



# TERRASCEND

2024 First Quarter Financial Results

May 9, 2024

[Terrascend.com](https://terrascend.com)

TSX: TSND | OTCQX: TSNDF

# Executive Leadership Speakers



**Jason Wild**

Executive Chairman



**Ziad Ghanem**

President &  
Chief Executive Officer



**Keith Stauffer**

Chief Financial Officer

# Disclaimer

## Forward-Looking Information

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# Disclaimer

## Definition and Reconciliation of Non-GAAP Measures

In addition to reporting the financial results in accordance with generally accepted accounting principles in the United States ("GAAP"), the Company reports certain financial results that differ from what is reported under GAAP. Non-GAAP measures used by management do not have any standardized meaning prescribed by GAAP and may not be comparable to similar measures presented by other companies. The Company believes that certain investors and analysts use these measures to measure a company's ability to meet other payment obligations or as a common measurement to value companies in the cannabis industry, and the Company calculates Adjusted Gross Profit and Adjusted Gross Profit Margin as Gross Profit and gross profit margin adjusted for certain material non-cash items including the one-time relief of fair value upon acquisition, non-cash write downs of inventory, sales returns and write downs of inventory as a result of a vape recall in Pennsylvania, and other one-time adjustments to gross profit that management does not believe are reflective of ongoing operations. We calculate EBITDA from continuing operations and Adjusted EBITDA from continuing operations and Adjusted EBITDA Margin from continuing operations as net loss adjusted for certain material non-cash items such as inventory write downs outside of the normal course of operations, fees related to the modification of debt, impairment charges taken on goodwill, intangible assets and property and equipment, the gain or loss recognized on the revaluation of our contingent consideration liabilities, gains resulting from the extinguishment of debt, loan modification fees related to the modification of debt, the gain recognized on the extinguishment of debt, the gain or loss on fair value of warrants and purchase option derivative assets, relief of fair value upon acquisition and certain other adjustments management believes are not reflective of the ongoing operations and performance. Furthermore, the Company defines Free Cash Flow as net cash provided by operating activities from continuing operations, adjusted for certain cash items such as capital expenditures for property and equipment. Such information is intended to provide additional information and should not be considered in isolation or as a substitute for measures of performance prepared in accordance with GAAP. The Company believes this definition is a useful measure to assess the performance of the Company as it provides more meaningful operating results by excluding the effects of expenses that are not reflective of the Company's underlying business performance and other one-time or non-recurring expenses.

Reconciliations of these non-GAAP financial measures to the most directly comparable GAAP financial measures are contained in the Appendix to this presentation. The Company has not provided a reconciliation of its forward-looking Adjusted EBITDA Margin with the most directly comparable GAAP measure in reliance on the unreasonable efforts exception provided under Item 10(e)(1)(i)(B) of Regulation S-K. The Company is unable to calculate the most directly comparable GAAP measure, without unreasonable efforts due to the variability and low visibility with respect to certain costs such as stock-based compensation, certain fair value measurements, tax items, and others that may arise during the period that are not ascertainable.

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# Overview


Jason Wild, Executive Chairman

# Q1 2024 Financial Highlights – Focus on Cash Flow


**Generating sufficient cash, in excess of total accrued taxes, including the uncertain tax position related to 280E taxes**

 **\$80.6 M**  
Net Revenue

 **\$16.2 M**  
Adjusted EBITDA from  
Continuing Operations\*


 **7<sup>th</sup> Consecutive**  
Quarter of Positive  
Cash Flow from  
Continuing Operations

 **+16.1% YoY**

 **+33% YoY**

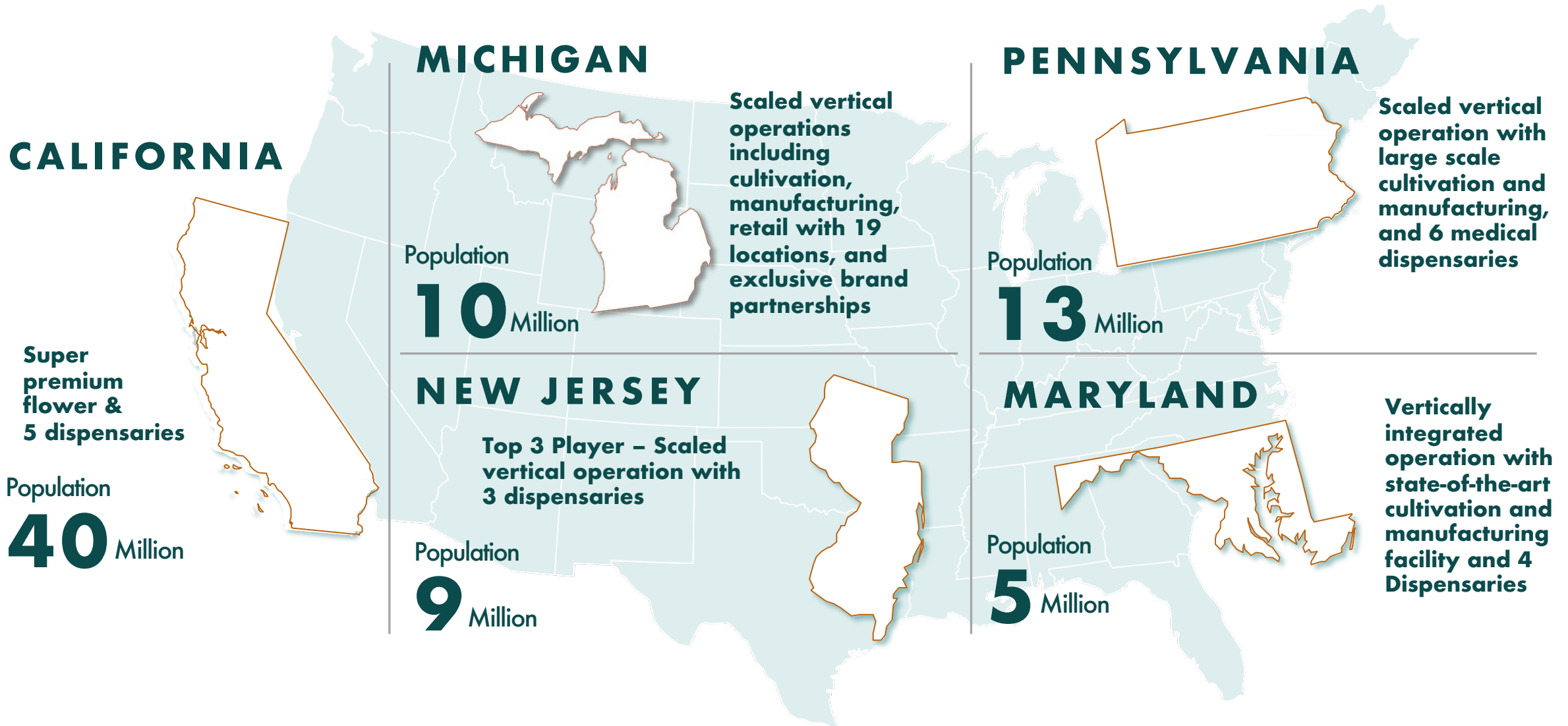
 **\$13.3 M**  
Cash Flow from  
Continuing Operations

 **48%**  
Gross Profit Margin

 **20.1%**  
Q1 2024 Adjusted  
EBITDA Margin\*

 **\$10.5 M**  
Free Cash Flow\*

# Operational Efficiencies Across Each Core Market



# Improving our Balance Sheet

- Actively in the process of exploring additional opportunities to improve balance sheet and well underway in a competitive process to refinance a substantial portion of debt.
- There is significant interest in this process from both existing and potential new lenders.
- With recent news regarding the DEA's decision to reschedule, additional potential lenders have emerged and existing lenders have become more constructive on the sector.

# Attractive M&A Opportunities

**Ample greenfield opportunity of attractive new markets to enter, for example, Ohio**

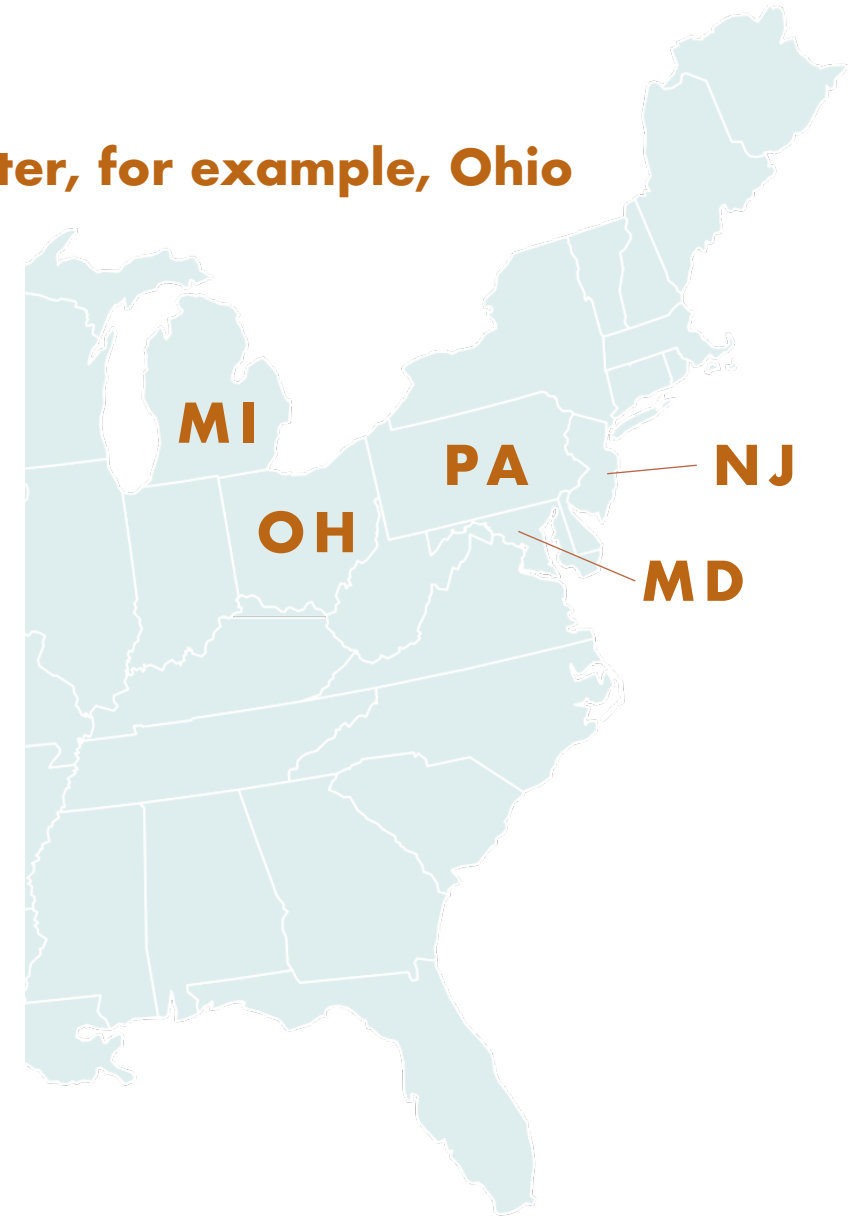


Population

**12** Million

Adult-use on the horizon

- Similar to successful expansion into Maryland, sights are now set on entering Ohio prior to commencement of Adult-Use.
- Ohio has population of 12 million, compared to 9 million in NJ and 6 million in MD.
- Employing AU playbook in Ohio could result in even larger business relative to other top performing TerrAscend markets.
- Plan to leverage Michigan corporate infrastructure in a similar manner to how Maryland integrated into the northeast infrastructure in 2023. Would make MI and OH more profitable combined than on a standalone basis.



# Multiple Potential Paths to Cannabis Reform

Recent news that the DEA is moving to re-schedule cannabis to Schedule III will result in the elimination of punitive tax treatment and will likely enable greater access to capital at a lower cost, resulting in leveling the playing field for operators in the industry.

Federal judge in Massachusetts recently agreed to hear the David Boies lawsuit seeking equal treatment for cannabis businesses.



# In Closing

- Pleased with first quarter results
- Right team
- High-performing assets
- Strong cash flow
- Ample greenfield opportunities to pursue additional growth
- 2023 was about operational excellence and strengthening the foundation
- 2024 is about expansion by capitalizing on the current environment and entering into attractive states on accretive terms, which would not have been possible two years ago

# State-by-State Overview

Ziad Ghanem, President & Chief Executive Officer

# New Jersey

## 1Q '24 Highlights

- Largest and Most Profitable Market
- According to BDSA, have consistently maintained a top 3 market share position
- In 2023, wholesale revenue doubled from Q2 to Q3, then grew another 25% in Q4, and remained strong in Q1 '24
- Maintained high cultivation yields and product quality, low-cost structure, an efficient retail labor model, leading brands and retail experience
- Future Growth Opportunities for up to 7 additional social equity qualifying dispensaries



# Maryland

## 1Q '24 Highlights

- **Still Early Innings of Adult-Use**
  - Adult-use began July 1, 2023
  - Q1 retail revenue remained stable
  - Wholesale revenue grew 22%
  - Gross margin improved QoQ
- **Fully Vertically Integrated**
  - State-of-the-art cultivation facility
  - Recently completed expansion, doubling capacity
  - 4 retail locations; the state limit
    - Continuing to increase our verticality levels in our dispensaries
  - Believed to be among highest performing retail operators in MD
  - Nearly complete with relocation of Parkville location to a new, larger storefront



# Pennsylvania

## 1Q '24 Highlights

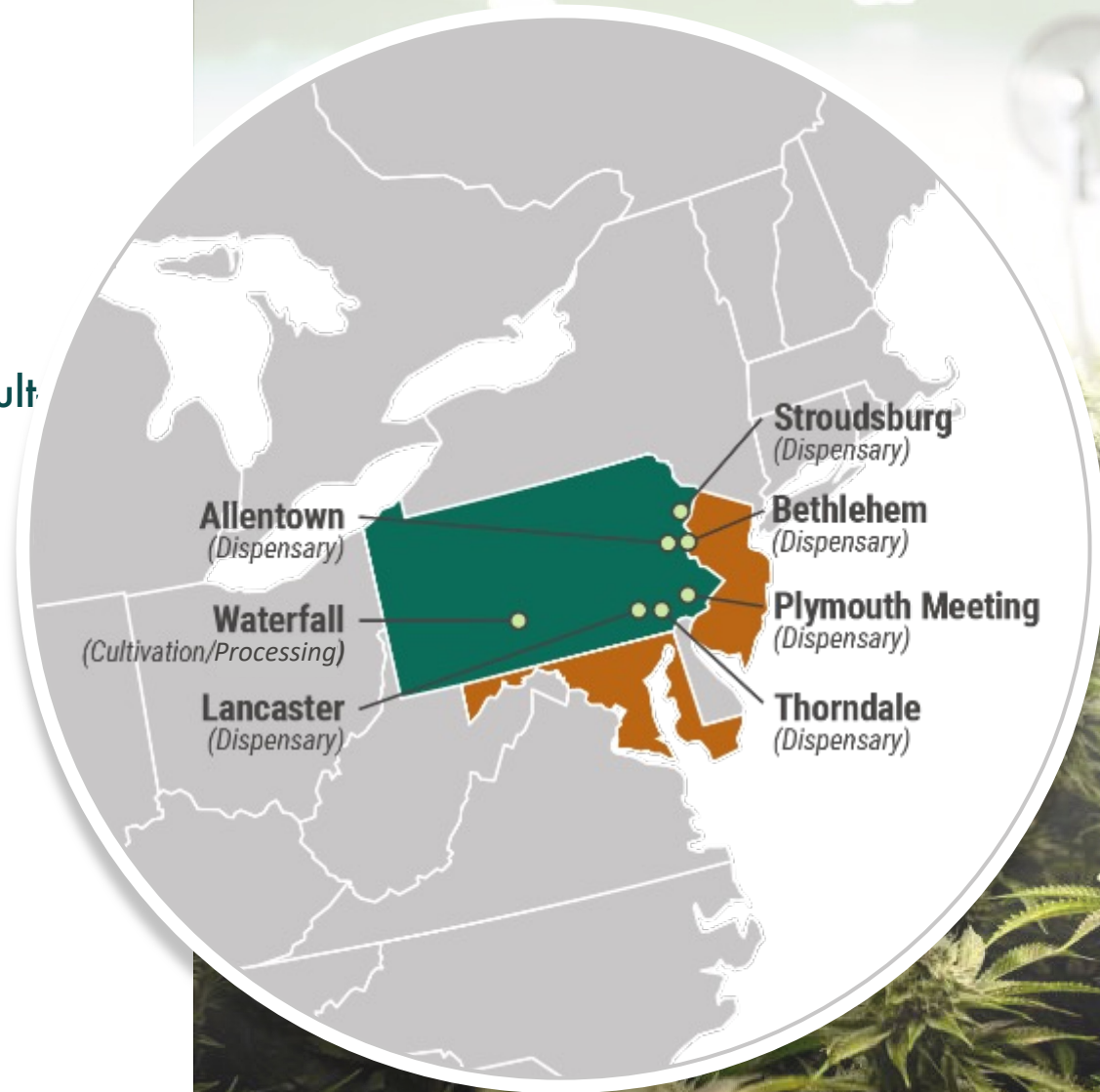
- **Market Overview**

- Population of 12 million
- Current medical market size already over \$1.2B
- According to BDSA, expected to be over \$2B adult use market by 2028

- **Retail and Wholesale Growth**

- Seasonal decline in revenue sequentially at retail, as expected
- Wholesale revenue grew both sequentially and YOY at rates of 23% and 80%, respectively
- Legend and Valhalla edibles brands were key drivers with 10% and 54% QoQ growth, respectively

PA Remains a Large Market Opportunity,  
Particularly as State Prepares for AU



# Michigan

## 1Q '24 Highlights

- Focused on Margin and Profitability
  - Improving operational efficiency and driving gross margins to establish a solid foundation from which to expand footprint
  - Once again achieved goal of 40% gross margin
- Large Market Opportunity
  - Second largest cannabis state in nation with over \$3 billion in annual sales
  - Today, 19 retail locations, soon to be 20, with the planned opening of second location in Detroit, scheduled for Memorial Day weekend
- Actively Pursuing Opportunities to Go Deeper in this Market

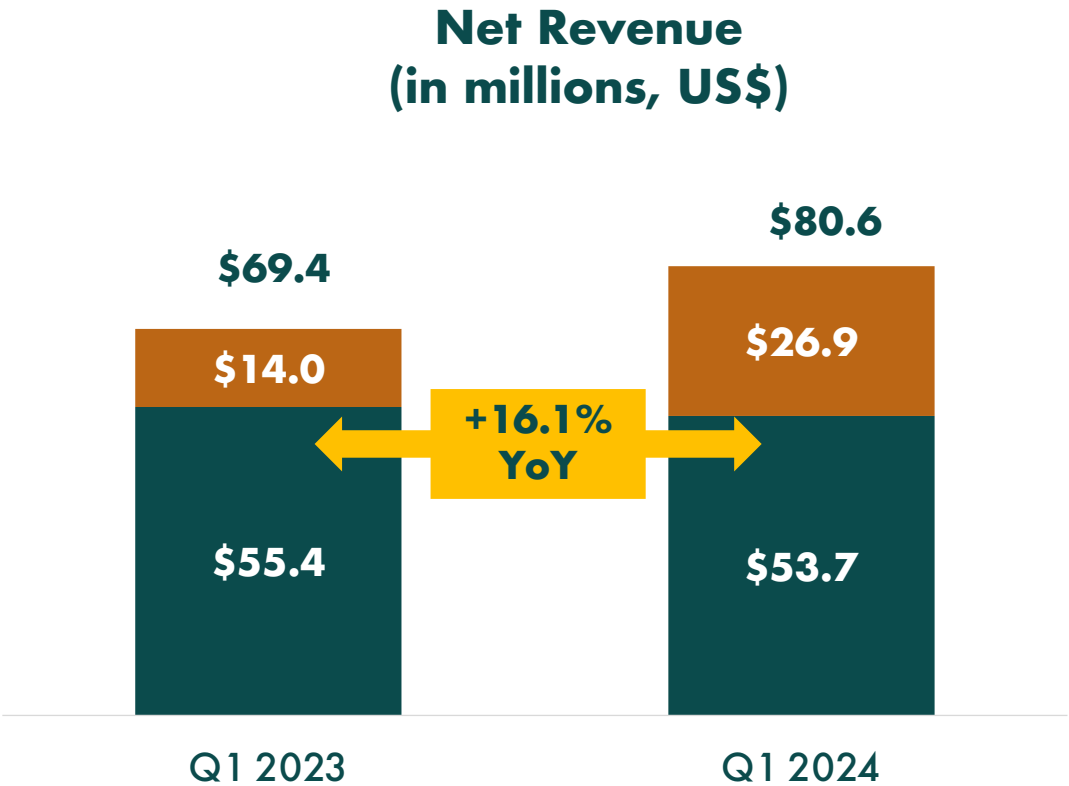


# Financial Overview

Keith Stauffer, Chief Financial Officer

# First Quarter 2024 Net Revenue

YoY increases driven by acquisition of 4 retail dispensaries and launch of adult-use in Maryland, and strong wholesale growth in New Jersey and Pennsylvania



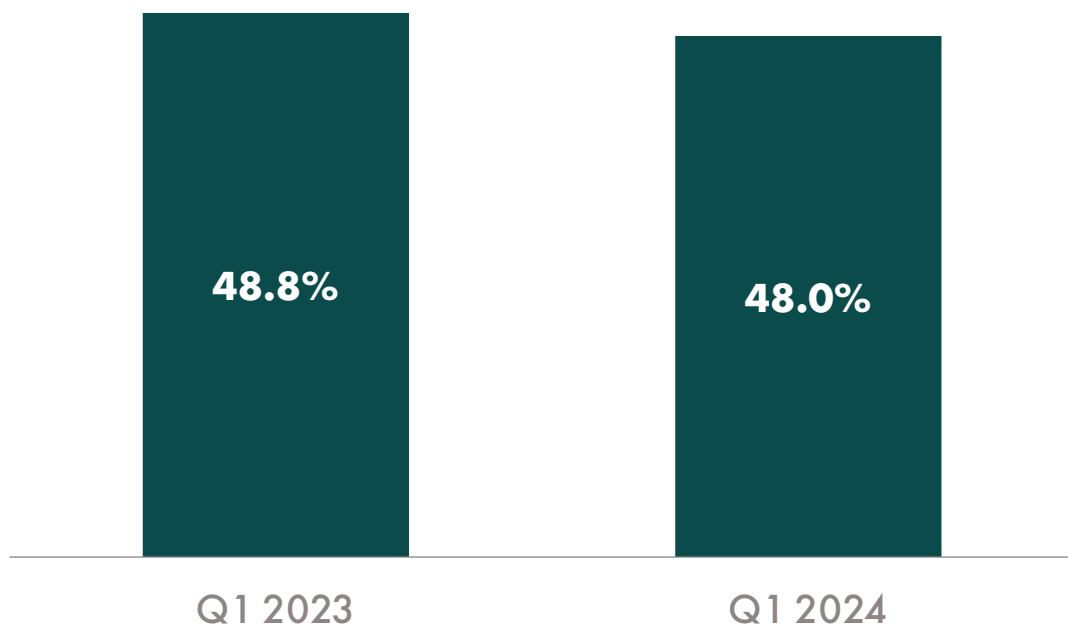
## First Quarter 2024 Highlights

- Revenue: \$80.6M versus \$69.4M in Q1 2023
- +16.1% growth year-over-year
- Wholesale growth 92% year-over-year mainly driven by doubling of wholesale revenue driven by increased demand for brands across the new store openings in NJ and an 80% increase in PA driven by performance of Legend flower and Valhalla edibles brands
- Retail 3% year-over-year decline mainly driven by new door openings in NJ and reductions in unprofitable revenue in MI, offset by growth in MD

# Gross Profit Margin

**Slight year-over-year decrease driven by channel mix shift in NJ and scale-up related costs in MD, partially offset by improvements in MI**

## Gross Profit Margin

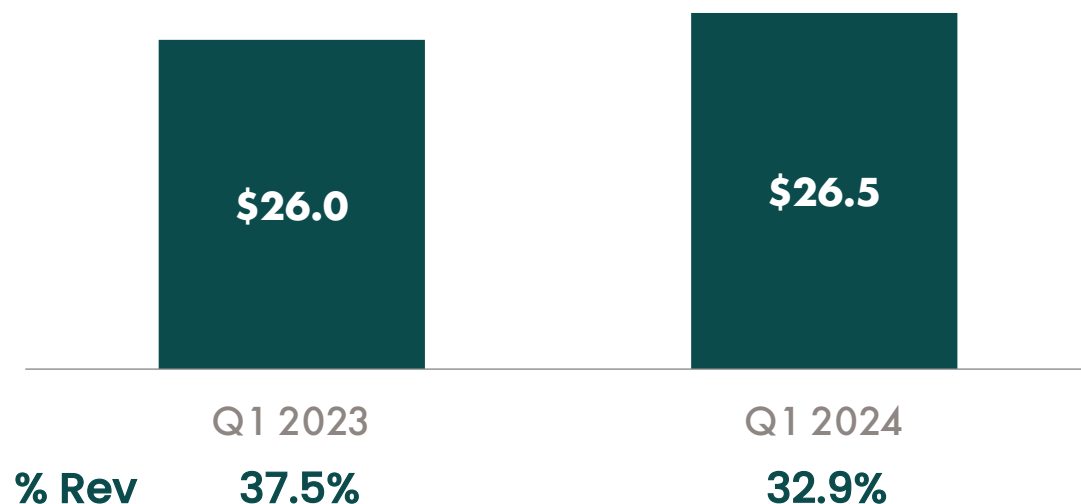


## First Quarter 2024 Highlights

- Gross Profit Margin: 48.0% versus 48.8% in Q1 2023
- YOY decrease was driven by channel mix shift in NJ and scale-up related costs in MD, partially offset by improvements in MI
- While gross margin declined YOY in NJ, absolute gross margin levels remain very strong two years into adult-use
- In MI, achieved goal of 40% gross margins for the second consecutive quarter
- Quarter-over-quarter, also made improvements to gross margin in MD

# General & Administrative Expenses\*

## General & Administrative Expenses\* (in millions, US\$)



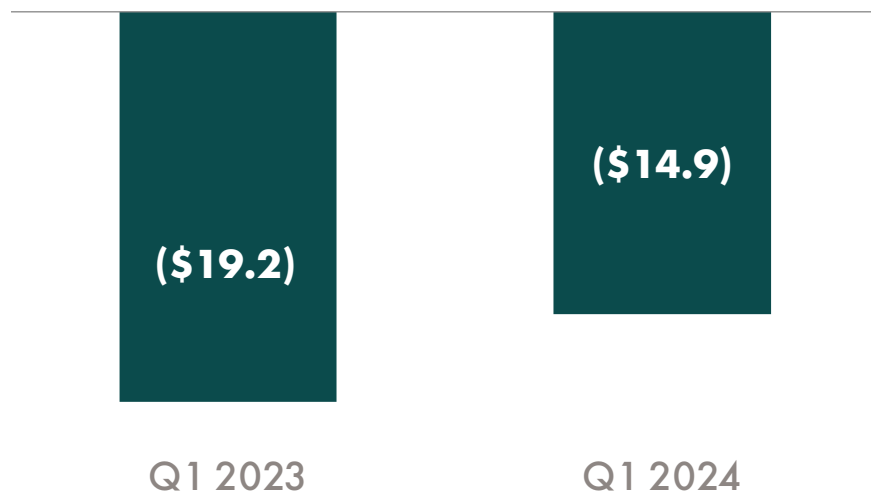
## First Quarter 2024 Highlights

- General & Administrative expenses\* for the first quarter of 2024, excluding stock-based compensation, were \$26.5 million compared to \$26 million for first quarter of 2023
- G&A Expenses\*: 32.9% of revenue compared to 37.5% in Q1 2023



# Net Income (Loss) and Adjusted EBITDA\*

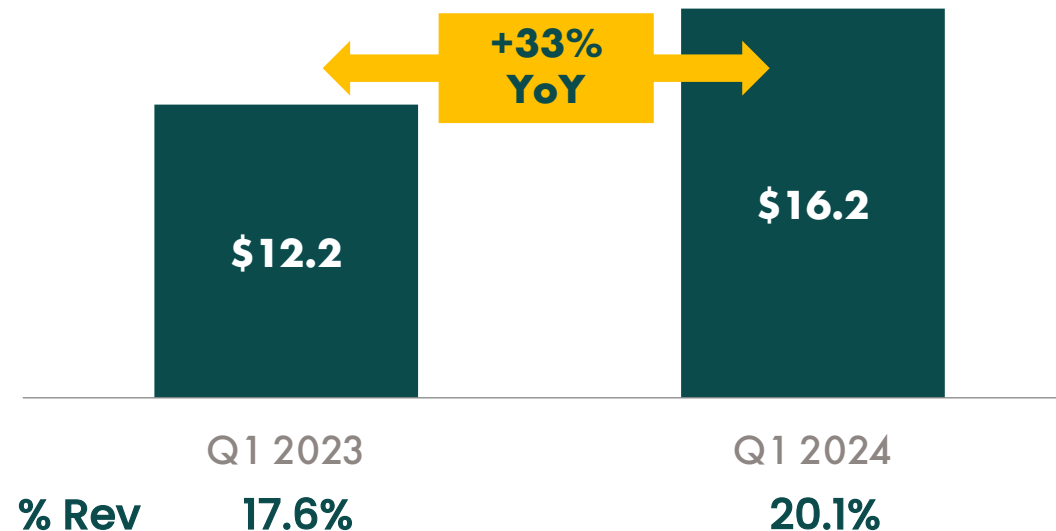
## GAAP Net Loss from continuing operations (in millions, US\$)



### GAAP Net Loss:

- \$14.9 million net loss, compared to a \$19.2 million net loss in Q1 2023
- Improvement driven by revenue and gross margin growth while maintaining G&A expenses relatively flat

## Adj EBITDA\* (in millions, US\$)



### Adjusted EBITDA:

- Grew 33% YoY to \$16.2 million, representing 20.1% Adjusted EBITDA margin, as compared to \$12.2 million and 17.6% in Q1 2023
- 250 basis point improvement driven by G&A expense leverage, partially offset by decline in gross margin

# Balance Sheet and Cash Flow

- Cash, and cash equivalents, including restricted cash:
  - \$25.7 million (3/31/24), compared to \$25.3 million (12/31/23)
- Q1 2024 net cash provided by continuing operations:
  - \$13.3 million, compared to \$10.5 million in Q1 '23, representing 7<sup>th</sup> consecutive quarter of positive cash flow from continuing operations
- Q1 2024 Capex:
  - \$2.8 million, primarily related to capacity expansion at MD facility
- Free Cash Flow:
  - \$10.5 million as compared to \$8 million in Q1 '23
- Debt Paydown:
  - During the quarter, paid down \$9.8 million in debt

# Second Quarter 2024 Expectations

- Expect YoY revenue growth of 11-13%.
- Anticipate gross margin and G&A rates similar to the first quarter of 2024.
- Anticipate Adjusted EBITDA growth of 20-25% YoY.

# Thank You

# Appendix – Reconciliation of Non-GAAP Measures

The table below reconciles net loss to EBITDA from continuing operations and Adjusted EBITDA from continuing operations for the quarters ended March 31, 2024, December 31, 2023 and March 31, 2023.

	For the Three Months Ended		
	March 31, 2024	December 31, 2023	March 31, 2023
Revenue, net	\$ 80,633	\$ 86,566	69,398
Net loss	(14,851)	(41,814)	\$ (22,769)
Net loss margin %	-18.4%	-48.3%	-32.8%
Loss from discontinued operations	—	—	3,591
Loss from continuing operations	(14,851)	(41,814)	(19,178)
Add (deduct) the impact of:			
Provision for income taxes	9,671	(9,202)	12,664
Finance expenses	8,872	9,065	7,875
Amortization and depreciation	5,000	5,203	4,771
<b>EBITDA from continuing operations</b>	<b>8,692</b>	<b>(36,748)</b>	<b>6,132</b>
Add (deduct) the impact of:			
Share-based compensation	1,485	2,238	1,713
Impairment of goodwill and intangible assets	—	55,993	—
Loss from revaluation of contingent consideration	1,393	—	—
Restructuring and executive severance	—	186	—
Other one-time items	958	2	1,358
Employee Retention Credits Transfer Fee	—	—	2,235
Loss (gain) on lease termination and derecognition of right of use assets	—	(1,217)	205
Loss (gain) on fair value of warrants and purchase option derivative asset	983	(2,886)	(437)
Impairment of property and equipment and impairment of right of use assets	2,438	1,734	334
Gain on disposal of fixed assets	—	(35)	—
Unrealized and realized loss on investments	—	238	699
Unrealized and realized foreign exchange loss (gain)	285	122	(31)
<b>Adjusted EBITDA from continuing operations</b>	<b>\$ 16,234</b>	<b>\$ 19,627</b>	<b>\$ 12,208</b>
Adjusted EBITDA Margin from continuing operations	20.1%	22.7%	17.6%

# Appendix – Reconciliation of Non-GAAP Measures

The table below reconciles Free Cash Flow for the quarters ended March 31, 2024, December 31, 2023 and March 31, 2023.

	For the Three Months Ended		
	March 31, 2024	December 31, 2023	March 31, 2023
Net cash provided by operating activities- continuing operations	\$ 13,251	\$ 9,420	\$ 10,454
Capital expenditures for property and equipment	(2,796)	(1,538)	(2,497)
Free Cash Flow	<u>\$ 10,455</u>	<u>\$ 7,882</u>	<u>\$ 7,957</u>

The table below reconciles Revenue, net to General & Administrative expenses excluding stock-based compensation as a percentage of revenue, net:

	For the Three Months Ended		
	March 31, 2024	December 31, 2023	March 31, 2023
Revenue, net	\$ 80,633	\$ 86,566	\$ 69,398
General & Administrative expenses	28,008	27,684	27,730
Less: stock-based compensation	1,485	2,238	1,713
General & Administrative expenses excluding stock-based compensation	<u>\$ 26,523</u>	<u>\$ 25,446</u>	<u>\$ 26,017</u>
G&A excluding stock-based compensation as a % of revenue, net	32.9%	29.4%	37.5%