



**CASE STUDY**

# **HUB Helps Private Equity Firm Provide Cannabis Businesses with the Liability Insurance they Need**

When attorney Luke K. Stanton got involved in the cannabis industry in 2010, his focus was keeping his clients out of jail. Today, Stanton is the Managing Partner of Las Vegas-based Skytree Capital Partners, a private equity firm that invests in promising cannabis companies, helping them comply with regulations and, through its wholly-owned subsidiary Skyfront Insurance, obtain insurance coverage to protect their business.

Stanton says Skyfront’s partnership with HUB, which allows Skyfront to provide a broad range of executive liability insurance coverages to emerging cannabis companies, strengthens the financing Skytree can offer.

“Every week in the cannabis space is like a month in any other industry. Like any emerging industry, or in this case, one that’s going from illicit to regulated for the first time, you’re going to see a lot of entrepreneurs who don’t understand how exposure to risk applies in the standard business world,” said Stanton. “When we’re looking to deploy capital, we want to make sure our clients are properly covered. HUB helps our clients understand the risks and potential for liability and how it applies to them.”

### Weeding out the Best Investments

When determining whether to invest in a cannabis company, Stanton says he looks for four things:

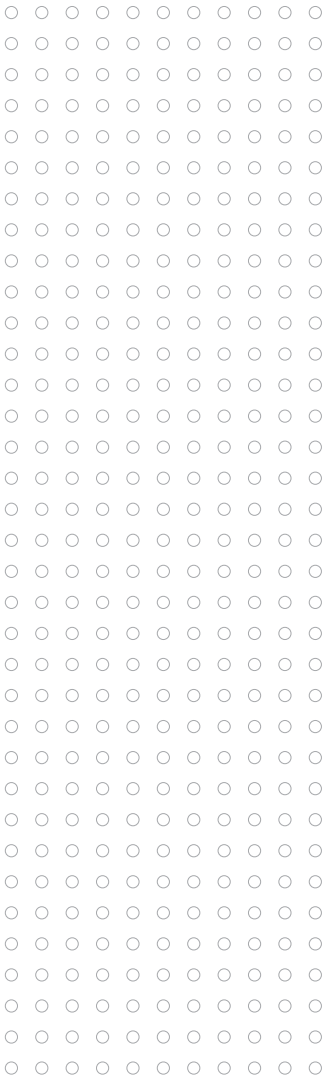
- 1. Strong leadership, with a deep understanding of the cannabis industry; key players with outside, applicable business experience
- 2. An orderly back-of-house, including regulatory compliance procedures
- 3. Sound, reasonable financial projections
- 4. The right insurance to cover specific risks the company is facing

When it comes to insurance coverage for cannabis companies, most don’t realize that general liability (GL) and commercial renter’s insurance policies typically exclude cannabis operations, resulting in significant coverage gaps.

Stanton recommends cannabis businesses look at the following four policies that are critical to protecting a cannabis company’s assets: Directors and Officers (D&O), Employment Practices Liability (EPL), Cyber and Product Liability.

The fast-paced growth of cannabis companies often puts their investors and board members in the limelight. Allegations of fraud and overvalued earnings, or the disparity between federal and state laws, can all challenge the company’s directors and officers, making D&O coverage critical.

“When looking for investments, we want to see that executive management is protected,” said Stanton. “If the directors and officers of a business aren’t protected and something happens, liability aimed at the company could pierce the corporate veil and affect those individuals. Having D&O insurance will protect that management team and allow them to continue doing their jobs.”



Stanton says he has experienced a number of damaging employment practices cases, especially in California where employment law is plaintiff-friendly, and says EPL insurance is a must for a company in cannabis, or any other industry.

Similarly, Stanton says cyber lawsuits can be devastating, especially those related to patient information leaks, where many cannabis companies dealing with technology and healthcare may find themselves exposed.

The biggest wave of suits, though, Stanton says, will probably come from product liability. Stanton predicts a major wave of lawsuits related to product contamination or recall, manufacturer defects, improper labeling and more impacting those producing, retailing, and distributing cannabis products in the near future.

## Cultivating a Green Tomorrow

Explosive growth is again on the horizon for cannabis businesses. The U.S. cannabis market, valued at \$11.9 billion in 2018, is expected to reach \$66.3 billion by 2026.<sup>1</sup> Those with the strong leadership and compliance, reasonable financial projections and comprehensive insurance coverage will be poised to hold on for the long haul, especially as new industry issues emerge.

“As we study the effects of smoking and ingesting cannabis on humans, we’re likely to find that there are some drawbacks in addition to the anticipated substantial benefits,” said Stanton. “The unknown risks are out there, and I think cannabis businesses should be concerned about the range of outcomes we may find when we study the effects of cannabis on humans. When that does happen, having the right insurance in place will be a game changer for cannabis companies who are prepared.”

“Working with HUB helps us provide effective insurance coverage for the companies we put money behind”

<sup>1</sup> <https://www.grandviewresearch.com/press-release/global-legal-marijuana-market>

## We're HUB

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