Ascend Wellness Holdings Inc.

Fourth Quarter and Full Year 2023 Earnings Conference Call

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CORPORATE PARTICIPANTS

Rebecca Koar
Ascend Wellness Holdings, Inc. — Executive Vice President, Investor Relations & Strategy

Abner Kurtin
Ascend Wellness Holdings, Inc. — Executive Chairman and Founder

John Hartmann
Ascend Wellness Holdings, Inc. — Chief Executive Officer & Director

Mark Cassebaum
Ascend Wellness Holdings, Inc. — Chief Financial Officer

CONFERENCE CALL PARTICIPANTS

Russell Stanley
Beacon Securities — Analyst

Andrew Semple
Echelon Wealth Partners — Analyst

Frederico Gomes
ATB Capital Markets — Analyst

Matt McGinley
Needham & Company — Analyst

Ty Collin
Eight Capital — Analyst

PRESENTATION

Operator

Welcome to AWH's Fourth Quarter and Full Year 2023 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 Koar — Executive Vice President, Investor Relations & Strategy, Ascend Wellness Holdings, Inc.

Good morning, and welcome to AWH's Earnings Call for the fourth quarter and full year 2023. The presentation that accompanies this call can be found on our website, 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. 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 or information are subject to risks and uncertainties that may cause actual results to differ from historical or anticipated results. Any forward-looking statements reflect Management's current view only. We undertake no obligation to revise or update such statements or make federal forward-looking statements in the future, except as required by applicable law.

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

During today's call, we will be referring to non-GAAP measures, such as adjusted gross profit and Adjusted EBITDA, as defined and reconciled in our earnings material in the Appendix of the presentation. These non-GAAP measures, as defined by AWH, may not be comparable to measures of 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 sources, including public sources, and there can be no assurance as to the accuracy or completeness of such information. Although believed to be reliable, Management has not independently verified any of the data from third party sources.

On today's call, we have Abner Kurtin, Executive Chairman, John Hartmann, Chief Executive Officer, and Mark Cassebaum, Chief Financial Officer.

With that, I'll turn the call over to Abner, starting on Slide 4.

Abner Kurtin — Executive Chairman and Founder, Ascend Wellness Holdings, Inc.

Thanks. Good morning, everyone, and thank you for joining our fourth quarter and full year 2023 earnings call. As always, I would like to thank our valued stakeholders for helping us deliver a strong Q4 and full year 2023.

Before turning it over to John and Mark for an in-depth discussion on our business and financial outcomes, I'd like to provide a brief update on pivotal market and regulatory developments, followed by key highlights about Ascend.

We are eagerly awaiting significant advancements in federal cannabis reform and remain optimistic about the positive changes on the horizon. Our outlook centres around the anticipated rescheduling of cannabis from Schedule I to Schedule III. This potential major catalyst hinges on the DEA issuing a proposed ruling agreeing with the Health and Human Services recommendation to move cannabis to Schedule III. We expect the DEA to align with the recommendation process, and their ruling would likely be followed by a public comment period and a hearing. Although the exact timeline for the DEA's ruling remains unclear, we hope this will transpire before the upcoming presidential election, and are pleased to see continued pressure being put on the DEA from many governors, legislatures, and attorney generals who have banded together in various calls for action.

The President's mention of cannabis at the most recent State of the Union address was a historic and encouraging inclusion on the topic. Furthermore, we are happy to see how well this inclusion resonated with the American people. We are particularly excited about the potential outcomes of this progression, as we anticipate it could ignite enhanced access to capital, a likely reduction in the cost of capital, and a reduced tax burden on the industry. Additionally, we think a federal catalyst will bring further legitimacy to the industry, which should provide enhanced access to custody, improve relationships with vendors, and provide customers with confidence about the legal future of cannabis.

Alongside the near-term prospects for rescheduling, we remain actively engaged in a collaborative effort with many industry peers to challenge the constitutionality of enforcing the Controlled Substance Act on state-regulated cannabis businesses. As expected, the government filed a motion to dismiss the case from the lower courts. While we think a trial at the lower court level is not likely, we continue to argue the case for that trial and are waiting for a decision in the spring. While we welcome the opportunity to argue our case in the lower courts, we continue to believe this is a Supreme Court level decision. Although we recognize the extended time horizon of this legal journey, we remain committed to this key initiative.

Transitioning from federal updates, we continued to see significant progress at the state level. We are pleased to note that Ohio voters endorsed the legalization of adult-use cannabis in November. Subsequent to the voter approval, Ohio legislatures have been debating the final rules and regulations, which we anticipate will be wrapped up shortly and continue to believe the commencement of adult-use operations in the second half of the year. Despite the ongoing refinement of a final bill, there is a potential opportunity to establish three new dispensaries, supplementing our existing five, an exciting prospect in a state that holds particular promise. Ohio is a core and important market to us, and we believe it'll end up with significant retail penetration, in a state with nearly 12 million people and a licensing framework that is similar to what we have seen in Illinois. Ohio is a purple state, and we expect significant opt-outs at the local level, but we are quite confident in our ability to use first-mover advantage to execute on well-located local dispensaries, which is one of our core competencies.

Lastly, in terms of state regulatory updates, we are pleased to see Governor Shapiro of Pennsylvania set a clear mandate to the state legislatures, calling on them to expeditiously legislate an adult-use bill. We'll be following this closely, but are more optimistic than ever about the prospects of adult-use in the near-term in Pennsylvania. We are excited to open four more dispensaries there, bringing us to a total of six, in advance of the anticipated adult-use developments. In Pennsylvania, we believe we have an advantage in locating our dispensaries now, focusing on locating our dispensaries in highly-trafficked retail corridors, while many of the early operators had much more limited location options.

Let's move to Slide 5 to discuss Ascend's specific highlights. We remain excited about the Management transition and what John and his team have accomplished, and the team he has pulled together. I am extremely pleased that we are becoming a more mature Company, now entering the period in our growth journey to become a free cash flow generating Company. Two-thousand-and-twenty-three was the first full year since the Company's inception that we generated positive cash from operations and free cash flow. This puts us in a very strong position as we recently began active discussions to refinance our debt, which is due in August of 2025. These preliminary discussions have been positive, and we are satisfied with the market's reception and early indications in regard to this effort.

As Mark will describe in detail, we amended our federal tax returns and see a strong likelihood that we will be successful in obtaining the refunds. Several of our states are going through the expected maturation of the retail markets. In these states, we are working to: one, maximize our existing retail profitability; two, further penetrate the wholesale market; and three, build extensive retail partnerships.

At the same time, we are in several states that are at the start of their adult-use journey. This diversification is important. In the past, limited diversification posted a risk, as Illinois accounted for 100 percent of our EBITDA in 2021. Since then, we significantly reduced the balance to less than 55 percent, thanks to the maturation of our businesses in other states.

Moving forward, we are continuing our efforts to grow, and we remain disciplined in achieving scale in our core markets. We are focused on a higher return, lower risk growth and capital allocation strategy that emphasizes expansion of our existing markets and faster conversion to free cash flow generation.

With that, I will turn it over to John to take you through specifics of the strategy and provide an update on the results in more detail, beginning on Slide 7.

John Hartmann — Chief Executive Officer and Director, Ascend Wellness Holdings, Inc.

Thank you, Abner. It's been wonderful partnering with you and the Board over the past 10 months, and I'm thrilled by the results the team has generated this year.

We have a lot to be proud of. We ended the prior year with just 24 operating dispensaries, and today we have 35, with the next opening later this week. We have expanded our product penetration, with the percentage of retail sales from products manufactured by AAWH increasing from 44 percent in 2022 to 49 percent for the entire year 2023. Additionally, we more than doubled gross post-sale pounds sold compared to last year, leveraging the same asset footprint of cultivation facilities.

We ended 2022 with two medical and four adult-use markets, and ended 2023 with one medical market in Pennsylvania, one on the verge of starting adult-use in Ohio, and five recreational markets. All of these notable achievements have helped to drive impressive financial results. Our full year net revenue for 2023 was $519 million, representing 28 percent growth compared to the prior year. This growth was driven by increases across both our retail and post-sale businesses.

Our retail business was up 21 percent for the full year, led by the opening of six new stores, and the acquisition of four stores in Maryland, which started adult-use sales in July. It was further boosted by the full year benefit of adult-use sales in New Jersey, as well as meaningful increases across our third party and intercompany wholesale business.

This year, we had gross post-sale growth in all six markets where we have cultivation operations, and third party growth in all three of our key wholesale markets, Illinois, New Jersey and Massachusetts. This growth was driven by an annual increase in the number of third party orders of 125 percent. Despite the midyear cultivation setback we experienced in Franklin, New Jersey, the expected pressure our Illinois business faced at the onset of recreational sales in neighbouring Missouri, we were able to aggressively regain lost ground and deliver Adjusted EBITDA, exceeding expectations at approximately $107 million, representing 14 percent growth. Further to this, we meaningfully increased operating leverage for the year, decreasing SG&A as a percent of revenue from 33.8 percent in 2022 to 30.6 percent in 2023, representing a 320 basis point improvement.

Let's move on to Slide 8 to discuss the retail business in more detail. I continue to be very optimistic about our strong retail footprint. This year, we were particularly pleased with some of our new stores, including two of our new outlet stores, New Bedford, Massachusetts, and Tinley Park, Illinois. As previously mentioned, we opened four stores since the end of Q3, including our Cincinnati, Ohio store, which opened just after the start of the New Year. We are especially excited about the three new stores in Ohio, bringing our total presence in the state to five. We are anticipating a sizable uplift when the state transitions to adult-use later in the year. We continue to boast some of the most productive stores in the nation, and I'm proud of the team for always working to refine and optimize our position.

In Q4, retail revenue was 69 percent of our net revenue, at $97 million. This was down 4 percent sequentially, largely led by declines in Illinois due to the expected seasonality and increased competition. However, these declines were partially offset by the three new store openings within the quarter and improvements in our Pennsylvania stores' performance. For the full year, our retail earnings totalled $371 million, reflecting a 21 percent increase compared to the prior year. This growth was fuelled by the additional stores and the full year impact of adult-use sales in New Jersey.

Looking ahead, we are actively pursuing opportunities to further penetrate our existing markets and increase our retail shelf space and market share. Specifically, in Illinois, we are pursuing unique partnerships with social equity, and recently signed an agreement with the first social equity operator, and the store is expected to open in Q4 this year. Furthermore, we are employing similar constructs in other states. In New Jersey, for example, we have executed an agreement to partner with a social equity operator and plan to also support bringing this store to market in Q4.

In addition to these creative partnership structures in New Jersey and Illinois, we own four more dispensary licenses that are in the process of being constructed in Pennsylvania, adding to the two dispensaries already in operation. Our third dispensary in Pennsylvania, located in the Pittsburgh suburb Monaca, will open this week.

Lastly, in addition to the aforementioned retail expansion plans, we believe the adult-use regulations in Ohio will allow for potentially up to three additional stores. We are excited about what lies ahead for our retail business.

Let's move to Slide 9 to discuss the wholesale business in more detail. Throughout the quarter and the entire year, our wholesale division has consistently excelled. We've successfully set ourselves apart, making significant inroads into established markets such as Massachusetts, and swiftly capturing market share in emerging markets like New Jersey. As the year concluded, AWH's house brand secured the position as the fourth largest in Illinois, Massachusetts, and New Jersey combined. Furthermore, Simply Herb claimed the number one spot in Massachusetts, and Ozone surged to the third position in New Jersey and maintained its solid #3 standing in Illinois. Our brands continue to fuel the growth of our wholesale business. Our gross wholesale revenue for the full year was up in all six of our wholesale markets, and the number of third party orders were up 125 percent.

Q4 was our fourth quarter in a row with both gross and third party wholesale sales growth. This is an extremely impressive achievement, especially given the market normalization occurring in several of our key states. For Q4, our net wholesale revenue was $43 million, up 7 percent compared to the prior quarter, driven by increases in New Jersey and Massachusetts. For the full year, our net wholesale revenue was $147 million, up 47 percent compared to the prior year, led by third party sales increases in New Jersey, Massachusetts, and Illinois.

In New Jersey and Illinois, we have over 90 percent market penetration and have been keeping pace establishing relationships with the new doors. In Massachusetts, we have gone from zero to over 50 percent market penetration in a mature market in two years. I'm extremely proud of the team for delivering these results, which made up 28 percent of our net revenue for the full year.

Looking ahead, we have opportunities for continued expansion in our existing footprint. For example, we have recently announced the signing of a definitive agreement to acquire a second cultivation facility and associated operations in Massachusetts. Once we complete additional minor upgrades, the facility will have 15,000 square feet of canopy. However, immediately following the signing, our team got to work and built out a state-of-the-art kitchen, which has already enabled us to launch new products into the market. The expansion of our cultivation and production capacity in the state is a direct correlation to the increasing demand for AWH's products, underscored by the resounding success of the Simply Herb brand and the success of our three retail stores in the state. Being in a position to expand here is a true testament to how well our business is doing. This past year has been truly remarkable and I look forward to continuing to deliver in the coming quarters.

Next up, our newly appointed CFO, Mark Cassebaum, will provide a detailed view of the financials for the quarter and begin discussions of the 2024 full year outlook. Mark is only three months into his journey here at Ascend and we are pleased to have him on board. He comes to the Company with extensive FP&A experience, which he has gathered from several key omnichannel companies such as Ralph Lauren, UPS, Bed Bath & Beyond, and more.

With that, I will turn it over to Mark to begin on Slide 11.

Mark Cassebaum — Chief Financial Officer, Ascend Wellness Holdings, Inc.

Appreciate it, John. Good morning to all. I'm delighted to be here.

The initial three months in my role have been fulfilling as I have begun to familiarize myself with the business and started to pinpoint potential opportunities. I've already had the pleasure of meeting several of our supportive lenders and investors, and I eagerly anticipate connecting with the rest of you in the upcoming weeks.

As highlighted by John, we are delighted with the strong finish to the year. Furthermore, we are proud to have achieved a significant milestone by generating positive cash from operations and positive free cash flow for the first full year since the Company was founded.

Total revenue for the full year amounted to $635 million, representing 30 percent year-over-year growth, while revenue net of intercompany sales increased by 28 percent year-over-year to $519 million. Meanwhile, Adjusted EBITDA for the full year increased 14 percent to $106.5 million. These record full year metrics were full by the performance in both the retail and wholesale businesses. John covered the main drivers on the full year, so let's shift to discuss the consolidated Q4 results in detail.

Q4 was another great quarter, driven by execution in the wholesale business. Net revenue was $140.2 million, which is largely flat compared to the prior quarter. This was driven by declines in Illinois retail, being partially offset by wholesale growth in New Jersey and Massachusetts, as well as the opening of three new stores within the quarter and strengthening of our Pennsylvania retail stores.

In comparison to the prior year, net revenue for the quarter increased 25 percent due to the opening of six new retail dispensaries throughout the year. The acquisition of four dispensaries in Maryland and meaningful increases in intercompany and third party wholesale sales compared to the prior year. In Q4, adjusted gross profit increased 7 percent to $60 million, with margins expanding 294 basis points to 42.9 percent. This expansion was driven by improvements in utilization and productivity in New Jersey and Massachusetts cultivation and production facilities, partially offset by margin declines in Illinois.

Our Adjusted EBITDA results were meaningfully above expectations, improving 10 percent compared to the prior quarter to $32.4 million. Meanwhile, margins improved 218 basis points sequentially to 23.1 percent. These sequential increases were driven by gross margin improvements, which were partially offset by the timing of certain expense accruals. Overall, we were pleased to deliver another strong quarter, demonstrating not only our commitment to excellence, but also our dedication to achieving and surpassing our performance goals.

Let's move on to Slide 12 to review cash flows and the balance sheet. In Q4, we generated approximately $17 million of cash from operations and $8.4 million in free cash flow, inclusive of $8.2 million in capital expenses related to dispensary builds and cultivation enhancements. We ended the year with $73 million of cash and equivalents, $236 million of net debt, and $223 million of fully diluted shares outstanding. For the full year of 2023, we achieved a significant financial milestone by generating approximately $55 million in cash from operations and $30 million in free cash flow. This accomplishment marks the first time in our history that we generated positive cash flow. It's worth noting that these metrics do not include $21 million of benefits we received related to the employer retention tax credit.

We're thrilled to reach this milestone and generate positive cash flow as we approach the refinancing of our term loan due in August of 2025. As Abner mentioned, we have taken a very proactive approach to this refinancing, and our initial discussions with existing and new lenders has been productive and we are pleased with the progress we are making.

Moving to tax, we filed 2020, 2021, and 2022 amended federal tax returns. We plan to file 2023 federal return as a normal corporate taxpayer, excluding 280E. As a result of these amendments, we expect these refunds to cover our 2023 federal tax obligations.

Looking ahead to 2024, we anticipate another year of meaningful free cash flow generation, as we expect to spend approximately $35 million in CapEx to support the build-out of the existing pipeline. Consistent with prior years, we expect to see nominal sequential pressure from seasonality. However, this will offset the full-quarter benefit of our new store openings, and we anticipate Q1 revenue to roughly be in line with Q4, with a mid single-digit decline in sequential EBITDA.

For the full year 2024, we are targeting double-digit growth in top and bottom line as we benefit from continued new store openings and expansion in our wholesale business. A portion of our strategic focus across the retail and wholesale businesses is to continue with the value-based offerings. As a result, we anticipate our 2024 gross margins to remain in line with 2023. However, we continue to scale and leverage the business to provide a modest increase in EBITDA margins.

Before opening up to questions, I want to acknowledge the team for working hard to deliver industry-leading growth in 2023. I am excited to be here and look forward to continue to deliver for our stakeholders in the coming quarters.

With that, I will turn it over to the Operator for Q&A.

Q & A

Operator

Thank you. (Operator Instructions)

Your first question comes from the line of Russell Stanley from Beacon Securities. Your line is open.

Russell Stanley — Analyst, Beacon Securities

Good morning, and thank you for taking my question.

I guess, around New Jersey, just wondering, I might have missed it earlier but what is your current wholesale penetration now? More on that with respect to the new doors that have opened, do you have insight as to how many wholesalers they are typically sourcing from? I'm just trying to understand where your share of shelf may be with those new doors coming online, given they're retail-only.

John Hartmann — Chief Executive Officer and Director, Ascend Wellness Holdings, Inc.

Good morning, Russell, it's John Hartmann. Thank you for your question. Thanks for attending this morning.

Russell, I'd just start by saying we're really pleased with our overall business in New Jersey. To hone in on your question around wholesale, our wholesale team has just done a remarkable job in establishing relationships early with the new dispensary operators, both multi-state operators and social equity operators, and through those relationships, have built a very strong penetration in the state. We're currently enjoying over 90 percent penetration in all the doors in New Jersey. The team's done a terrific job of building those relationships, and that's rewarded us with a really terrific amount of shelf space in those stores.

Russell Stanley — Analyst, Beacon Securities

(Multiple speakers).

Abner Kurtin — Executive Chairman and Founder, Ascend Wellness Holdings, Inc.

Hey, this is Abner. I just want to say also that our brands are currently ranked number three in New Jersey, so that gives us a sense of where we are. We kind of see six major players, with Curaleaf being #1.

Russell Stanley — Analyst, Beacon Securities

Maybe just as a follow-up, quick question around the Illinois retail, you called that out as a bit of a headwind in the quarter, and just wondering what you're seeing there now with respect to competitive pressure? I guess one, was the headwind all price in the quarter, or did you see volume pressure as well, and are you seeing the pressure abate at all?

John Hartmann — Chief Executive Officer and Director, Ascend Wellness Holdings, Inc.

Russell, we've seen a little bit of pressure in New Jersey. However, the geography of our current store locations is such that as new licenses and new stores have opened in the middle part of the state and the southern part of the state, we've been not completely, but largely isolated from the market densification. We've seen just a slight decline in our retail sales in this state of New Jersey. It's been well-balanced by our wholesale business in the state, and the recovery of our cultivation and production facility as well in New Jersey. As Abner pointed out a moment ago, the penetration of our brands in the state of New Jersey has been terrific.

Russell Stanley — Analyst, Beacon Securities

Great. That's all for me for now. I'll get back in the queue. Thank you.

Operator

Thank you.

Your next question comes from the line of Andrew Semple from Echelon. Your line is open.

Andrew Semple — Analyst, Echelon Wealth Partners

Great, good morning, congrats on the Q4 results. First off, I just want to ask about the rapid ascent of Simply Herb brand in Massachusetts. About five to six quarters, I recall that Massachusetts' wholesale had been lagging expectations, so very pleased to see the sharp turnaround in the state. Maybe you can comment on what you've done differently in that market to gain market share in a very competitive state, and whether there are any learnings there that you'd be able to take to other states as more wholesale and adult-use market opportunities open up.

John Hartmann — Chief Executive Officer and Director, Ascend Wellness Holdings, Inc.

Andrew, thanks for your question.

I think I'd point to three particular things, and you named the first one. It's the quality product. I think our brands have become known for terrific product at a value price, comparatively speaking. Simply Herb has just seen a great run in the state of Massachusetts, and other places. But in Massachusetts, we went from really, a dead stop, 0 percent penetration, to terrific penetration in the state, and we've achieved the #1 brand with Simply Herb in the state.

The second thing I would point to is the balance of our mainline stores and our outlet model. We've got three great stores currently in Massachusetts. One of the three is our outlet model, and it's the strongest-performing store in the state of Massachusetts, in New Bedford.

Then the third thing I'd point to is just the overall growth of the wholesale business in Massachusetts. The team has done a terrific job, as we just discussed on the previous question in New

Jersey. The wholesale team has done a terrific job of establishing early relationships with dispensary operators, both large and small, and building out our wholesale portfolio in the state. It's a blend of great product at a great price, for us a mix of two mainline stores and a highly productive outlet store, and it's the strength of the overall wholesale business and our portfolio products that we're selling to our third party customers.

Abner Kurtin — Executive Chairman and Founder, Ascend Wellness Holdings, Inc.

This is Abner. I just want to say, having been at this a while, I'm particularly pleased about the Mass performance, as you suggest. We were really struggling a few years ago, both on a quality and a distribution basis. It's a real testament to the team and the work John's doing, that we've been able to continue and grow this to the point where we are. I mean, I think the lessons which he pointed out are critical. Quality for price is the name of the game here. We effectively brought in better quality product at a lower price in Simply Herb, and we did it in some large-format characteristics and packaging, and it's just been very, very successful. We took some of the lessons that we saw from the price reductions in Michigan and felt that they were coming to Massachusetts and got ahead of it. A number of our competitors chose to take capacity offline and reduce their presence; we leaned into it.

We also think we're committed to making a delivery every week in a very friendly manner to each of our customers, as well as looking to get additional penetration in the shelf. We think that quality and service, like any business, can win, and just because a state is mature does not mean there isn't an opportunity for a really focused wholesale strategy to continue to gain share.

Andrew Semple — Analyst, Echelon Wealth Partners

Great, very helpful colour, that's helpful. Then maybe just with the acquisition also announced in Massachusetts; obviously pleased to see that, given the momentum in the market. What would be the expectations for that new capacity hitting shelves in the market, what kind of quarter in 2024 are you looking at in terms of a timeline? Would the intent be to continue leaning into Simply Herb with that additional production capacity, or would you be looking at broadening out your brand portfolio in the state?

John Hartmann — Chief Executive Officer and Director, Ascend Wellness Holdings, Inc.

Yes, Andrew, great question. First I'll just start with kind of the thesis of the investment. As you've heard us talk about over the last several quarters, a really intense focus on capital allocation, and this is a perfect example on the wholesale side of the business of how we're thinking about capital allocation. Then, I'd say wholesale generically, so cultivation and production/wholesale. Relatively low dollar investment; we were able to acquire an existing facility from a former operator at a very, very effective price and then rapidly deploy that asset.

As I've said in my prepared comments, we're incredibly proud of how quickly our team has mobilized to operationalize that facility. In less than 90 days, they built out, and had fully operational, a professional kitchen in the building. As you may know, our own branded gummies, for example, is a form factor that we haven't had in our portfolio of products in the state of Massachusetts. We're really pleased to say that, as we sit here today, just roughly three months later, the facility's producing Ozone branded gummies for the Massachusetts marketplace and they'll be out very shortly in our stores and in our partner stores.

The product side of your question, this facility will support the full portfolio of our products. Ozone, Simply Herb and others, as it ramps up, our initial focus was, as I mentioned, on the kitchen production and gummies. But we have our first several rooms planted and have products already growing in the facility for second quarter harvest. We will leverage both our existing Athol facility, which is a terrific facility and operating at a very high level of proficiency, and we'll meld in this additional canopy, 15,000 additional square feet of canopy, and the kitchen production to be able to, even in a strong way, support our three stores and our partner stores in the market.

John Hartmann — Chief Executive Officer and Director, Ascend Wellness Holdings, Inc.

I also think this is indicative of kind of a new phase of the industry. We're seeing, and particularly in the mature markets, excess capacity on the wholesale and retail side with some retail stores struggling. We think there's a tremendous opportunity we're seeing, for distressed purchases, partnerships, and other types of opportunities that can come in at a significant discount to invested capital, and also turn around some stores that maybe haven't been operating to the best of their abilities. We think certainly a way to win in this industry is through those purchases and that growth, and that's an area that we're focused on aggressively as a Company.

Andrew Semple — Analyst, Echelon Wealth Partners

That's helpful. Thank you. I look forward to some of those opportunities materializing. I'll get back into queue.

Operator

Thank you.

Your next question comes from the line of Frederico Gomes from ATB Capital Markets. Your line is open.

Frederico Gomes — Analyst, ATB Capital Markets

Hi, good morning. Thank you for taking my questions.

You mentioned an increase in your Pennsylvania stores. Could you comment what's driving that, whether it's specific to your stores or an improvement in the overall market there? What's your outlook for the year in that state? Thank you.

John Hartmann — Chief Executive Officer and Director, Ascend Wellness Holdings, Inc.

Frederico, thanks for the question.

First, I'll start with we're very bullish on the Pennsylvania market. We have two existing stores in the market, and our third store in the market is actually opening today, in Monaca, as I mentioned, in a suburb of Pittsburgh, and we have four additional stores in the pipeline in the state of Pennsylvania that are coming later this year.

As one of our two final medical markets, we can talk separately about Ohio. But with Ohio on the cusp of becoming adult-use, Pennsylvania is our remaining medical market, and excited to hear the governor's comments over the last several months of his desire to rapidly move toward adult-use in the state of Pennsylvania.

What we're seeing with our existing stores is the terrific acceptance by the customers in Pennsylvania, in both the Scranton area and the Northeastern burbs of Philadelphia, where our two stores are today, of the outlet model. We're seeing a very strong reception to our products, which are terrific quality at a value price, and we expect that to continue.

Overall, product, price, satisfying the customer's needs, the placement of, I think, our first few stores in great locations, as I mentioned, our third store in the state opening today. We're also very excited about that location in the Western part of the state, so it's our first store in the Western part of the state. We're optimistic about the timeline for adult-use in the state as we bring on more assets.

Frederico Gomes — Analyst, ATB Capital Markets

Thank you. Thank you for that.

Then, just on the amended tax filing that you mentioned, and I'm sorry if I missed this. Just to clarify, are you expecting to get any refunds from that in terms of actual cash, or is it impacting your tax payments going forward only? Thank you.

Mark Cassebaum — Chief Financial Officer, Ascend Wellness Holdings, Inc.

Good morning, this is Mark. Thanks again for the question.

Yes, we are expecting to have a refund that we will look to put towards our '23 federal obligations. We're still working through that, as far as '23 and '24, but yes, we do expect that.

Frederico Gomes — Analyst, ATB Capital Markets

Thank you very much.

Operator

Thank you.

Your next question comes from the line of Matt McGinley from Needham. Your line is open.

Matt McGinley — Analyst, Needham & Company

Thank you.

My first question is on the margin outlook and how important Illinois is to drive margins slightly higher, as you noted in the outlook. I think Illinois is still roughly half your revenue, and as you showed in the presentation, I think it's a little bit more than half of your operating profit. Do you expect Illinois to be relatively steady in terms of revenue compared to what you saw in the fourth quarter, and if Illinois continues to slip, do you still have enough coming from these other states that you can still improve margins, or is the outlook for margin improvement really contingent upon something stable or something happening in Illinois that may not have been what you saw last year?

John Hartmann — Chief Executive Officer and Director, Ascend Wellness Holdings, Inc.

Sure, happy to take that question. Look, I think the—let's just revisit. We just opened our 10th dispensary in Illinois in December, so we're at the regulatory cap currently with our new Northlake store. We've seen a substantial levelling out of the impact in Southern Illinois from the go live of adult-use in Missouri last year, which has been a positive. We have terrific balance of retail and wholesale in the state of Illinois. As we talked about in both New Jersey and Massachusetts, our wholesale team has done an equally stellar job of building out our wholesale business in the state of Illinois, and it's a very nice complementary portion of business to our retail.

Then, as you saw in the slides, the business has, quarter-over-quarter, year-over-year for the last several years, diversified away from the market in Illinois. It's an incredibly important market to us, it's an incredibly strong and profitable market for us, and it'll continue to be. But as you see the build-out and the maturity of the assets in our six other states coming online and ramping up, you see a very nice diversification away from the business. Effectively, the business is de-risking Illinois.

But coming full circle back around to Illinois, when we think about market normalization, there's three things in our mind. One is, maximize our existing retail footprint, and that's exactly what we're doing. We're at the 10 cap currently. We continue to pump fantastic products through our cultivation and production facility in Barry, Illinois, to all of our stores in the state. As Abner mentioned, you can see that we've achieved the third position with our Ozone brand in the state of Illinois, which we're proud of.

The second is to continue to penetrate from a wholesale perspective. As I mentioned, our wholesale team has done a terrific job in the state of Illinois. Similar to New Jersey, we're in over 90 percent of the doors in the state of Illinois, and we continue to nurture those new operator relationships and gain shelf space in those doors, along with our GSO partner stores.

Then finally, as mentioned in our prepared remarks, we're intensely focused on further opportunities to densify these markets, and Illinois is a key example. Through partnerships, through these business relationship structures, we have identified the opportunities to partner with social equity operators, provide them a great deal of support to operate their store, in exchange for a substantial shelf space commitment, as well as the ability to garner some significant financial benefits from the relationship. When we think about, as these markets mature, the ability to maximize retail with our great products and great service, continue to penetrate from a wholesale perspective, and then densify the market through these social equity partnerships.

Abner Kurtin — Executive Chairman and Founder, Ascend Wellness Holdings, Inc.

Also, if you remember back in ‘21 when this was 100 percent of our EBITDA, the concerns in the marketplace were, "Oh, Missouri's coming, Ascend's is totally focused on Illinois, it's going to lead to degradation of their overall business," and that has 100 percent not been the case. We've been able to grow this business at double-digits, despite double-digit declines in Illinois. We continue to see that to be the situation today; we're expecting double-digit increases in the business and a modest decline in Illinois.

We faced the headwinds of Missouri just fine. We're in a great situation. We love Illinois and the profit contribution, but we've got growth drivers elsewhere and continue to see double-digit growth without growth in Illinois.

Matt McGinley — Analyst, Needham & Company

Great, thanks for that.

My second question is on the cash flow. How much of the $16 million in operating cash flow is driven by a higher taxes payable balance? Excluding the impacts you talked about on 280E refunds and any deferred 280E related payments, do you still expect to be operating cash flow positive into 2024?

Mark Cassebaum — Chief Financial Officer, Ascend Wellness Holdings, Inc.

Hi, it's Mark. I just want to make sure I heard it correctly. Can you just reinstate the first part of that question, please?

Matt McGinley — Analyst, Needham & Company

Yes. You did roughly $16 million in operating cash flow in the fourth quarter. How much of that was driven by cash benefits?

Mark Cassebaum — Chief Financial Officer, Ascend Wellness Holdings, Inc.

Got it. What I would say to that is, I would say we did see an increase in tax payable. Again, we have another quarter of increase, which is essentially our 280E, as well as some reclassification on our tax strategy and stance.

What I would say for the second part of that question and what we expect, yes, absolutely. Our planning and our plans are going to be to have positive cash from operations, as well as positive free cash flow by the end of 2024. We're sticking to what we're seeing and keeping the momentum going.

Matt McGinley — Analyst, Needham & Company

Okay. Thank you very much.

Operator

Thank you.

Your next question comes from the line of Ty Collin from Eight Capital. Your line is open.

Ty Collin — Analyst, Eight Capital

Hey, good morning. Thanks for the questions.

John, wanted to maybe follow-up on the commentary you just gave around the social equity partnerships, just wondering if you could expand on that opportunity a little bit. Maybe help us size up how much of a growth driver that can be for you guys, and maybe also help us understand what the economics of those arrangements typically look like, maybe vis-à-vis your normal margin structure, including what sort of investment or work goes into those partnerships from your end?

John Hartmann — Chief Executive Officer and Director, Ascend Wellness Holdings, Inc.

Sure, so I think I'll use New Jersey as an example where, by regulation, we can take a 35 percent minority ownership position and additional dispensaries in support of social equity operators. I think based on that, we are actively pursuing those types of relationships. We're going to have a lot more to say about that in the coming quarters.

Abner Kurtin — Executive Chairman and Founder, Ascend Wellness Holdings, Inc.

I would say that these stores are consistent with other stores in the states. With Illinois, you've got stores, we're at the high end of $6 million to $12 million stores. In New Jersey, they're higher, $10 million to $15 million stores. New Jersey's working on changing the regulations that would allow us to take an equity interest in another seven stores. In Illinois, we see a substantial opportunity to densify through these partnerships. We're still working through, as John suggested, exactly what percent of the economics and how that's going to flow through to our income statement, but we think it's going to be a material growth driver that's not in current people's projections or in our projections. We're going to work with you guys over the next few months, with some announcements and through conversations to help model that, but it is something that we don't think is in models or in our expectations, that we think can be an additional growth driver.

Ty Collin — Analyst, Eight Capital

Okay, thanks. That's real helpful colour there.

Then for my follow-up, just a bit of a clarification on the cash flow guidance. You mentioned that you'll be filing, I think your '23, and I assume your 2024 returns as a normal tax filer. Does the guidance around operating cash flow and free cash flow include not paying the 280E component of your taxes this year?

John Hartmann — Chief Executive Officer and Director, Ascend Wellness Holdings, Inc.

Yes, so just to restate where we are, Ty, we have filed amended 2020, 2021, and '22 tax returns. Those expected refunds from those returns will cover our 2023 tax obligation, and then a little bit. On a go-forward basis, we are paying our 2024 estimated federal, non-280E taxes each quarter. That's kind of just a summary of our overall tax position.

Ty Collin — Analyst, Eight Capital

Okay, thanks for that.

Operator

Thank you. There are no further questions at this time. I would like to turn it back to Rebecca Koar for closing comments.

Rebecca Koar — Executive Vice President, Investor Relations & Strategy, Ascend Wellness Holdings, Inc.

Thanks everyone for joining today. Feel free to reach out to IR at awholdings.com if you have further questions. Thanks again.

Operator

Thank you, presenters. Ladies and gentlemen, this concludes today's conference call. Thank you for participating. You may now disconnect.