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# Ascend Wellness Holdings, Inc. (AAWH.CA)

Q3 2021 Earnings Call

## CORPORATE PARTICIPANTS

**Abner B. Kurtin – Chairman**  
*Founder & Chief Executive Officer*

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## MANAGEMENT DISCUSSION SECTION

**Operator:** Good day and thank you for standing by. Welcome to AWH Third Quarter 2021 Investor Call. At this time, all lines are in a listen-only mode. Following the presentation, we will conduct a question-and-answer session. Instructions will be provided at that time for you to queue up for the question. [Operator Instructions]

I'd now like to hand the conference over to your speaker today, Rebecca Koar, VP of Investor Relations. Please go ahead.

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### Unverified Participant

Thank you and good evening, everyone, and welcome to AWH's third quarter 2021 investor call. The presentation that accompanies this call can be found on our website, [www.awholdings.com/investors](http://www.awholdings.com/investors).

Before we proceed, I would like to remind you that there are a number of risk factors and other cautionary statements contained in our SEC and SEDAR filings, including our registration statement on Form S-1 and our 10-Q which we expect to file in the next week. We will not review those risk factors and other cautionary statements on this call. However, we encourage you to read them carefully.

Various remarks that we make on this call concerning expectations, predictions, plans and prospects constitute forward-looking statements. These forward-looking statements 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 and we undertake no obligation to revise or update such statements or to make additional forward-looking statements in the future.

During the course of today's call we will be referring to non-GAAP measures as defined and reconciled in our earnings materials in the appendix. These non-GAAP measures, as defined by AWH may not be comparable to measures with similar titles used by other companies. On today's call, we have Abner Kurtin, Chairman, Founder and CEO, and Daniel Neville, our CFO.

With that, I'll turn it over to Abner.

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### Unverified Participant

Thanks, Rebecca. Good evening to everyone for joining our third quarter 2021 earnings call. Before we begin, I wanted to take a moment to honor the people who have served this country on this Veterans Day a day that celebrates the sacrifices they have made. I want to thank all of our investors and partners for their continued

support. We remain committed to providing you with strong governance and enhanced transparency, as evidenced by the GAAP financials we plan to file tomorrow. We continue to drive towards our goal of becoming a leading MSO in the eastern half of the United States and a top 5 player in each of the states in which we operate. The team is laser focused on executing on our expansion roadmap within select limited license markets. We didn't win our assets in a lottery, we strategically acquired each one in some of the most compelling cannabis markets and locations across the United States. We have proven our ability to execute and have built deep networks within every one of our geographies. Our approach to allocating capital into high return opportunities is our top priority. I'm proud of the progress this team has made and appreciate the contributions of each of our 1500 dedicated employees whose efforts have enabled us to create a premier MSO and assemble a quality portfolio of assets.

This industry is still in the early innings, but it is growing rapidly with analysts predicting the market to reach 100 billion in sales over the next decade. I've never been more bullish on the industry, given the rapid and strong, state-by-state progress it has made over the past few years. The fundamentals of the industry are strong, and I'm confident there will come a day when the majority of U.S. institutional investors are involved in the sector. This may not be an overnight switch, but we do anticipate participation to steadily build over time.

Let's move on to slide 4 to review some of the highlights of the past 90 days. We are pleased to deliver another strong quarter coming in ahead of analyst estimates with 13% sequential revenue growth, 128% year-over-year revenue growth and then adjusted EBITDA margins of 24.9% for the quarter. On the cultivation front, we had a 27,000 square feet of canopy this quarter an approximately 30% increase, bringing our total canopy to 118,000 square feet across the portfolio. We are happy to report that on November 4th we acquired 10 acres of land adjacent to our Franklin New Jersey cultivation facility. We now intend to expand the New Jersey cultivation to 150,000 feet of total canopy by year-end 2023. This would make our cultivation facility one of the largest sites in New Jersey and will provide substantial incremental canopy relative to the 55,000 square feet that we were originally planning. The New Jersey market is promising and we are thrilled to develop – devote more capital to this high return opportunity and deliver considerable upside to 2023 and 2024.

During 20 – During Q3, we also expanded our vertical footprint in Ohio. We signed the definitive agreement to acquire another dispensary in the Greater Columbus area, bringing our total dispensary count in 19 across the country. Ohio has a strong medical program and we are hopeful about its prospects to legalize adult use in 23. Now is the opportune time to scale our footprint in the state while continuing to provide medical patients with the high quality products they expect from us. We ended the quarter with a strong cash position north of \$200 million. All of our CapEx projects are fully financed and we have the ability to access additional capital to pursue incremental M&A if required. We have no near-term debt maturities and are looking forward to deploying the capital that we have in the high-return growth opportunities. We are pleased with the performance in the quarter and we still anticipate fiscal year 2021 net revenue to more than double 2020. However, we now expect to meet the low end of our previously provided net revenue guidance range. We expect negative revenue growth from Q3 to Q4 caused by lower consumer spending, which has impacted many retail segments and challenges scaling the wholesale business ramping wholesale has been prolonged as we complete construction projects and refine our operations. We continue to build out our distribution networks and work to improve our product quality and selection. While we still foresee the next step function of growth will come next year, as we begin to monetize the canopy expansions completed this year and bring online additional stores and flip the switch on adult-use sales in New Jersey.

We do, however, expect a slower growth rate than originally anticipated in the first half of the year as we face regulatory delays in New Jersey, adult-use implementation, challenges to scale our wholesale business and licensing and compliance hurdles delaying certain canopy expansions. Ascend has demonstrated tremendous

better-than-expected growth all year. We have always said that growth will not be a straight line stair step. It is not surprising or concerning to us that we will take a pause of the short – over the short-term before we take the next giant step forward. Despite a slower-than-expected start to the year, we are still targeting to double adjusted EBITDA full year 2022 over 2021 an impressive feat for any industry. We remain confident that our existing asset base combined with the substantial capacity we are planning to add in New Jersey has the power to generate over \$1 billion of sales and \$350 million of adjusted EBITDA in the mid-term. Let's move to Slide 5 to review our current footprint.

Our motto is to execute and deliver. We have done this well so far, notwithstanding the challenges and hurdles that come with operating in this industry. We are proud that despite our rapid expansion, we have maintained our commitment to highly desirable retail locations, many of which can be considered flagship stores. Our Newton, Mass dispensaries will open its doors next week. The store will have 12 POS systems and ample parking spaces. The store neighbors, Whole Foods and Trader Joe's has easy access to the mass pike and is less than 10 miles from Downtown Boston. We plan to open our third Massachusetts store in New Bedford, Mass. And our third New Jersey store in Fort Lee, New Jersey in the first half of 2012. We are particularly eager to open the New Jersey of the Fort Lee store. The Fort Lee store borders New York City and will have an expansive footprint with 29 points of sale and close to 100 parking spots. We are eager to have this border store up and ready to capture the overflow from New York in the interim period, while New Jersey allows recreational sales, but New York does not.

We're also anticipating opening two more stores in Michigan in 2022 in East Lansing and Grand Rapids. All of the dispensaries in this pipeline are fully licensed and fully financed, including the four New York dispensaries, which are subject to a close of a transaction. The New York transaction is subject to approval by the state and needs to be completed by the end of the year for the structure to remain as it is. We are working with the state of New York to gain approval and are having constructive conversations with all stakeholders to complete this process. We are facing a time crunch because we only began leading the approval process in September. From February to September of this year, the current owner of this license required us to work through them to obtain approval, and they did not take meaningful action to get this transaction completed. Since we got directly involved, we have made substantial progress and believe we're on track to close by year end. Ascend is ready to participate in this inclusive industry and bring strong, fair paying jobs to the citizens of New York. We appointed Andrew Brown as president of our New York operations to lead the charge and get the transaction over the finish line. Andrew's commitment as a public servant focused on equity, access and affordability, along with his existing strong relationships with stakeholders across New York, will help establish a sense presence as we enter the market. We are excited for this license to finally fulfill its long overdue promises of job creation and inclusion that were made in the past many times by the license holder.

We move to Slide 6 to review the detailed breakdown of our Canopy expansions. Since we last reported, we have added 14,000 square feet of canopy in New Jersey and 13,000 square feet of Canopy in Michigan bringing us to a total of 118,000 square feet across the portfolio based on the latest projections. We anticipate approximately 175,000 square feet of Canopy to be completed by year end 2021. This includes the addition of 58,000 of greenhouse in Barrie, Illinois, which will be turned over to operations team by year end. COVID related days and regulatory hurdles have pushed back the timing of certain canopy expansions. This doesn't impact the medium term earnings capability of these assets, but it does impact timing to a small extent. As I mentioned earlier, we acquired the land adjacent to our New Jersey facility, which will allow us to expand up to 150,000 square feet of canopy by end year 2023. This expansion significantly increases are core earnings capabilities. While construction remains underway across much of our portfolio, we continue to hone our cultivation skills and implement standard operating procedures across the board. We are recruiting key talent to fill out critical operations and strategy positions.

Let's move on to slide 7 to discuss the delivery program we are launching in mass. In the coming weeks, we plan to launch a delivery program in mass. This program pilot will be out of the Newton dispensary, which will open next week, but will look to expand into other markets both within and outside mass in short order. We will be delivering adult use products to consumers within a 25 mile radius of our Newton store seven days a week. This radius covers densely populated towns and cities, including Boston, providing us access to 3.6 million potential customers.

There are only seven dispensaries licensed to serve in Boston proper and this allows us to tap into that market even further. The pandemic combined with consumer demand for convenience drove delivery trends through the roof over the last two years whether it's food, alcohol or convenience products consumer want everything at their doorstep and they don't want to wait. Cannabis is no exception.

California has pioneered cannabis delivery programs. According to a Hollywood based cannabis brand 60% of users cited delivery as their preferred method of obtaining cannabis going forward post-pandemic. We look forward to bringing customers products to enjoy straight to the comfort of their home and we expect the program to be well-received. Cannabis business that provided pick up or delivery options during the peak of the pandemic 22% more in sales on average than those that did not. There's not much cannabis delivery competition yet in Massachusetts, particularly west of Boston, and we feel uniquely positioned to succeed. As a vertically integrated operator we have control over the product and can access both inventory and consumers directly.

Now let's move on to slide 8 to discuss the incredible opportunities that we have in New Jersey. 2022 will be the year of New Jersey. The opportunity in this densely populated limited license market provides immense possibilities. We estimate this market size to be over \$2 billion today, including illicit sales. We are thrilled with our assets in New Jersey and believe we are well-positioned to capitalize on the opportunity. Today, we have 28 points of sale systems and 9,000 square feet with a Montclair and Rochelle Park stores. By the end of the month, we will begin breaking down – breaking ground for the expansion of our Montclair store, more than doubling our square footage and a number of point of sale systems at that location. The Fort Lee store alone will have 29 points of sale of systems. This is almost 1.5 times the number of POS systems that we have in our highest selling dispensary in Collinsville, Illinois, which generates over \$1 million of sales per week. Similar to how Collinsville border store in Missouri, Fort Lee is also considered to be a border store and this is only minutes from the George Washington Bridge.

We do not anticipate adult use sales to start in New York in the near-term and are optimistic that the store will have comparable success to Collinsville. Both Rochelle Park and Montclair have passed adult use ordinances allowing for at least one recreational dispensary. The Fort Lee store – Fort Lee area has opted in but not yet established adult use ordinance. We now anticipate adult use sales in New Jersey to commence in the spring. Before I want – before I conclude, I want to take a minute to reflect on the tremendous journey of hypergrowth that Ascend has enjoyed over the past three years and will continue to benefit over the upcoming years. 2021 full year sales will be nearly 28 times our full year sales in 2019.

In the month of October alone, we harvested 4,500 pounds of flour across four cultivation facilities, a 25 times increase over the same month two years ago. We now produce flower pre-rolls, gummies and vape form factors, which has allowed us to meaningfully expand our SKU offering. Our employee base has meaningfully grown from 3 employees at inception to 1,500 today. We remain committed to delivering continued success in the coming quarters. And with that, I will now turn over the call to Dan Neville, CFO, to review the financial results, starting with slide 10.

## Unverified Participant

Thanks, Abner. Good evening, everyone. As Abner mentioned, we are pleased with the company's performance during the quarter. In Q3, we delivered solid sequential revenue and EBITDA dollar growth, achieving nice leverage on our SG&A expense. Total system revenue was \$105 million, representing a 7.7% increase quarter-over-quarter and 131% year-over-year. Net revenue, which excludes the intercompany sales of wholesale products to our own dispensaries, increased 13.2% quarter-over-quarter to CAD 94.4 million. Sequential revenue growth was driven by a full quarter of sales from the three stores we opened in Q2, improved traffic at our Boston flagship, expanded hours in our Chicago LAM stores and a robust increase in third-party wholesale sales. Adjusted gross profit dollars increased CAD 4.1 million to CAD 43.7 million, or 10.3% sequentially, driven by wholesale production and yield efficiencies, partially offset by lower realized wholesale price. While retail gross profit and wholesale gross profit both increased sequentially, adjusted gross profit margin in total decreased 122 basis points quarter-over-quarter to 46.4%. This was primarily driven by lower intercompany sales as a percentage of wholesale sales in the quarter combined with lower realized pricing as we ramp in mass in Michigan.

Our adjusted EBITDA for Q3 was \$23.5 million which represents an increase of \$3.2 million or 16% sequentially. Our margin for Q3 was 24.9% which represents a 58-basis point increase sequentially. Despite our gross margin headwinds, we levered SG&A by 300 bps sequentially, which expanded EBITDA margins. We continue to look to leverage the corporate infrastructure we built to grow revenue at a faster pace than SG&A expenses. As a reminder, approximately \$6.4 million of rent expense related to sale leasebacks are considered operating expenses. Since we provide GAAP financials, not IFRS, these are accounted for above the line, the majority of which are represented in COGS.

Let's move on to discuss some of the other key operating metrics from the quarter on slide 11. We have 19 open and operating dispensaries. This includes our Cairo, Ohio dispensary and the dispensary. We signed a definitive agreement to acquire in Coshocton, Ohio. Total retail revenue increased to approximately \$64 million, representing an increase of 9% quarter-over-quarter. The growth was driven by increases in transactions at existing stores and the full quarter benefit of the three stores opened in the prior quarter. Annualized revenue per dispensary came in at a very robust \$15 million, which was up 7% sequentially.

We continue to see lowered basket sizes as the recreational and medical mix among our portfolio shifts and as consumers return to normal spending patterns making less bulk purchases. Gross wholesale revenue increased to \$42 million across our five cultivation sites, representing an increase of 5% quarter-over-quarter. Net wholesale revenue after intercompany sales increased to approximately \$31 million, representing an increase of 22% quarter-over-quarter, which was driven by an increased number of wholesale units sold. Our in-house brand, Ozone, continues to garner impressive attention, which is supporting both wholesale and retail sales. According to BDSA data in Illinois, Ozone pre-rolls are the number one seller in sales year-to-date, and the Ozone brand overall is number two in sales year-to-date. Ozone is sold in 99% of all dispensaries in Illinois. We're proud of the growth the brand has seen in just a few short years.

Let's move on to slide 12 to discuss our recent debt financing. In August 2021, we entered into a credit agreement with a group of lenders to provide a term loan of \$210 million. This senior secured loan bears a 9.5% interest rate and matures in August 2025. This was a great outcome for the company, as it significantly lower their cost of debt capital from approximately 15% to 9.5% and it allowed us to simplify our capital structure by taking out legacy debt. We were very pleased with the participation in the facility that was two times oversubscribed and led us to a group of quality institutional investors. We are thankful to our lenders who are enthusiastic about the

fundamentals and growth profile of the companies. Upon closing, we immediately repaid approximately \$76 million of legacy debt. We expect to refinance \$25 million of additional debt by the end of the year, and we'll use the remainder of the facility to fund approximately \$60 million of remaining investment required for the MedMen and New York assets, the OC – the Ohio OCC transaction and incremental M&A. The facility has a \$65 million expansion option, which were also able to leverage to fuel additional growth and provide dry powder for future M&A.

The debt markets are very strong for the industry right now, with over \$750 million raised by US MSOs over the last two and a half months, with more coming down the pipe. While it's hard not to be somewhat discouraged by the price action in the equity markets, the broad-based and enthusiastic reception we had in the debt markets gives us hope that more and more institutional investors will participate in cannabis equities over time. We believe the debt markets are a year ahead of the equity market in terms of interest and participation.

Let's move on to slide 13 to discuss the balance sheet and cash flows. On the top of the slide, you'll see our standard waterfall, which bridges from Q2 cash to cash at quarter end. During the quarter, we increased cash by approximately \$100 million. We used approximately \$10 million from operations, \$6 million of which was cash cost related to the extinguishment of debt and other onetime items during the quarter. We anticipate being operating cash flow positive after this quarter, excluding the payment of taxes, which will continue to be lumpy. We invested \$15 million in net CapEx during the quarter. The majority of this CapEx was used to support our cultivation expansions. During the quarter, we also benefited from \$25 million of tenant improvement reimbursements. Year-to-date, we've invested approximately \$71 million of net CapEx. We still anticipate CapEx and tenant improvement reimbursements to remain just below \$100 million this year.

On the financing front, we obtained \$125 million of proceeds from the debt financing net of fees. We ended the quarter with \$205 million of cash and equivalents, \$260 million, more \$4 million in total debt and net debt of \$51 million. Let's move on to Slide 14 to discuss our current full year 2021 expectations. As Abner mentioned, we now anticipate net revenue for the full year 2021 to be up 130% year-over-year closer to the low end of our previously provided range. We've delivered impressive growth year-to-date. However, we anticipate a decline in quarterly net revenue from Q3 to Q4. The decline in quarterly sales growth is driven by softness in retail cannabis trends as a result of the expiration of COVID-related government stimulus, a return to normal behavior, as consumers around the nation return to work, school and traditional entertainment outlets, as well as challenges in scaling the wholesale business.

We remain enthusiastic about the assets we have today and the markets in which we operate. As Abner mentioned, we believe in the ability for this asset set to deliver \$1 billion in sales and \$350 million of adjusted EBITDA, but we now anticipate delays in achieving this due to challenges. So, we now anticipate delays in achieving this due to challenges in scaling the wholesale business in new markets, timing delays on local permitting in New Jersey, Mass, in Illinois, and a push back in the start in New Jersey 00:25:47 [indiscernible] years. We are committed to executing on our near-term goals to expand our canopy footprint, delivering a wide variety of consistent and quality products to our wholesale customers on a weekly basis and providing our retail customers with the best in-store experience and products at our marquee locations. We're excited for 2022 to be a year where we anticipate the New Jersey market to flourish and we look forward to reporting back continued success. We anticipate adjusted EBITDA margin reaching north of 30% by year end 2022 as we achieve additional operating leverage as we bring new assets online.

Taking a step back, AWH generated \$12 million of revenue in 2019, a \$144 million in 2020 and is on pace to deliver a 130% growth this year. Despite the slight slowdown we've seen recently this is hyper growth at an

extreme level, and we're incredibly proud of what we've accomplished today. We also remain very excited about the company's mid-term earnings potential, notwithstanding some short-term hurdles.

We will continue to be disciplined in our capital allocation approach, focused on limited license markets and dedicated to executing on our goals. I would like to personally thank all of the talented offenders across the organization who remain committed to delivering on our mission to be a premier MSO.

With that, I'll turn it over to the operator for questions.

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## QUESTION AND ANSWER SECTION

**Operator:** Thank you. Ladies and gentlemen, we will now begin the question-and-answer session.

[Operator Instructions] One moment for your first question. Your first question comes from Kenric Tyghe with ATB Capital Markets. Please go ahead.

Q

Thank you and good evening. Abner, I wonder if you could speak to provide any additional color on sort of the range of potential outcomes for the time pressures you're under in New York appreciating that a lot of this hasn't been within your control, how are you handicapping the probability of being able to get this done by the end of the year? And if in a worst case scenario, you can't what the remedies, if any, are how we should think about handicapping the risks around New York looking out beyond, looking into 2022, 2023?

A

Thanks for the question. We hadn't prepared any questions on New York, so this was surprising to us. Just kidding. Look, as an investor for a long time myself I would love to put a probability on it. Unfortunately, this is a situation controlled by government factors that makes it very, very hard to predict. What I can tell you quite clearly is we are having a number of very constructive conversations and discussions with all the people necessary to get this approved and over the finish line by year-end. And if it wasn't for this extreme time pressure, I wouldn't have any concerns whatsoever. The history of the situation is, without speaking poorly on another operator the current license holder has not endeared themselves to the state of New York and New York would like to see New York would like to see an operator committed to inclusion and fair paying jobs and commitment to the program own that license. That said, we have to get a permission through an approval process by the end of the year. We think we have a very good chance to do that. But given the short timeframe, we can't fully guarantee it by a political process and it's out of our control and to a large extent, untested. This is a new cannabis regime in New York. The Governor has done an amazing job. They've moved incredibly quickly. They put flower on the menu very quickly. They've set up the CCP board quickly. They've gotten the OCM upgrade quickly. They've done everything right, but they haven't transferred the license yet. And so this would be the first approval that they've given. So because of that, we don't fully know the process that they will choose to take. But we are working constructively with every member of stakeholder that would be involved in that process to get it over the finish line.

In the event that it doesn't complete by December 31, we do not have an ability to unilaterally extend the transaction. We would like to work with the seller to do that constructively. But at the same time, we understand in



our opinion that the seller kind of failed on some obligations for a while during this process. And while this isn't the place to discuss litigation, I mean, clearly we would feel that we would have certain rights under the agreement. But our extreme focus is to get this deal closed by year end. And we think we're in a good position to do that.

Q

That's great color. Thank you, Abner. And maybe just one more quick one for me. Could you help us better understand the challenges in scaling of the wholesale business, particularly in the context of sort of the traction of some of your brands and how well you've been ranking in terms of some of those brands? Is it market specific issue in terms of scaling the wholesale business or is it fairly broad based or any additional color there would also be valuable?

A

Yeah, I mean, so you know I've listened to what some of the other players have said in the industry, et cetera. I mean, you know, I can only comment on the states that we're in, but there's two fundamental macro trends. The first is the consumer is not spending more money today on cannabis. We had great tailwind behind some of the government money and where consumers we're going to spend money. They still love the product. They're still spending tons, but they're not spending additional amounts, you know from where they were on pre-COVID days.

And secondly, a lot of our states and particularly Illinois, for a variety of government reasons, they haven't added new stores. So we don't have additional demand coming into the market and we do have additional supply coming into the market from some of our competitors. So it's a more competitive environment. I don't think that's a problem. I think that in the medium term, the market is fairly supplied to undersupplied and most of our markets. I think you know the ability for winning brands to put good products on the shelf is a long term growth opportunity. But in the short term, with no additional stores and with no additional consumer spending, you're in a flatter environment.

From a micro level, we have had the standard challenges of anyone trying to scale the business. I mean, we went from zero to 55,000 square feet of canopy making us the third or second or fourth market -- third or fourth largest player in Illinois in a year. Now we're jumping up to 113,000 square feet. You know I could tell you we could do that simply and easily, but you know this is a challenging business. What we're doing is certainly as challenging as what anyone in this business has attempted to do, and there're short-term hiccups as we do that. Some of the first big one is construction, as anyone could tell you in any industry, the supply chain is getting people to show up, getting materials to show up has been hard. We faced increasing regulatory headwinds or delays in getting approvals. While we love our partners from the state of Illinois, we've had a hard time completing the inspection process for the greenhouses. People have a variety of other things that they have to spend their time on, and that had a delay. I think one of our competitors announces similar delay in Illinois. So that's part of it. Once we get these operations up and running, we face the challenge of everyone of delivering high-quality, consistent products at scale. And I think we've done a very good job at that. But there are always certain times when as we scale up the operations, we need to continue to refine and improve our product quality and consistency, and that's what we're working to do. So what we're trying to do is very ambitious. I think we have the right plan to do it. We've been successful at it, but we just got to work through these various headwinds to get it done.

Q

Thank you, Abner. Good luck, and I'll get back in queue. Appreciate the color.

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

Q

Hey, guys. Good afternoon. Good evening. So, yes, my first one is just we try to kind of unpack Q4 sequential decline. I know that there's a retail element, there's a wholesale element. Can you give us a sense of the split in terms of what's impacting driving that negative growth in Q4?

A

Well, I'll turn it over to Dan to give all – of how we think about the breakdown. But I will say that the Q4 decline is in some ways a reflection of our success in Q2 and Q3. In Q2 and Q3, we substantially did better than I think internal and external estimates, and a lot of that was pulling through growth. I think on the retail side, that kind of was pulled through customer spending. And then on the wholesale side where we were able to put – we were able to sell more products more successfully through the chain. And I think we're kind of feeling a little bit of the chain being backed up here that needs to work through some of that process. So I think if we had done I don't have the nut, but if we've done 8% growth in Q2 and 8% in Q3 like it'd be a lot smoother and happier. But we ended up in the same place. We wanted to be between three, \$30 plus million and we're going to get to the right place. Obviously, everyone would love to see it in more of a straight line. Dan, you want to comment on the breakdown a little bit?

A

Yeah. In terms of the breakdown, it's gotten, Bobbie, it's going to be about two-thirds driven by the wholesale side of the business and about a third of it driven by the retail side of things. We do have Newton opening up next week, which will provide a little bit bump to the Q4 numbers. But it's just – it's kind of split across Illinois, Massachusetts, Michigan, just a little bit of incremental weakness around the edges and a little less strength in terms of buying patterns from some of our regular customers with the slowdown that some of our competitors are seeing across the industry. So nothing dramatic.

Q

Sure.

A

No huge problems, one place or another but that's the breakdown.

Q

Very helpful. And then just one more quick one, since another people want to get their questions. Well we exclude from New Jersey the delay in New Jersey in terms of timing there from what's happened in 2022. Are there any

kind of you know permitting and cultivation related delays that could linger into 2022 in terms of maybe causing a different outcome versus your internal plan?

A

Well look I would say when we look at, you know the bulk of the -- we talked about in the past, the bulk of the canopy expansions that we're looking at in 2022 are to drive. You know, the Apple Canopy expansion, which should come online in January, the greenhouse, which also should come in line, you know next month or the month after. When I say come online I mean planting. The other big canopy expansion is probably New Jersey. New Jersey could get delayed a few modules sometime into 2022 same thing with some of the stores. But you know these are kind of month type multi-monitors a month or two types of delays. This won't impact, you know I think the full year much it may kind of impact a month or two. New Jersey I don't use will be a big swing. You know obviously the move from January to April in our models was a big swing. And should it get delayed further that that's kind of a big swing. I think you know I think anyone in the industry kind of with New Jersey guests, you know is facing that and you know You know he is facing that and you know, and we'll wait and see if Governor Murphy and the team are working hard to get it going, and it's obviously every state's gone through this conversion process. They're trying to get the industry open to adult use. They're trying to protect the medical customers, they're working on new applications and hopefully it will all come together very shortly.

A

Yeah, I just add it's kind of the same thing we experienced in Massachusetts and Illinois with those canopy expansions getting pushed out a little bit on the margin. You know, Illinois we expected to be up and planted in October. That's looking more like December we expected to be planted at the end of the year. And looking like January at this point, maybe towards the end of January, which obviously isn't a big deal for the productivity of those assets or in the grand scheme of things. But when you're taking 100,000 square feet of canopy between those two sites and pushing that a couple of months in 2022 that certainly does move the needle a little bit.

Q

Great, thank you.

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

Q

Good afternoon. Thanks for taking my questions. First, just around Illinois, you mentioned the licensing delays there. I know it's very tough to handicap anything involving the legal process. But how are you thinking about the timelines for those additional licenses to be issued and to translate into wholesale demand for you?

A

Yeah, look this is obviously Governor Pritzker announced this back at the time of legalization in the summer 2019, so I think everyone probably including himself, is frustrated by the timing of these additional licenses. Recently you know, a lot of the lawsuits around licenses have been consolidated. And we hope that begins a process that

will allow some kind of solution that releases the licenses. A number of other states have released licenses with lawsuits pending. That would be the quickest way to get through this. You know, the state of Illinois has chosen not to do that, but certainly releasing some licenses ahead of that would help. We would expect licenses to come on line in 2022. One of the good things is that a number of now that there have been some announced winners, even though the license hasn't been issued, we are starting to see people make plans, getting real estate, potentially even getting construction started. So we think that the time from license issued to a time of license opening will be shorter than it wasn't because now they're moving forward. We, of course, only have eight license – eight stores in the state. We are looking to purchase or partner with two other stores. And that's where 10 cap. So we will have the ability to increase our store count by 25%, as well as vigorously improve our wholesale business. You know, we're working really hard to try to partner with some of the new license holders to provide things that they need to get open and successful and to be good partners with us to sell ozone products through their stores.

Q

Great, that's helpful color and then a similar question around New Jersey. You know, obviously last August, we saw around 70% of municipalities opt out and obviously a lot of that expected to be temporary given the deadline they faced and the fact they didn't have the rules yet to digest from a standpoint of planning out your own wholesale business in that state, how were you thinking about how quickly those municipalities may opt back in, obviously as an input as to how fast the addressable wholesale market can grow?

A

Well, to be honest, we haven't focused as a wholesale in New Jersey because we don't have enough product. We're focused on getting enough canopy online to fill our own stores and it really isn't until phase two that comes online, which will be in 2023 where we'll really be looking at meaningful wholesale. So we really feel by the time our canopy comes online that the wholesale market will start to open up but we're more worried about the opposite problem of not having enough product on the shelves to fulfill demand of customers in Fort Lee, Rochelle Park and Montclair.

Q

Excellent. That's great color. Thank you.

**Operator:** Your next question comes from Graeme Kreindler with Eight Capital. Please go ahead.

Q

Hi. Good evening, and thanks for taking my questions. I just wanted to follow-up with respect to the ongoing process in New York, can you confirm whether there's been any capital that has been advanced to the license holder there from Ascend for working capital buildups or otherwise?

A

Yeah. I just don't think we're – I mean, the contract is confidential, I don't think we're in a position to comment on the specifics of that contract. But either way, I don't think it's meaningful to the process for either of us.

Q

Okay. Understood. Then switching gears here, with respect to M&A very defined plan for Ascend, particularly through the end of 2022 in terms of where they're looking to scale up, I'm wondering if there's any additional states of interest on the radar or any movements in certain markets that offend is keen to enter into or increase exposure to banks.

A

Yeah, look, I think they're – it's hard to know, I mean, this industry kind of, you know, you think there's going to be a part of M&A and then all falls away. It is an odd industry both in terms of when deals happen, how they happen but we are seeing definitely a pickup in activity. It tends to be from individual operators, individual licenses, individual states. I think individual SSOs or operators or people with a license or having are realizing it's just a tough road to get the scale in an industry that's consolidating, in an industry that gets – needs more capital. We see a lot of companies, maybe they have a grow, maybe they have a couple of other dispensaries or two, but they realize they need another \$5 million, \$10 million, \$15 million to get up to the next level and this group of individual investors maybe isn't prepared to go to that next step where else they feel that they need certain expertise and scale, and they're unable to do that and I think that's driving a lot of the smaller deals. The bigger deals we're seeing smaller MSOs, both privately and publicly, I think, trying to figure out what is their place in the industry and coming to the conclusion that being part of so many of the same size or bigger is the right way to go and I think that seems to be happening more now than it did, let's say, three or six months ago and I have a feeling you're going to see some more deals announced as a result from our perspective. We continue to be focused on the same states. We love the Northeast. We were jealous of the deal Verano did and their ability get to Connecticut, that's a great market. We look at other markets up there whether it be Rhode Island or the mid-Atlantic, Maryland and Delaware. Certainly, Pennsylvania is the largest market in the east mid-Atlantic we're not in. So, So, we're active in all those states. In Missouri, on the other side of us, in Illinois, particularly in the St. Louis area is attractive to us. Ohio is an area that we're trying to fulfill the footprints. So we're disappointed we haven't announced any sizable deals since the IPO, but at the same time, we're working hard. Our pipeline is very attractive and we think we'll be able to do good deals and add value to Ascend over the short to medium term.

Q

Okay. Understood. Thank you very much for that.

**Operator:** Your next question comes from Neil Gilmer with Haywood Securities. Please go ahead.

Q

Yeah. Good afternoon. Thanks for taking the questions. A number of them have been asked already, but I think one the sort of curious sign is what your expectations are going into 2022 as far as your hotel, sorry, wholesale and retail mix and what the associated impact on gross margins might be commented about Q3 and the slight dip

in that adjusted gross margin. And how do you look at that going forward? Should we see that increasing in 2022 and what are your expectations for sort of the 3% but between those two channels?

A

Dan, you want to you want to take a shot of that one.

A

Yeah. So in 2022 will be approximately 50% of retail, 40% of wholesale. And then as we get the benefit of the full years of Canopy expansion, the New Jersey expansion and getting up to 275,000 square feet of canopy by the end of the year, that'll move up to something closer to the 50:50 split between the wholesale and the retail business, which is our ultimate target.

Q

And when you're at that 50/50 split, would your gross margins trend a little bit higher or when you get to the more wholesale in there is that sort of keep your gross margin profile sort of consistent with what we saw in Q3?

A

Yeah. As we mix over from wholesale over to retail, the wholesale gross margin profile is higher than the retail side of things. So as that mix changes, our gross margins will trend up with that.

Q

Okay. Great. Thanks very much.

**Operator:** In the interest of time, please limit yourself to one question. Your next question comes from Matt McGinley with Needham. Please go ahead.

Q

Thank you. On the softening retail trends you mentioned in Illinois, Massachusetts and Michigan, did that happen in every state at once or did that degrade individually by state into the fourth quarter? And were the declines fairly similar across the states? Obviously, you have a much bigger exposure to Illinois at this point. And if that slowed down, it would matter a lot more than Michigan would but I'm just kind of curious like what the level of magnitude of deceleration was across these different states?

A

Yeah, I know this – that's a hard one, because I think we're just – we're not, I'm not sure, totally big enough to see the whole macro trend. But I definitely think that once you saw, um, you know, the the last of the free money kind

of coming off line, we, we started to see a slow trend. Interestingly, it's definitely coming off in basket size, not transactions. So we're seeing customers – more customers come more often spending less money, leading to a slight decline in overall retail spend. I definitely think we saw it a little bit more in Illinois because we were coming off pretty high levels than we did in Michigan and Mass. The other problem in Mass is we're still new store that's still growing in a post-COVID Boston. So we're still seeing some growth in that retail side. But definitely being a wholesaler in Mass, we're seeing the trend of all retailers saying that, the vaults are full. They're selling through and they need to buy more products. But the vaults are fuller than they've been and they're not reaching out, trying to grab every bit of product that they can. And therefore, that's just kind of backed up a little bit the supply chain.

Q

Great. Thank you.

**Operator:** Your final question comes from [ph] Andrew Stemple with Echelon. Please go ahead.

Q

Hi, there. Congrats on the strong Q3 results. I just wanted to add I believe the amount of cultivation canopy coming online within the third quarter increased by about 25,000 to 30,000 square feet sequentially. Could you speak to how much of that incremental facility space actually contributed to revenue growth within the third quarter and how much might still be undergoing first harvest that should come online within the fourth quarter?

A

Dan, you want to walk through the canopy specifics?

A

Yeah. I'm sorry, was that question directed towards Franklin or Lansing, New Jersey and – or Michigan?

Q

More on the New Jersey side, how much of that, actually...

A

Yeah.

Q

...how much actually online within the third quarter?

A

Yeah. The first harvest for that is going to be December. So none of the canopy expansion that occurred in New Jersey impact flowed through the revenue this quarter. So first harvest in December starts to hit, starts to hit revenue in late January, February timeframe, but you know as Abner mentioned a lot of that is going to go towards our own stores or awaiting in preparation for the conversion of the market in New Jersey. So, you know that's going to be a Q1 event, but there could be some intercompany impact to that as well.

Q

Great. Thanks for the additional color.

**Operator:** There are no further questions at this time. Please proceed, Mr. Kurtin.

### Abner B. Kurtin – Chairman

*Founder & Chief Executive Officer*

Well, look just thank everybody for taking the time. We're excited to bring another strong quarter and continue this growth trend. And we hope everyone has a safe and happy Thanksgiving. Thank you.

**Operator:** Ladies and gentlemen, this concludes your conference call for today. We thank you for participating and ask that you please disconnect your lines. Have a great day.

### Unverified Participant

Goodbye.

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