



December 29, 2025

Dear Merida LP:

Due to the timing and significance of President Trump's Executive Order ("EO") related to the Rescheduling of Cannabis to Schedule 3 of the Controlled Substance Act, we are combining our regularly scheduled quarterly update into one Q3/Q4 summary call in mid-January. That will give us an opportunity to substantially review the fast-moving developments and market reaction, and ultimately digest what this could mean for our portfolio companies.

The immediate public market response has been a sell-off. The top four reasons financial sector "analysts" have been parroting are:

- 1-Pharmaceutical companies are coming so existing companies are at danger
- 2-Cannabis isn't being legalized, Trump said so himself in his presser
- 3-Medical marijuana is a small subset of cannabis use (implying this won't have a huge impact)
- 4-Its really just a tax break for cannabis companies and won't go much farther

There are plenty of naysayers who think this will be ineffectual in changing the direction of the cannabis industry but our view is that this is a shockingly ignorant take that shows a lack of understanding how cannabis even became "legal" within state frameworks over the past 15 years. The vast majority of cannabis' legal progression started as federal enforcement/state level tension over medical consumption laws (California et al.), followed by state level commercial frameworks, followed by memoranda of enforcement priorities at the federal level (Ogden and Cole), leading to adult-use commercial laws and expanded medical bills, ushered in by ballot measures, and creating a modern legal framework of largely federal non-enforcement and very intentional state action to create industry and commercial viability. This EO can easily lead to changes in macro behavior that would be wildly beneficial to the industry.

Specifically, the order, once finalized by the Drug Enforcement Administration, moves cannabis out of Schedule I classification. This classification is the most restrictive category under the Controlled Substances Act, alongside heroin and LSD and moves it to a Schedule III classification, which is defined as having substances with accepted medical use and a lower potential for abuse, such as ketamine and Tylenol with codeine.

We aren't saying that you can get a prescription and pick up cannabis at CVS any time soon, but it does stand to reason that pharmacies could partner with dispensaries to make medical products more available and accessible to seniors who are already visiting these pharmacies weekly. Schedule 3 specifically creates a dynamic where that could reasonably happen because CVS and other large pharmacies have federal licensure that they would never risk to sell cannabis. In a world where cannabis is seen as the same as Tylenol w/Codeine, and has insurance reimbursement behind it...why wouldn't they fill those



prescriptions? That ease of accessibility will change the behavior for hundreds of thousands of people who would never go to a dispensary or order dispensary delivery, but picking up an extra prescription from CVS is a much different proposition.

The EO will also make cannabis easier for Medicare and Medicaid recipients to get by introducing a model that would cover medically recommended CBD products. Medicare Advantage beneficiaries will be able to purchase regulated hemp-derived products. These benefits will start next year according to reports that accompanied the EO. Between the potential expansion of access, insurance reimbursement and Medicare's involvement, you are talking about the normalization of cannabis for massive cohorts of people who currently are amongst the lowest consumers of cannabis and the highest consumers of medical, OTC and prescription substances.

Of course pharmaceutical companies are going to try and get into cannabis. But why would anyone assume they will build anything from scratch when they can buy almost any company in the space for a fraction of their cash on hand. One acquisition in the space and all valuations will immediately rerate and it won't matter what stock multiples are as companies look to grab assets before the full pharmaceutical (and beverage/recreational) lens is shined on the industry.

I am attaching our "Size Matters" commentary as a reference from 2017 as to how we saw the medical market and its adjacent components. Projecting the market in such a nascent phase was laughably ambitious, but there are research points within the piece that are worth noting on segments in the market that are best suited for cannabis usage.

Another immediately important aspect is the taxation component is that the EO will remove the burden of IRS provision 280e, which has long led to the over taxation of cannabis companies and in some cases has created a net effective tax rate of nearly 75% on dispensary-only operations. Almost every large public company has 50 dispensaries or more which means this will relieve many companies of significant tax burdens. One estimate recently floated is that there are 15 public companies that will benefit annually in an amount in excess of \$100MM per year. That is \$1.5B of extra cash flow into the biggest U.S. based operators like GTI, Trulieve, Cresco, Verano, inter alia.

Several large companies had started taking an aggressive approach to tax accrual and stopped reserving taxes for 280e which means those companies will likely be able to settle old tax burdens for pennies on the dollar. Estimates on this particular amount range from \$800MM to \$1.4B in old 280e collections that were not paid to the IRS in 2023-2025 as companies began to focus on lobbying that would remove this burden and take a more aggressive approach to tax planning. Analysts had started to highlight these cases more prominently over the past 5 quarters and it seems like those companies will be the prime beneficiaries of this 280e change if the IRS does settle these owed taxes for pennies.

We believe that there are deeper takeaways from the EO. The public markets initially surged on rumors of the EO, with many stocks breaking their 52 Week highs. Then, once the EO was announced, stocks



dropped precipitously, with the net result being a huge surge in volume, but prices only up 30-40% from where they were before the rumors hit on December 12th. A few reasons for the "buy the rumor, sell the news" reaction we have been able to glean from our industry discussions offer a glimpse into mainstream skepticism on the EO.

Quite frankly, we think the market's overreaction to these (and other various reasons why this won't be as impactful as people think) fails to understand the significance of the EO from many directions and so the opportunity for public equities seems to be pretty obvious over the next 12 months as reality as to just how monumental the EO is begins to permeate the cannabis industry. Financial analysts and even policy analysts have expressed skepticism about the scope of the EO since it addresses only two specific mandates.

Just this morning, we are receiving word that AG Bondi is being tasked to implement all of the mandates by the end of January. CBD will go into pilot Medicare programs by mid-year. Veteran's groups have been pushing for insurance reimbursement for several years and as systems, and infrastructure are put in place, it will make it much easier to formalize how cannabis becomes a true medical product that displaces sleep, pain and other medications that have dominated the landscape for far too long. Epidiolex, which is essentially purified CBD, costs \$32,000 per year. Alternatives will pop up almost immediately that cost \$500. And while those alternatives won't have gone through the FDA drug process, they will have the data attached to years of usage by consumers, which will testify to their safety. That will encourage more companies to then do efficacy studies, which means greater research and development, and the true beginning of the "Cannabis-based medicine" stage we thought would come years ago, but appears to be here.

Expect to hear our more detailed analysis in our January calls.

Happy and Healthy Holidays!