

Ascend Wellness Holdings Inc.**Q1 2025 Earnings Call**

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CORPORATE PARTICIPANTS

Sam Brill

Ascend Wellness Holdings Inc. — Director and Chief Executive Officer

Frank Perullo

Ascend Wellness Holdings Inc. — Co-Founder, Director, and President

Roman Nemchenko

Ascend Wellness Holdings Inc. — Chief Financial Officer

CONFERENCE CALL PARTICIPANTS

Frederico Gomes

ATB Capital Markets — Analyst

Andrew Semple

Ventum Capital — Analyst

Neal Gilmer

Haywood Securities — Analyst

PRESENTATION

Operator

Good afternoon and thank you for standing by. Welcome to Ascend Wellness Holdings' first quarter 2025 earnings call.

The presentation that accompanies this call can be found on the Investor Relations section of the Company's website.

Before proceeding, AWH would like to remind you that the following discussion and presentation contains various forward-looking statements or information. These forward-looking statements or information are subject to risks and uncertainties that may cause actual results to differ from historical or anticipated results.

For more information on the risks and uncertainties, please refer to Slide 2 of this presentation, today's earnings release, and AWH's SEC and SEDAR filings, including their most recent reports on Form 10-K.

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

On today's call, I am pleased to introduce Ascend's management team, starting with Sam Brill, Director and Chief Executive Officer. Sam will provide an update on the Company's key objectives and high-level financial priorities.

Also on the call is Frank Perullo, Co-Founder, Director, and President. Frank will share updates on the Company's operational plans and highlights from the quarter.

And lastly, Roman Nemchenko, Chief Financial Officer, will review financial performance for the quarter.

I'd now like to hand the conference over to your speaker today, Sam Brill. Please go ahead.

Sam Brill — Director and Chief Executive Officer, Ascend Wellness Holdings Inc.

Good afternoon, everyone, and thank you for joining our first quarter 2025 earnings call.

I'll start off today with a high-level update on the industry, our strategic road map, and how we started the year.

Looking broadly at the regulated US cannabis industry, despite some challenging regional headwinds, the industry is still growing.

Top-line cannabis revenues and the sheer volume of legal products sold continues to increase, and more states are looking to implement both medical and adult-use cannabis programs.

According to Flowhub, sales in the regulated US cannabis market grew over 9 percent in 2024, surpassing \$31 billion, and are on pace to grow another 12 percent this year.

This has been driven by a shift in cannabis customer demand, primarily the younger demographic, who are increasingly looking for alternatives to alcohol.

Daily cannabis users have now surpassed daily alcohol users. In fact, a recent survey showed that nearly half of Gen Z respondents want to reduce or eliminate the consumption of alcohol, and cannabis offers a variety of form factors and dosing options that are very appealing.

While the regulatory environment for cannabis remains murky, following several setbacks during the rescheduling process and many failed bills in Congress, the recent commentary from President Trump's DEA nominee, Terry Cole, and feedback from those who have had conversations with the White House, leaves us cautiously optimistic that progress can be made under the current administration.

We began 2025 with clear priorities: growth through densification in our key markets, margin improvement, and deepening our customer engagement as we continue to evolve our retail and CPG strategies.

I'm pleased to share that we're making steady progress and have performed well across all three initiatives, despite near-term headwinds. Furthermore, we've built a market-leading position and an important retail moat within our current footprint.

As we go deeper in states where we have significant cultivation capabilities, it will allow us to expand our vertical opportunity to improve margins and offset pricing headwinds.

We will be increasing our retail footprint by 50 percent in our core markets over the next 18 months, with half of those new doors to come in 2025.

We continue to identify new opportunities to grow our customer base as we fine-tune our newly implemented CPG approach. These efforts include new brand and product launches, entering new segments, refreshed packaging, and popular in-house and third-party brand activations.

Our actions taken to improve profitability are resulting in continued momentum from the cost-control measures we put in place late last year. We successfully implemented and even exceeded the \$30 million in annualized cost savings we identified.

While our cost-of-goods-sold initiatives started to trickle through in Q1, it was largely offset by continued regional price compression during the quarter.

We are actively reviewing our operations to unlock further efficiencies, such as packaging and automation updates for new cost-saving optimization opportunities.

The broader regional market challenges we discussed on our last call have persisted throughout the first quarter, with price compression continuing to be the biggest headwind per BDSA data. While transaction volumes held steady, lower pricing put pressure on our top line and margins.

We expect our ongoing efforts will ultimately help us close the margin gap between us and our peers, but there's still work to do.

That said, we're seeing encouraging signals that our margin improvement strategy is taking hold.

Overall, Q1 was as expected, with revenue coming in at \$128 million, and we maintained an adjusted EBITDA margin of 21.1 percent, despite the market conditions, seasonality, and a heavier wholesale mix.

We ended the quarter with cash and equivalents of \$100 million, giving us the financial flexibility to execute on our strategy while maintaining a strong balance sheet.

Let's turn to Slide 5 to discuss our retail densification strategy update.

Shifting to our expansion efforts, we remained focused on our midterm goal of growing our footprint by 20 new retail doors, with 10 expected to come online by year-end. We are targeting our key states where we already maintain brand leadership and sizable cultivation operation.

This ability to expand our retail base and increase our vertical sales is a key focus.

Building on the groundwork we laid in Q1, we added three more partner stores in Illinois, with our Markham, North Riverside, and Lynwood partner locations now open.

We also identified an additional partner store opportunity, which would bring our total in the state to six.

In New Jersey, we expect to open our first partner store in Little Falls in the coming months, and we have another three partner locations identified for later this year.

We have an active development pipeline across our footprint, keeping us on track to meet our 2025 expansion targets. This also includes three sites in Ohio and one in Pennsylvania.

These dispensaries continue our strategy of securing prime, high-traffic retail location and will enable us to capture further vertical sales while building our brand footprint in these high-value states.

As I previously shared, refocusing on the customer is now a top priority across the organization. To support this shift, we started making meaningful changes to our retail experience and are refreshing our brands to help drive top line growth.

Let's turn to Slide 6, where I'll discuss our latest steps during Q1 in detail.

Our refreshed customer strategy is beginning to gain traction, and we're starting to see transaction growth at stores where key initiatives such as e-commerce have launched.

Early results from the e-commerce pilot program show a 6.9 percent increase in e-commerce order volume, a 7.7 percent rise in revenue per user, and a 50 percent drop in order abandonment compared to pre-launch metrics. While pricing pressure has offset some of these gains, we believe the opportunity is there as we expand these efforts.

In Ohio, our adult-use ramp-up continues to be very strong, in contrast to what we've seen in other markets. Our Ohio stores have performed ahead of our original expectation, and we are excited about the future potential this market offers.

On the brand side, Q1 saw some exciting developments, with several of our already leading brands moving up in the state rankings, further positioning us as an emerging CPG leader in key markets.

During the quarter, we became the number-two leading brand house across Illinois, New Jersey, and Massachusetts combined, three competitive key states where we maintain significant operational capacity.

The recent Illinois launch of our infused brand, High Wired, has received a very strong early response. Since launching in late April, it has become the best-selling infused flower brand and the fourth-best-selling brand across all flower sales in our Illinois stores.

In addition, Effin' continues to perform well and is now ranked as the number-one sleep SKU in both Illinois and New Jersey. We have plans to expand the Effin' line with new targeted effects set to launch in the coming months.

Our customer-first mindset is not a slogan. It's our edge, and the results are beginning to show.

According to recent BDSA data, while the specific markets that we operate in contracted in Q1 with a 3.4 percent decline, we held our ground and grew our market share by 4 percent compared to Q4 2024.

Finally, we continue to actively utilize our share buyback program to take advantage of what we view as a significant disconnect between our underlying business value and our public share price.

During Q1, we repurchased approximately 790,000 shares, with an additional 781,000 repurchased after quarter-end, for a total of approximately 1.57 million shares repurchased as of the end of April.

We still have about 75 percent of the authorized amount remaining under the current program, and we will continue to assess the highest return available on our capital as the year progresses.

In Q4, we identified and began implementing key initiatives across the business, with further progress made throughout Q1.

With Q2 expected to remain steady, the second half of the year should mark a ramp-up phase as those initiatives begin to scale.

While we're keeping our close eye on ongoing price compression, we're equally focused on executing strategic initiatives that strengthen our position. Our priorities remain clear: delivering for our customers through innovation, evolving our CPG and e-commerce strategies, and enhancing product quality and the customer experience across the board.

We remain confident in our strategy and committed to our densification and optimization priorities. We are executing with discipline, and we are staying focused on delivering long-term shareholder value.

Before turning the call over, I'd like to sincerely thank our AWH team for their fantastic work helping to overcome challenges while successfully implementing our initiatives. There's a lot more work to do, and I'm confident that we have the right talent to execute.

With that, I'll hand it over to Frank.

Frank Perullo — Co-Founder, Director, and President, Ascend Wellness Holdings Inc.

Thank you, Sam. Good afternoon, everyone.

I am pleased to be here today to share an update on Ascend's operational performance, the actions we've taken, and changes we've implemented across our organization to strengthen our business.

During the quarter, we saw competition expand across our markets, with all regions seeing new retail participants, which has resulted in some expected top-line revenue pressure, specifically in our core regions.

As Sam mentioned, according to recent BDSA data, the overall market softened in Q1 2025 with a 3.4 percent decline. Ascend grew our market share by 4 percent compared to Q4 2024.

Q1 versus Q4 is always a difficult comparison due to the fewer selling days and the impact of post-holiday seasonality on consumer spending.

While this presents challenges, it has reinforced our belief that our strong retail locations, market-leading brands, and wholesale capabilities will continue to drive success as markets mature.

We continue to emphasize, plan, and execute our initiatives, driving operational excellence and focusing on the customer. These items are the cornerstones of our strategy as we work to exceed customer expectations. We're committed to sustainable, long-term growth by providing high-quality products and a standout retail experience for consumers.

At Ascend, the customer's at the heart of every action we take.

To further navigate market conditions, we continue to be hyper-focused on actively managing the business to meet our goals.

Let's first look at how we are putting the customer first in the retail business. Let's move on to Slide 9.

The focus for the team in Q1 was implementing processes and technology to improve revenue, margin, and the customer experience. Online or in our stores, we have tried to curate the right menus and experience to engage customers. We recently completed market-by-market assortment guides to ensure we utilize market data and key performance indicators to provide the selection needed to attract and retain customers.

The work creates a repeatable process to help drive a more curated experience for the customers, with measurable results that help drive the continued improvement in each market.

Curating our menus for our customers and driving better purchasing for our stores will positively affect the customer experience, revenue, and margin. These virtual planograms are dynamic, iterative, and based on data about our customers in how they shop.

Recently, we also completed the implementation of new pricing and promotion strategies and processes to ensure AWH-branded products are always the best value and stand out on our menus to drive AWH product penetration. This process is data-driven down to the micro market to help ensure we are always selling market-leading products at market-leading prices.

We also have better visibility into how our promotional activity will affect margins for better planning. Discount dollars and promotions need to be planned to maximize margin and help drive customer behaviour. These new tools and processes help drive transactions in our stores, help customers build better baskets, and keep them coming back to Ascend.

To help drive repeat visits, we are also pleased to announce we will be launching a new loyalty program later this month.

Developed over the past few months, the Ascend loyalty program will be more than a discount program. To build upon our industry-leading customer experience, we will ensure our loyalty program treats our best customers to VIP-level service and great discounts, as well as products and promotions you will only find at Ascend stores. The program will be a tiered program to build community around Ascend's market-leading products and customer experience.

This loyalty reboot will be furthered by our e-commerce initiative, mentioned last quarter, as we implement a single unifying tool to have better insights, data, and tools to service our customer.

Our new e-commerce platform is showing early signs of success. As Sam mentioned, the pilot demonstrated an increased revenue per customer, increased order size, and significant decrease in order abandonment.

This new customized platform was built with a strong focus on enhancing the customer experience, basket building, retention, and strategically positioning products to better meet consumer needs.

Our optimized interactive kiosks have also contributed to a better in-store experience. The pilot has shown e-commerce and kiosk average order values continue to outpace walk-in orders.

We added two additional kiosks at our pilot store, resulting in a shifting of orders from walk-in to kiosks. These actions will further improve efficiencies and revenue at our stores.

This next-generation AI and machine learning customized e-commerce platform was thoughtfully designed to enhance the customer experience, improve retention, and optimize product positioning. We're pleased to see solid early results from the pilot launch. We expect the transition to be completed over the summer for all retail locations.

Looking at our retail densification strategy, in the quarter, we added two retail stores, one partner location, and celebrated the successful reopening of our Detroit, Michigan store.

We continue to focus on expediting our retail footprint expansion across our core markets to improve our scale and fight external market pressures.

We are pleased to have supported the opening of two partner stores since the close of Q1 and are on track to open one additional partner store in New Jersey in Q2.

New store openings should be more heavily weighted towards the second half of the year to meet our goal of 10 new store openings in 2025.

Let's now move to Slide 10 to discuss our operations and wholesale business.

Continuous improvement across our operations sites is key to driving margin expansion to keep pace with price compression and market headwinds. Our operations team have made significant progress

to support the commercial strategy to fill more of our shelves and customers' baskets with our brands, new product lines, and drive the efficiency with automation, and increase yield quality and yields.

The operations team increased production of higher-margin SKUs from in-house brands to increase shelf presence and help lower COGS across all sites in Q1.

Achieving greater scale and increased production of high-value products is our number-one priority to support our margin expansion goals and overall business efficiency at our operations sites.

The operational success helped fuel market share growth in key regions with the expansion of our brand house across all three key wholesale markets. These initiatives helped propel AWH brands to the number two position in sales and units across Illinois, Massachusetts, and New Jersey combined.

We are especially proud that across these same combined markets, the Ozone brand ranks number one in sales and units.

As mentioned, what's driving this growth is a continued enhancement of our brand portfolio, highlighted by the launch of 100 new products across our top four markets during Q1. These launches have contributed \$6.8 million in retail revenue, reinforcing the strength of our innovation pipeline and our ability to meet evolving consumer demand.

We rolled out new vape products with the launch of our Ozone PIXI disposable pens in three additional markets, along with new Ozone vape cartridge flavours and extended Simply Herb flavour lineup in four markets. Our Ozone PIXI vapes have been a particular highlight in Q1, driving Ozone disposable vape sales up 103 percent compared with Q4 2024.

As Sam mentioned earlier, we're excited to launch High Wired in the quarter, our bold new line of infused flower and pre-rolls crafted specifically for seasoned cannabis consumers. With a proprietary blend of quality flower and potent top-tier concentrates, this launch not only meets the rising demand for

infused products but also positions us at the forefront of one of the industry's fastest-growing categories. Now available in Illinois and more markets on the way, High Wired is all about delivering consistent, elevated experience to our most discerning customers.

Looking ahead to the second quarter, we have 156 new SKU launches in flight. This includes the second phase of effect-based brand Effin' with over five new flavours and unique minor cannabinoid combinations. We were able to launch new pre-roll multi-packs across multiple brands.

Finally, we are also able to launch our Ozone edibles in Pennsylvania this quarter, providing further verticality in in-house brands to our patients at our retail stores in Pennsylvania.

We've made significant strides in enhancing our production capabilities through automation initiatives and targeted investment in our operations facilities across the network.

I am pleased with the progress of the automation pilot at our Athol, Massachusetts facility. We have successfully concluded the pilot, aimed at testing the automation of flower pack, vape filling, and continued pre-roll automation, including our new infused lines.

These new lines are driving increased production and the reduction of labour hours. Due to this measurable success, we have made the decision to implement these lines across the network. These new machines and practices will be operational throughout the rest of the network by year-end.

New pre-roll automation has already been launched in five of our six vertical sites, improving volumes, efficiency, and consistency across the board. We are measuring the labour savings, and they are tracking in line with the expected savings, including our savings initiatives discussed previously.

In addition to these operational upgrades, we continued to make targeted investments aimed at increasing yields and quality across the network. Our cultivation team is supporting the business to ensure we have the highest-quality flower to hit our goals. The cultivation team also launched 20 new

flavorful high-THC strains across key markets with a strong focus on consumer-driven cultivars and genetics to meet the evolving preferences.

For the remainder of 2025, our focus will remain on reinforcing a customer-first mentality, which will continue to be the cornerstone of our leading retail and wholesale strategies in Q2 and beyond. We are committed to driving growth through deeper customer engagement, innovative product offerings, and operational improvements. By staying attuned to customer needs and preferences, we'll ensure that our initiatives align with market demands and pressures, positioning us for sustained success throughout the year.

I will now turn it over to Roman, our Chief Financial Officer, to discuss our financial performance in the quarter.

Roman Nemchenko — Chief Financial Officer, Ascend Wellness Holdings Inc.

Thank you, Frank, and good afternoon, everyone.

For the first quarter of 2025, we generated \$120 million in revenue and \$27 million in adjusted EBITDA. Compared to last quarter, where net revenue was down \$8 million or 5.9 percent, 4.4 percent of this decrease was due to retail sales, and the remaining 1.5 percent was due to wholesale.

Sequential decline was largely driven by softness in tickets and price compression, partially offset by an increase in units sold per transaction across our core markets. We believe that the post-holiday slowdown and seasonality had a meaningful impact on transaction volume, especially in the first two months of the year, as consumers recovered from holiday spending.

Adjusted EBITDA also declined by \$3.2 million or 10.7 percent sequentially, of which \$4.8 million was due to decrease in adjusted gross profit, and partially offset by \$1.6 million improvement in SG&A. The decrease in adjusted gross profit was driven by price compression noted earlier, as well as the relative

sales mix, with retail sales representing a smaller percentage of the overall revenue compared to last quarter.

Despite the 5.9 percent loss in net revenue, adjusted EBITDA margin only decreased by 1.1 percent. This is largely due to the cost-savings initiatives the Company has been executing since the end of last year, which have provided us with a healthy foundation to navigate the short-term weakness in top line while we execute on our growth strategies and new store openings going forward.

The year-over-year sales and gross profit trends are consistent with sequential drivers noted earlier, partially offset by new store openings in 2024, as well as a transition to adult-use sales in Ohio.

Compared to the first quarter of last year, net revenue's down 10 percent, while adjusted gross profit and adjusted EBITDA are also down by 16.4 percent and 16.8 percent respectively.

Adjusted EBITDA margin decreased by 1.3 percent, which is largely due to a decrease in net revenue, offset by improvements in SG&A.

Let's now move on to the next slide to discuss cash and the balance sheet.

We finished the quarter with \$100 million of cash, which is a net increase of \$11.8 million from year-end. This increase was driven by \$6 million generated from operating cash flows, as well as the \$13.7 million of net inflows from financing activities, offset by \$7.8 million of investing outflows.

Total operating cash flows includes the first biannual interest payment made under new indenture of \$16 million, as well as the \$1.4 million of interest related to the remainder of the 2021 term loan facility.

Financing inflows of \$13.7 million includes \$14.3 million in net proceeds from new debt issuance, offset by \$0.3 million in share repurchase and \$0.3 million in finance lease payments.

Total investing activity includes \$6.4 million of CapEx, of which \$1.7 million was related to new store openings.

We also had approximately \$1.5 million of M&A-related payments made during the quarter.

Excluding the CapEx related to new store openings, free cash flows for the quarter totalled \$1.3 million.

Looking at the rest of 2025, we still expect to spend approximately \$30 million to \$35 million in total CapEx, roughly half of which will be related to new store openings.

Overall, we believe this quarter reflects continued progress under the new leadership team. Last quarter, we identified key areas for improvement and laid out a clear strategic road map. Throughout Q1 and Q2, our focus has been on putting that strategy into action to better position the business for long-term growth.

While we continue to face headwinds in some of our core markets, we believe the second half of '25 will begin to show the benefits of the initiatives we've put in motion, and we look forward to updating you on our progress in the quarters ahead.

On behalf of the management team, I would now like to thank each of our team members for their dedication and efforts in getting us to this stage, as well as investors and partners for their continued support.

I will now turn it over to the Operator for questions.

Q&A

Operator

Ladies and gentlemen, we will now begin the question-and-answer session. Should you have a question, please press *, followed by the number 1 on your touch-tone phone. You will hear a prompt that your hand has been raised. Should you wish to decline from the polling process, please press *, followed by the number 2. If you are using a speakerphone, please make sure you lift your handset before pressing any keys.

We will be taking one question and one follow-up per analyst.

Your first question comes from the line of Frederico Gomes from ATB Capital Markets. Please ask your question.

Frederico Gomes — ATB Capital Markets

Hi. Thank you. Good evening. My first question is on your sales per store. It's a metric that has declined for quite a while, and I think we see that across the industry as well. I was just curious, how do you view the metric evolving, considering all the retail initiatives that you have in place; as well as your retail expansion plans for this year. Thank you.

Sam Brill

Thanks, Frederico. So our average revenue per store, I believe we still rank number one in the industry on a per-store metric, and I think that's a reflection of the retail moat that we've built over the course of the Company's history. And it continues to be a main focus when we look at the densification strategy, focusing on key locations that are on main-on-main, heavily trafficked, part of the consumer's everyday life, whether they're going to work, coming home, shopping, just making it very convenient for them to find our locations and get in and out quickly with the least amount of friction.

So yeah, that's a key focus to that densification strategy, and we still remain confident that our target of 10 new locations by the end of the year will be achieved. As we mentioned, we have three more

that we've already added. They're open, and the New Jersey store is going to open in the coming months. So hopefully, four very shortly, and we should be able to hit the other six in the second half of the year.

Did that cover what you were asking?

Frederico Gomes

Yes. Thanks for that. I guess the second question would be on wholesale.

You mentioned that you increased market share by 4 percent sequentially, which I think is pretty strong growth. But do you think that, that sort of sequential performance is sustainable on the back of your wholesale initiatives?

And I guess, from a capacity standpoint, would you require any significant CapEx anytime soon to expand capacity as you continue to increase wholesale? Thanks.

Sam Brill

Sure. Look, I think on the wholesale side, part of it was just a function of—I think we mentioned this in the last quarter, that there was some channel stuffing at the end of the quarter. We didn't participate in that. And I think that that just put us on better—on firmer ground when it came to the wholesale business.

But in terms of operating capacity, I would say that with the measures that we've taken, there's probably significant—I wouldn't say, maybe, significant; it's too strong of a word. But we have additional capacity that we can certainly crank up within each one of our facilities without significant additional CapEx that's not in the budget.

Frederico Gomes

Okay. That's perfect. Thanks for that.

Sam Brill

Sure.

Operator

Your next question is from the line of Andrew Semple from Ventum Financial. Please ask your question.

Andrew Semple — Ventum Capital

Good evening. Thanks for taking my question and congrats on the Q1 results here.

Sam Brill

Thank you.

Andrew Semple

First of all, I just want to ask on the cost reductions that were realized in Q1. Have we seen the full benefits of cost reductions within the first quarter? Or will subsequent quarters show more of an impact and more of a benefit still to come?

Sam Brill

Yeah. So we've fully implemented the \$30 million—we've actually exceeded the \$30 million in annualized cost savings. And we did see on the—it's on the COGS side, is what's kind of had that lag. So we still don't have the full savings in the COGS yet. I mean, we did see additional savings in COGS. Unfortunately, it was offset by the pricing pressures that we saw.

But we should see more improvement on the COGS side as we ramp up—or rather, as we cycle out of older inventory and into newer inventory. And we should see additional benefit as we implement the automation initiatives that we talked about. The automation in packaging should help drive costs down.

And now—and again, it's always a forward cycle. So you're not going to—it usually takes three to four months before it comes through, so. Like that's the lab. So we're really, if you think about it, in Q1, we were selling products that we were making at the beginning of all of Q4. And then we're going to see that additional improvement in the same cycle.

Andrew Semple

Got it. Okay. That's helpful. And I guess that ties into my second question here. And just on the gross margins in the quarter and how you're feeling about that level versus the remainder of the year. I think broadly out there, it's expected that pricing pressures persist.

Do you think that you've got enough room, on the ongoing reduction of costs and in your production costs, but as well as opening new stores and getting more vertical—do you think you have enough room to potentially drive margins higher for the balance of the year? Or how do you see gross margin shaking out?

Sam Brill

Yeah. I think it's a good thing that we took the actions that we did because, if we didn't, and we couldn't bring down COGS, it would have been a lot tougher quarter. So I think that that's already showing just being able to stay consistent.

But clearly, there's a cost curve. It's like a Moore's law of cannabis, where pricing continues to come down. And we need to stay in front of that curve. So every single one of the actions that we're taking is in an effort to stay in front of that curve. And we're very focused on that, and it's the top—it's one of the top priorities.

I think as the densification strategy takes hold, and we add more stores in the second half, there's an opportunity to improve margin just because the mix will be better, and we'll get more vertical margins out of that mix. But we need to see how pricing pressures continue to persist the rest of the year.

Andrew Semple

Great. I appreciate you taking my questions. I'll get back into queue.

Sam Brill

Thank you.

Operator

Ladies and gentlemen, as a reminder, if you would like to ask a question, please press *, followed by the number 1 on your touch-tone phone. If you are using a speakerphone, please make sure to lift your handset before pressing any keys.

Your next question is from the line of Neal Gilmer from Haywood Securities. Please go ahead.

Neal Gilmer — Haywood Securities

Yeah. Thanks. Good afternoon. Wanted to see what you're sort of seeing with the consumer sentiment. We all know Q1 is seasonally a weak one but then, and sort of as we move into the spring here, I think it's fair to say that volumes typically pick up. I'm wondering whether all the tariff headlines and everything, what you've seen as far as some of the trends as you moved into the second quarter here. And I don't know whether you want to use 4/20. I know it's only one day, but whether—use that as a litmus to how things were versus last year.

Sam Brill

Yeah. Look, I think the consumer sentiment is pretty positive towards cannabis. I mean, we're seeing increased usage across the board. And it's not like we're selling—like, I know the revenue trajectory

is where it is, but if you look at the actual just sheer volume of units sold and brands sold, it continues to ramp at a rapid pace.

So consumer adoption is certainly there as people convert from other forms of consumption to cannabis. And specifically, it looks like alcohol is losing the majority of the customers, especially in the young demographic.

So I think that the sentiment's there. Just for us as an industry, especially in some of the markets where you have oversupply, it's putting that price pressure on it. So for the consumer, it's great. They're getting more product for less dollars, so it's a great value proposition. But for us, obviously, it's tough because we need to stay in front of that cost curve and defend profits.

Neal Gilmer

Yeah. Fair enough. Okay. Thanks. Second question for me.

Just you highlighted the shares that you've repurchased since you got approval of the plan in late December. What's your thought on the capital allocation strategy besides your CapEx of \$30 million to \$35 million? You've got more room on the NCIB. What's your view on debt retirement or anything like that? Just curious on sort of how your—the philosophy that you're taking there.

Sam Brill

Yeah. We're always looking to be good allocators of shareholder capital. And we measure each of those buckets in a very, I think, sober way.

As we look at opportunities on the M&A side, it's hard to ignore what's out there. There's a lot of—I don't want to call them distressed assets, but operators that don't necessarily have scale that in our—as part of our network would greatly benefit from the scale that we have. And prices just have come down over time, and they're very compelling.

And so we need to balance that with the fact that our stock price trade—we have a market cap that's lower than our cash position. And obviously, as we generate free cash flow, you want to also take down debt. So as a board and as a management team, we're always trying to fill the right buckets. But right now, I would say that, that pipeline is extremely compelling, and we definitely see opportunity there.

Neal Gilmer

Great. Thanks for the questions.

Sam Brill

Sure. Thank you.

Operator

There are no further questions at this time. Thank you very much for joining today's conference call. This concludes today's meeting. You may now disconnect.

Sam Brill

Thanks, everybody.