09-May-2023

# Ascend Wellness Holdings, Inc.

(AAWH.USD.CA)

**Q1 2023 Earnings Call**

# CORPORATE PARTICIPANTS

**Rebecca Koar**
*Senior Vice President-Investor Relations, Ascend Wellness Holdings, Inc.*

**Abner B. Kurtin**
*Chairman, Co-Founder & Chief Executive Officer, Ascend Wellness Holdings, Inc.*

**Daniel Joseph Neville**
*Interim Co-Chief Executive Officer & Chief Financial Officer, Ascend Wellness Holdings, Inc.*

# MANAGEMENT DISCUSSION SECTION

**Operator**: Good evening and thank you for standing by. Welcome to AWH First Quarter 2023 Earnings Call.

I would like to hand over the conference to your first speaker today, Rebecca Koar, Head of Investor Relations. Please go ahead.

## Rebecca Koar

*Senior Vice President-Investor Relations, Ascend Wellness Holdings, Inc.*

Good evening and welcome to Ascend Wellness Holdings earnings call for the first quarter of 2023. The presentation that accompanies this call can be found on our website, www.awholdings.com/investors.

Before we proceed, I would like to remind you that there are several risk factors and other cautionary statements contained in our SEC and SEDAR filings, including our Annual Report on Form 10-K for the year ending December 31, 2022. We will not review those risk factors and other cautionary statements on this call. However, we encourage you to read them carefully.

Various remarks on this call concerning expectations, predictions, plans, and prospects constitute forward-looking statements or information. These forward-looking statements are information are subject to risks and uncertainties that may cause actual results to differ from historical or anticipated results. Any forward-looking statements or information reflect management's current view only. We undertake no obligation to revise or update such statements or make additional forward-looking statements in the future, except as required by applicable laws.

References may be made during this call to future-oriented financial information and outlook, all of which are subject to the same assumptions, risk factors, limitations, and qualifications as forward-looking statements or information. While we believe that such estimates have been prepared on a reasonable basis, reflecting best estimates and judgment, the actual financial results of the company may vary from the amounts discussed herein and such variation maybe material.

During today's call, we will be referring to non-GAAP measures such as adjusted gross profit and adjusted gross profit margin, adjusted EBITDA and adjusted EBITDA margin as defined and reconciled in our earnings materials in the appendix of the presentation. These non-GAAP measures as defined by AWH may not be comparable to measures with similar titles used by other companies. Certain information that may be mentioned during this call, including industry information and estimates is obtained from third-party resources, including public sources, there can be no assurance as to the accuracy or completeness of such information. Although believed to be reliable, management has not independently verified the data from third-party sources.

On today's call, we have Abner Kurtin, Executive Chairman; Frank Perullo, President and Interim Co-CEO as of today; Daniel Neville, Chief Financial Officer and Interim Co-CEO.

And with that, I'll turn the call over to Abner starting on slide 4.

---

## Abner B. Kurtin

*Chairman, Co-Founder & Chief Executive Officer, Ascend Wellness Holdings, Inc.*

Thanks, Rebecca. Good evening, everyone, and thank you for joining our first quarter 2023 earnings call. As you are all aware, Ascend has experienced significant growth in recent years. Since our first full year of operations in 2019, our revenue has grown at 141% compounded annual growth rate. Today we've 2,000 proud assemblies spanning 31 dispensaries and six cultivation facilities across the Midwest and East Coast, including our most recent acquisition in our seven state, Maryland. Our priorities are shifting from managing hyper growth to more moderate growth, focused on continuous optimization and cash generation. We've started this next chapter during Q1 by generating cash from operations for the first quarter since the company inception. Today, I am pleased to announce that after an extensive search led by Russell Reynolds, the board has appointed John Hartmann as new CEO of Ascend effective May 15. For the next phase of our growth story the company is transitioning from day-to-day management from a founder led team to a sophisticated organization led by a professional management team that has experience leading large organizations successfully before. John brings a wealth of experience and expertise in leadership, strategy and operations. John is a proven leader that has a history of leading larger companies to operational excellence in competitive environments. Not only does he have experience leading top turnaround situations, he's also led corporations in building market share and streamlining operations. John was president of BuyBuy Baby a $1 billion retail segment with 140 stores where he led the transformation and delivered double-digit growth of the segment during his tenure. Prior to that, John served for seven years as CEO of True Value Company, a $12 billion wholesaler with 4,500 retail stores where John led the transformation resulting in the successful sales of private equity. His experience and expertise will be instrumental in leading Ascend to its next phase of growth. We are happy to have John on board to help us take the business to the next level. We look to him to lead the company to operational excellence in the cannabis industry and are confident that under John leadership we'll be able to continue driving value for our shareholders, customers and employees. In conjunction with this appointment, Frank Perullo, co-Founder, who previously served as President and interim Co-CEO, will continue to serve on the board and will transition to a strategic advisor for the company focusing on regulatory issues and license acquisition efforts. And Dan Neville, who previously served as Director, Chief Financial Officer and interim CEO, will resume his role as Chief Financial Officer. As Co-Founders, Frank and I will continue to add value and share expertise from the Board of Directors. We are pleased to have a new leadership team and the day to day management.

In addition to strengthening our management team, the company has added to its board of directors. Also effective May 15, John, as well as Sam Brill, a leading -- investor, will be elected to the board. Sam have significant experience having served on multiple public and private boards and will serve as lead independent director and chair of the compensation committee. We're confident that both John and Sam will provide valuable guidance and expertise to our board. These changes reflect our commitment to strong governance and leadership, and we're excited to see the positive impact they will have on our company's growth and success. Let's move on to Slide 5. Q1 achieved a major milestone by generating cash from operations for the first time since our company. I'm immensely proud of our team for this momentous achievement. Looking ahead, we remain confident in our ability to generate cash from operations for the full year in 2023. Given the capital markets environment, this will be a critical milestone for us as we position ourselves to be able to self-finance. Our balance sheet is our priority and we're pleased to have a strong liquidity position. This positioning allows us to selectively grow via acquisition for the right opportunities. There are an increasing number of distressed assets for sale, as many public and private operators struggle to navigate the difficult capital environment. Remain focused on identifying accretive and deleveraging transactions to help us scale, while others are not in a position to do so. A great example of this is the Maryland acquisition, which was closed two weeks ago. We purchased four dispensaries in Maryland and an accretive multiple in today's medical environment. Meanwhile, Maryland is expected to begin allowing adult use sales in July of this year, which would render the transaction significantly more accretive within just three months of closing. We continue to look for opportunities similar to this.

The past year has been challenging for countless operators and investors alike. Valuations of all multi-state operators are at a meaningful discount, providing a potential investment opportunity. Stock prices of multi-state operators are down nearly 90% compared to they were two years ago. While enterprise value to adjusted EBITDA multiples are at an all-time discount to many of those are at an all-time just low. Further to that, AWH is trading an additional discount on many of its peers. Custody challenges continue to plague the industry and make it impossible for most institutional investors to access the space. Over the past few months, one of the few US banks like Custody, plan 00:09:27 [indiscernible] stocks was acquired and made the decision to stop serving as a custodian for US 00:09:31 pharma [indiscernible] stock. This move left many investors scrambling for a solution. The industry is looking forward to regulatory catalysts that will provide banks and institutional investors with better access and visibility to the sector. Although these hurdles can seem incessant, there remain multiple pathways in place, signaling a potential regulatory catalyst. Last month, for the first time, state banking was reintroduced Last month, for the first time, state banking was reintroduced into both chambers of Congress, suggesting the continued desire to get something done legislatively. This is the first time the bill has been introduced on a bipartisan basis in both chambers simultaneously. There is speculation there could be executive action that would instruct federal prosecutors to deprioritize the enforcement of the controlled substance. And additionally, we anticipate progress when the review of cannabis as a Schedule one drug is completed. Although the timing and outcome of this rescheduling efforts are uncertain. Meanwhile at the state level, cannabis becomes more and more a part of daily life, with more than 60% of the population living in states where cannabis is legal. Further to this, we're seeing some peers testing the market for uplifting possibilities for the TSA, given the current regulatory environment. We will be monitoring these developments closely to see if their access to capital and liquidity increases materially on the TSA. If successful, we plan to be fast followers of pursuing a path to uplifting.

I'll now turn the call over to Frank to review the operational highlights for the quarter beginning on Slide 6.

## Unverified Participant

Thank you, Abner. Good evening, all. Q1 with a solid quarter on the revenue front where we delivered record revenue and a sequential increase that beat expectations. Despite our top line growth, our margins are under pressure this quarter as we face some production challenges in our New Jersey cultivation facility, which I will address later. We continue to implement cost saving measures throughout the business to offset these headwinds. In the meantime, let's move on to Slide 7 to review the operations in detail, beginning with an update of the retail business. We continue to make great progress in the retail business.

Retail revenue increased 31% compared to last year, driven by the conversion of three stores in New Jersey to adult use. Consolidation of two dispensaries in Ohio and opening of two dispensaries in Pennsylvania. When we first started, we were laser focused on growth over everything else. However, over the past several quarters we've been concentrating on efficiencies across the organization and have successfully optimized staffing throughout the retail network, which has helped offset pressures on margins. We also have been making great progress towards achieving our goal to have 50% of our retail revenues come from the products that we produce. We ended the quarter with 49% of our retail revenues being self sourced. We are proud to be close to achieving this balanced target to enable us to benefit from the vertical margins while still providing our customers with a wide variety of offerings. Our outlet model is resonating with our customers. Within the quarter, we opened outlets in New Bedford, Massachusetts and Grand Rapids, Michigan. Subsequent to the quarter, we opened our ninth dispensary in Illinois in Tinley Park as an outlet store. We now have five of our 31 dispensaries that are opened as outlets where we offer everyday low prices or flower at a fraction rather than daily deals. In general, our outlets are grossing revenues above state averages as a whole, and they're getting off the ground quicker. Our New Bedford dispensary in particular is a great example of the outlet model. The site is in a great area near two highways, ample parking and ample points of sale. It is located in a market with price conscious customers who are hunting for value offerings. As we mentioned on our last call, our Southern Illinois retail stores faced an expected decline when Missouri commence out of sales in February. Declines in Southern Illinois seem to have stabilized, and the impact of Missouri remains consistent with what we previously reported in March. We saw the initial outflow of customers early on in February but have now seen a steadying month-to-month without further degradation. The opening of our dispensary in Tinley Park, Illinois, combined with the aforementioned benefits of New Bedford, have helped to make up for the revenue losses incurred in the state. The New Bedford store alone has made up for 60% of the revenue declines in southern Illinois. And we have one more dispensary license in Illinois that we expect to open in Q1 of next year to further close this gap.

We were pleased to close in our acquisition of four dispensaries in Maryland a few weeks ago and are working to integrate these assets into our business as we gear up for the highly anticipated start to adult-use sales expected this summer. We closed on April 27, the day after we received approval from the commission and the very next day we were swinging hammers to remodel the stores and improve customer experience ahead of the anticipated adult-use sales in July. Looking ahead, we are on track to open three dispensaries in Ohio in Q3. A third dispensary in Pennsylvania in Q4 and our 10th dispensary in Illinois in Q1 of 2024. We continue to cite locations for our three remaining Pennsylvania licenses, and are prioritizing location over everything else.

Let's move on to slide 8 to discuss the wholesale business. Gross wholesale revenue has grown 54% to $58 million compared to last year. As we have meaningfully expanded our cultivation capabilities, sales networks and product offering, we continue to make great strides each quarter. We are also pleased to report that during the quarter we successfully harvested our first crop for – our Smithfield, Pennsylvania facility, and completed the first sale of AWH branded products under our Simply Herb brand at our Scranton and Wayne, Pennsylvania dispensaries. In Illinois, we have steadily expanded our customer base and are now supplying AWH products to all 17 newly opened social equity licenses and continue to have nearly 99% penetration in the market. As additional licenses become operational, we will continue to work diligently to establish and cultivate these relationships.

Furthermore, we are starting to see the benefits of the process and head count optimization efforts we have put in place over the past two quarters, which are improving our productivity at our Barrie facility. In Michigan, we have seen a significant improvement since we're setting the cultivation operations in Q3. Our yields have almost doubled since our lows and we have brought our own product back to our shelves. In Massachusetts, our intercompany demand has skyrocketed as we opened New Bedford and realized growth at our Newton and Boston stores. Our third-party sales also saw a meaningful increase in the quarter as our value brand Simply Herb continues to capture market share.

In New Jersey, our wholesale revenue grew north of 40% sequentially as we expanded our wholesale networks and enhanced our offering with new products and form factors, including the 1906 fast-acting drops. While revenue is growing steadily and we continue to serve our customers, we have encountered yield challenges with the expansion of our cultivation facility in New Jersey, which have impacted our margins. While we have initiated corrective measures, we would like to address these challenges in greater detail on Slide 9, given their impact on our margins.

In the second half of 2022, we hurried to expand our cultivation facility to support our use needs of our retail stores and customers.

cultivation facility to support our use needs of our retail stores and customers, while we were originally producing moderate yields and decent testing cannabis, we started to see a decline in quality in yields beginning in February of this year. A variety of environmental and cultivation challenges led to this decline, and today our average cultivation yields in New Jersey are 48% below the average for the rest of our network, rendering our useful pounds harvested meaningfully lower. The lower yields impacted our gross profit by about CAD 1 million a month, beginning in March. We have initiated an end to end review focused on improving our environmental controls and are making significant management changes is expected to take a few quarters these changes to flow through the harvest cycles and begin to improve our quality and yields.

Every new phase of every facility has its own startup challenges and we are confident that we will overcome these production challenges with the time knowing we have successfully turned around facilities before. In the past we've had our share of challenges with other facilities and now they're some of our best performing growers across the network.

Now, despite these production challenges impacting our cost per pound, our New Jersey wholesale revenue growth remained impressive, and we continue to generate enough supply to meet the demands of our customers. We maintained sales into over 90% of the market in New Jersey and we continue to gain traction.

Now, I will turn it over to Dan to dive into the financials in more detail, starting on Slide 11.

## Daniel Joseph Neville

*Interim Co-Chief Executive Officer & Chief Financial Officer, Ascend Wellness Holdings, Inc.*

Thanks, Frank. Good evening, everyone. In Q1, we delivered sequential revenue growth in a competitive environment, but saw pressure on margins related to Missouri's impact on Southern Illinois and the Phase 2 start-up issues we experienced in New Jersey. Cash is king, and I'm pleased to report that we generated cash from operations for the first quarter since the company was founded. Total system revenue increased by 4.9% sequentially to $141 million revenue increased by 4.9% sequentially to $141 million, while net revenue which excludes intercompany sales of wholesale products, increased 34.2% year-over-year and 1.9% quarter-over-quarter to $114 million. This sequential revenue growth was driven by the strength of the two outlet stores we opened in the quarter, a full quarter of adult use sales in Fort Wayne, New Jersey, and growth in wholesale sales in New Jersey, Massachusetts and Illinois.

This growth was partially offset by the headwinds facing our Southern Illinois retail stores as a result of the start of adult use in Missouri during the quarter.

Retail revenue decreased 2% sequentially to $83 million, driven by the start of AU sales in February in Missouri. These declines were partially offset by growth from the opening of the New Bedford, Massachusetts dispensary, which made up 60% of the revenue lost in Southern Illinois. Despite the retail revenue decline retail transactions across the business grew 70% sequentially and were above a million transactions for the second quarter in a row. Gross wholesale revenue increased 16% sequentially to $58 million, driven by growth in wholesale sales in Massachusetts, New Jersey and Illinois.

Net wholesale revenue, excluding intercompany sales, increased 13% sequentially to $31 million, driven by third party sale increases in New Jersey, Mass and Illinois, partially offset by declines in Michigan due to a de-emphasis on third party sales in that market. Although we had production challenges in New Jersey, our New Jersey wholesale wrapping remained strong, with wholesale sales up 42% quarter-over-quarter. Despite the positive revenue and cash flow outcomes, our margins were under pressure this quarter, largely due to the operating deleverage we saw in our Southern Illinois stores and the issues we experienced ramping our Phase 2 cultivation expansion in Franklin, New Jersey. While Southern Illinois is now stable and still a great business for us, we expect margins to remain below normal for the remainder of the year as we work through these production issues in New Jersey. We see the New Jersey and issues impacting profitability by approximately $1 million per month or $69 million for the remainder of the year. Adjusted gross profit decreased to 11% to $47.6 million, and adjusted gross profit margin decreased 600 basis points sequentially from 47.7% to 41.7%. The declines were driven by production challenges in New Jersey, as well as lower margins in our Illinois retail business. Our adjusted EBITDA was $23.3 million, which represents a 42% increase year-over-year, but a 17% quarter-over-quarter decline. Our adjusted EBITDA margin for Q1 was 20.4%, which represents a 118 basis points year-over-year increase, but a 473 basis point decrease sequentially. The declines were driven by the above impact to gross margins, partially offset by workforce optimization and other cost actions. We're laser focused on driving cost savings across the business.

Let's move on to discuss the balance sheet on slide 12. We remain committed to maintaining a robust balance sheet as our top priority. At the end of the quarter we have $73 million of cash and equivalents. Our net debt was $251 million with no near-term maturities.

We are happy to report that we have achieved positive cash flow from operations for the first time in this quarter. A significant milestone for our company. In Q1, we generated nearly $6 million of cash flow from operations, although we remain on target to generate cash from operations for the full-year 2023. We expect some lumpiness in Q4 as we make our 2022 federal tax payment.

Net cash from investing with the use of $6 million driven by $10 million in growth CapEx to support completion of the Phase two cultivation expansion in New Jersey and several dispensary openings. This growth expense was partially offset by $13 million in sale leaseback proceeds received from amending our New Jersey lease. With IIPR, we also made our final payment of the $8 million related to the Midway acquisition in Illinois in the quarter, which decreased our seller financing obligation. We intend to invest a total of $25 million of net CapEx for the full-year as we continue to build out our retail pipeline, particularly in Ohio and Pennsylvania and as we remodel the Maryland stores ahead of the start of adult, we used approximately $1 million of cash in the quarter for financing driven by the repayment of debt related to the Illinois minority buyout. We continue to be laser focused on further optimizing our cost structure, tightly managing working capital and generating cash as we expand the business. We look forward to welcoming John on board as CEO and are excited for what is in store for the rest of 2023. Thank you all for joining the call this evening and your continued support of us. With that, I'll turn it over to the operator for questions.

# QUESTION AND ANSWER SECTION

**Operator**: Thank you. Ladies and gentlemen, we will now begin the question-and-answer session. [Operator Instructions] Please remember that you can only ask one question and a follow-up. One moment please for your first question. Your first question comes from Sunny Randhawa from Seaport. Please go ahead.

Q

Fair. Thanks for taking my question. I guess I wanted to drill down a little bit more on the impact in New Jersey. From a sales standpoint, obviously looking into the second quarter, we'd expect a little bit of a rebound from – is that rebound that we typically expect in the second quarter going to be impacted by current inventory levels in New Jersey?

A

Thank you for the question. Frank, why don't you run through the where we are from a business and inventory point of view and then then Dan you can drill down into the economic impact.

A

Sure. I mean, we remain in a strong inventory position both at our retail outlets and our cultivation facility. And, you know, again, we are producing cannabis out of that facility every month. The yields are just lower than we would hope to expect. But generally speaking, we are supplying every day we are supplying our customers both at the retail and wholesale with all the products, the full portfolio, including flower vape products and edibles. So a strong inventory position will not affect any sales over the coming months, and including Q2.

Q

Okay.

A

Yeah, I think on the margin side of things, Sunny, just to give a little more clarity in terms of the impact here. So, you know, we kind of have a double whammy on the cost front because we doubled the size, we doubled the canopy within that facility. And so we brought on additional heads on the cultivation side of things, as well as the production side of things. And so our cost increased with that doubling of the canopy, but we yielded the same amount of biomass despite doubling that canopy. And so that impacts not only the cost on the cultivation side of things in terms of driving up our cost per pound harvested, but also our production costs because the facility is producing half the units we anticipated. We still grew wholesale business by 40% quarter-over-quarter. And if you look at our margins, if we had held the margins that we saw in Q4 and Q1 on this bigger base of business, it would have been a $4 million positive variance to the EBITDA results that we produced. And those margins in New Jersey in Q4 are in line with the rest of the facilities in the network.

Unfortunately, though it takes a while for these low yields to work themselves through. So it's going to get a little worse before it gets better. In terms of the financial impact will bear kind of the full brunt of this in Q2 and that will be an incremental $3 million impact, $1 million a month, and then it starts get a little bit better in Q3 and then we're full way to the other side in Q4. The plus side is, you know, business is going well. The group 40% quarter-over-quarter. We have a bunch of new products and market that have got good traction and are selling well. So this is really a temporary impact to the margins. And while it won't turn around as you know, we're going to try to get it turned around as quickly as we can. It's never quick enough for us. But this isn't a structural issue and we should be back to achieving the yields and the costs that we have achieved across the rest of the network in Q4.

A

I like to say, you know, we wish we were making widgets. You know, growing plants was a little bit tougher. And when we've expanded facilities, sometimes there's a bump in the road. And that's what we're experiencing here. But business is great in New Jersey. It's our second most profitable business. We wanted to point out exactly Dan's point, which is there's $4 million of additional profit just waiting for us when we straighten this out, you know, over the next growth cycle.

Q

Okay. I guess just for an unrelated follow up, you guys have seen – seems to be gaining a lot of traction in the Simply Herb brand. I just wanted to see where Simply Herb is relative on a revenue basis as a percentage and then whether it's been rolled out or to all your markets. And if there's additional form factors that you guys are exploring in that category.

A

Frank, do you want to go through with the position and where we stand on Simply Herb? And Dan I don't know, we don't really give out, breakout, but you can give a sense of where we are with Simply Herb.

A

Yeah, that's right, Abner. And I'm sorry. What would you like other than the breakout, what question do you have specifically on Simply Herb.

Q

Checking to see where you guys stand in terms of rolling it out to all your markets and if there's other form factors you're working on.

A

Yeah. Great. Simply Herb is currently in all of our markets where we have vertical operations except for Ohio We have just launched it in Pennsylvania that happened this quarter. In the rest of our markets, we have flower offerings in

Simply Herb, everything from 3.5 gram up 2 ounces. We will be releasing vapes vape products from the Simply Herb line later this quarter and that will be in a majority of our markets. We do focus on larger offerings 14 gram, 28 gram across all of the flower segments, flower, popcorn and ready to roll shake. And it's been you know, it's a really great driver for our outlet stores, particularly.

A

Yeah. And I'd say as Abner said we don't we don't really get the break out there. But where where we're seeing I think increased adoption on the Simply Herb side of things is in the more price sensitive market. So you look at Michigan and Massachusetts, which are a bit more developed with a bit more price sensitive customer, you're actually seeing Simply Herb, outperform the ozone brand within those markets. So it's been, it's been a strong contributor across all our markets, but particularly in those very value conscious markets, it's done. It's done exceedingly well.

Q

Yeah. I mean, I would say, you know, the customer wants. If we like it, loves it, loves a value product and we're embracing that on both the wholesale and retail side and we're embracing that on both the wholesale and retail side, and we're taking significant market share. And so we know there are some other MSOs doing that and people are reacting to it that's all great. We think we're doing a great job for the customer. The success of our outlet shows that and the success of simply our shows that. I mean, for us to be growing wholesale like we are and growing the outlet business and really basically getting that number one share in places like Stratford and New Bedford, which are developed markets years later, is just, you know, I think a huge pat on the back to our retail team and wholesale team for pulling together this strategy.

Q

Great. I'll turn it back.

**Operator**: Thank you. Your next question comes from Matt McGinley from Needham. Please go ahead.

Q

Again I do have a follow-up on the gross margin side. So if New Jersey was a $1 million impact, and I think you said it was only in March, that would have only been around 90 bps of a headwind in the quarter. Can you quantify the other drivers of the decline, which I think you noted, were price decline and decline in Illinois transactions? And if this is a $1 million a month impact and then the price decline overall and transaction decline in Illinois doesn't improve, which I don't I don't know if that's part of your assumption into the next few quarters that I would assume they probably would improve. Does that mean your second quarter adjusted gross margin rate will be at least two points lower quarter-over-quarter from New Jersey than what you printed here in the first quarter?

A

Yeah. So to go on some of the other factors impacting things. So we did have is about a 250 bps impact related to Southern Illinois as well so that's the other big factor.

There wasn't you know, wasn't just New Jersey quarter-over-quarter. It was also there was also an impact related to the Southern Illinois cannibalization that we experienced and the decremental margins there. And I think on I think you're pretty spot on, on the gross margin side of things. So somewhere in that 200 bps, 250 bps range on next quarter is probably the additional impact that we'll see in Q2.

Q

Got it. And...

A

And again, I say that's you know, that's only from the run rate too as well. So the analysis that that that I kind of walk through with Sunny, if we had achieved margin better in line with where the rest of our cultivation facility is and where we were in Q4, combined with the revenue growth, we actually had a bigger impact than what we saw flowing through in the quarter. We obviously took the hit, but that doesn't account for the 40% sequential increase that we saw in the wholesale side of things as well.

Q

Right. Okay. And on that wholesale side...

A

So I would just say just that that that's that starts to reverse pretty aggressively, we hope, in the Q3 as we both have the benefit of Maryland adult use sales and kind of a new grow cycle coming out of New Jersey, which I'll start to head to, we hope, kind of late third quarter. So we see it kind of bottoming in the second quarter and then bouncing back very strongly as that comes on. And then in the fourth quarter, we have a bunch of stores opening. So we see it as a short term blip related to this one issue.

Q

And you noted that the, the wholesale program is up 13% quarter-over-quarter. [indiscernible] the net wholesale was up pretty significantly. And I think that, that was primarily driven by new customers and some of the value product were there any like one time benefits like inventory liquidation that would have -- would move that up in the quarter? And should the revenue there, given it, if it is from new customers and growth in the value brand, should we expect that wholesale revenue to grow or be flat, I guess into the end of the second quarter?

A

Yeah. Yeah, I think.

A

I'm sorry. You want me to handle that?

A

I think that what you just go through, I think the numbers are.

A

Yeah. So, I think there are a couple of things impacting the net number. And one of those is Massachusetts. So, we didn't have -- we only had New Bedford for half the quarter. This quarter, that store has done exceedingly well. That is actually going to impact our revenue numbers on the Massachusetts side on a net basis. But it will be due to our selling product into our New Bedford dispensary in driving vertical margins. So, you'll still capture the margin there. You won't captured on the wholesale side of things as much. There were no one time items in the quarter. There was no inventory liquidation. We're in a good position on that front, as we said, last call. I would expect wholesale revenue to be relatively flat to slightly up, driven by growth in the underlying business. As additional social equity stores come online in Illinois and New Jersey, we're selling in to basically, I think, every account that is opening on the social equity side of things in both of those markets. We're starting to see strong reorders from those folks, but that's going to be partially offset by the increasing virtualization that we have in Massachusetts and a little bit more vertical integration in Illinois with the opening of our [ph] Tinley Park store. Thank you.

Q

Thank you.

**Operator**: Thank you. Your next question comes from Russell Stanley from Beacon Securities. Please go ahead.

Q

Good afternoon and thanks for taking my question. Maybe if I could just follow up on your comments around Illinois and the new stores coming online. I think assets last quarter, but I guess, can you give us your latest view on the number of new stores you expect to see get open in 2023? I think we, as you noted 17 stores out of 192 licenses went out last year. Just wondering what kind of cadence you're expecting for the rest of 2023?

A

Yeah. I'll turn it over to Frank on that. But I would say, we continue to be disappointed by the pace. Obviously, I think the delay in the license is really a lot of these guys lost their real estate and it's really hard to raise money to open these stores. And I think that's the headwinds that they're facing. But I'll turn it over to Frank for the details.

A

Yeah. Thank you, Abner. You know, I think an additional 20 to 30 stores will open over the course of this year. As Abner mentioned, the headwind these license holders are facing both in capital and trying to navigate the real estate waters have been very tough and I don't see it getting easier now. Also, just add this to the list of pressures is the state law requires those stores, the actual legislation requires those stores to be open one year from issuance of license. The Illinois legislature put the gavel down on, I believe it's May 19, and currently there isn't a bill to extend that deadline. It's unclear if IDFPR the Illinois regulatory body has the authority to do so considering it's in statute, not in wreck. So, I think people are scrambling to extend those deadlines and try to get additional call it 180-plus days added to that regulatory timeline since many of these licenses were issued in the summer, July and August. So, we're hoping to see that extended by the powers that be in Illinois and get these stores open again as quickly as possible. But again, I'd say 20 to 30 additional stores, what we will see likely by the end of the year.

Q

Got it. And if I could, just to follow-up, just on the Tinley Park opening, I know it's brand new, but can you I apologize if I missed it. Can you comment, I guess some of the initial performance looks like your expectations and I guess is the site also going to be a retail location?

A

I'll take that one and Tinley Park is opened above our expectations. As I noted, our outlet stores, tend to get to that state average quicker than most of the other stores that open. We have opened with a bang, I think we opened about a month ago now. And, we're working our way to that state average in Illinois. And I think it's been, a success for sure. And I'm sure. Was there another question there and a follow-up?

Q

So, I noticed whether the 10th store, how you're playing...

A

Our 10th store.

Q

...yeah, that's going to be an outlet if you envision that being an outlet store as well.

A

We're working on the siting of that store. I think again it depends on where, we where we site that that location, what approach we'll take. We again, are looking to have that completed relatively in short order and get that store open in Q1 of next year.

Q

Great. Thank you. I'll get back in the queue.

**Operator**: Thank you. Your next question comes from Bobby Burleson from Canaccord. Please go ahead.

Q

Yeah. Thanks for taking my questions. So just a couple of quick ones. In terms of the outlet stores, can you talk a little bit about the profitability of those stores versus the rest of your network? What's the kind of delta there if any?

A

Let me [indiscernible] 00:44:23 or Frank, chime in as well. I mean, there's I mean, they're lower price stores, but they also attractive price conscious customers. So that customer is going for a, you in a lot of cases, a lower margin product. Even if there's higher margin products on the shelf. So maybe there's a 5 to 10 point margin reduction, but we see a significant gain in sales. And so we think our gross margin dollars are significantly higher. That's why in saturated markets we've been able to go into saturated markets and become the number one store, sometimes in some cases reasonably quickly. We have one outlet store that's doing, that's doing 3x our base projections, the massive uplift. So we think the gross margin dollars a massive uplift. So we think the gross margin dollars are significantly higher than they would be otherwise. And interestingly, you know, we just – we're the only ones doing everyday low pricing and it really resonates with the customers. So we're you know, we're very happy with the outcome, particularly as you enter into saturated markets.

Q

Okay. Great. And then just on the three Pennsylvania store openings in 2024, I know you're still working on getting sites there, but any sense for timing in terms of when they might hit that year?

A

Frank do you want to take that?

A

Sure. I mean, and we're actively citing those stories currently. I think that within this year, we'll have sites nailed down and start swinging hammers on most of those projects. If not, that might bleed into a Q1. But I think and again, you know, Dan and I are working on that both on this together I'll let him correct me. I think the goal is to get those doors open to all of them by Q2, Q3, probably likely Q3 of next year I think it's up there.

A

Yeah. I mean, look, we have we have three of the four remaining sites cited. You know, one of them is owned by right to out to go through a special use process which adds a little bit of time to it. You know, yeah we want to make sure we get through the special use things can go awry, but so far, so good. And one of those is the ground up so I would say that the cadence next year for those three is probably, you know, early Q1, Q2, early Q3 for the last ground up bill. Hopefully, we can beat those expectations I will say candidly, we were looking for, you know, and always had been looking for A-plus sites. We want to site these stores for adult use in Pennsylvania. So one turnoff, the highway high traffic counts 50 plus parking spots with good visibility. We've got those sites originally entering the late stage medical market, I don't think we expected the performance that we'd seen out of the stores in Scranton and Wayne or expected that type of performance. So we're trying to hurry up and get those built and open as quickly as we can given that the opportunities that there is a lot better than we originally anticipated.

Q

Great. Thanks.

**Operator**: Thank you. Your next question comes from Andrew Semple from Echelon Capital Markets. Please go ahead.

Q

Hi there and congratulate you on results. First question is on Massachusetts, where it appears you reported both pretty good gains on both the retail and wholesale business. Believe you were expecting some incremental capacity to come online in Q2. Did some of that arrive early that that allowed you to both expand wholesale and retail simultaneously? Could you comment on that, whether there's any more capacity expected for the remainder of the year sometime early?

A

Frankly, you want to take that?

A

Sure. The capacity has come on. It did not affect did not come in time for Q1. And I mean, with New Bedford performing the way it's performing we probably would like more capacity.

So again, we're working to increase yields and get as efficient as we can. But, you know, New Bedford was a pleasant surprise and helped work any ounce of biomass that we have in Massachusetts growing and being processed through our stores. And with the wholesale growth out. Dan can quantify it any further if he wants. But you know, where those additional pounds are coming on now.

A

Yeah. And I think fortunately or unfortunately, there's no shortage of Clover in Massachusetts. So any gaps that we've had, we can certainly address on the bulk side of things and then fill in that capacity later. But thus far, we haven't seen any issues with being able to fill both sides of the equation.

Q

Great.

A

This sets us up quite strongly, though, because this allows us to being short weed in mass allows us to have a place to put the additional capacity, which is a really good place to be in a competitive markets and we're, you know, we're excited for the capacity come online. We have homes for that product as soon as we can get it out the door.

Q

Great. Thank you. Next question. Just on the guidance that was issued last quarter, just to make sure we address that, I don't believe I saw it reiterated. Apologies if I missed it, but you were previously calling for 15% revenue growth and EBITDA growth year-over-year in 2023, I'm just wondering how that stands today. Looks like you're off to a great start on the revenue side. Q1 up 34% year-over-year. EBITDA size obviously a big cloud here with the New Jersey impact. If you maybe comment on the guidance you put out with the prior quarter results.

A

Sure. You've hit it right on the head like we feel very good on the revenue side and we're a little uncertain on the EBITDA side. We're not withdrawing guidance. We're not reiterating guidance. We have highlighted that there was a $6 million to $9 million total impact from New Jersey. We think we've got some positive factors here, including potentially Maryland, wholesale, et cetera. We're in a work of art as to make those up, but we have identified $6 million to $9 million EBITDA impact from this one -- one issue. And, you know, it's our job to try to find ways to offset that as we move forward. And, well, we'll see what happens here.

Q

Great. Appreciate the additional color there. I'll get back into the queue. Thank you.

**Operator**: Thank you. Ladies and gentlemen, there are no further questions at this time. This concludes your conference call for today. We thank you for participating and ask that you please disconnect your lines. Thank you.

A

Thank you.