



Nitin Khanna

Chairman and CEO of Cura Cannabis Solutions

Editor's Note: Nitin Khanna is Chairman and CEO of Cura Cannabis Solutions, the largest legal cannabis company by revenue. Prior to joining Cura, he was CEO of MergerTech, an investment bank focused on mobile tech companies. Earlier in his career, Nitin was a cofounder of Saber Corporation, where he served as Chairman and CEO. He grew the company to \$300 million in revenue and 1500 employees, and in 2007, EDS (now owned by HP) acquired the company for \$460 million. Nitin holds a bachelor's and master's in industrial engineering from Purdue University.

Please walk us through the early stages of your career.

I came to the US in 1989, and graduated from Purdue with my bachelor's and master's in industrial engineering. After graduating, I worked for International Paper for only about a year because I saw the writing on the wall; everything in the mid-90s was clearly heading toward technology and the internet was a buzzword. I then went to Oracle and worked there for about two years.

At that point, I was about 25 years old and my brother Karan was 20. He came to the US from India and wanted to get an MBA because he thought he could make more money by having that degree. Having been in the US a few years already I told him that if it was more money we wanted we should start a company, not get another degree. Starting a company at that young age with almost no overhead or family to take care of provided us with the maximum flexibility and lowest risk because if it failed we had plenty of time to go back to a corporate career.

So, Saber got started in 1998. We started Saber in pieces. I had been working at Oracle and I saw how big companies worked on projects. I worked on projects with the Big 5 as an integrator, and thought it took way too long to get everything done. We thought, if we hired the very best programmers and software engineers, we could get things done in half the time and half the money. From the very beginning, our thesis was to compete against very large firms for contracts and see if we could provide the client with a significant differentiator in their minds. It was pretty bold and ambitious, and had I known then what I know now, I might not have started the company. But you're naive when you're young and sometimes that naiveté is the key to success because you are willing to try things you might not otherwise.

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How did Saber get its foot in the door?

We had our first client, Canon, in Long Island. Karan moved from Chicago to Long Island to work on that project. He was just 20 years old and had learned programming for five months with a half broken laptop. I would give him homework in the morning and I'd go to work, come back and check his work in the evening. After about six months, he interviewed with Canon and they gave him a single position there and gave me a position to work remotely from Chicago. That got us started. A year later in 1999, I got my green card, and then I quit my job at Oracle.

The week before I quit, I was working at Oracle Education at the time. My boss, knowing it was my last week, asked me if I would like to go to Oregon to teach a class to save a lot of people's holidays. I had never been to and had barely heard of Oregon, but looking back, this was one of the points in the life where saying yes to that opportunity was a significant launching point of my career.

I said yes, and when I came out to Oregon, the entire class was made up of only two customers: Oregon Employment Department and the Oregon Secretary of State. Both of those agencies had been taking Oracle classes for ten weeks in a row because they were moving all of their systems from mainframe into Oracle. When I came, I was a programmer, and it seemed that the instructors for the prior nine weeks were not programmers but instructors. So the students perceived me to teach in a direct way with a lot of shortcuts, and said, "We have to go back to our desks next week and begin the process of moving from mainframe to Oracle, but we're not confident with just these classes. Would you please come back and help us?"

This was interesting because here I was, launching a company without having new clients. I said absolutely, and gave them my card. They were serious about it, so I got a call, and got my first two clients right away that happened to be public sector. Eventually, we became a fully public sector company.

As a public sector company, what were the most significant revenue opportunities for Saber?

Right after I started working for the two clients above, The State of Oregon had a big Y2K project that had failed. Only two months were left to go before 2000, and I got a call from the State CIO. He said, "I heard you are wizards at doing projects quickly. Can you put in a temporary fix on this other project I have going on?" So we took on the challenge. He asked for only one thing: to permanently move from

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Chicago to Salem and to oversee the project personally. I remember our annual revenue that year was \$2 million, and the entire project was worth \$4.5 million and so it was very easy to say yes. Having moved over a dozen times before I graduated high school, moving to the US, and then attending four universities before graduating, I was no stranger to big, sudden moves. I said yes and that changed the trajectory of our company.

After 2000 is when our company became the largest implementer of election systems in the country. So I was in Salem, and the 2000 Bush vs. Gore debacle happened. And the federal government passed a law, called the Help America Vote Act, that provided grants to each state for modernization of election systems by 2006. One half of the grant was to update the voting machine and the other half was to update the software systems to have a single unified election management system at the state level; prior to this law election systems were managed at the county level. The Oregon Secretary of State was the first agency in the country to hand out a bid. We won that project, a \$10.5 million project.

Looking back, I think we won 10 of the first 10 election awards made. We won Oregon, and no state put out another bid for a year. It gave us a full year to build a system. So by the time Missouri, the second state, put out a bid, we were the only ones to say we have a compliant system. Then we won New Jersey, Maryland and New York. And once we won the big states, the smaller states wanted us. We really ran the table with that project.

How did Saber best position itself for profitability?

We doubled revenue every year. We had started getting calls from folks about potential acquisitions. Somebody introduced us to Marty and we remained in close touch with Marty until 2005, when he called up and said, "There is a need for you to monetize your work; all your wealth is tied up in the company. Have you considered private equity?" In 2005, I was 34 years old, and that seemed very intriguing. We said yes. And he helped us understand more about what it means for us. You sell part of the company to private equity and yet you keep running it, and you get another bite of the apple.

So all the capital that came in for the company was a recap. My brother, Karan and I were able to pull almost \$20 million out of the company, while still owning just under half of it. Marty found us an incredible private equity partner in Accel-KKR. Just one month after the recap round, they helped us find and finance the acquisition of the public sector business Covansys. That acquisition brought in a DMV

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system, a childcare and child support system, a public retirement system and an insurance system to go along with our election system, truly making us one of the largest state government software companies in the US.

The thing with Covansys was their software was solid but their implementation and reputation in the government market was not great. Our thesis was that our services reputation combined with their software would help us to grow even faster, and that's exactly what happened.

One of the big learning lessons for Karan and I was the post-acquisition integration that had to be done. There was massive cost-cutting to be done in order to make the acquisition successful, and until today, it's one of the hardest professional things I have done. We had to lay off 400 employees within a month of the acquisition; that was more than 50% of the total staff we had inherited. However, our thesis proved out; we were successful at the integration of the two companies, and a year and a half later, we were able to sell the combined company to EDS for \$460 million. We won some huge projects, including New Jersey DMV for \$50 million and South Carolina childcare system for \$95 million; each year we were winning contracts that were bigger than our annual revenue that year. The big integrators looked at us and wondered how we could do those projects. It was all based on our reputation.

What was the process like for selling Saber?

In early 2007, I became convinced that assets all over the world were overvalued and we should sell the company. Given our growth and profitability, it was very hard to convince our board that it was the right decision but they finally agreed to let me hire a banker and least get some bids. So, we hired Goldman Sachs in April 2007, and on Dec 1, 2007 we sold the company to EDS; just a few months later Lehman Brothers folded, and had we waited to sell the company, we would not have been able to. In the summer of 2008, HP bought EDS and no longer wanted us to be a standalone company. When HP bought EDS we were still Saber Software, an EDS company and HP wanted to roll us in. I was still the CEO and I wasn't interested in trading that in to be a VP at HP so Karan and I left.

We took about a year and a half off. I kept talking to Marty about what we could do next. Not working didn't work for me and I wanted to go back to doing something productive. Then Marty told me he had another company that is also a small investment bank that wasn't doing well, and asked if I would want to take it over. So we did. And in

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October 2009, we changed the name from M&A Forum to MergerTech and we focused on M&A advisory for tech firms, specifically those involved in mobile. There was a lot of interest in our services, and we ended up closing almost 70 deals in the seven years I was CEO.

What was the story behind your involvement in the cannabis industry?

I really enjoyed working with MergerTech all the way up until 2013/2014, where I got interested in cannabis legalization. I had made a few investments in the space and one of my investments was failing badly. I got a call from that board to step in as CEO, and it aligned with my thoughts around getting into cannabis early. So I stepped in as CEO in June 2015, renamed it Cura, and in April of 2016, we merged with a company called Select Strains.

That merger changed everything for us. Cameron, who was the founder of Select, became my partner and President of Cura. He and I really started growing the company aggressively. We doubled the company every month that year. We did \$100,000 in April 2016 revenue, and by December we were doing \$2 million in Oregon. In April 2017 we entered the California market and became the largest company in that state in less than six months of entry. We ended 2017 with \$5.5 million revenue in December. In the first quarter of this year, we hit \$18 million in revenue, which we believe is the largest quarter in legal cannabis history. The company is growing quickly and we're still only in Oregon and California; we're just about to enter the Nevada, Arizona, and Canadian markets.

Cura Cannabis is aiming to be the first cannabis unicorn. How does growth and management in this industry compare to the tech industry?

Our growth, size and market share are similar to those of tech companies. It's very unusual for product firms to grow 25 to 35 percent each quarter, and that is what we have been doing; the only industry I know of where that can also happen is tech.

Also, the people side of our company also looks like a high-growth tech company. We hire the best of the best from traditional industries, so my management team is sophisticated, senior, and used to intense, high-growth situations. We have been able to get valuations we've asked for because when investors look at our management team, they do see a different management team from most cannabis companies. These people have had prior and significant success in

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divisions of tech companies. For example, our CMO just came over from Nike, and he was running all of Nike Soccer. Our Senior VP of Sales had multiple multi-billion dollar exits in the tech industry. We've been able to maintain talent that makes us look different, giving us results and others confidence in our company.

We also have a stock option plan similar to what a tech company might look like. When you look at our rewards, compensation, management and hiring system, it looks similar to a tech company's. We want to be the first billion-dollar revenue company in cannabis.

Along the same lines, how are the two industries different?

It's different from tech because we're dealing with a physical product in a highly regulated market. Among all industries I've worked in, tech is among the least regulated. Finance is among the most. Only recently have Facebook and Uber gotten in trouble for their actions, but for cannabis, you could not have a more heavily regulated industry. So we have to adopt a mindset that is less free than we have in tech. We can't just grow—we have to have the infrastructure and licensing in each territory and state we want to do business in. We have probably 10 people in compliance. I don't know any tech companies of around 350 employees with 10 in compliance alone.

Of course, it's also a physical goods market. Unlike tech, where the marginal cost of adding a customer, shipping a CD or downloading a piece of software is zero, we continue to be in a space where building a consumer brand is necessary. These skills are ones we haven't had before, which is why we're bringing the CMO from Nike.

The next phase for us is connecting to the consumer. Consumers in our industry have historically bought their cannabis on the black market from a “dealer.” The strain, potency and pesticides were unknown and product choices were limited to just the cannabis flower. Now, consumers can walk into stores that look like an Apple store and pick from probably twenty different ways to consume the plant.

How do you balance growth potential and risk?

From my perspective, once we've swallowed hard and made that leap of faith to jump into cannabis, we decided not to worry about federal issues or otherwise we would go crazy. We can't change the Attorney General or his mindset. We decided to be highly compliant with the state regulations, become the most compliant firm and really follow all the rules. We trust the state's governors who have promised to protect us. We don't worry about uncertainty at the federal level. Most of our

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investors are significant investors in the cannabis space, and are also of the same mindset as us—that the federal issues will take care of themselves as long as we remain highly compliant with each State’s rules.

Tell us about what the Portland scene is like. How does it compare to major tech hubs?

There are tremendous entrepreneurs and engineers here and a cost of living that’s substantially better than SF, Seattle or NY, but you have to bring your capital with you from outside the state. There are not a lot of large VC firms here. And apart from some recent activity over the past couple of months we don’t have consistent large-dollar M&A or IPO deals happening—so there isn’t that capital to invest back into the startups.

The other big difference is, as you grow your company, you have to bring in senior sales talent. We don’t have a lot of people who have the the ability or experience to manage \$200 million quotas.

Beyond capital and senior sales talent, I think Portland has a thriving, collaborative, and passionate startup scene. There are tons of events, lots of accelerators, and lots of companies that are trying to do innovative and exciting things.

As a start-up investor, how do you evaluate different opportunities?

I’ve invested in about 40 companies as an angel investor. My investment thesis is that the company has to be in Portland (because I’m trying to support the Portland scene), I usually want to be one of the first investors, and thirdly, I invest 100 percent in the entrepreneur. The company idea is secondary to the entrepreneur. In my mind, if I can invest in 40 entrepreneurs, then I think I’ve done my job to support the ecosystem.

How was the transition from being a principal in transactions to being an intermediary at MergerTech?

My role at Saber was in government sales, and so much of the work falls on the negotiations that happen after you win the contract. So after they award you the bid and you sign the contract, between one and six months of negotiations, a lot of the skills I picked up during those negotiations were skills I applied to at MergerTech. My sales and negotiation skills were the key skills I carried over from Saber to

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MergerTech. The other skill was hiring the right people, training and mentoring them.

What is a piece of advice you'd like to share with our readers?

My experience is that most entrepreneurs underinvest in two areas: people and execution. People are the most critical part of the success of any company. I have found that most founders only give lip service to this advice. Finding, mentoring, coaching, promoting, rewarding, and firing people has to be one of the core competencies of a CEO and one he or she spends a lot of time on. Jack Welch used to spend 60% of his time on people issues and the one management team member he always traveled with was the head of HR. Compared to that I don't think any one of us spend the time on hiring, growth, retention, and firing that we should.

The other advice I would give most founders is to be excellent at execution. Ideas, product, design and so on are great. But be really really excellent at setting short and medium term goals and hitting them. I don't see enough of that from most of the companies and founders I work with. Execution is boring and tedious and takes a lot of work. Ideas and marketing and product development are exciting. But without the discipline of setting and meeting goals that execution provides, it's very easy to be working really hard and getting nowhere fast.