody's cash is being escrowed once a quarter if they escrow it, and they don't have it to give to their downstream brands. The Squeeze goes everywhere. So there's a lot of structural issues that California has created in the last 12 months that keep this state from taking its four to \$500 million a monthly revenue and making it allocated in a way that the industry grows, it's actually almost a catheter on its growth. And that last 12 months has been particularly easy to see. And the solutions seem obvious. But the political goals obviously not there.

Yeah. But and what would you change? I mean, if you could change one or two things, is there a specific things that you would just, you know, undo in terms of policy or structure?

Yes, I would eliminate the distribution component and allow companies to do direct distribution, I think that there should probably be more regulatory oversight, if that happens to make sure that there's some level of requirement. But to be a distributor is a big barrier to entry, the distributors become quite powerful. They tend to

want to distribute their own brands or other brands, and they make it more difficult. So that's something that I would take a good hard look at, I think enforcement or lack thereof is really well, what I really want to say, is a major problem here. There's no incentive not to sell your product to Bernard distros that take it across straight state lines, or to for cultivators to backdoor their product out to the black market. There's disincentive to be white market and compliant. I was speaking at the Benzinga conference in Chicago, and I made the point and it got a lot of attention, that we are 100% compliant. It's not because I want to be a choirboy. It's just because how do you explain to a would be buyer of our company in the future quality of earnings when I can tell them that 40% of these earnings won't survive if you buy us and you only want to be compliant. Yeah, exactly. I mean, these are major issues. For me thinking about exits thinking about how we want to grow our company and how we want to raise capital. Yeah, so the the enforcement issue in California needs to be taken a lot more seriously. I'm hearing that they're doing more. I'm not actually seeing the results of that yet.

I mean, what so what do they actually do? I mean, what are they actually doing to enforce and what would I wish I knew it's all cloak and dagger, it's,

it's almost non existent. There really, you can have a grow the very unlikely lever be audited or looked at and then sell. A lot of people I know have opportunities to sell to quote unquote distros. So as you know, in California, if you're a manufacturer you sell you move your product through a distribution company, those distribution come And then push the product out to the retail side, those distribution companies can be very sketchy. They could just be people that take in product and go ahead and move it out of the state and then that license disappears. None of them are getting. I may have heard of one. But there's just so much of that. And it really hurts the market. Yeah.

Yeah, it's clear that I call it the dark matter of cannabis, right, like the yellow is this an talked about unspoken, like, unregistered kind of huge element that forces or impacts the legal market. And, you know, we don't really kind of, I mean, I think people understand it, but we don't talk about it. And and it's not kind of modeled very well. So it

also add, I'll add one thing, it adds to price compression. So California has seen a pretty significant amount of price compression. And the black market only adds to it. I'm always blown away when I go to these more monopolistic markets like Florida and others, and a gram of our product, which will wholesale out for 12, or \$15 is 40, or \$70. In other markets, it's the same product. I mean, the cost of production is fractionally higher there. But that's basically it's amazing. And

why because the illicit market is just not as powerful there.

I think it's a combination of factors. I think the number one is that they keep it medical one many places, or pseudo medical, I call it and that allows a restriction of the number of licenses for retail shops, there is not a lot of competition. So what ends up happening is you have lousy product at extremely high prices. And when we have investors or people that we know that come from out of town and then try our product, they're blown away by it. And when I tell them that, you know, it's less than half the cost and our disadvantages paying for their garbage that they're buying and other states under the brand name of the dispensary, which is all they're doing is you're basically telling taking trim and making it into extract. It blows people away. But there's a huge disparity there. One of the reasons we like these licensing deals that we're approaching, we haven't done any scale yet, is because of this price disparity and licensing deals, you tend to make a percentage of the gross

revenue, so you can sell a lot less product and make a lot more money, which is not capitalistic. It's ridiculous. But that's the dysfunction of this industry.

Yeah, any markets that you're particularly interested in? Are you thinking they're doing well in some of these other states,

I'm probably the wrong person to ask. I don't have a direct experience with those markets. We have a deal in Florida that has yet to take off. We've signed it with a really great company, they named the flowery, they are based in South Florida. And they have I think seven or 10 dispensaries now high volume plus a big delivery service. But the problem that we've had is our name of all things. So in this very conservative environment that is now Florida, our name Paper Planes sounds too much like a kid's toy or something. So even though our boxes are the right colors, black and white, and all these things are we're having trouble getting our product on shelves, just because we can't produce it yet. So we're dealing with the legal aspects of that as absolutely ridiculous as that sounds,

but this is a regulatory point of view or device is getting gummed up. It's

the DeSantis administration showing that they're protecting the consumer by not holding back companies like ours, and I'm not sour grapes about It's just frustrating as heck. But aside from that there are other very good markets, that we are just not that familiar with Bruce. So I don't want to speak to those directly. I just don't know that much about them. Yeah,

I'm curious. I mean, what's your, I guess, thinking or strategy about this potential federal legalization, or at least these rescheduling of some of this stuff? I mean, is that like a huge pivot to your business? Is this like, yeah, we'll see when it happens, like, yeah, it's gonna happen, but it but we're still going to be operating basically the way we are for quite some time. How does this kind of future planning with kind of the federal question play out for you, it

does feel a lot like a holographic carrot, doesn't it? It really does. I've never personally bought into the idea that we're going to have this huge structural positive structural change in the near term, I just think that there's too difficult to coordinate, I think there'll be some type of rescheduling, it will take some time, it won't be rescheduling. And Monroe has a huge difference there. But something will happen. I would guess in a year or two, the idea of the federal government making it easier for cannabis to be nationally done. I mean, you got to get through an election cycle, then you got a year or two of studying it. So it's got to be several years out, which by the way, is fine for us. We're in growth mode. And we'd like to be the prettiest girl to dance when things open up. And we're still you know, getting ourselves into a position as a lot of companies are. So if you ask a lot of CEOs that are in growth mode, and either through m&a growth, organic growth, or both growth, that what would they like? They'll all tell you a little more time. I mean, we just want more time to continue to consolidate what we see happening and grow further. So I'm just fine waiting 24 or 36 months for something dramatic to happen. But I think that's probably the timeframe you're talking about. Yeah,

and tend to agree. Anything else you mentioned introduction of flour or anything else on your strategic plan Verizon hear that you're looking forward to or excited about?

Well, I'm excited about the opportunity to grow, while others are struggling. And that's a terrible thing to say. But it's true. And we have to be truth seekers, right, Bruce, and there's more and more shelf spaces, other companies have all these struggles we just talked about. So I'm excited about time, I think time is on our side, my number one goal for the company is to make sure that we try to make more income than we have in expenses, and not have to go to the market for liquidity, which is very, very difficult to do. But in general, I think we're going to keep doing what we're doing. But there's so much change coming every month, as I'd mentioned at the head of this interview, that we just want to keep adapting and pivoting properly, staying extremely focused on what we do making great products, bringing them to market at a very good price. Staying to our knitting is what people know that we make, which is the tastiest terpenes to extracts and eventually having our flour which would be grown at our farms in Grass Valley, and seeing how that goes for the next 12 months. I am sure in 10 or 12 months, I'll have a very different view of what the next 10 or 12 months should look like. But right now it's blocking and tackling actualize our goals.

Yeah. Well, this has been a pleasure. If people want to find out more about you more about paper planes. What's the best way to get that information?

Well, our websites, paper planes, Dash ca.com paper planes with a hyphen ca.com. Take a look. We're on Instagram as well, I don't know I shouldn't say that. But we are. And I'm not going to give you the hashtag paper planes that extracts but I didn't say that. And really, anytime you want to reach out through either of those mediums, please do. We have about 70,000 followers on Instagram, a lot of visitors on our website, we're in about 300 Plus shops in California growing every month, bottom to state up. So we're pretty well exposed. And if you want our website and you want to see where our products are sold, what delivery companies are selling them, it's all LinkedIn. They're just put in your zip code your address, and we'll take care of you and hopefully you'll have a great experience with our products. Awesome.

Paul, it's been a pleasure. I'll make sure all that information is in the shownotes thank you so much for taking the time today,

Bruce, it's a pleasure. Thanks again for inviting me on

About Eckfeldt & Associates

Eckfeldt & Associates is a strategic coaching and advisory firm based in New York City and servicing growth companies around the world. Founded and led by Inc. 500 CEO Bruce Eckfeldt, E&A helps founders, CEOs, and leadership teams develop highly differentiated business strategies and create high-performance leadership teams who can execute with focus and rigor. Leveraging the Scaling Up, 3HAG, and Predictive Index toolsets, the firm has worked with a wide range of dynamic industries including technology, professional services, real estate, healthcare, pharmaceutical, and cannabis/hemp.

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