

MariMed Inc.

Third Quarter 2024 Financial Results Conference Call

Event Date/Time: November 7, 2024 — 8:00 a.m. E.T.

Length: 29 minutes

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CORPORATE PARTICIPANTS

Steve West

MariMed Inc. — Vice President, Investor Relations

Jon Levine

MariMed Inc. — Chief Executive Officer

Ryan Crandall

MariMed Inc. — Chief Revenue Officer

Tim Shaw

MariMed Inc. — Chief Operating Officer

Mario Pinho

MariMed Inc. — Chief Financial Officer

CONFERENCE CALL PARTICIPANTS

Pablo Zuanic

Zuanic & Associates — Analyst

Andrew Semple

Ventum Financial — Analyst

Jesse Redmond

Water Tower Research — Analyst

William McNarland

TDR Research — Analyst

PRESENTATION

Operator

Good morning. My name is Nicole, and I will be your lead Operator for today. At this time, I would like to welcome everyone to the MariMed Inc. Third Quarter 2024 Financial Results Conference Call. All lines have been placed on mute to prevent any background noise.

After the speakers' remarks, there will be a question-and-answer session. If you would like to ask a question during this time, simply press *, then the number 1 on your telephone keypad. If you would like to withdraw your question, please press the # key, followed by the number 1. Thank you.

I will now turn the line over to Mr. Steve West, Vice President of Investor Relations, to begin the conference.

Steve West — Vice President, Investor Relations, MariMed Inc.

Good morning, everyone, and welcome to MariMed's third quarter 2024 earnings call. Joining me today are Jon Levine, our Chief Executive Officer; Mario Pinho, Chief Financial Officer; Tim Shaw, Chief Operating Officer; and Ryan Crandall, our Chief Revenue Officer.

This call will be archived on our Investor Relations website and contains forward-looking statements. Actual events or results may differ materially from these forward-looking statements and are subject to various risks and uncertainties. A discussion of these risks is in the Risk Factors section of our 10-K available on our website. Any forward-looking statements reflect management's expectations as of today, and we assume no obligation to update them unless required by law.

Additionally, we will refer to certain non-GAAP financial measures which are reconciled in our earnings release.

Finally, our fourth quarter 2024 earnings release is tentatively scheduled to be issued after the markets close on March 5, 2025, and our analyst call is tentatively scheduled to be held the morning of March 6th at 8 a.m.

I will now turn the call over to Jon for his third quarter overview.

Jon Levine — Chief Executive Officer, MariMed Inc.

Thank you, Steve, and good morning, everyone. Last night, we reported our quarterly results. They included both year-over-year and sequential revenue growth. Additionally, EBITDA and net income improved sequentially, and we continued to generate positive operating cash flow.

While pleased with the quarter, we continue to face macro and industry headwinds that still pose risk. I'm confident in our strategy to navigate those headwinds, particularly because we're doing well based on our performance versus our peers.

Our revenue gains were once again driven by double-digit growth in wholesale business. Our brands are among the best in the industry, and we continue to increase their distribution.

At retail, we saw a slight decline in revenue. Like every other retail chain in America, we are not immune to economic forces that impact consumer disposable income. While these forces impacted our average cheque, we experienced double-digit, year-over-year transaction growth for the eighth consecutive quarter. Although customers are spending less, we took steps not to only keep our loyal customers, but actually increase our customer base.

We saw sequential improvement in our adjusted EBITDA and net income in the quarter. Further, we've begun to experience the margin improvement we had anticipated.

Wrapping up, we've expanded our brands into new and existing markets. Our revenue continues to grow, and we're seeing early signs of improved profitability and margins from new assets. Everything is falling into place as we discussed for some time. It's just taking a little longer than anticipated.

With that, I'll turn the call over to Ryan for sales and marketing discussion.

Ryan Crandall — Chief Revenue Officer, MariMed Inc.

Thanks, Jon, and good morning, everyone. Once again, wholesale revenue grew both year over year and sequentially. Pound for pound, MariMed owns one of the best brand portfolios in the industry, and the numbers in each of our states reflect it.

Our wholesale business grew 3 percent sequentially to a record \$16.3 million, which was up 20 percent year over year. This marks the ninth consecutive quarter of at least 20 percent year-over-year growth in our wholesale business.

The standout remains Illinois, where we grew sales 19 percent sequentially. Illinois wholesale is already a significant source of revenue, and that's without the benefit of Nature's Heritage flower, which should be on shelves in early 2025.

As you know, we relaunched Betty's into Illinois in January. Illinois has a very mature and established edibles market with 111 edible brands. I'm very excited to report that Betty's has shown the success we anticipated by achieving the number seven-ranked edible brand during the month of October.

In other words, Betty's leapfrogged 104 brands to become a top 10 edible in just 10 months. We've long had our sights on regaining the number one market share position for Betty's, and we are well on our way toward that goal.

We continued taking market share in Massachusetts and Maryland. According to BDSA data, Betty's is now the number one edible in our home state of Massachusetts, and we're absolutely

dominating Maryland, where we actually own the number one edible SKU. In fact, we own the top 6 spots in Maryland and 7 of the top 10.

I can't tell you how proud I am of our brands and our team. Our edible brands continue to be among the best sellers in every state where they're available, and we're looking forward to adding Missouri to that list. We expect sales to start there in time for the holidays.

Our success has always been rooted in making phenomenal products with the consistency and quality that consumers want. We generate buzz and excitement through continuous innovation, differentiation, and expansion to new and existing markets. For example, our Betty's Ache Away Eddies, that we successfully launched last year, is also now our fastest-growing SKU in our Illinois portfolio.

Our marketing team continues to find innovative ways to increase brand awareness. Last month, we relaunched our annual Betty's Loves Boobies campaign for Breast Cancer Awareness Month.

And this month, in recognition of Veterans Day, we initiated Help on the Homefront under our InHouse brand, to help veterans through some of the housing challenges so many of them face.

These are smart, strategic programs that move the needle for our business. More importantly, they're helping us deliver on our mission of improving people's lives every day through cannabis.

With that, I will turn the call over to Tim for his operations review.

Tim Shaw — Chief Operating Officer, MariMed Inc.

Thank you, Ryan. Let me review some of our key achievements. Over the past 18 to 24 months, my team has brought 10 new revenue-generating operations online, dealing with significant regulatory hurdles that impacted our timing.

Along the way, I am pleased to say now that we are actively growing in Mt. Vernon, Illinois, closing that chapter of our story. In total, we've opened or expanded three cultivation facilities, two

processing facilities, as well as five dispensaries during that time frame. If you include our Missouri processing facility, which came online last month, we're building inventory and will begin shipping Betty's, Bubbie's, and InHouse gummies and vapes this month.

With the heavy lift of our recent growth cycle complete, we have begun early preparations to open our second adult-use dispensary in Ohio.

Just as we're always looking for growth opportunities to expand distribution of our award-winning products, we're also hyper-focused on identifying new technologies and process improvements that will ultimately help us increase margins. For example, we've invested in packaging automation that will help us save both time and money.

Before concluding, I want to introduce you to our new CFO, Mario Pinho. Mario brings a deep expertise in public company reporting and SOX compliance, which will strengthen our financial rigour and governance. With his extensive background in strategic financial leadership, he is well equipped to drive our finance operations. His experience is invaluable as we continue to scale our operations and navigate the complexities of a rapidly evolving industry.

With that, I'll turn the call over to Mario for his financial review.

Mario Pinho — Chief Financial Officer, MariMed Inc.

Thank you, Tim. I'm excited to be here for my first earnings call. Good morning, everyone. Last night, we reported third quarter revenue of \$40.6 million, which increased 4.6 percent year on year and 0.4 percent sequentially. Both our year-on-year and our sequential growth were driven by robust growth in our wholesale business, partially offset by lower retail and other revenue.

We reported non-GAAP adjusted gross margin of 42.6 percent, which was down year on year compared to last year's third quarter gross margin of 44.5 percent, and down slightly on a sequential basis.

The year-on-year and sequential change was due primarily to inflation on input costs, labour, and start-up costs associated with our new assets in Illinois, Maryland, and Missouri.

We reported adjusted EBITDA of \$4.7 million, which declined versus our \$6.1 million in the third quarter of last year, and increased sequentially versus a second quarter of \$4.4 million. The year-on-year decline was primarily due to lower gross margin, as well as increased spend to support our strategic growth initiatives. The sequential improvement in adjusted EBITDA was due to lower G&A and marketing expenses, which were offset, partially, by higher expenses associated with our growth initiatives and lower gross margin.

Turning to the balance sheet and cash flow, we ended the quarter with \$9.8 million in cash and cash equivalents. As a percentage of sales, our inventory was 0.87 times, slightly higher than last quarter. This change is aligned with our strategic expansion plan and driven by the start of our new and expanded cultivation facilities in Illinois and Maryland.

Our working capital was \$12.1 million, generally in line with our working capital in the second quarter of \$12.4 million. Our strong working capital position supports our ability to invest in growth initiatives without compromising operational stability.

Year to date, we generated \$7.2 million in cash flow from operations, a 54 percent increase versus a \$4.7 million in the same period last year. This improvement highlights the effectiveness of our operational improvements, cost management efforts, and overall sales growth, all of which contribute to stronger cash generation. This operational cash flow enables us to fund internal projects, reduce reliance on external financing, and further strengthen our balance sheet.

On the capital expenditure front, we spent \$10.9 million, year to date, compared to \$14.7 million for the same period last year. The lower CapEx spend is a result of fewer asset build-outs versus 2023.

Now turning to our outlook for 2024. Our initial targets did not include revenue from assets awaiting regulatory approvals. While they are now all open, they incurred higher-than-expected preopening costs due to a combination of both regulatory and construction delays, which impacted our gross and EBITDA margins.

On a positive note, we're seeing strong margin improvements in our Illinois retail and wholesale operations, as well as in our Maryland wholesale business. We are confident these new assets will continue to drive revenue growth, supporting profitability over time. With that, our updated full-year 2024 financial targets, as announced last night, are as follows:

Revenue growth of 6 percent to 8 percent, up from 5 percent to 7 percent growth previously reported.

Adjusted EBITDA is now expected to be down 18 percent to 20 percent, compared to flat to up 2 percent. And CapEx is now expected to be up approximately \$11 million from \$10 million previously reported.

That concludes our financial review. I will now turn it over to Jon for his concluding remarks.

Jon Levine

Thanks, Mario, and welcome aboard. You've heard about our sales momentum and the continued growth of our brands. Next year should be even better as we've finally completed the expansion of our facilities, as Tim discussed.

Today, we're vertically integrated and performing well. And make no mistake, we are building the industry's strongest branded products company. We have a proven track record of owning many of the top-selling products in every state therein. The heart of our growth strategy is expanding our products' distribution to as many markets as possible.

With 2024 nearly complete, we're looking ahead to 2025 and beyond. We have several catalysts to drive continued revenue and EBITDA growth, including a full year of financial results from our new and expanded operations in Maryland, Massachusetts, Illinois, and Missouri. Additionally, we expect to consolidate financial results from First State Compassion in Delaware once adult use commences.

Finally, with rescheduling of cannabis still a strong possibility, the subsequent elimination of 280E, combined with the reduction of our CapEx budget, will further increase profitability and cash flow.

Before opening the call for questions, I want to revisit my discussion from last quarter about the depressed valuation of cannabis stocks. MariMed's market cap is about one-third of the nearly \$160 million in revenue we've reported over the past 12 months, and that's only a small part of the story.

Using traditional and very conservative comps, the valuation of Betty's Eddies alone could be 5 times our current market cap with virtually no debt. Just want everyone to understand how absurd cannabis stock valuations are today, especially those with strong balance sheets and strong assets like ours.

Florida's Amendment 3 not passing only underscores my point. MariMed has no exposure in that state, unlike many of our peers. So while our entire sector has taken a hit this week, our valuation gap actually widened further.

While I remain disappointed with the depressed valuation of our stock, I also recognize that it presents a great M&A opportunity. Our strong balance sheet and access to some of the cheapest capital will enable us to make strategic acquisitions as they arise and, believe me, we're looking at them. Our acquisition pipeline is more robust than ever, and we plan to strike while the iron is hot.

With that said, I'd like to personally thank our shareholders for all their support. And like to thank our MariMed employees for their dedication to improve the lives of our patients and customers every day.

Operator, you may open the line for questions.

Q&A

Operator

If you would like to ask a question, please press *, 1 on your telephone keypad now. You will be placed into the queue in the order received. Please be prepared to ask your question when prompted.

Once again, if you have a question, please press *, 1 on your phone now.

Our first question will be coming from Pablo Zuanic from Zuanic [&] Associates.

Pablo Zuanic — Zuanic & Associates

Good morning, everyone. Look, just a few questions. But first, congratulations on the growth of the wholesale business, particularly Betty's.

Can you talk about how you think about expanding Betty's? I mean, how do you think about licensing in other states? If I look at some of your comps, like Wana, I think they are licensed in 19 states. Right? In your case, you own the operations in all the states where Betty's is, including now Missouri.

So as you try to accelerate the growth of Betty's, how do you think of that? Do you wait for M&A to enter new markets? Do you organically set up new kitchens without having cultivation or retail, like in Missouri? Or do you just stick to the states where you're in right now? So talk about how you think about expanding Betty's, maybe more aggressively than right now. Thanks.

Jon Levine

Morning, Pablo. It's Jon. Thank you for joining us all this morning, and thank you for the question. First of all, licensing, we are licensing in other states that we're not in presently. We are in Rhode Island, Maine. We just left Puerto Rico. We were there for a few years.

But licensing is a much more difficult way of growing the brands because you have to find a good partner to work with. But we're always out there looking for those partners to get those licensing agreements.

But at the same time, we're trying to expand into additional states through the purchase of other opportunities in states that we're not in yet or finding partners to grow through licensing. So licensing's not off the plate. It's just finding the right partner. It's more about finding the ability to go into additional states and not just take Betty's, take all of our brands. They're all wonderful, top brands in every state that we go to.

Pablo Zuanic

That's right. And then just talking about the valuation, I think you mentioned that you believe that Betty's could be 5 times your current market cap. Maybe talk about what type of comps you're looking at. I mean, obviously, we have the Canopy Growth, what they paid for Wana, I think it was \$300 million, almost, for less than 100 percent to their company. So just some thoughts in terms of how you're valuing Betty's? Yeah.

Jon Levine

Yeah. I mean, much like that, we look at our Betty's revenue from retail sales, presently in only three states, of over \$40 million. And when you take the same valuation, that puts that up over \$200 million to \$250 million.

And we feel that that is just a very conservative look at how we're viewing the Betty's or any of our other brands. If you add in all the other states and the potential growth over the next 12 to 24 months, that value goes even higher.

Pablo Zuanic

Okay. Thank you for that. Look, just moving on. In terms of if someone can make some reference in terms (phon) of 280E, remind us of the cash flow benefits, if you can quantify that? And also remind us of your stance? I mean, are you filing for refunds for prior years? Are you provisioning going forward without factoring 280E like other companies are doing? Just a reminder of your current stance on 280E and also a reminder of the cash benefit if it goes away.

Jon Levine

Yeah, I mean, we've never given exact dollars, but the fact is is that we've been very aggressive with our 280E stance and how we do our tax returns. We're also more wholesale than retail, so we have a little bit more benefit on that side. But we would love to see the 280E go away, and that would give us additional millions of dollars of cash flow for additional growth.

Pablo Zuanic

Look, and maybe just one last question. When you talked about M&A, and correct me if I'm wrong, but it sounded—compared to other calls, it sounds that you're taking a bit more aggressive or more proactive stance on M&A than you've mentioned in the past. But again, correct me if I'm wrong.

But in the current landscape, right, share prices are more depressed, including yours, so the currency is weaker, in that sense, that you would use to buy. And I guess people out there with even lower prices, they were not willing to sell before, and now with lower prices are less willing. So just explain to

me why do you think that in the current environment it might be easier to do it? Is it just very tough for some people out there? Just some context there. Thank you.

Jon Levine

Thank you, Pablo. It's a great question. In our growth cycle, where we are right now is that we're still growing, unlike a lot of our competitors who have met their maxes in each of the states. But we have a lot of ability to continue to grow, and we have the resources, through our strong balance sheet and ability to borrow money at much lower rates than most.

And we're looking at a lot of deals, as you said, that the valuations are coming down to real valuations versus the prices that were just way overpriced, in our eyes, and we weren't going to damage our reputation by overspending. Today, we're spending and offering real values on good up-deals (phon), and we're hopeful that we're able to close a few of these in the next year.

Pablo Zuanic

Thank you.

Steve West

All right. Thanks, Pablo.

Operator

Next question will be coming from Andrew Semple for Ventum Financial.

Andrew Semple — Ventum Financial

Great. Thank you. Good morning. Congrats on Q3 results. First question here would just be on the revised outlook for the year and just kind of homing in on the EBITDA guidance.

The new guidance would still represent a pretty meaningful step-up in the fourth quarter. We're halfway through the fourth quarter today. Just wondering what sort of visibility you have into the fourth

quarter with some pretty meaningful assets coming online, and whether you are seeing that progress towards that earnings ramp that is expected in the current quarter.

Mario Pinho

Hey, Andrew. It's Mario here. Thanks for your question. Yeah. The good news is we're past the start-up phase for a lot of the assets, the ones that were not in our guidance and some of the other ones. So the drag on our margin is pretty much not going to be there going into fourth quarter, into next year. So we definitely should now be able to leverage those new assets as we ramp them up and see expansion in our margins.

Andrew Semple

Great. Glad to hear that. My follow-up would just be on the operating cost management this quarter. It was much better, which was great to see. Maybe if you could delve into some additional detail behind that? And maybe share what your expectations are for operating costs moving forward?

Mario Pinho

Yeah. So the reality on the product side is our input and labour costs are still pretty high. So we're looking at strategies to introduce efficiencies as well as lowering our costs. Tim talked a bit about some automation that we're doing when it comes to packaging and some other production initiatives. So we'll definitely see some benefit from there.

Also, what we're looking at is our product mix in our own distribution channels. Ryan talked about our balanced product offering and trying to drive more of our high-margin product into our own stores and improving our sell-through there. And that's where we plan to see a lot of margin improvement going forward.

Andrew Semple

Great. And then maybe just a final one for me, if I may, would be on inventory this quarter, was up a bit as you're ramping cultivation manufacturing facilities. How should we expect that to trend over the next few quarters here as you continue to add new capacity into the fourth quarter?

Tim Shaw

Hey, Andrew. This is Tim. Thanks for the question. Yeah. And like you said, we have to ramp up inventory so sales has the ammunition to go tackle all these great markets. We anticipate it leveling out and not increasing. So we're excited. All of the brands are doing well where we've launched, and we're excited to climb to the top spot.

Andrew Semple

That's great. Thanks for taking my questions. I'll get back into queue.

Operator

Next in line will be coming from Jesse Redmond from Water Tower Research.

Jesse Redmond — Water Tower Research

Good morning, everybody. You mentioned, Jon, that your strong balance sheet gives you flexibility to expand during what's a pretty difficult time for the industry. Can you talk a little bit about the characteristics that you look for to enter a market? And I'm specifically interested also in how you evaluate how these markets may evolve over time, specifically this issue of price compression that comes up so often.

Jon Levine

Yeah. Thank you, Jesse, and thank you for joining us this morning. Great questions. Yeah. When we're looking at the M&A and we're going out, trying to follow our road down that we've set up for growth, we're looking at trying to build in the states that we're already in and going into additional states

through that have limited markets. And we're concentrating right now on trying to get into the markets that are turning from medical to adult use, like Ohio, building that market a little bit bigger.

We've only got one dispensary, working on our second, but it would be great to become fully vertical in as many of those states that we can. We're looking at Missouri as an additional growth, even though that's not a limited-licence state, but it would be an ability to continue the growth in a very strong market there and add around the areas that we already are in.

We've also applied in the State of New York and in Texas, and we're going to continue to look at opportunities that are really both licences where you can apply or buying things that are at the right price to get into a state, to try to be fully vertical and try to get to the maximum number of licences.

Jesse Redmond

And I know from our conversations, Jon, you felt a fair bit of frustration over the last year or two, specifically related to preopening delays and things that, at times, have been outside of your control, whether it's waiting for an inspection or waiting for a specific piece of equipment for a cultivation facility. Can you talk about what are the biggest lessons you've learned from some of these operational challenges?

Jon Levine

Yeah. That's a great point. We've done a lot of our growth through the acquisition of paper licences or licences that we won over time. And with the prices of the competitors in the competitive market coming more into line of realistic, we're now able to start looking more at running businesses, so we're buying cash flow day one versus waiting for those approvals to come in and be able to turn them sooner. Going and buying licences that are up and running, we can expand them, and we'll have to wait for those expansion pieces, but we also have the cash flow and the means to do it.

Jesse Redmond

That's helpful. Thanks, guys.

Operator

Next question in line will be coming from William McNarland from TDR Research.

William McNarland — TDR Research

Hi, gentlemen. Thanks for the call and congratulations on your quarter. Actually, my questions were about the M&A pipelines and the margin improvements, and I think you've well covered them in earlier questions, so thanks for doing that.

Steve West

Great. Thanks, Bill.

Jon Levine

Thank you.

Operator

There are no further questions at this time. This concludes today's conference. Thank you for attending.