

Ascend Wellness Holdings Inc.

Fourth Quarter 2024 Earnings Call

Event Date/Time: March 12, 2025 — 5:00 p.m. E.T.

Length: 39 minutes

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PRESENTATION

Operator

Good afternoon and thank you for standing by. Welcome to Ascend Wellness Holdings' fourth quarter 2024 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 report on Form 10-K.

During today's call, the Company will be referring to non-GAAP financial measures such as adjusted EBITDA. Reconciliations to the most directly 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 first speaker today. Sam Brill, please go ahead.

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

Thank you, Operator, and thank you to everyone joining us on the line today.

This was our first full quarter with a new management team in place, and I'm incredibly proud of the work the entire team has done to support our key transformation initiatives and new strategic road map.

Ascend has the right assets in the right places, in the right markets, and now we're focused on how to best utilize those assets to drive profitability and sustainable cash flow generation.

I'm very pleased to share that we've already seen faster-than-expected improvement in both our profitability and cash generation. More importantly, we installed a new mindset and culture around cost controls going forward.

Looking first at profitability. During the first quarter, we improved the adjusted EBITDA margin by 450 basis points or \$30.2 million, representing a sequential increase of 20.4 percent. This is largely due to our execution on the approximately \$30 million in annualized cost savings we identified, which has been substantially completed to date.

We expect some of these savings to take a little longer to show up in cost of goods sold as we cycle out of higher-cost inventory and add automation and other efficiencies to our facilities.

As discussed last quarter, improving profitability remains our top goal, and we believe there's still more opportunity to close the margin gap with our MSO peers.

Next, we also exceeded our initial expectations for delivering on cash generation.

With fourth quarter cash from operations of \$35.2 million, we have successfully achieved our eighth consecutive quarter of positive cash from operations and realized free cash flow of \$30.1 million for the quarter. This helped increase our cash and cash equivalents to \$88.3 million at the end of Q4 2024.

Lastly, we continued to implement our densification strategy, and I've identified a robust pipeline of opportunities as we focus on expanding our store base by approximately 50 percent or 20 locations in the midterm.

We currently have 10 locations identified, which we expect will mostly come online throughout the second half of 2025. This includes three in Ohio, one in Pennsylvania, two partner sites identified in New Jersey, as well as four additional partner stores in Illinois, which would bring the total partners in the state to six.

While we're pleased with the improvements we've made during the quarter, the work is far from complete. Over the past couple years, our organization has become overly focused on corporate priorities, losing sight of the most critical element of a retail and CPG business—the customer.

Correcting this is an immediate priority for our entire team. To succeed, we must prioritize the needs and wants of our consumers in everything that we do. To that end, we've begun implementing a series of changes to our retail experience, and we are refreshing our brands to help reinvigorate our top line.

Let's move to Slide 5 to discuss the key highlights from Q4.

As previously mentioned, we substantially completed our \$30 million in annualized cost-savings initiatives and implementing long-term processes and controls.

We also sustained our industry-leading average revenue per store, despite a challenging consumer environment that we operate in.

This was our first full quarter of adult-use sales in Ohio, and the initial response from consumers has been great. Given the restrictive regulatory framework, we expect to see more growth in this market when advertising is allowed, and additional form factors, such as pre-rolls, are introduced later this year.

In addition, we launched Effin', a brand focused on delivering targeted effects, which has been a significant success in wholesale and is the number one selling edible brand in our stores.

For the first time in the Company's history, we're buying back AWH shares. We view our shares as undervalued, so we believe there's no better time to return value to shareholders. To that end, we repurchased 11 million shares of Class A common stock, representing over 5 percent of the shares outstanding.

Furthermore, we announced the commencement of a share buyback program to repurchase for cancellation up to another \$2.2 million in stock, which began in January. Subsequent to the quarter-end, we repurchased an additional 620,500 shares through this program.

Turning now to Slide 6, where I'll discuss the core strengths of the business going forward.

Since taking on my new role at Ascend, I've had the opportunity to tour many of our facilities and retail stores and learned about the important assets we've amassed.

For the last two months, I went further and took the time to work alongside our talented team in cultivation, manufacturing, and retail. This experience allowed me to fully appreciate and understand their respective roles and has given me a better perspective on their insights. It allowed me to see firsthand what's working well and where we may face challenges ahead.

This experience has helped me inform our decision to reinvigorate our customer-centric approach. I'm truly grateful for the hard work and dedication of every member of our team as we continue to move forward together.

Spending this time across our organization has deepened my perspective that Ascend really does stand out in the industry, thanks to our core strengths that I previously discussed on last quarter's call.

First off, we have a strong retail footprint with exceptional locations. We believe these strategically positioned storefronts will continue to give us an advantage as the industry evolves.

The Company continues to maintain its data-backed focus on premier locations in high-density population centres. With more competition building, we expect that the retail locations will play a significant role in where customers choose to shop, and we have some of the best locations in each of our states.

Next, our customers continue to have a great experience when they visit, as demonstrated by our excellent net promoter score of over 70 at the enterprise level. However, that does not always translate into repeat visits or strong ticket sizes.

Therefore, we are developing new KPIs to help drive customer retention and average ticket. Frank will elaborate more on this shortly, but we are optimizing our interactive kiosks and online menus to enhance the consumer experience by making it easier for them to find what they want and need.

This superior experience also leads customers to choose our products and engage with our brands. Over the next few weeks, we plan to commercialize approximately 350 refreshed SKUs. We can offer these highly popular products due to our strong cultivation and production capabilities. During Q4, our cultivation team delivered the highest ever network average grams per square foot, the highest network average potency, and the most pounds we have ever harvested.

Lastly, to ensure these products reach our customers, we've developed an outstanding and comprehensive distribution network that covers over 90 percent door share in each of our top two wholesale markets.

Given our focus on driving margin growth, we have strategically evaluated our product portfolio with a focus on eliminating unprofitable SKUs and delinquent wholesale accounts. While this will have a short-term impact on revenue, our efforts will help to build a stronger foundation that will set us up for long-term success.

While we anticipate there will still be challenges ahead for both the industry and Ascend, I firmly believe that our key differentiators will empower us to succeed as we execute on our strategic goals for 2025. The opportunity for us is there, and we're excited about Ascend's potential going forward.

Now we'll turn it over to Frank Perullo, President and Co-Founder, who will discuss our key operational initiatives, beginning on Slide 8.

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

Thank you, Sam. Good afternoon, everyone.

I am pleased to be here today to share an update on the assessments and actions we have performed and implemented across our organization to drive and strengthen our business.

As Sam highlighted, we saw significant initial momentum following the implementation of our key transformation initiatives during the quarter. Simply put, we are running our business better, as evidenced by our improvements in profitability.

We focused our assessments and actions on our people, processes, and technology. In many cases, resources needed to be allocated more effectively, tools implemented, and processes were immature, or we were (phon) gaps with a lack of process. We have made significant progress in all areas but will be working on a road map of continuous improvement in all facets of the business.

An example of a success I am particularly pleased with was the team's ability to positively impact working capital in the quarter for reducing gross spend and better inventory management across both

channels of the business. We employed better tools, improved processes, and allocated the resources needed to improve our inventory management and biomass routing at our manufacturing facilities.

That being said, competition is growing across our markets as they mature, which is leading to some top line revenue pressure, specifically in our core regions. While this presents challenges, it has reinforced our belief that our strong retail presence and wholesale capabilities will continue to drive our success as these markets mature.

Operational excellence will be a key pillar of the road map to help deliver for our customers. We're focused on building our business for long-term growth with an emphasis on delivering high-quality products and an exceptional retail experience for patients and customers. The customer will be at the centre of how we think and what we do every day at Ascend.

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

Q4 was only the second quarter in over three years that we did not add a new store.

We finished 2024 with \$372.2 million in retail revenue, a 0.3 percent increase year over year.

In the quarter, we achieved \$90.4 million in retail revenue.

A focus area in the quarter was to identify key retail opportunities to improve top line revenue margin, customer retention, and acquisition strategies.

A key focus for our team going forward is returning our organization to a customer-first mentality. Our assessments targeted the fundamentals of retail, including having the right products and pricing, while giving the customer the best experience.

In the quarter, we worked to ensure we curated the right selection of products on our menus. We also had to sell through aging inventory and overstocked SKUs in the quarter to bring our days on hand to optimal levels.

We worked to ensure we had well-balanced menus to give the customers great AWH-branded products and the top-selling SKUs in each market. Having market-by-market planograms, in-store and virtual, as well as more effectively utilizing market data on sell-through and customer shopping habits, are key initiatives to ensure we have the right products for our customers.

We also focused the review on our buying org to ensure we always have the right products in stock at the right price and margin. Driving better deals for our customers will be key to our retail success as markets normalize. It also helps drive the right segmentation for AWH products in our stores, where we want to be the best-priced products in each category.

The work started to pay off as we achieved the highest level of AWH penetration in the quarter.

During the quarter, we increased AWH penetration to 55 percent, a 6 percent increase quarter over quarter. AWH penetration is a key KPI to drive strong margins and keep our manufacturing facilities producing the units needed to drive down COGS.

In addition to ensuring we deliver an exceptional experience at our retail dispensaries, we are also focused on providing a similarly positive experience through our online capabilities.

We are pleased to announce that, in the quarter, we started the build-in transition of our e-commerce site, letsascend.com, to a new e-commerce portal to transform the manner consumers engage with Ascend. We're creating a more curated online shopping experience that offers a streamlined selection of products with an integrated loyalty program.

The new e-commerce portal will utilize AI and machine learning to help personalize each customer's experience. We will deliver a better online shopping experience for our customers; whichever manner they get their cannabis. Delivery, curbside, in-store, our new e-commerce portal will be the one-stop shop.

The new Ascend shopping experience will start to roll out to customers next week and will be in all markets by the summer.

In the quarter, we also reset our retail training programs for new and existing employees. The goal was to increase engagement in the level of service given to every customer from the moment they walk in and is greeted with, welcome to Ascend. Ultimately, it's about the customer's journey, and we're committed to ensuring that cost-saving measures do not compromise the quality of the experiences we deliver.

Lastly, as part of our retail densification strategy, we have identified potential partner locations in Illinois and New Jersey, which we expect to significantly ramp up store openings during the second half of '25.

In New Jersey specifically, we have the opportunity to develop up to seven partner locations. We view this as a strong market for us and one where we can carefully hone our partnership approach, which can then be rolled out across additional markets.

Our first New Jersey partner store, located in Little Falls, is on target to open early in Q2. We have two additional New Jersey partner stores in development to open later in 2025. This is in addition to our final PA store under our licence, as well as the three additional Ohio stores, all currently under development.

Let's move to Slide 10 to discuss the operation and wholesale business.

In 2024, we sold a record number of pounds of wholesale products and increased wholesale revenue in each of the Company's key markets compared to the prior year.

In the quarter, we maintained or gained share in each of our key wholesale markets. Our cultivation and operations teams supported these wholesale milestones, delivering record results across the network.

During Q4, our cultivation team delivered the highest network average ever of grams per square foot, potency, and the most pounds harvested. These positive results helped drive increased production at our facilities to fuel both retail and wholesale channels.

During the quarter, we increased brand recognition across the portfolio in various markets, with AWH brands being market leaders in all of the third-party wholesale markets in which the Company operates. Our Simply Herb brand remained the number-one selling brand in Massachusetts. Ozone rose to the number-one brand in units and number-three brand in sales in New Jersey. Ozone also remained the number-two brand in sales and number-one in units in Illinois.

Also in the quarter, we grew our brand portfolio. With increased demand for our products, as previously mentioned, we drove an increase in vertical sales of 6 percent in Q4 compared to Q3 2024. Strong brands help improve vertical sales, which will continue to drive asset efficiency and a larger share of our revenue from in-house products. In turn, our CPG initiatives (phon) will further help enhance our margins.

We introduced Effin', a brand designed to deliver targeted effects using minor cannabinoids. The brand has been well received in all the markets where it's available and is a top performer in the edibles categories at our stores. We plan to expand the Effin' line in the coming weeks with additional targeted effects.

Building upon this success, we are launching a new line of premium infused pre-rolls, which will be available in all major markets this year. This expansion is expected to start rolling out later this month.

This will help us meet the evolving demands of our customers, ensuring that we continue to provide high-quality, innovative products.

We are commercializing almost 350 products across six markets during Q1 in all product categories, ensuring Ascend-branded products are available to our customers however they consume.

While we are pleased with the early success of the changes implemented across the network, we have more work to do to continuously improve the people, process, and tools servicing the business.

Our assessment and review of our commercial and operations org helped to create a road map for 2025. The road map serves to stratify breadth and depth of production output to match our customer preferences. These actions should help stabilize production attainment and labour, allowing us to steer the business to lower COGS and higher margin.

A key initiative still in flight to help enable this progress is automation. At our Athol mass cultivation and manufacturing facility, we are currently introducing automation and new equipment on several production lines, including pre-rolls, flower pack, and vape filling. The equipment and process changes happening right now in Athol will be used as a guide and proof of concept to increase efficiency, throughput, and help lower our cost of goods.

Increased automation can transform the ways which we produce our products, allowing us to scale operations more efficiently and fuel more product innovation, such as our new infused pre-roll line.

As we prove and refine this approach, we expect we will see meaningful labour savings and improved efficiencies once we roll it out at scale across our footprint. We're also making targeted investments to improve yields and reduce variability while ensuring this is done carefully to mitigate disruptions.

In conclusion, we closed out 2024 with several positive highlights, including the successful transition to adult-use sales in Ohio, the swift implementation of our cost-saving initiatives, and the strong performance of our latest brand launch.

Q4 was the first full quarter of our refreshed management team addressing our margin and profitability challenges. With these areas improving, we will continue to focus on the customer to guide the road map for 2025. We need to think like a customer and keep them at the centre of all we do.

I will now turn it over to Roman Nemchenko, our Chief Financial Officer. Roman will discuss our financial performance and near-term expectations.

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

Thank you, Frank, and good afternoon, everyone.

We're pleased to report that the Company generated \$562 million in net revenue for the 2024 fiscal year. This represents a \$43 million or an 8.3 percent increase year over year, primarily due to the expansion of our wholesale business.

Adjusted gross profit also increased by \$17 million or 8.1 percent to a total of \$226 million, and adjusted EBITDA increased by \$10 million or 9.4 percent to a total of \$116 million.

Revenue for the fourth quarter was \$136 million and down 4 percent sequentially. Of this decrease, 2.3 percent was due to retail sales, and the remaining 1.7 percent was driven by wholesale.

Price compression in some of our core markets had the largest impact on both sales channels, leading to a decline in the average basket size quarter over quarter. We believe this is also consistent with trends reported by BDSA, as well as some of our peers, with year-end promotions and discounting driving average prices down.

Fourth quarter adjusted EBITDA was \$30.2 million, representing a 20 percent sequential improvement. This improvement was largely driven by a 6.3 percent increase in adjusted gross profit margin, as demand for Ascend-made products increased at our stores, improving our vertical sales and enabling us to realize higher margins during the period. The various reductions in operating costs discussed earlier and on our previous call further contributed to the improvements in adjusted EBITDA.

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

Quarter over quarter, our cash increased by \$23 million to \$88.3 million, as we generated \$30.1 million of free cash flows during the period. This net increase was mostly driven by operating cash flows of \$35 million, offset by \$7 million used in investing and \$5 million used in financing activities.

While the operating cash flows of \$35 million represents the eighth consecutive quarter of positive operating cash flows, it is also our all-time high in a single quarter. This was mostly driven by improved utilization of working capital, reduction in operating costs, as well as approximately \$10 million of state income tax refunds received during the quarter.

Total investing cash outflows of \$7 million includes \$5 million of CapEx, of which \$2.7 million was for new store build-outs. For 2025, we expect to invest approximately \$30 million to \$35 million in CapEx, roughly half of which would be for new store openings.

Financing cash outflows includes approximately \$2.7 million used for the repurchase of common shares through a private transaction in December at a significant discount to the market.

Although we've made significant strides during the first full quarter under the new management, we're still facing headwinds in our core markets from both internal and external factors.

For Q1, we expect mid-single-digit percentage decline in revenue, as consumer discretionary spending softens following the holiday season, and weather-related events which impacted our retail sales

in multiple markets. Continued price compression and shorter quarter will add further pressure on the average basket size and ticket count.

However, despite the expected near-term softness in the top line, we expect to maintain our adjusted EBITDA margin above 20 percent.

Looking further ahead, the top line as well as our margin should begin to show gains over the second half of the year. We look forward to executing on our growth strategies with the same focus and attention as the cost-savings initiatives implemented in Q4, and we'll provide updates on our progress during the next call.

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

Thank you. Ladies and gentlemen, we will now begin the question-and-answer session. Should you have a question, please press *, followed by the 1 on your telephone keypad. Should you wish to cancel your request, please press *, followed by the 2. I would like to advise everyone to have a limit of one question and one follow-up. And if you're using a speakerphone, please lift the handset before pressing any keys.

One moment, please, for your first question.

Your first question comes on the line of Federico Gomes from ATB Capital Markets. Please go ahead.

Frederico Gomes — ATB Capital Markets

Hi, team. Congrats on the great quarter. Thanks for taking my questions.

First question is on your retail expansion. So you are planning to expand in some of these competitive retail markets like Illinois and New Jersey. So I'm curious how you look at those markets. What are you assuming as a base case scenario for those stores that you intend to open? Are you expecting a normalization of retail in those markets as they are already close to saturation? Or do you assume continued pressures, and that's already sort of baked into your strategy? Thanks.

Sam Brill

Hi, Frederico. Thanks for that question.

So we see these two markets as our core markets. Right? We want to increase that verticality. It's where we have the biggest fixed-cost assets, and we need to drive more volume through a bigger retail footprint.

The focus remains the same. We're being extremely picky about what we're buying and where the locations of the stores are. The location, as we stated before, we don't want to impact our footprint whatsoever; we want to improve that footprint. And so we're just looking for premier locations in key markets, and we're going to stay disciplined to that as a number one.

Number two, the store needs to be competitive. And we need to make sure that we see it as a less—I would say, less saturated location. So we're very careful about what the competition looks like, where we're located. And again, we know how the competitors in that market do because we're a huge

wholesaler. So we have that inside information to understand what the trajectory is in terms of their purchasing. So we know how things are going, besides just doing the underwriting in each store.

But like in all these situations, it's the price compression, I think, more so than a competition because, again, if you're in a good location, you have a good mousetrap because you're going to be able to keep those customers. But price compression is statewide in places like Illinois, to a lesser extent, New Jersey.

But it's something that we take into account. And that's where we're focused on the other side of the business, which is driving costs down in our cultivation and manufacturing facilities to stay ahead of that price curve.

I think your question was longer than that. So feel free to follow up if I missed something.

Frederico Gomes

No. That's perfect. I appreciate that colour. That answers it. And I guess the second question on the—just on the capital allocation, you've been active on the buyback. How do you look at the buyback?

And obviously, you have a pretty ambitious growth plan here. But at the same time, it is a challenging market with price compression. So how do you look at those options in terms of actually keeping the cash in the balance sheet for a rainy day and just using the cash to buy back stock or invest for growth? Thanks.

Sam Brill

No. Good question. Look, we're fortunate to have a very healthy balance sheet with a large cash balance where we could take advantage of situations. And the great thing is that we have a very robust pipeline of opportunities in terms of stores to buy in multiple markets.

But we have the ability now to be, I think, a little picky about what we do, given that the supply-demand dynamic is turned in our favour. So we're going to be very careful with that precious cash on our balance sheet. But at the same time, we look at our shares, where we're trading in terms of market cap, relative to what we see in terms of the value of the business. And we think that, that is an extremely attractive opportunity to return cash to shareholders in the form of shrinking our market cap.

So we're trying to stay balanced and disciplined with that and, again, we don't lose sight of the fact that the cash is extremely important on this balance sheet and in this industry. So we're going to be very careful with the shareholder cash.

Frederico Gomes

Thanks for the colour. I'll hop back in the queue.

Operator

Thank you. Once again, should you have a question, please press *, followed by the 1 on your telephone keypad.

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

Neal Gilmer — Haywood Securities

Yeah. Good afternoon and thanks very much. I guess I just wanted a little bit more colour on the \$30 million savings that you said you've already implemented, which seems quick from my perspective. So it's a good thing.

Can you remind us how much of that is sort of split between COGS and SG&A? And sort of get a sense of how much of that we actually saw reflected in Q4 versus—I know you said in the prepared

remarks that not all of it has been there, but just trying to get a sense of how much more we should sort of be expecting to see reflected in that P&L throughout the course of 2025 here.

Sam Brill

Sure. So first of all, Neal, thank you for the question.

About half of the annualized savings was in SG&A and reflected in that first full quarter. So we'll see the benefit of that as the year goes on. The other half is all in COGS, and that will take a little longer as we implement the automation and other initiatives that we talked about on the call.

Neal Gilmer

Okay. Thank you for that. I guess my follow-up would sort of go in towards the inventory comments in the call.

We can see that, the decline in inventory that you realized in Q4. And I think the—trying to remember the exact words, the prepared remarks—was something along the lines of it's towards more normal levels. So are you at a point now where you're comfortable with your inventory, and this is where you're going to try to hold it to? Or do you feel there's still opportunities to reduce the day sales outstanding on that level?

Sam Brill

No. We're very proud. I mean, if there's one thing besides the cost savings that I'm super excited about and proud of, is the way that we've really fixed our balance sheet. We made a lot of progress. We were just way overweight on inventory, and we needed to rationalize that. Like, we are in a business where we have products that have a certain shelf life. Right? These are perishable products, and we have to think that way.

So days of sales outstanding is a top KPI that we track every day in every store, and we make sure that we don't get out over our skis. And we put it, we've implemented processes to ensure that we don't end up in the same place. And we're also much smarter about how we're purchasing and how frequently we're purchasing and what we're purchasing.

This whole customer-centric initiative is all about that, curating that product for the customer, making sure that when they—any store that they come into, they're going to have the most popular SKUs, not just ours. But those have to be what we're carrying, not things that just are going to sit on the shelf, we're going to end up having to discount.

And then that ends up competing against everything else we have on the menu. So it ends up driving down your basket size, your margin, everything. So that discipline is a top priority moving forward. But I think that's where we made like the most significant progress that will have long-term positive effects on the business.

Neal Gilmer

Okay. Thanks very much. Appreciate it. I'll get back in the queue.

Operator

Thank you—

Sam Brill

Perfect. Thanks.

Operator

Thank you. And your next question comes with from the line of Andrew Semple from Ventum Financial. Please go ahead.

Andrew Semple — Ventum Capital

Thank you. And congrats on the Q4 results. So first off—

Sam Brill

Thank you.

Andrew Semple

—just on the cultivation yields hitting record highs, I believe I caught in the prepared remarks.

Correct me if I'm wrong. Can you sustain yields at this higher level? Or was Q4 a bit of an anomaly from that perspective?

Sam Brill

No. I would—I want continued improvement. Like, the average price per gram in this industry continues to come down, especially in the less mature markets. And if we're going to be competitive, and we're going to be able to maintain our margins or improve them, we're going to have to improve our yields and volume that we can produce from those facilities. It's the key way that you can leverage the fixed-cost assets.

So there's opportunity, I think—I mean, well, look, it was a great achievement, so I don't want to belittle that. I'm very proud of the team. But there are a lot of things that we still have not implemented, that I think will continue to help drive those metrics, and we should see improvements over time. I think, in Canada, they have some of the highest average grams per square foot. So to me, like there's no reason why we can't get there ourselves.

Andrew Semple

Great. That's helpful. And maybe if you could spend some time talking about wholesale revenues and expectations for that segment of the business in 2025? Obviously, you're doing what you can to improve cultivation yields and introducing new SKUs and brands, so that should be a positive for the

wholesale business. On the other hand, you're also going to be opening more of your own doors and partner stores, and those stores are going to need supply. And I imagine (unintelligible) or cultivation facilities will be supplying a fair bit of that.

So maybe if you could answer whether you think you have the capacity to service those stores while maintaining and even growing your existing wholesale revenues, or whether you're going to have to be a little bit more picky with how you allocate your supply going forward.

Sam Brill

When I look at the long-term objectives, I think that when you have a fixed-cost asset, the key is to drive as much volume through it as you can. And so the only way we're going to be able to sell all that volume is if we have competitive CPG brands, which I think we're doing a great job of improving.

Because the reality is our company has been producing really high-quality products, but we've been putting it in packages that, just frankly, don't reflect what's in them. And I know that sounds sort of like—I think just we grew very fast. Right? And so these are just things that kind of happened.

But now we're taking that step back. We have to think like a CPG company and have the products reflect what's in—like the packaging reflect what's in them. So that's a key driver of what's going to—we need the pull on both sides. We need it on the wholesale side, but we also want to control as much of as we can from the retail side. So it kind of—it's a nice, balanced business. But we need to do well on both sides. Right? We have to be really good retailers and be consumer-centric.

But the consumer-centric part also flows through on the CPG side. We have to create products that are competitive, innovative, and things that consumers want. And that's what we're focused on. That's what these refreshed SKUs look like. And that's what some of these new product launches are going to continue to look like. And we're going to try to be leader in every one of our markets when it comes to

that innovation and production. So that's the way we see the best use of that fixed asset to drive returns for shareholders.

Andrew Semple

Okay. Thank you for that, Sam. And congrats again on the quarter. I'll get back into queue.

Sam Brill

Sure. Thank you.

Operator

Thank you. Once again, should you have a question, please press *, followed by the 1 on your telephone keypad.

Operator

Thank you. There are no further questions at this time. This concludes today's call. Thank you for participating. You may all disconnect.