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Ascend Wellness Holdings, Inc.

(AAWH.USD.CA) Q2 2024 Earnings Call



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MANAGEMENT DISCUSSION SECTION

Operator: Good morning and thank you for standing by. Welcome to AWH's Second Quarter 2024 Earnings Call.

I'd now like to hand the conference over to your first speaker today, Rebecca Koar, Executive Vice President of Investor Relations and Strategy. Please, go ahead.

Rebecca Conti Koar

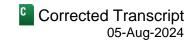
Executive Vice President-Investor Relations & Strategy, Ascend Wellness Holdings, Inc.

Good morning and welcome to AWH's earnings call for the second quarter of 2024. The presentation that accompanies this call can be found on the investor relations section of our website.

Before we proceed, I would like to remind you that the following discussion and presentation contains various forward-looking statements or information. These forward-looking statements or information are subject to risks and uncertainties that may cause actual results to differ from historical or anticipated results. For more information on these risks and uncertainties, please refer to slide 2 of this presentation, today's earnings release and our SEC and SEDAR filings, including our most recent report on Form 10-K. We encourage you to review these materials carefully.

During today's call, we will be referring to non-GAAP financial measures such as adjusted EBITDA. Reconciliations to the most directly comparable GAAP measures are in the appendix to the presentation and in our earnings release.

Q2 2024 Earnings Call



On today's call, you will hear from John Hartmann, Chief Executive Officer, and Mark Cassebaum, Chief Financial Officer.

With that, I'll turn the call over to John, starting on slide 4.

John R. Hartmann

Chief Executive Officer & Director, Ascend Wellness Holdings, Inc.

Thanks, Rebecca.

Good morning, everyone, and thank you for joining our second quarter earnings call. As I reflect on the quarter, I would like to thank each of our stakeholders, including our valued patients and customers whose trust and loyalty drive our mission; our dedicated employees whose hard work and passion are the foundation of our success; and our supportive lenders and investors whose confidence in our vision enables us to grow and succeed.

On this call, I'll start by providing an update with highlights in the quarter, followed by insights into the performance of our retail and wholesale segments. After that, I will hand the call over to our CFO, Mark Cassebaum, who will provide more detail on the financials and an update on our outlook for the rest of 2024.

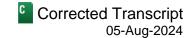
In Q2, we produced solid financial results. Our revenue net of intercompany sales reached \$141.5 million and adjusted EBITDA totaled \$28.3 million. These figures reflect a notable 15% increase in revenue, a 33% rise in adjusted EBITDA, and a 269 basis point improvement in margin compared to the same quarter last year. Despite these impressive year-over-year gains, they fell short of our expectations, primarily due to declines in our wholesale profitability in the Massachusetts market. Consequently, we are actively managing costs and optimizing various business functions to address this gap. Furthermore, our focus remains on market execution, driving operational efficiencies, enhancing customer experience, and strategically investing in growth opportunities to ensure we continue to build on our momentum. We are committed to delivering value for all our stakeholders and are confident in our ability to navigate the choppy waters of an emerging market.

While some of our metrics fell short, we are pleased to report positive cash flow from operations for the sixth consecutive quarter. In Q2, we generated \$14 million in cash from operations, excluding approximately \$18 million of state and federal income tax refunds which were received related to income tax return amendments that we filed earlier this year. For the first half of the year, our total cash flow from operations excluding these refunds was nearly \$80 million, solidifying our position in the cash generative phase of our growth journey. Further demonstrating this, we produced \$9 million in positive free cash flow in the quarter, excluding the benefit of tax returns.

Outside of the Q2 results, we achieved several notable milestones for which I'm proud of the team for executing. As previously committed, we successfully refinanced our term loan over a year before it would mature in August of 2025. The team secured the largest debt deal for all US multistate cannabis operators in the last year-and-a-half and the fifth largest original issuance of all time amongst the same group. This refinancing significantly enhances our flexibility and provides us the runway to continue executing our strategy and growth objectives. I will provide more details on this financing on the following slide.

Further, we opened two dispensaries since the end of Q1. We also supported our partner in opening two dispensaries in Illinois, which are included in our consolidated financial statements. We continue to explore additional partnership opportunities to further densify our reach in existing markets. We see significant growth potential in many of our markets. For example, Ohio boasts nearly 12 million residents and is set to become one of the largest cannabis markets upon the flip. Ascend operates dispensaries near each of the top three cities in

Q2 2024 Earnings Call



Ohio: Cleveland, Cincinnati and Columbus. Each of the five dispensaries that we operate have been granted dual use certificates of operation effective tomorrow. Four of these dispensaries will begin selling to non-medical customers immediately. We can't wait to serve the expanded customer base in the Buckeye State and are looking forward to providing updates in the coming quarters.

I would also like to highlight the appointment of Julie Francis as an Independent Director on our board and a member of our Compensation and Governance Committee. Her appointment expands our board from six to seven Directors, reinforcing our commitment to best governance practices. Julie brings a wealth of experience in consumer goods sector, currently serving as the Chief Operating Officer of Schwan's Company. Her previous leadership roles at Constellation Brands and The Coca-Cola Company further enhance the expertise and diverse perspectives on our board.

Lastly, I'd like to touch on the continued progress on the regulatory front. The rulemaking process to formally reschedule cannabis from Schedule 1 of the controlled substance act to Schedule 3 remains underway. The 60-day comment period ended on July 27 and concluded with the Drug Enforcement Administration receiving over 42,000 comments. According to Headset Research, over 90% of comments showed overwhelming support for reform by way of rescheduling or complete legalization. This level of engagement is historic and remarkably supportive. We remain optimistic and anticipate that a favorable final rule will be issued and in effect prior to the November election.

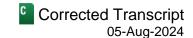
From a judicial perspective, as you know, we are a supporter of the consortium which filed a lawsuit in the district court for the District of Massachusetts, challenging the Federal Government's authority to regulate state, legal, intrastate commerce. The case continues to progress as expected. In late June, the Department of Justice was granted a motion to dismiss. The renowned constitutional lawyers at Boies Schiller and Flexner remain confident that this action has set us up well and on a path towards an appeal to the US Supreme Court. Since the motion's dismissed, an appeal has been filed in the First Circuit Court of Appeals. We are looking forward to seeing this case through to the end and ultimately a favorable resolution.

Let's move on to slide 5 for a closer look at our recent refinancing. Before delving into the transaction details, I want to extend my sincere thanks to our supportive lenders who made this possible. The backing from the majority of our most substantial term loan lenders, including all four of the largest, underscores their trust in our vision. In addition to the strong support, the oversubscribed note attracted new institutional lenders and helped us socialize Ascend's investment thesis more broadly. We received \$235 million in senior secured notes and we refinanced \$215 million of the current term loan which matures in August of 2025. The new notes bear a 12.75% interest rate and were issued with a 5.25% original issuance discount. This five-year financing enhances our financial stability and flexibility. The remaining \$60 million in principal under the term loan will continue at the current lower interest rate of 9.5% and can be repaid at par after February 27, 2025. [ph] To refuse (00:09:34) to refinance this amount, the company has received commitments to issue additional notes before the remainder of the loan matures.

It is important that the notes have no prepayment penalty in the first two years or the last year, which gives us the flexibility to refinance should the macro or cannabis rate environment become more favorable. We are pleased to have secured this non-dilutive financing with relatively strong terms, aligning us with other top cannabis operators. The structure maximizes our balance sheet and preserves optionality. We aim to continue to deliver for all of our stakeholders as we execute our plans in the coming years.

Let's move on to discuss the retail business on slide 6. As we all know, cannabis is an emerging industry that is experiencing rapid growth. We often discuss the normalization period that follows this initial surge, marked by

Q2 2024 Earnings Call



increased access to licenses and market normalization. Many cannabis markets are currently in this space and becoming more competitive. In our markets, this is particularly the case in Illinois and New Jersey, where numerous new licenses are being issued. Per our strategy, it is crucial to have markets at various stages of this normalization curve. This diversification is important to us and we have made significant progress in diversifying over the past several years. Illinois was once 100% of our EBITDA. And today, with the addition of several successful states, we have been able to meaningfully diversify.

In Q2, our retail revenue made up 66% of net revenues, totaling \$93.1 million. This represents 3.6% growth compared to last year but a 2.2% decline from the previous quarter. The sequential decline was primarily due to increased competition in Illinois, New Jersey and Massachusetts. However, this pressure was partially offset by new store openings and improved sales in Pennsylvania, along with increased sales in Maryland, Ohio and Michigan. The aforementioned market dynamics have contributed to the decline. Despite these challenges, we see green shoots in several of our markets and continue to have the highest average revenue per dispensary of any cannabis retailer in the US.

During Q2, we opened two new stores, including one relocation in Wharton, New Jersey and one new store in Cranberry, Pennsylvania, a suburb of Pittsburgh. We relocated from Montclair to Wharton largely due to parking and building constraints in Montclair. Our new store offers a convenient drive-thru and ample parking, enhancing the shopping experience with Ascend. This dispensary is situated in the county with a higher population to dispensary ratio and we are optimistic about its growth. Our new store in Cranberry, Pennsylvania has had a solid start and we are excited to see it performance throughout the year. We continue to build out our two remaining licenses in Pennsylvania and expect to open the fifth store in Whitehall by the end of the year and our sixth store next year. Our first New Jersey partner store is expected to open in the first half of next year as well.

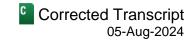
Also in the quarter, our partner opened two new stores in Illinois. These partnership stores are the first two of this nature that we have begun consolidating, bringing our total operating and consolidated dispensaries to 38. We were excited to assist our partner in rebranding these stores which they acquired from an underperforming seller. We anticipate additional partner stores and we'll provide an update next quarter as our plans to expand the footprint solidify.

Lastly, I'm excited about the imminent commencement of non-medical sales in Ohio. We are delighted to be among the first operators in the state to serve these new customers. We are enthusiastic about the momentum in Ohio and its potential to further drive our growth.

Let's move on to slide 7 to discuss our wholesale business. We continue to experience exceptional top line growth in our wholesale business, which is helping to mitigate the competitive pressures impacting our retail segment. Q2 marked our sixth consecutive quarter of growth and third-party wholesale revenue growth. Among our achievements this quarter, we had our first harvest at the Amesbury, Massachusetts cultivation facility which, following the recent expansions, has increased our total canopy in the state to 67,000 square feet and 255,000 square feet across our network. Additionally, our AWH brands made their debut on shelves in Maryland through our production partner in that state.

We maintain the position of the third-largest brand house in aggregate in our primary wholesale markets of Illinois, Massachusetts and New Jersey. Including our emerging markets, we rank as the fourth-largest brand house overall. Our door share among social equity dispensaries is above 95% in Illinois and New Jersey, reflecting our strong market penetration and adaptability in these rapidly growing and evolving markets.

Q2 2024 Earnings Call



These highlights have significantly contributed to our impressive 46% year-over-year growth in net wholesale revenue which now stands at \$48.5 million, marking a 3% sequential increase. While I applaud the team for driving this revenue growth and maintaining our strong market position, we have work to do to improve our margins, with a sharp deterioration in profitability in the Massachusetts market that made up the bulk of the shortfall. The overall wholesale profit declines were largely driven by less favorable product mix, increased wholesale discounting and lower production margins.

Now, I will turn the call over to Mark, and I look forward to taking your questions at the end of the prepared remarks.

Mark Cassebaum

Chief Financial Officer, Ascend Wellness Holdings, Inc.

Thank you, John. Good morning, everyone.

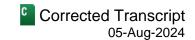
As John mentions, we demonstrate a robust year-over-year growth in Q2. However, we also faced larger than anticipated sequential declines, primarily driven by a faster than expected ramp of competition in key markets such as Illinois and New Jersey. The accelerated entry of new competitors in these states created a more challenging environment, impacting our retail performance. Total system revenue increased by 14% year-over-year, reaching \$173 million, although it's only a 1% sequential decline. Net revenue excluding inter-company wholesale product sales rose by 15% year-over-year and declined 0.6% quarter-over-quarter to \$141.5 million. The year-over-year growth was fueled by an approximately 100% increase in third-party wholesale door share led by New Jersey followed by Massachusetts and Illinois. Additional drivers including the opening of seven new Ascend stores, the acquisition of four stores in Maryland which began adult-use sales after the purchase, and the inclusion of two partner stores. The sequential revenue decline was due to retail declines at Illinois, New Jersey and Massachusetts, which were partially offset by retail growth in Pennsylvania and Maryland, as well as wholesale sales improvements in New Jersey, Pennsylvania and Massachusetts.

Our adjusted gross profit increased by 18% year-over-year. It decreased sequentially by 15% to \$53 million, with adjusted gross profit margins dropping by 635 basis points to 37.5% of revenue. This decline was driven by margin reductions in the wholesale business, particularly in Massachusetts and Illinois, as well as retail margin declines in Massachusetts, Michigan and Illinois. As John mentioned, the wholesale profit declines were largely driven by a less favorable product mix, increased wholesale discounting and lower production margins.

Our Q2 adjusted EBITDA was \$28.3 million, representing a 33% year-over-year increase with a 12.7% sequential decline. Adjusted EBITDA margin for Q2 contracted sequentially by 278 basis points to 20%, primarily due to the gross margin declines just discussed being partially offset by reductions in labor and corporate expenses. We take these profitability declines very seriously and are committed to course correcting. Following the quarter, we implemented a reduction in head count across the organization to right-size the business and streamline operations.

Turning to the health of the balance sheet on slide 10. We ended the quarter with \$84 million in cash and equivalents, inclusive of approximately \$18 million in federal and state tax refunds related to amended returns. The majority of these refunds came from state income tax amendments and represent 280E taxes previously paid by the company. The 280E refunds are subject to state and federal examinations and are included in the uncertain tax position on the balance sheet. Our position remains that 280E is a discriminatory enforcement of the law on state legal businesses. Excluding the proceeds from these refunds and continuing with our current tax approach of withholding 280E-related payments, we've achieved our sixth consecutive quarter of generating positive cash from operations. After investing \$5 million in capital expenditures, we generated \$9 million in free

Q2 2024 Earnings Call



cash flow for the quarter. In Q2, we used \$17 million in cash for investments inclusive of \$10 million in capital investments to support the partnership dispensary licenses and \$5 million in capital expenditures for dispensary builds and improvements to cultivation facilities.

We ended the quarter with net debt of \$226 million and an implied net leverage of 2 times based on Q2 annualized adjusted EBITDA. Adjusting for cash used and the increase in debt following the refinancing, our pro forma leverage stood at 2.2 times. As John mentioned, we were thrilled to complete this refinancing with favorable terms which maximizes our flexibility and provides us with five years of runway to focus on growing the business.

As we look ahead through the remainder of the year, it is prudent for us to update our guidance in light of the increased retail competition in select markets and the recent profitability trends of our wholesale business. We now anticipate net revenue to increase between 11% and 13% and adjusted EBITDA to increase between 5% and 10% for the full-year of 2024 compared to the prior year. Additionally, we now anticipate cash from operations to be above \$40 million, excluding the benefit of tax refunds. While we have faced recent challenges, we are still anticipating meaningful growth in top and bottom line for the full year. And we believe that our strong asset base, combined with the imminent commencement of non-medical sales in Ohio and our planned additional dispensaries, we can achieve these significant year-over-year growth figures.

Thank you for your time this morning, and we will now turn it over to the operator and open it up to questions.

QUESTION AND ANSWER SECTION

Operator: Thank you. Ladies and gentlemen, we will now begin the question-and-answer session. [Operator Instructions] Our first question comes from the line of Russell Stanley from Beacon Securities. Go ahead, please.

Russell Stanley

Analyst, Beacon Securities Ltd.

Good morning and thanks for taking my question. First, just around the observed gross margin compression, you highlighted several drivers behind what you're seeing in Massachusetts. I just wondered if you can comment as to how temporary or more permanent you see these drivers and what you're seeing in Q2 in terms of any further improvement there?

Mark Cassebaum

Chief Financial Officer, Ascend Wellness Holdings, Inc.

Russ, thanks for the question. Appreciate it. So, what we're seeing now, we will continue to see some pressures continue into Q3. And then, in Q4, we will expect that to more or less bounce back and that will be reflected in our new guidance. So, you'll see that. But again, we will see that continued pressure in Q3 and then it starts to rebound in Q4. Again, product mix, discounting, we're moving through some low-margin inventory just to keep our working capital in line, and these are what we're working against now.

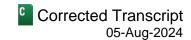
Russell Stanley

Analyst, Beacon Securities Ltd.

All right. Thank you. And just on the updated guidance and with respect to Ohio, normally expect a 2x to a 3x grow – lift on adult-use flip. I'm wondering if you can talk to how much of a lift and how quickly you expect to see that in Ohio given that market structure, how much of that is – what's embedded in the guide as far as the pace of growth in Ohio? Thanks.



Q2 2024 Earnings Call



John R. Hartmann

Chief Executive Officer & Director, Ascend Wellness Holdings, Inc.

Russell, good morning. It's John. Thanks for your question. We're planning and we're thinking about the State of Ohio much like we have the previous new states that we've entered and then worked through the adult-use or, in the case of Ohio, the non-medical use customers. In the State of Maryland that you've been on the journey with us for the last year, we anticipated somewhere between the 2 to 2.5 times change from medical to adult-use in that state, and we're planning the similar – from a planning perspective, we're planning a similar approach to the State of Ohio.

Operator: Thank you. Our next question comes from the line of Neal Gilmer from Haywood. Go ahead, please.

Neal Gilmer

Analyst, Haywood Securities, Inc.

Yeah. Thanks very much and good morning. Maybe to one of your commentaries there in your prepared remarks saying that, subsequent to the quarter-end, you did some sort of head count reductions and so forth. With the pressures that you're seeing on the margin, should that result in some further synergies or any sort of expectations on the operating expense side, or are those mostly cost of goods sold, head count reductions? Just trying to get a sense for some of the moving parts between gross margin and EBITDA margins.

Mark Cassebaum

Chief Financial Officer, Ascend Wellness Holdings, Inc.

Neal, thank you for the question. Yes. As you can see in the prepared remarks, we – again, we're continuously reviewing our business and aligning to it. And that resulted in us relooking and restructuring some of that SG&A to match what we're seeing. We continue to review as we move forward, and we're going to continue to review and make sure that we have the best structure that matches what we're seeing in the business, both from retail and essentially from wholesale. But again, we want to balance between the COGS and we want to balance the SG&A and the margin together. So, again, we're going to continuously look at that on a go forward as we see the results come through.

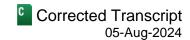
John R. Hartmann

Chief Executive Officer & Director, Ascend Wellness Holdings, Inc.

Neal, it's John. I would add that we've got specific actions against each. We have experienced this margin impact primarily driven by wholesale profitability in Massachusetts and, to a lesser extent, in Illinois and some retail headwinds in Massachusetts, Illinois and New Jersey as well. So, on the COGS side, we'll continue to focus on the right production capacity and output from our cultivation and production facilities. And we will also focus on ensuring that our product mix is in a position to afford us improved margins as well as we're controllable, focus on discounting to our third-party customers.

On the G&A side, we run a relatively lean business. But there's always an opportunity, as we have taken over the past weeks, to assess that and make adjustments that take cost out of the business. And on a go-forward basis, we will continue to assess our cost structure against our kind of our three-pronged strategy of wanting to continue to grow the company profitably, continue to expand our penetration in our existing markets while we look at some appropriate additional markets. And then, for the third perspective, generating cash to support our obligations and make our business stronger. So, we will continue to focus on both of the items that you raised, your question on the COGS side and on the cost side.

Q2 2024 Earnings Call



Neal Gilmer

Analyst, Haywood Securities, Inc.

Okay, great. Thank you for that. And for my follow-up question, clarification on the revised guidance. You talked about operating cash above \$40 million. Previously, you talked about, I think in the Q1 call, CapEx of \$35 million to \$40 million. So, safe to assume, still expecting a slight positive free cash flow for the year?

Mark Cassebaum

Chief Financial Officer, Ascend Wellness Holdings, Inc.

Absolutely, Neal. That is – that's reflected in the new guidance that we will have positive free cash flow and everything that you mentioned.

Neal Gilmer

Analyst, Haywood Securities, Inc.

Okay. Thank you very much.

Operator: Thank you. Our next question comes from the line of Frederico Gomes from ATB Capital. Go ahead, please.

Frederico Gomes

Analyst, ATB Capital Markets, Inc.

Hi. Good morning. Thanks for taking my questions. You mentioned the declining retail profitability in New Jersey, but I'm curious about your wholesale sales in New Jersey. So, what are you seeing there in terms of pricing at the wholesale level? And what's the upside that you see to your operations in that state? Are you fully exploring your capacity right now or how much room is there for growth in New Jersey wholesale? Thanks.

John R. Hartmann

Chief Executive Officer & Director, Ascend Wellness Holdings, Inc.

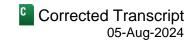
Yeah. I think the – Frederico, first, thanks for your question. I think there's a lot in that. Let me unpack a bit. So, we are – we do continue to see increased retail licenses come online in the State of New Jersey. And so, there is continued pressure from a retail perspective in the state. There, the flip side and the benefit of that and how the team has taken advantage of that is by continuing to drive our wholesale penetration and the number of doors that we're in in the State of New Jersey. At the end of the last quarter, there were 116 open dispensaries in the state by our numbers. But at the end of this quarter that we're reporting on, there were 126. So, an additional 10 dispensaries in the state. And our wholesale team has done an outstanding job of getting into those new doors. So, we're in over 95% of the social equity doors in the State of New Jersey. We're in, I think, just over 82% or 83% of the total doors in the State of New Jersey. So, it's been a nice offset.

As we've seen in other markets and as we shared in our prepared remarks and as I think you well know, as new licenses come on, it does create some headwinds as it relates to competition and pricing. But the good news is that the team has grown the wholesale business exponentially year-over-year. The wholesale business grew 30% in the quarter. Net wholesale up 2.7%. So, I think that the trends, the positive trends for us and the balance there continues to be effective.

Frederico Gomes

Analyst, ATB Capital Markets, Inc.

Q2 2024 Earnings Call



Thank you. And then, just going back to your guidance, just to clarify. I was under the impression that, previously, the guidance did not include the patient sales in Ohio. Is that now included in your renewed guidance?

John R. Hartmann

Chief Executive Officer & Director, Ascend Wellness Holdings, Inc.

No. The Ohio non-medical is included in this new guidance. And again, we've had slower ramp-up than we anticipated and essentially it won't be in our initial guidance, but this does include the Ohio non-medical.

Frederico Gomes

Analyst, ATB Capital Markets, Inc.

Perfect. Thank you.

Operator: Thank you. Our next question comes from the line of Luke Hannan from Canaccord Genuity. Go ahead, please.

Luke Hannan

Analyst, Canaccord Genuity Corp.

Thanks. Good morning, everyone. In the past, we've talked about the lift that we've seen from medical markets to adult-use. You called out earlier in this call, it's a 2x to 3x lift as far as top line goes. I'm curious to know, as it relates to Ohio, if you look back at past conversions that you've done, what's been the lift in EBITDA margins for past adult-use conversions? Just trying to think of order of magnitude, the lift in profitability that you should expect to get from Ohio moving forward?

Mark Cassebaum

Chief Financial Officer, Ascend Wellness Holdings, Inc.

Luke, first, thanks for the question. Nice to meet you. And I think you're accurate. You said 2x to 3x times, the revenue lift. We've generally looked at it from a 2 to 2.5 times revenue lift, and I think we're spot on in the Maryland market. As it relates to wholesale – excuse me, EBITDA margin lift, I just want to make sure I understand your question correctly. Is your question that we're entering a new market and, therefore, the EBITDA margins will be stronger there initially versus other markets? Is that the tone of your question?

Luke Hannan

Analyst, Canaccord Genuity Corp.

Yeah. The question is, basically, if you're in a market right now and your margin is X, what is your margin post adult-use in that? But I'm just trying to get a sense of the order of magnitude, what the margin lift should be relating to Ohio?

Mark Cassebaum

Chief Financial Officer, Ascend Wellness Holdings, Inc.

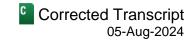
Yeah, yeah. We would say most drops to the bottom line similar. But again, you do have ramp-up, right, and then the store gets going and starts to have its leverage. And then, you, again, have the benefits of entering into a new market, but then quickly it balances out in line with the rest of how we see our door profitability.

Luke Hannan

Analyst, Canaccord Genuity Corp.



Q2 2024 Earnings Call



Okay, thanks. That's helpful. And then, for my follow-up here, you called out the greater retail competition. Can you share with us what the same-store sales would have been for either of the stores that would have been included that you would have had within the last year or so? And then, break that down as far as traffic and price, either just generally for all stores across all markets that have already been in your portfolio for a while, or if you want to get more specific, that would be helpful as well?

John R. Hartmann

Chief Executive Officer & Director, Ascend Wellness Holdings, Inc.

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Sure, Luke. First of all, we don't report same-store sales, but happy to give you some broad general commentary on what we're seeing in the retail markets. We saw increased – we saw a quarter-over-quarter increase of competitive pressure in the markets of Illinois, New Jersey and Massachusetts. And then, we had some very positive offset in the states of Pennsylvania and Maryland. On a year-over-year basis, the strength in our New Jersey, Massachusetts and Illinois markets were relatively positive. We opened additional stores and included the four acquired stores in Maryland. But coming back to the heart of your question, we don't specifically breakdown same-store sales or comps across the markets.

Luke Hannan

Analyst, Canaccord Genuity Corp.

Okay, thanks.

Operator: Thank you. Our next question comes from the line of Matt McGinley from Needham. Go ahead, please.

Matthew Robert McGinley

Analyst, Needham & Co. LLC



Thank you. My first question is a follow-up on that last one. Is the pressure you're seeing on your retail revenue in Illinois, New Jersey and Massachusetts driven more by price decline or is that a drop in transactions? And do you assume any stabilization in these states or do you expect that pressure to continue into next year?

John R. Hartmann

Chief Executive Officer & Director, Ascend Wellness Holdings, Inc.



Hey, Matt. Thanks for the question. The pressure we're seeing is twofold. It is increased competitive dispensary in the vicinity of some of our stores and a slight decline in transactions related to that. So, we are seeing both. We observed a slowdown in retail over the quarter in these three primary markets and with June actually being the softest, the third month of the quarter being the softest, but we've seen that stabilize in the month of July currently. And in our go-forward forecast is based on the current trends that we're seeing in each of these markets.

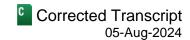
Matthew Robert McGinley

Analyst, Needham & Co. LLC



Okay. And for gross margin, you noted that inventory disconnect. I'm curious how much of that inventory issue that you had, I think you said specifically in Massachusetts, how much of that contribute to that 6-point decline you saw in gross margin this quarter? And would you be better aligned on inventory in the next quarter? And as a follow-on to that, what specifically can you do from a production standpoint outside of that inventory issue to better stabilize that gross margin rate? I guess, I'm just not sure how much of this is temporary versus – with the inventory versus something that it could be longer-tailed and what you're actually doing to recover that margin?

Q2 2024 Earnings Call



John R. Hartmann

Chief Executive Officer & Director, Ascend Wellness Holdings, Inc.

Yeah. There were a number of factors involved in the State of Massachusetts. Look, the first was the product coming out of our cultivation and production facility and the mix of that product. The second impact was a change in the testing in the State of Massachusetts which wasn't unique to Ascend Wellness but really impacted the entire market. And secondly, lowered the THC potency of some of our products, which we've addressed and have largely moved through. The other components of the impact in the State of Massachusetts involved just customer behavior and the migration to lower margin products, including on the retail side, in addition to our discounting to our third-party wholesale customers. So, it was a number of distinctly different but related factors that impacted the margin in the State of Massachusetts.

The inventory coming out of our cultivation is manageable by us. That is something well within our control. And we have, in other locations in our history, worked through product mix issues coming out of our cultivation production facility. So, that is a factor that we will effectively work through. And we'll continue to maintain a very close look at customer behavior in our stores, as well as our discounting to third-party wholesale customers.

Matthew Robert McGinley

Analyst, Needham & Co. LLC

Okay. Thank you.

Operator: Thank you. Our next question comes from the line of Andrew Semple from Ventum Financial. Go ahead, please.

Andrew Semple

Analyst, Ventum Financial Corp.

Hi there. Good morning. First question would just be continuing on Massachusetts. I believe there's an additional 15,000 square foot of cultivation canopy coming online, and I believe that should be hitting the market in the third quarter here. Are you still feeling confident being able to move that additional supply in that state, or have you made any tweaks the timeline for that coming online just given the other operational and cost savings you're looking to achieve in that state?

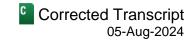
John R. Hartmann

Chief Executive Officer & Director, Ascend Wellness Holdings, Inc.

Andrew, thanks for the question. First, one of the immediate opportunities for us in the State of Massachusetts and one of the drivers of acquiring this additional space was to get additional products that we were not then manufacturing into the marketplace, and this is specifically the form factor of edibles or gummies. And the team in the first quarter rapidly built a professional kitchen in the building and, earlier in the second in the second quarter, was able to deploy that new capacity and get our branded products into our own retail stores and also into our partner stores in the State of Massachusetts. So, the initial desire to leverage that new facility was accomplished in very short order by the team.

We continue to be a purchaser of biomass in the Massachusetts market. And the ability to bring the cultivation portion of this new facility online and grow our own product will allow us to decrease the purchases that we make on the open market in the State of Massachusetts. So, we see continued leverage of this new asset in a very positive way, both from a new product deployment and also by being able to grow and produce product at a better price than we can buy it in the open market.

Q2 2024 Earnings Call



Andrew Semple

Analyst, Ventum Financial Corp.

Yeah, that's helpful. And then, maybe just a quick follow-up, switching gears to Ohio. How are you feeling about your supply situation in that state ahead of the launch of adult-use sales tomorrow?

John R. Hartmann

Chief Executive Officer & Director, Ascend Wellness Holdings, Inc.

Yeah. We feel very good about it. Our store vaults are full. We have a modest grow – size grow in a terrific production facility in the State of Ohio. They have been preparing for months for this rollout. And we also are – we also enjoy some terrific relationships with other producers in the state and we've signed some long-term supply agreements to ensure that we have plenty of product in the marketplace.

Andrew Semple

Analyst, Ventum Financial Corp.

Got it. That's helpful. Thanks for taking my questions.

John R. Hartmann

Chief Executive Officer & Director, Ascend Wellness Holdings, Inc.

Thanks, Andrew.

Operator: Thank you. There are no further questions at this time. I'd now like to turn the call back over to Ms. Koar for final closing remarks.

Rebecca Conti Koar

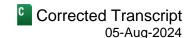
Executive Vice President-Investor Relations & Strategy, Ascend Wellness Holdings, Inc.

Thank you. And thanks, everyone, for joining the call this morning and thank you all for your questions. If you have any additional questions, feel free to reach out to ir@awholdings.com and we'll be sure to answer them. Thanks.

Operator: Thank you, ma'am. Ladies and gentlemen, this concludes your conference call for today. We thank you for participating and ask that you please disconnect your line. Have a lovely day.



Q2 2024 Earnings Call



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