Jushi Holdings, Inc. (Q1 2022 Earnings)

May 25, 2022

Corporate Speakers:

- Michael Perlman; Jushi Holdings Inc.; EVP of IR
- James Cacioppo; Jushi Holdings Inc.; Founder, Chairman & CEO
- Edward Kremer; Jushi Holdings Inc.; CFO

Participants:

- Russell Stanley; Beacon Securities Limited; Research Division, MD & Research Analyst
- Bobby Burleson; Canaccord Genuity Corp.; Research Division, MD & Analyst
- Ty Collin; Eight Capital; Research Division, Analyst, Consumer & Healthcare
- Andrew Semple; Echelon Wealth Partners Inc.; Research Division, Special Situations Associate
- Glenn Mattson; Ladenburg Thalmann & Co. Inc.; Research Division, VP of Equity Research

PRESENTATION

Operator^ Good morning. My name is Towanda, and I will be your conference operator today. At this time, I would welcome everyone to the Jushi Holdings First Quarter 2022 Earnings Conference Call. Today's call is being recorded. I will now turn the call over to Michael Perlman, Executive Vice President of Investor Relations. Thank you. Sir, please go ahead.

Michael Perlman^ Good morning. Thank you for joining us today for Jushi Holdings Inc. First Quarter 2022 Earnings Conference Call. Joining me on today's call are Jim Cacioppo, Chief Executive Officer, Chairman and Founder; and Ed Kremer, Chief Financial Officer.

This morning, we issued a press release announcing our first quarter 2022 financial results. The press release along with the presentation that accompanies this call are available on our website under the Investor Relations section and filed on SEDAR.

Before we begin, I'd like to remind listeners that certain matters discussed in today's presentation or answers that may be given to questions asked could constitute forward-looking statements within the meaning of Canadian and United States securities laws, which, by their nature, involve estimates, projections, plans, goals, forecasts and assumptions. Actual results could differ materially from those anticipated in these forward-looking statements.

The risk factors that may affect actual results are detailed in Jushi's MD&A and other periodic filings and registration statements. These documents may be accessed via the

SEDAR database. These forward-looking statements speak only as of the date of this call and should not be relied upon as predictions of future events. With that, I would now like to turn the call over to Jim Cacioppo, Chief Executive Officer of Jushi.

James Cacioppo^ Thank you, Michael, and thank you, everyone, for joining our call today. This morning, I would like to take a few minutes to provide an overview of our first quarter 2022 performance and review our recent operational achievements. I will then turn the call over to Ed, our Chief Financial Officer, to review our financials in more detail before providing an update on our 2022 outlook. A question-and-answer period will then follow.

Let's begin with an overview of our financial performance for the first quarter of 2022 on Slide 5. In the first quarter of 2022, our revenue increased 49% to $62 million compared to $42 million in the first quarter of 2021. The year-over-year increase in revenue was driven by the expansion of our retail footprint from 17 to 29 stores, the acquisition of Nature's Remedy of Massachusetts, a vertically integrated single-state operator, and increased wholesale sales at our Pennsylvania and Virginia grower processor facilities.

On a sequential basis, however, we experienced a 6% decline in revenue. Like many of our peers, we were not immune to the usual seasonal slowdown in consumer activity in the first couple of months of the year after a burst of activity in December related to the holiday season.

Additionally, there were 3 other factors: one, macro headwinds such as increased inflationary pressures likely began affecting consumer spending; two, regulatory delays impacted the expansion and sale of product offerings in select states, including the distillate vape recall in Q1 in Pennsylvania and the delayed rollout of hydrocarbon products in Pennsylvania due to a very slow regulatory process; and three, temporary store closures related to the lingering effects of the pandemic and many Midwest and Northeast snowstorms have affected our sequential performance.

Moving to Slide 6. Despite the headwinds that impacted our top line performance, I'm pleased to report that we have improved gross margins and reduced our operating expenses in the first quarter of 2022 as compared to the fourth quarter of 2021, an indication that we have begun to successfully execute upon our cost-saving initiatives that we announced on our previous earnings call.

As reported during our last earnings call, at retail, we optimized our labor model, including compensation, staffing structure, scheduling and zoning. We also completed a vendor and product rationalization for our retail shelf space which has resulted in better pricing and promotions for our patients and customers, along with increased margins at the store level. Moreover, we increased oversight, tracking and reporting at all levels.

For the full year, we are targeting $4 million in savings driven by labor optimization and vendor negotiations. At our grow processor facilities and as part of the Jushi production system, we are continuing to monitor all resources and materials through a set of

approximately 25 KPIs. We also have value engineered packaging in certain products, which has resulted in fewer materials used and lower cost to produce.

Furthermore, we have centralized procurement and launched a series of strategic sourcing tools. For the full year, we are targeting that these initiatives will result in approximately $12 million in total savings.

And at corporate, the build-out of our executive and management team is largely complete with the exception of 1 more senior hire to support our wholesale business and a few more mid-level and junior accounting and IT roles as we improve our IT infrastructure, expand our cost accounting capabilities, transition to GAAP during 2022 and complete the securities registration process in the United States.

In summary, I'm encouraged by the progress we have made during the first quarter as we further rolled out several cost-saving measures, continue to build out our growth process or operations in Pennsylvania and Virginia to capture the vertical margin in both of these states and increased growth through acquisition to further leverage the substantial corporate overhead required to run a best-in-class public company, operating a highly complex business in the highly regulated cannabis industry.

Adjusted EBITDA declined slightly by $400,000 to $1.1 million as compared to the fourth quarter of 2021 due mostly to the sequential mid-single-digit percentage decline in revenues. Ed will cover this in more detail later on in the call.

I would now like to highlight our operational achievements over the next few slides. Let's begin on Slide 7. In the first quarter of 2022, we established our fourth vertically integrated state-level operation of Nevada with the completion of The Apothecarium acquisition. Apothecarium Nevada represented our first dispensary in the state. (technical difficulty) discuss off the Las Vegas strip, approximately 20 various popular resorts and attractions, and next to initiative 100,000 community that does not allow cannabis sales.

(Technical difficulty) momentum in Nevada (technical difficulty) with the completion of the (technical difficulty). The acquisition adds 3 retail dispessories, a 27,000 square foot (technical difficulty) and a 13,000 square foot processing facility to our existing Nevada footprint.

New lease operating dispensaries are located in Las Vegas, (technical difficulty) Las Vegas Strip situated directly behind the iconic Venetian luxury hotel and Win Resort and Casino and (technical difficulty), a premier destination mountain, which sees approximately 15 [billion] tourists per year.

Additionally, in the next week or 2, we expect to open the third licensed retail dispensary owned by New Leaf that is located directly on Las Vegas Boulevard. This location expands our operating Nevada dispensary network to with 3 of those stores located adjacent to were in the high-traffic Las Vegas Strip area, which brings in over 42 million visitors from across the globe each year.

With the addition of these high-quality assets, we look forward to further executing our Nevada strategy, which includes expanding our growth process or operations to further serve this expanding retail footprint and potentially growing our wholesale business in one of the largest cannabis markets in the United States.

Continuing on Slide 8. In the first quarter, we also launched our full suite of cannabis products and brands in Massachusetts. Our flower brands, The Bank and Sèchè, the first to make their debut in the Commonwealth. And next, our vaporization cartridges and Jorg concentrates line. The lab and our edibles line technology will launch in the third quarter, subject to regulatory approval.

The initial launch of our brands and products are now available for purchase at our Tingsboro and Milburn Nature's remedy stores, and we have plans to also distribute them across the over 200 licensed dispensaries in Massachusetts. We just launched this wholesale business in the late fourth quarter, and we are now in 62 license pessaries thus far.

Additionally, we expect to bring our medicinal line neuro plus medicinals to patients and consumers in the Commonwealth in the third quarter, subject to regulatory approval. Since the rollout of the brands and products Consumer feedback has been extremely positive, and we look forward to continuing to drive market share and increase wholesale activity as our best-in-class products gain traction in this rapidly maturing adult-use market.

Moving to Slide 9. Our expansion projects at our grower processing (technical difficulty) and our cultivation facility in (technical difficulty) Phase 1 expansion, which will build (technical difficulty) facility from (technical difficulty) remains on track and expected to be operational by the end of the second quarter.

In the beginning of the second quarter, we only had 1 operating room but commenced planting 3 new rooms early in the quarter and expect them to begin generating revenue by early Q3 of this year. We also expect to plant 2 new rooms by early Q3 and and expect to see revenue from these new rooms by the end of the third quarter or early fourth quarter. The total will eventually be 7 event as 1 is a bit delayed.

At the end of the second quarter, we expect to complete Phase 1 of the build-out of our Pennsylvania facility, which will expand the facility footprint from 81,000 square feet to 123,000 square feet and begin generating revenue in the fourth quarter of this year. This expansion will more than double the number of grow rooms in this facility from 4 to 10 by the end of the year.

In addition, we began to plant new genetics for the first time since our acquisition of the facility from goodness growth Holdings, formerly known as Vireo due to regulatory change in 2021 that allowed us to update our genetics from a seriously challenged genetic portfolio inherited from the previous owner.

Let's move to Slide 10. In the first quarter of 2022, we strengthened our balance with the closing of a nonbrokered private placement for approximately $14 million from very sophisticated and seasoned cannabis investors, signaling sustained confidence in Jushi's growth trajectory and strategic vision.

Moving to Slide 11. In the first quarter, I'm extremely proud to report that Jushi was recognized by the Globe and Mail for its 2022 Report on Business Women Lead Here initiative, and the annual editorial benchmark Denim Best-in-class Executive Gender Diversity, maintaining a diverse and inclusive workforce across our business is core to our operating philosophy as we scale, and we look to continue to lead by example, as the industry tours.

Let's move to Slide 12. I'm thrilled to share that in just the last 2 weeks, we have had several very exciting developments. First, we were officially awarded the provisional medical retail license from the Ohio Medical Marijuana Control Board, which establishes our fifth vertically integrated state level operations and increases our permitted licensed retail footprint to 40 dispensaries nationfly.

The license is designated by Clermont County, Ohio, home to over 200,000 residents and located just 17.5 miles east of Cincinnati in the tri-state area, surrounded by various popular local landmarks, attractions and parks.

The dispensary will operate under the BEYOND/HELLO retail brand, and construction is expected to begin in this summer with the opening to take place by Q1 of 2023, subject to regulatory approval. Becoming a vertical business in Ohio is key to earning our desired operating margin.

Second, we also expanded our retail network with the opening of BEYOND/HELLO Grover Beach California, marking our 32nd retail location nationwide, and our (inaudible) in the Golden State. For the balance of the year, we expect to open an additional 4 stores, including 3 in Virginia, with 1 being opened in the second quarter and 2 more locations to be opened in the third quarter. This will bring our total Virginia store count to 5. And we also expect to open an additional store in Las Vegas in the second quarter, bringing our total Nevada store count to 4.

At year-end 2022, we expect to operate a total of 36 retail locations nationwide. Year-end postwork count is down from our previous guidance of Gate due to the delayed openings of our stores in Culver City, California and Ohio due to slower-than-expected regulatory processes.

And third, we also launched exciting new innovative products in Pennsylvania after receiving regulatory approval following a 6-month delay. From our award-winning brand, The Lab, comes our first solvent-less live rosin extracts, now available for purchase in the Commonwealth.

The premium product line includes live rosin vape cartridges and jared concentrates, formulated using some of the most innovative, proprietary extraction technologies that capture the full essence of the whole premium flower. Additionally, in April 2022, we began producing vague from internally derived terpenes in Pennsylvania to fill the product format void that was left due to the Pennsylvania recall.

Throughout the summer, The Lab, solvent-less live rosin line is expected to launch across our footprint in Massachusetts, Nevada and Virginia, pending regulatory approval. We are very happy to introduce this new line and remain at the forefront of product innovation as demand for solvent-less increases as the industry matures and more markets transition to adult use.

Before I ask Ed to review our financial results in more detail, I would like to applaud the Commonwealth of Virginia for taking a critically important step in modernizing its meta-click can of its program. Through a variety (technical difficulty), including the removal of patient registration process, is making cannabis products more accessible and affordable to patients across Commonwealth.

Jushi's expansion of its retail network in Virginia to 6 stores and the expansion of the core processor facility is well timed to take advantage of both this improving medical law and the already pass law allowing adult sales in 2024. With that, I'll now ask Ed to review our financial results before we discuss our 2022 outlook. Ed?

Edward Kremer^ Thanks, Jim, and good morning, everyone. Before getting started, I would like to remind everyone that the results that we'll be going over today can be found in the soon-to-be filed financial statements and MD&A for the quarter ended March 31, 2022. All results are stated in U.S. dollars. I'll now begin on Slide 14.

As Jim previously mentioned, revenue in the first quarter of 2022 increased 49% to $62 million compared to $42 million in the first quarter of 2021 and declined 6% from $66 million in the fourth quarter of 2021. The year-over-year increase was primarily attributable to the build-out of our retail store footprint, the Nature's Remedy of Massachusetts acquisition, along with increased wholesale sales in Pennsylvania and Virginia.

On a sequential quarterly basis, the decrease in revenue was driven primarily by seasonality, macro headwinds, including a likely reduction in discretionary spending due to inflationary pressures, regulatory delays impacting the expansion and sale of product offerings in select states, including the recall of medicinal products and the delayed rollout of hydrocarbon approved products in Pennsylvania and temporary store closure related to spikes in COVID cases and snowstorms in a few of our markets.

Moving to Slide 15. Our adjusted gross profit was $26 million in the first quarter of 2022, a 33% increase as compared to the first quarter of 2021. On an adjusted basis, first quarter 2022 gross margin of 41% increased approximately 30 basis points as compared to 40% in the fourth quarter of 2021.

The increase in gross margin was primarily driven by margin improvements in Pennsylvania, partially offset by an increase in promotional activity at retail in Illinois and Massachusetts and pricing compression in wholesale as the company continues to build out its brands across state markets.

Operating expenses in the first quarter of 2022 were $37 million, an $8 million improvement as compared to $45 million in the fourth quarter of 2021. Excluding accounting period and adjustments and the impairment of our European joint venture and the vape (inaudible) process business in the fourth quarter of 2021, along with the increase in share-based compensation on a sequential basis, operating expenses improved by approximately $300,000, driven by the initial impact of the cost-saving measures we implemented in the first quarter of 2022 that Jim referred to just a few minutes ago.

For the first quarter of 2022, adjusted EBITDA was $1.1 million as compared to $1.5 million in the fourth quarter of 2021.

Adjusted EBITDA was negatively impacted by lower sales volume combined with continued infrastructure and headcount investments that were completed in 2021 that are expected to have a transitional impact on our 2022 results, partially offset by improved gross margins. As we move into the back half of the year, we expect our top line results to drive improved operating leverage in the business. First quarter net loss was $14.3 million or $0.08 per diluted share.

Now moving to the balance sheet on Slide 16. We ended the first quarter with $76 million of cash and cash equivalents on the balance sheet, including the $14 million private placement that occurred during the first quarter of 2022. On a debt-free basis, our working capital was $38 million.

As of March 31, 2022, we had approximately $147 million principal amount of total debt, excluding lease and property plant and equipment financing obligation. Subsequent to the first quarter, we drew down an additional $25 million for the 2 Nevada acquisitions, resulting in current availability under the acquisition facility of $35 million with the ability to further increase the capacity of the facility by an incremental amount of up to $25 million.

We are also in discussions with a small group of lenders in regard to refinancing our existing senior secured notes. We expect to refinance a total outstanding balance of approximately $75 million in the third quarter of 2022, well in advance of the maturity date in mid-January of 2023.

Lastly, the company paid $29 million in cash capital expenditures, of which $10 million was paid for CapEx accrued at year-end 2021. These reflect investments related to the expansion and optimization of our grower processor facilities in Virginia, Pennsylvania and Massachusetts as well as the build-out of our retail store footprint.

Given the uncertainty around timing of regulatory approvals and construction delays for the full year 2022, we still expect to incur approximately $40 million to $60 million of new capital expenditures. As of May 25, 2022, our issued and outstanding shares were approximately 195 million, and our fully diluted share outstanding were approximately $281 million. And with that, I will now turn the call back over to Jim to discuss our 2022 outlook.

James Cacioppo^ Thank you, Ed. Let's take a look at our outlook on Slide 18. We are modestly revising our fourth quarter 2022 annualized revenue and adjusted EBITDA guidance to be between $340 million to $380 million and $60 million to $80 million on an IFRS basis, respectively, from $375 million to $425 million and $70 million to $90 million.

Given the weakening macro environment as well as the aforementioned regulatory delays in supply chain issues, we will be more conservative about our objective and ramps. While viciously expected some additional M&A activity contributing to the fourth quarter growth, we now expect growth for the remainder of the year to be 100% organic without any revenues from new acquisitions for the remainder of the year as we continue plant store openings and bring online more grow rooms from our expanded Pennsylvania and Virginia facilities, which are key to increasing our margins.

Projected revenue growth from these openings, especially in Virginia as well as incremental wholesale production, will likely drive continuing sequential top line growth, but that may be tempered by competition for share of the consumer wallets stressed by inflation as well as regulatory delays that slow introduction of new products and new stores to market.

Other potential risks to the guidance include competition in Pennsylvania as companies increase their footprint to prepare for adult use as well as continued resurgence of the illicit market nationwide as regulators turned a blind eye to this very large market and very often pursue decriminalization prior to allowing adult use, which only exacerbates the issue. I would note, however, that when alcohol prohibition ended, there was a very large illicit market that disappeared over time.

Although we have slowed down the pace of acquisition activity, due primarily to the dislocation of the equity markets, specifically in the cannabis equity markets, we believe the medium- and longer-term acquisition opportunities remain bright for the Jushi platform. Many sellers appear to be looking for a home for their quality businesses and view Jushi as a very strong alternative and an environment of decreasing alternatives due to somewhat rapid industry consolidation and limitations on license ownership in many of the most attractive states.

In the short term, our substantial capital expenditure investments in both Pennsylvania and Virginia should prove to be a very wise allocation of capital resources and management focus. The organic growth rate of Jushi is expected to continue to outpace

most companies we can acquire making accretive deals difficult to achieve. As usual, patients should pay nice dividends for our shareholders.

I am incredibly encouraged by our team's dedication to operational execution and remain confident in our ability to achieve accelerated growth and profitability throughout the remainder of the year. As demonstrated by our increased cost savings in just 1 quarter, we are putting in significant work, optimizing our resources and making important investments where needed to execute on our strategic initiatives and build out our business for long-term sustained growth.

We believe we are creating one of the most robust and exciting platforms for growth in the U.S. cannabis industry, and I am now more than ever exceptionally confident in the future of our business. As always, I would like to thank our Jushi family. We would not be where we are today without their continued hard work and dedication. With that, I would like to pass it back to the operator to open it up for questions. Operator?

QUESTIONS AND ANSWERS

Operator^ (Operator Instructions) Our first question comes from the line of Russell Stanley with Beacon Securities.

Russell Stanley^ First on Virginia, obviously, great to see those that regulatory change and eliminating the patient cart requirement. Just wondering, once that's out of the way, that seems to have been the biggest impediment to growth in that medical market. So once that's out of the way, I guess, what are some of the other hurdles that you see to growth, if any? And if not, I guess, do you otherwise see this being kind of the last step to this market really becoming what it should be given the size of the states?

James Cacioppo^ Russell, thanks for the question. Yes, so the other hurdles to growth, which I think are also solving very timely, I alluded to in the prepared comments are supply of the product. And our expansion, I guess, may be lucky or whatever, it's actually a few months late. I would point out, we thought we'd have this done, but supply chain issues and all the construction issues out there with too many people doing the same thing, not in cannabis, but generally building up factories.

We're a little late, but it turns out to be very well-timed as we're bringing on these grow rooms, as I indicated in my prepared remarks. So the supply would have been a limitation, but we feel very good.

We've already planted the rooms. And so -- and we feel really good about our management team in Virginia and the employees in Virginia. They've really been very good performers for Jushi. So the growth processor should perform as expected and has taken a lot of senior management's time. So I would say execution there and which we are confident of would be one hurdle just to supply.

And the second is getting those stores opened, and I've outlined that. So we have a store opening in the late second quarter and 2 in the third quarter. So any delays may slow down because they're pretty far apart. There's only 5 stores that we have plan this year. We have 1 more that we'll add next year. And -- but I think just getting that all together will be execution, I'm very confident that we'll get it in the time frame required.

And then the third hurdle would just be us getting the right pricing strategy, given the limitations in the market of the previous medical program. Just to point out to put this in perspective, we've had 3 straight years of regulatory change in Virginia, including, by the way, adult use coming up, and I'll comment on that in a second, but 3 years in a row.

So the first year, we added 5 -- the regulators added 5 stores per license to the existing one. It was one of the key changes and reduced what we thought was a THC -- could be alluded as a THC cap. And then the second year, they did the adult use and they add flower with 2 of the big many more.

And this year, the patient cards reducing the CBD requirements, which for some users is a turnoff. And now, hopefully, we're going to be allowed also to sort of do more effective marketing strategies because there were severe limitations on that as well.

So these improvements in the program. And by the way, the other thing we can do now with hydrocarbon, which gives you the full suite of products. Without hydrocarbon, you don't have the full suite of products that adds a lot of different items. So all that's happening, Hydrocarbon cope a little later for us because just the way the capital program is done here with Jushi.

But all of that regulatory change has turned this market into a really, really good market. But before it was somewhat constrained by the number of patients and these cards and just it was -- so we all -- all of us had a lot of competing capital projects. Jushi went the way of opening up like 30 stores in 2 years, and we went slow on building out this facility, which is the warehouse was 93,000 square feet, but a lot of it was unbuilt.

So what that means is we had very high prices in Virginia, the average (inaudible) in Virginia was the lower tier was $55, the higher Tier, $70. And we believe we need to bring that down as supply increases and we will, and we think that will stimulate demand. That's a good thing. Those are still very, very high prices when we bring it down. We think our strategy will be somewhere between $40 and $60 for those same depending upon the quality level.

So those are the things we're doing to execute in Virginia, stimulate demand and get people into the stores, and we're hopeful, and I think that's a big aspect of the growth in Q3 and Q4 for Jushi.

And I also want to point out, Russell, since you gave me the opportunity, so I think people are forgetting that there's an adult-use program authority to approve. And we are confident that starting on January 1, 2024, we will be able to sell adult-use cannabis in

the Commonwealth. We look forward to continuing to work with Virginia legislators and regulators to put a commercial adult-use cannabis program in place prior to that date. I think people are forgetting that. The law has already passed.

Russell Stanley^ That's excellent color and very much appreciate it. Maybe just 1 more question, and I'll get back in the queue on Pennsylvania. Just wondering where your level of confidence or optimism is with respect to legislative progress on adult use relative to where your thoughts were be it 3 or 6 months ago.

Are you more confident, less confident -- what are your thoughts there? And I guess related to that, are you therefore, I guess, closer to making a final decision on the next leg of expansion of Scranton that I think was just depended on your view of progress there?

James Cacioppo^ Yes, yes. So in terms of Pennsylvania, I think that there's been a lot of progress made. And I think in the next few weeks, the press will start -- it's a public process, right? So you're going to start reading about it. And you're going to look at the bill, you're going to see all that stuff, that's what I think is going to happen.

We think the industry has been educating and doing a very good job of educating the legislators and the government officials about how this works. There's good examples out there of programs to bring to their attention. And we believe there's some good momentum in Pennsylvania. And we think you're going to start to read about that, and the process will take place fully open. It's a public process, starting pretty soon. And the chances of it going through, these things are always close calls.

I would note that there's articles in Philadelphia every day about all the cannabis consumption getting drawn into this New Jersey facility that I think Cure pointed out, is going to run rate of $100 million. That is -- a lot of that coming out of Pennsylvania, if you look where that dispensary is.

So these are good things. We're not seeing a lot of that in our system, to be honest, maybe we'll see a little bit because those people don't have medical cards. The prices are probably better in Pennsylvania. Those are people who don't want to get cards. There's a lot of reasons if you're citizens of the United States, you don't want to get a card. Our guns is one of them and insurance and jobs and all these types of things.

So it's -- they're already losing tax revenues since New Jersey did it, I think there's going to be some good momentum, but we'll see. I think there's a higher probability. We see something in Pennsylvania, then we see the banking act although that's gotten a little more interesting as of late. But I think there's a higher probability of Pennsylvania than a federal sort of banking act.

Operator^ Our next question comes from the line of Bobby Burleson with Canaccord.

Bobby Burleson^ So just curious about the new guidance. And maybe if you don't mind, reviewing what your expectations were for seasonality with the previous guidance? And whether or not there's any change in seasonal expectations in the new guidance?

James Cacioppo^ Yes. Thanks, Bobby. So that's a good question. The new guidance is a little -- we were pretty specific on some of the big pieces. So you had 2 stores that in our previous guidance, we thought we'd have 38 stores open in the fourth quarter, now it's 36. That's just pure regulatory delays. I think we were excavating in Culver City. We have to excavate for some sort of like ancient artifacts or something in a site that was owned by Exxon and was a Superfund site. So somehow, I mean, it's crazy. So like who can expect that, right?

And then the other one in Ohio, that one was just -- I'm taking a little bit longer time. We knew we had the license, but they just awarded it. That could have been weeks or months, it turned out to be a month. So that's -- those are the types of things.

Also, we did have a series of delays with our construction related to the boom that we've had the investment boom we've had in the United States and also the supply chain issues affecting things like our humidification and our air handling and all these types of things. So there's very specific equipment that was short.

And then we had the fire department of Virginia decided to do some incredibly -- there was an anti cannabis guy, in my view, of running the process there, and we took a few months there. So that delayed our wholesale business. So we we've been very clear about that as we didn't have -- we're not going to have that product. It would be a few months later having that product because of these kinds of delays.

And then the third thing is acquisitions. I think -- I believed I would have executed on a Massachusetts deal by now. It fits right in. We have a nice growth processor. It's one of the things we want to do. That's just an example of things we thought we would do, maybe in the Nevada deal, revenue deals, not (inaudible) deals. So we thought we'd have some revenue deals after maybe a new state.

But given the dislocation in the capital markets, it's not very -- it's a very, very tough time to get deals done. I mean seller expectations are coming down dramatically, but they have further to go. They started very high because they're always off anyway by a factor of 2x what they're worth.

And then it takes them -- if they can do a deal with us, it takes them 6 months to explain, and usually their projections are higher, and then they miss them and then we get to a price. Well, in this case, you've had that usual process going on. And on top of that, you have a market where our value wage has gone dramatically. The institution valuation has gone dramatically. You could see why we want to sort of sit and wait.

And in terms of seasonality, which is a good question, I think I'm a little confused by other CEOs not talking about it as much as I do. I just think that January and February are

clearly the slowest months, especially if you have a Northeastern and Midwestern base business, like we do. Maybe if you're in Florida and Arizona, they're good. Maybe that's why they don't talk about it is because they do better in Florida and Arizona as you get these tourists coming down.

But for Jushi, given our locations in the Northeast, we get a lot of the winter weather, people slow down. But also throughout the whole country, what you see, which again could be offset by all the snowbirds coming in Florida and Arizona, if you're like a true leave and you're in those states, and they did well in the quarter, right?

So they're -- they have the concert trend given their sort of big, big presence. But if we're in Northeast- or Midwestern-focused thing, those states take COVID more seriously. We have this Omnicom outbreak, and we had to close doors this year. And also, we had to -- and we didn't plan for that. We also had a very unusual amount of snow. I think that's pretty well documented out there.

And remember, Illinois, Pennsylvania, Massachusetts, they get a lot of snow. And so there was an excessive snow, so we had to close doors more than we would have expected. So we had more than just seasonal stuff this year. And then -- but absolutely, did we get seasonality wrong? Yes, because we were growing so fast, it didn't matter. And so this year matter.

But if you look at the change between sort of the fourth quarter and the first quarter, there's a lot of -- with the bakery call, we took bakes off the shelf. We had a very robust vape business, both wholesale and retail of selling the lab vaps. We -- our hydrocarbon facility, which is fully built, the Pennsylvania regulators, who resigned in February, a bit related to the vape recall, and maybe the governor is displeasured, I don't know, I'm not in the government.

But I think that we had to wait. We weren't able to do hydrocarbon products because they slowed that down. We're moving a little bit slow on (inaudible) less of figuring that out. Not I mean, expected, that was not unexpected. And then we lost all that revenue related to vape. So if you just add that back, it's not at where we ended up. So do I think seasonally, yes, I think January, February is the obvious weak ones. I think December is the obvious strong one.

April is a little bit stronger probably than May because of [420] . But those are the kinds of things. But the summer is a good period, and the fall is probably not as good as the summer. And do we calculate all that in our budgeting process this year, we'll probably do a better job next year.

Bobby Burleson^ Okay. Great. And then I guess just understanding the illicit market, how that's impacting things? Is that conspiring in any way with consumer price sensitivity with inflation (inaudible), is that making -- is that exacerbating the challenges that the illicit market is placing on the regulated market? Or are they independent in your mind?

James Cacioppo^ Well, thankfully, the CEO of Jushi doesn't have a deep view into the illicit market, thankfully for our shareholders. So I can only suspect what's going on, right? And so what it feels like to me, and I've been investing for 30 years is running multibillion-dollar hedge funds. And so paid at that time to suspect and sort of make investments based upon your intuition analysis.

So with that little footnote, I believe that it's pretty obvious that the illicit market has made inroads. I think there's 2 major reasons for that. One is the decriminalization. If you look in Virginia, politicians aren't very happy. The fact that it was some of the politicians. I think that need the politicians have figured out decriminalization in July of 2021, right, is when it happened, and in adult use (inaudible) do that in ', that stimulates (inaudible), right? Because all a sudden you're getting a slap on the wrist like what did they pay, a few hundred dollar, $1,000. They have very good margins.

So we've already seen, by the way, in Virginia, they've increased enforcement just recently. It's going on. I don't want to go into too much detail, but that's happening. Some day very happy that this is going on. If you look at New Jersey, it's very clear uptake after decriminalization and had that long delay.

And if you look at the prices in California, if wholesale prices or you're down like 50%, right? That just means there's just it appears to me that what goes on is just the distributors that take on the regulatory risk in California. So even maybe some people sell Lilly, they don't know where it goes. And all of a sudden, that goes across the country. And the other thing is a border shut during COVID and the borders opened up. So it's pretty obvious.

And -- but my point is that's the opportunity, okay? Does that cause the industry to have a top of the inflation on top of gasoline, if you're paying $100 at the pump and you used to pay $60 at the pump, (inaudible) got to come from some place. If your food's up, there's a lot of consumers that have to cut back some place. I don't think cannabis is (inaudible) nor do I think beer alcohol. I think those are in the top 5.

But you need to cut back, we don't take credit cards for obvious reasons. And so you can't put it on your credit card. So I think that's an issue, right? And what's going on California, nobody talks about this because is really generating much profitability out of California, but they're trying to reduce the taxes on cultivation to make that legal market better, which will push legally illegal into the legal and everybody there's a legal market out there, which goes on.

So the answer to the question is absolutely, but I would note, it all goes away once the federal government does what it needs to do, once we (inaudible) adult use, it would start (technical difficulty). And then it'll be more like in Massachusetts to Nevada. By the way, in those 2 markets, you absolutely there's more to more of a history in my mind in those 2 markets of the illicit market just feels that fact now. But you kind -- if you're in the

industry, you can feel it and you can see going into list market, particularly the 2 markets. So that's my answer.

Operator^ Our next question comes from Ty Collin with Eight Capital.

Ty Collin^ I guess the first one, there's some news in Illinois recently about those (inaudible) retail license may be getting at least a little sooner than to hear your thoughts on that changes a opportunities at all?

James Cacioppo^ Yes, that's a good question. So the is we were excited to read about that. We don't know probably much more than you, but it sounds good to us so far. I would just look into that. yes, I did sign some LOIs to buy some properties this week. So I am a little bit more bullish.

And so yes, I mean, listen, I think 1 of the things with Jushi that I've said on other conference calls, I'm not saying on this conference call because I pulled back on the M&A activity. But it's not hard to imagine Jushi with 10 dispensaries and being vertically integrated. And the number of people who actually can buy those dispensaries, right, with a good stock and some cash.

Remember, we have this acquisition facility. The of companies that can do that are very, very small. And you can do that math. You can just actually look at who's maxed out and who's not. And then the grow processor capability, had $80 million of sales.

So I mean, the value of a growth processor to us is quite high going from 80 putting more dispensaries and then going 50% of our own product. So just think about desheet the amount of dilution. We have a pretty good track record of deals last time I checked. So look at the dilution that we would take, and we're very creative in the way we would structure a deal in a down market, if there were potential sellers.

But if you look at the dilution, we would take, I think you would have -- you would people be wise to give us the benefit of the data as a management team, given our track record and you look at juice with 10 stores being vertically integrated with Pennsylvania, Virginia, Pat Massachusetts the body, that's pretty powerful. Ohio, by the way, I'd point out -- the laws are -- we can go much slower. We can go much slower in Ohio because the laws are kind of different, let's say, each year, you can expand your production facility.

And so what we have now to support only 2 dispensaries, we already won 1 we'll probably buy 1 and then not too distant future, but it won't close until next year and get open until probably middle end of next year. But then we can't expand again and bringing that online for another year to service more -- so we'll go slower, which will have the benefits price-wise for us. So each 1 of these states is a little bit different from how you approach it from an M&A perspective. And given the capital markets, you have to really pick your shots.

Ty Collin^ And just for my follow-up, could you update us on the New Leaf acquisition, now that it's closed, anything surprise once you got to look under the hood there. Is that business still on track to do the $13 million or $14 million of EBITDA this year that would have been implied by the 4.5x multiple in your original guidance?

James Cacioppo^ Yes. So I'm sorry, you stated that, that was the New Leaf acquisition, right?

Ty Collin^ That's right.

James Cacioppo^ Yes. I would say it's too early to tell. We just went in there. We just closed a deal in April. I would say, what I can say is I ask my operating team, they like to grow, the more they -- so when you buy these facilities, through acquisition, one of the bigger risks as you find things in the gross that aren't what you thought they were so far so good there. There's -- we're opening that store.

So when you open a store, you're not sure what it's going to do and how it's going to do. And there's just -- we have models that we do and we think we are so smart, and we know this, but we don't always get that right. So there's a lot of factors there.

But I will say on the EBITDA side, I was -- we have this a procurement team, and one of the things we put in place is our vendors have to match our prices in our acquisitions, our next order, right?

So let's say, it's our base supplier, our packaging supplier, whoever it is, so given our purchasing power, given -- listen, we're doing very significant revenues and we buy a lot of stuff, and we have a guy from Anheuser-Busch, ABN, very famous for its cost controls, running this team. And so from looking at cost savings immediately on that, we think those are $1 million annualized. That's something than we hadn't built into our models. So there'll be some pushes and takes but it's too early to tell.

Operator^ (Operator Instructions) Our next question comes from the line of Andrew Semple with Echelon Capital.

Andrew Semple^ A couple of questions here on the gross margin. First one is I just want to ask on the Nevada footprint, how that might compare to your consolidated gross margin profile in that state? And whether there might be some latent gross margin enhancement opportunities with vertical integration in the coming months?

James Cacioppo^ Okay. So yes, so in terms of gross margin. Okay. So first of all, for the company-wide, we talked about in the prepared remarks, $12 million of savings at the grower processes, which is a target. If we got $10 million, I'd be overjoyed. If we get -- we could get higher than $12 million. But it's -- this is when you hire a COO out of Anheuser-Busch, this is how you run a business.

And I keep telling people like they're worried about pricing, pricing going down is a good thing because it stimulates demand, it gets rid of the black market, but you have to obviously get your cost down. So we will be focused on doing this the gross margin or below gross margin continually, right? And so yes, so in Nevada, I'm not going to go through what our gross margins are there, but I will point out that it's the most vertical operations that we have.

The sell-through of the product through the stores in Nevada, it's the way the market is structured. It's not just us, right? It's just how it is. So the margins on an EBITDA -- even though the pricing is a little lower in Nevada then, let's say, Massachusetts or quite a bit lower than Pennsylvania and Virginia, the prices are just too high to be quite frank. -- even though that the margins are actually quite good because of the vertical nature of that market.

So in terms of gross margin, I told you $12 million for the company, that $1 million I just talked about, that my CEO mentioned to me, that's gross margin. right? So -- and then on an EBITDA basis, there are some things of retail that we do. They do a great job on retail, great employees there. But we have some things at tricks that we do. And so we're looking at some opportunities there as well.

Andrew Semple^ Great. And then maybe if I can turn the conversation to Virginia, you spoke to maybe keeping pace with sales and demand growth in that market might be a challenge for the next couple of months until you get that expanded cultivation capacity online. Is it fair to say you're relying on a fair amount of third-party wholesale product in that market currently. And is there kind of a low-hanging fruit to kind of replace some of that or meet incremental demand growth with some of your own in-house grown products and expand gross margins ?

James Cacioppo^ No, Yes. No. First of all, I think you misunderstood. Our production is coming on right in time for expanded market. So I don't think we're going to have delays. And if we do, that's a wonderful thing because we have lots of production coming on. And if they buy it all at a rapid pace, and we run out fantastic. I think our GTI has done a large expansion, I'm sure if they have some extra, they'll sell to us. And we typically have bought from the third competitor there as well.

So -- but no, we're selling a lot of our own product in Virginia. The problem is a lot of small numbers. It's just a small market because there's 50,000 patients and the patient -- patients can't get (inaudible).

There's 15,000, 12,000, 15,000 15, whatever it is, backlog of patient cards -- so you would think those -- I don't think -- I'm not even sure they're processing those at the Board of Pharmacy. So they'll come into the market, you would think in July some of those right? So -- and then as prices come down, stimulate demand. So it's not easy to predict what's going to happen, but we have plenty of production coming online.

I have confidence in the execution of our team in getting that actually to market. There could be some regulatory delays on new products like hydrocarbons. The Board of Pharmacy has been somewhat deliberate in their process. to a fault in getting products to market. So that's 1 risk that's hard for us to do. But we have a lot of existing products every new strain, I think it's a new product. So there are some hurdles that we have to do with regulators to get things to market.

But the product -- so I would say the delays could be more regulatory in nature. If we have to get like individual products approved, which we do. So -- but when they're not doing cards, and they're not backlog at 15,000 cards we think they should free up a lot of time. One of the issues in this industry is to grow so fast that the regulators are always under staffed -- and so they're diligent in their job. They want to serve the market, but they're just overloaded because nobody expects these markets through the way they do. at the government level.

So I guess what I'm saying is if we run out of product due to production, not having enough, that's a wonderful problem to have. it could there be some regulatory delays in getting certain products to market, which causes it to be more back loaded to the year, that could easily happen. So that's how I'd say it. And no, we're selling a lot of our old product.

Our product happens in Virginia to be the highest quality product as far as I can tell. We grew -- our last grow, we took down, these are rough figures, but it was almost 85 grams per square foot with 25% to 28% potency on our older genetics there. So that's just fabulous. So those are great. And we're not really distributing that dose at wholesale, we're selling those to our customers. And so no, we have a very good product, and we view that to be a to be up to highly vertical state with those kinds of margins.

Operator^ Our next question comes from the line of Glenn Mattson with Ladenburg Farman.

Glenn Mattson^ You may have touched on this a little bit, but I'll ask it maybe slightly different. Just there's a little bit of softness early on in the year due to seasonality as you touched on that already. But then you've kind of made comments briefly that perhaps April was a little bit better than May, given [420] and stuff like that. So I guess I'm just trying to get a deal sense of the tone and direction of the kind of overall picture and demand side that you see it as we kind of go through the year?

And what part of the new revised guidance is basically much of an assumption of an improvement in the overall market backdrop is built into that guidance? And how much is rolling in the new stores like the Nevada acquisition and maybe improvements in Massachusetts and things like that? Just a color there.

James Cacioppo^ Yes. Good question. So I think that the second quarter, clearly, we're going to get back on the trend in terms of growth. And I don't want to get into it because we're not disclosing guidance, but April is a good month. And only [May 20] something

like that, so we have -- we don't have a full picture in May. But I mean, historically, we do know [4 20]. I mean 4 20 is like 2.5 days of sales.

So -- and there's a lot of promoting going on. And the other trick in this business is you drive sales through promotions and -- and so there's a lot of promoting going on in December, around Christmas, people love sales. Everybody is doing sales, right, stimulating demand in December. So yes, so we initially create these strong months. And so we know April's from history is strong -- is one of the strongest months of the year, right?

So yes, I mean I think other people have talked about how second quarter is so far so good. In terms of moving forward, in terms of -- I think we were pretty clear, I know one of our competitors had a call and some people may have missed that. We were pretty clear in our prepared remarks that we're opening a few more stores, 2 less than we thought, right?

So that was part of the guidance coming down. We adjusted our guidance for what we think are these -- some of these consumer headwinds, but we don't know, but we're not -- even if we were economist, last time I checked the economist always get it all wrong anyway. But I happen to be pretty good at this because I read a lot of -- I have a history in economics and finance and all these kinds of stuff. But I know I'm always wrong on this stuff.

But we've adjusted it what we kind of think it is now. I think the risk to that for the economies to the upside or downside, I think it's what you have to make your own opinion about that. And so we can only do -- we can only guess what we see, but there was an adjustment for that.

There's also an adjustment in our projections for the delay in the grower processors getting online. I mean this has been something that we're -- that the fire department issue in Virginia, that we lost 2, 3 months, easy 2 months, likely 3 months. That's kind of -- you just can't model for that, that you have sort of an anti cannabis fire inspector.

And so there's some of the adjustments, again, the acquisitions that we're not going to do like in, let's say, Massachusetts of revenue-producing retail. We're not doing that. I mean, if you look at the capital markets, if we were doing that, you should worry about us. they're going to get cheaper. Their expectations are too high. There's more dispensaries opening in Massachusetts. There's no reason why we should take those kinds of risks at the moment, right? And so those are the reasons.

What's driving our growth in the second half of the year is primarily Virginia in our models is Virginia and the growth of the wholesale business. That's our primary growth factors. And of course, opening the stores is related to that in Virginia, right, because a lot of it is in Virginia. And we have that 1 Nevada store opening. So that's kind of how it looks for us.

Operator^ I'm showing no further questions in the queue. Now I'd like to turn the call back over to Michael Perlman for closing remarks.

Michael Perlman^ Thank you for participating in today's call. If you'd like to ask a follow-up question, feel free to reach out to me at investors@jushico.com. Have a great day, and we'll speak to you soon.

Operator^ Ladies and gentlemen, this concludes today's conference call. Thank you for your participation. You may disconnect.