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Jushi Holdings, Inc.

Fourth Quarter and Full Year 2021 Earnings Conference Call

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PRESENTATION

Operator

Welcome, everyone, to the Jushi Holdings, Inc. Fourth Quarter and Full Year 2021 Earnings Conference Call.

Today's call is being recorded.

I would now like to turn this call over to Michael Perlman, Executive Vice President of Investor Relations.

Thank you, sir, you may begin your presentation.

Michael Perlman

Good morning. Thank you for joining us today for Jushi Holdings, Inc. Fourth Quarter and Full Year 2021 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 fourth quarter and Full Year 2021 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 would 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.

Jim 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 fourth quarter and Full Year 2021 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 fourth quarter and Full Year 2021 on Slide 5. First off, I am pleased to report that we completed the year with another quarter of solid, top-line revenue growth increasing 22% to approximately $66 million as compared to the third quarter of 2021, and 104% as compared to the same period in the prior year.

On a sequential basis, our revenue growth was primarily driven by the acquisition of Nature's Remedy of Massachusetts, which operates two high-performing adult use dispensaries and a 50,000 square foot grower processor facility; continued top-line expansion across our BEYOND / HELLO stores in Illinois; solid revenue growth at our BEYOND / HELLO stores in Virginia; and increased wholesale activity at the Company's grower processor facilities in Pennsylvania and Virginia.

For the full year of 2021, revenue grew nearly 159% as compared to Full Year 2020, primarily driven by the buildout and expansion of the Company's retail store base in Pennsylvania and Illinois, the acquisition of Nature's Remedy, and a modest expansion of our wholesale business in both Pennsylvania and Virginia. Let's move to Slide 6.

Our fourth quarter Adjusted EBITDA of $1.5 million declined by $4.9 million as compared to the third quarter of 2021. The sequential decline was driven by increased operating expenses as we made investments to support our long-term growth outlook and the future of the business. Ed will quantify the impact in just a few minutes, but to summarize we increased staffing at corporate as we opportunistically secured talent at the executive and management level to support our ongoing growth initiatives. In the second half of 2021, we added 32 employees at corporate, primarily in accounting, construction, and human resources departments.

We also incurred additional professional fees as we prepared to convert our financials from IFRS to GAAP. We added 128 employees in retail to support our new store openings and the ramp of new stores opened in the prior quarter, and increased headcount at our grower processor facilities by 130 in anticipation of increased wholesale activity. Additionally, we experienced margin compression on both the retail and wholesale side of the business due to increased promotional activity to help boost market share and brand awareness as we look to expand our branded products across our footprint.

In Q4 of 2021 and Q1 of 2022, we began to substantially reduce expenses at retail and on wholesale purchases to improve our margins going forward, and we continue to refine our operations to focus on driving costs lower at retail locations and grower processor facilities. I am confident we will continually reduce our cost per unit at our grower processors and increase operating efficiencies at retail, including through continual wholesale purchasing price reductions. Also, our margins should increase as we sell more of our own product as our grower processor facilities come online to match our large retail store platform and as we consolidate our newly acquired vertical operations in Massachusetts and Nevada.

Next, I will take you through our cost saving measures on Slide 7. In the fourth quarter, we began executing on several cost saving measures that are expected to result in significant savings in the coming quarters and will help offset some of the margin compression the Company experienced in the fourth quarter of 2021. Specifically, at retail, we are optimizing our labor model, including compensation, staffing structure, scheduling, and zoning. Some of the changes we have recently made include the reduction in Pennsylvania hourly and pharmacist coverage and the consolidation of store oversight at the general manager level. These changes are expected to result in approximately $2 million in annual savings. Second, a refined retail opening process to reduce labor cost for our new store openings. Third, implementing processes that will drive closer oversight, tracking and reporting to increase visibility and accountability at all levels.

At corporate, we have substantially completed the buildout of our executive and management team, except for two new hires. With the exception of accounting, which we plan on adding additional headcount to support our transition to GAAP later this year, we have already reduced hiring across all corporate administrative functions, and we'll look to further optimize our headcount as we grow the business. We also opened an office in Ohio to increase access to accounting talent in a cost-effective manner.

At our grower processor facilities, and as part of the Jushi Production System, all resources and materials are zealously monitored through a set of approximately 25 KPIs and opportunities for optimizing usage are identified and executed every day, including utilities modulation. From a product packaging perspective, we have value engineered our Bank jars, and not only eliminated carton boxes, but also changed the specifications of the jar to include information previously included on the box. We expect this to result in a $400,000 annual savings.

We also have centralized procurement and launched a series of strategic sourcing tools, including an e-auction process which addressed approximately $800,000 in annual spend and where we have already achieved a 50% savings on average. Lastly, in our retail stores in Pennsylvania, Illinois, and Massachusetts, we have recently completed a vendor and product rationalization for our retail shelf space. This will drive better pricing and promotions for our patients and customers, along with increased margins at the store level.

I would now like to highlight our recent operational achievements over the next few slides

In Slide 8. First, we have recently expanded the number of vertically integrated markets to four by acquiring two high impact businesses. In the first quarter of 2022, we closed on the acquisition of Apothecarium Nevada, which provides us with our first operating dispensary in the state. The dispensary,

which generated approximately $14 million in revenue in 2021, is approximately six and a half miles west of the iconic Las Vegas strip and neighbors Summerlin, a master planned community with nearly 100,000 residents that currently prohibits dispensaries from operating.

Our acquisition of Nature's Remedy in the third quarter of 2021 expanded our nationwide footprint to seven states and provided us with the vertical operations required to establish a leadership position in the Massachusetts market, which posted over $2 billion in sales in just over three years. We are now looking to acquire an additional adult use dispensary under the state's three store cap and ramp up wholesale operations at our grower processor facility in Lakeville, Massachusetts.

In the fourth quarter, we entered into an additional agreement to expand our operations in Nevada with the acquisition of NuLeaf. NuLeaf operates two retail dispensaries with a third location opening shortly, subject to final regulatory approvals, all in high-traffic destination locations. NuLeaf also operates a 27,000 square foot cultivation facility and a 13,000 square foot processing facility. We expect to close on this acquisition next month.

Both Massachusetts and Nevada markets are very vertical markets, meaning that dispensaries sell predominantly their own product. Our acquisitions in these two markets reflect that. Also in Nevada, Jushi has owned a grower processor that was operating unprofitably in 2021 and in 2022 prior to these retail acquisitions. With the volume of sales we are picking up, plus a new store opening on the Las Vegas strip, we expect that by the third quarter this grower processor will be profitable, and we will likely look to expand the canopy at this facility to add production in 2023. We expect most if not substantially all of our production can be sold in our own stores even after this expansion. This means we have an opportunity to add more canopy to address the wholesale market in the future and have some further opportunities to do that in the existing license footprint.

In Illinois, we were awarded a conditional retail dispensary license through our partner, Northern Cardinal Ventures, and have a substantial M&A pipeline to expand our retail footprint from five stores to the state cap of 10 and we are targeting several grower processor license opportunities. In Ohio, we were selected in the retail lottery and are awaiting certification and issuance of licenses by the Ohio Board of Pharmacy.

This retail location will complement our newly acquired grow facility, which expects its first harvest in the second quarter of 2022, and our operational processing facility. We will also pursue additional retail licenses, as we have the opportunity to add another four stores under the state cap. Ohio so far has been an unprofitable market in startup phase for almost 12 months for Jushi. We expect to turn profitable as we scale our vertical operations in the space.

On Slide 9. Second, we nearly doubled our operational store count to 28 locations, opening 13 locations from coast to coast over the year. In Pennsylvania, we opened eight BEYOND / HELLO locations, including three in the fourth quarter alone, bringing our affiliated subsidiary-operated store count to 18. In Illinois, we opened our fourth location and our second store in the Bloomington/Normal metro area. We also opened our second location in Virginia and acquired two stores in Massachusetts and two in California. Subsequent to year end, we remodeled and reopened our Bethlehem, Pennsylvania, store and have plans to remodel certain stores across our retail footprint to ensure we are providing a differentiated and best-in-class customer experience.

Additionally, as part of an acquisition in Pennsylvania, we acquired a store in Scranton that was poorly located and very small. We have recently received approval from the Pennsylvania Department of Health to move this store to Dickson City. This move will be akin to adding a new store given how poor the performance was at this prior location. We are also consistently improving both our in-store and online shopping experience to ensure the unique needs of our consumers are being met. In 2021, we

implemented delivery services in Virginia, which accounted for close to 11% of Virginia's transactions in the fourth quarter.

We also just launched a complete redesign of the BEYOND / HELLO website. Powered by a new edge architecture, the website's latency has improved by two to three times, and we've already seen nearly a 1% increase in conversion rate in the two-week period since the soft launch. New online menu enhancements such as data-driven programmatic product placement gets customers to what they want faster. We even saw two back-to-back record online sales days since the relaunch of the site.

After extensive analysis of user behavior in the cannabis patient and customer's digital journey, we've successfully created an experience even more frictionless and meaningful through UI/UX and technology optimizations. Design thinking is a cornerstone of the Jushi organization as we consistently iterate and improve in every aspect of the business. As part of the new website roll out, selected stores and states will start to introduce the new BEYOND / HELLO identity, featuring the new fresh look, which is part of our longer-term strategy for our national cannabis retail brand.

Let's now review our store opening schedule on Slide 10. In 2022, we plan to open a total of 10 stores, including four in Nevada through acquisitions of Apothecarium and NuLeaf, three in California, including a relaunch of a newly renovated Palm Springs dispensary we had closed earlier this year, and three stores in Virginia, two of which are expected to open by late summer. In 2023, we expect to open our sixth and final store in Virginia, our fifth store in Illinois and move two of the Dickson City store of Pennsylvania and our first dispensary in Ohio. In both 2022 and 2023, our store count opening numbers may be bolstered by M&A. Our goal in 2023 is to add at least another 10 new stores through acquiring retail licenses in Illinois, Ohio, Massachusetts and Nevada. Additionally, we hope to move two more retail locations in Pennsylvania, which may give us the revenue growth comparable to a new store opening.

Moving to Slide 11. Third, we bolstered and expanded our cultivation and processing capabilities with the addition of various assets across our core and developing markets. As of year end 2021, we operated approximately 248,000 square feet of cultivation and processing capabilities, including approximately 59,000 square feet of canopy. In addition to our entry into the Massachusetts market, where we added a 50,000 square foot facility and approximately 33,000 square feet of canopy, we also expanded our operations in several high-growth limited-license states over the course of the year through various bolt-on acquisitions.

The first being Franklin Bioscience NV, LLC, where we added cultivation, production, and distribution license to our portfolio of directly owned assets. The second in Ohio, where we acquired a licensed cultivator operating a 10,000 square foot facility in Toledo, which complements our 8,000 square foot processing facility in Columbus. We expect our first harvest in the second quarter of 2022 and have plans to increase the canopy from approximately 1,900 square feet to over 10,000 square feet, pending regulatory approvals. Additionally, at our Scranton grower processor facility in Pennsylvania, we acquired several adjacent parcels of land that will allow us to scale-up the facility and expand capacity as we prepare for potential adult use sales in the Commonwealth. In Virginia, we acquired a 93,000 square foot cultivation facility and nine acres of surrounding land in Prince William County, attractively positioning Jushi with the continued ability to supply the flower market and planned adult use sales.

Moving to Slide 12. We are also making progress with phase one of the buildout of our Virginia facility that will expand existing capacity from 30,000 square feet to 93,000 square feet. We expect to add new grow rooms in late Q1, early Q2, and begin generating revenue in late Q2 or early Q3 of this year. We believe this expansion is appropriately sized to service the current and future demand of the medical market in Virginia. We are also in the design phase of a second connected building that can increase the facility's total square footage up to approximately 263,000 square feet. However, we will not make a final

investment decision on this expansion until we have visibility into the timing of the rollout of an adult use program in the state.

Additionally, we continued the buildout and redesign of our Scranton, Pennsylvania, facility. Phase one of the buildout, which will expand the facility footprint from 81,000 square feet to 123,000 square feet, is expected to be completed by the end of the second quarter and begin generating revenue in the third quarter of this year. This expansion positions us well to support the 156 dispensaries currently operating in Pennsylvania's medical market, including our own 18 operational BEYOND / HELLO dispensaries. Pending favorable regulatory developments in the Commonwealth, including line of sight on a potential adult use program, we would plan to commence phase two of the expansion, which would increase the total square footage of the facility from 123,000 square feet to approximately 210,000 square feet.

We also have the option to significantly expand the facility to approximately 350,000 square feet to address future market demand. At the end of this year, including the NuLeaf Nevada acquisition, which we plan to close next month, we expect to be operating approximately 330,000 square feet of cultivation and processing capacity across all of our facilities, including approximately 98,000 square feet of canopy.

Moving to Slide 13. We continued to strengthen our balance sheet to maintain financial flexibility and support the buildout of our operational footprint along with our M&A efforts. In the fourth quarter, we secured a $100 million acquisition facility with a $25 million accordion feature from SunStream Bancorp, a joint venture sponsored by Sundial Growers. We also filed a $500 million Canadian preliminary base shelf prospectus to offer the liquidity to support potential rapidly arising accretive opportunities in our M&A pipeline. Since securing the facility, we have drawn down $40 million to finance the cash portion of the Nature's Remedy acquisition. Subsequent to the fourth quarter, we closed an equity private placement for total proceeds of approximately $14 million, demonstrating continued confidence in Jushi’s vision and future strategic plans.

Next, as illustrated on Slide 14, we expanded our brand portfolio by debuting a full suite of high-quality, high-in-demand products, including flower, vapes, concentrates, edibles, and extracts across our five best-in-class brands: The Bank, SeCHe, The Lab, Tasteology and Nira Plus. Over the past year, we have grown our product offerings across five states and look to continue this growth as we expand our operating capacity through cultivation, manufacturing and the continued roll out into several high-growth adult use and medical wholesale markets. Our goal is to enhance recognition of Jushi’s mainstream CPG brands across our national footprint as we look to increase access for patients and customers alike.

On Slide 15. And lastly, we enhanced our leadership and management teams with the appointment of Ed Kremer to chief financial officer, Leo Garcia-Berg to chief operations officer, Brendon Lynch to EVP of retail operations, and Bob Young to EVP of information technology. The wealth of experience and talent this group brings to Jushi is second to none, and we are extremely pleased with their contributions to date.

Let's move to Slide 16. As previously reported and including assets under definitive agreement, we concluded 2021 with operations across seven states, including 39 retail licenses, of which 28 were operational, three vertically integrated markets, and approximately 248,000 square feet of cultivation and processing capacity. For the year end 2022, we are targeting approximately 50 retail licenses across the seven markets we operate today, with additional locations to be added through either application, or acquisition. We also plan to be vertically integrated in at least five markets and operate approximately 330,000 square feet of cultivation and processing. I am extremely proud of the team we have assembled and the platform we have built over the last four years, and I am confident that Jushi is well positioned to execute on its growth plans for this year.

Before I ask Ed to review our fourth quarter and Full Year 2021 financial results in more detail, I would like to provide a program status update for Virginia and Pennsylvania markets. In Virginia, the Board of Pharmacy has registered its fifty-thousandth patient and has a current backlog of 12,000 to 15,000 patients. During the recent legislative session, the General Assembly took steps to improve efficiency for patients and operators participating in the medical cannabis program. Jushi looks forward to the conclusion of the legislative process and the implementation of several important changes that will improve the program generally and continue making medical cannabis more accessible to patients in need.

In Pennsylvania, the Department of Health is working to implement the many program improvements set out in June 2021 through Act 44. While there is some disagreement about how this new law is interpreted, we remain committed to bringing a stable supply of safe, high-quality products to over 600,000 certified patients in the Commonwealth. I am also pleased to report that the Senate Law & Justice Committee completed its third of three adult use cannabis hearings on March 14, and we look forward to seeing a filed, viable adult use bill in the near future.

I would now like to ask Ed to review our financial results before we discuss our 2022 outlook.

Ed.

Ed Kremer

Thanks, Jim, and good morning, everyone.

Before getting started, I would like to remind everyone that the results I will be going over today can be found in our soon to be filed financial statements and MD&A for the year ended December 31, 2021. All results are stated in U.S. dollars.

Let's begin on Slide 17. As Jim previously mentioned, revenue in the fourth quarter increased 22% to $66 million, compared to $54 million in the third quarter of 2021, and increased 104% from $32 million in the fourth quarter of 2020. The sequential increase in quarterly revenue was driven by the acquisition of Nature's Remedy in Massachusetts and continued top-line expansion at our BEYOND / HELLO stores in Illinois and Virginia. Revenue at our stores in Pennsylvania was essentially flat on a sequential basis. Also contributing to the sequential improvement in revenue was an increase in wholesale activity at the Company’s grower processor facilities in Virginia and Pennsylvania.

Full Year 2021 revenue increased 159% to $209 million, compared to $81 million in 2020. The year-over-year increase in annual revenue was primarily driven by the buildout and expansion of the Company’s retail store base in Pennsylvania and Illinois, the previously mentioned acquisition of Nature's Remedy, and a modest expansion of our wholesale business in both Pennsylvania and Virginia.

Our adjusted gross profit was $26 million in the fourth quarter of 2021, an 8% increase as compared to the third quarter of 2021 and a 76% increase as compared to the fourth quarter of 2020. On an adjusted basis, Q4 2021 gross margin of 40% declined approximately 510 basis points and 650 basis points, as compared to the third quarter of 2021 and the fourth quarter of 2020, respectively. The decrease in gross margin was primarily driven by price compression in our largest markets of Pennsylvania and Illinois and at the wholesale level due to increased promotional activity as we continue to buildout our brands across state markets. The Company recorded additional period end adjustments related to the establishment of a reserve for expiring product and plant attrition incurred in the normal course. Full Year 2021 adjusted gross profit was $92 million, or 44% of revenue, compared to $38 million, or 47% of revenue, in 2020.

While Q4 saw gross margin compression into year end across certain markets, including Pennsylvania and Illinois, we have worked diligently with our vendors and suppliers to share the impact of price compression going forward. In Pennsylvania, for example, we've seen over a 200-basis point increase in gross margin on a sequential basis in Q1, while Illinois has seen a similar improvement. Furthermore, following seasonal slowness at the start of the year, we've seen a re-acceleration of sales growth into March that we expect to continue into Q2, and which should increase our operating leverage and, combined with gross margin improvement, our resulting Adjusted EBITDA margin.

SG&A expenses in the fourth quarter of 2021 were $38 million, or 58% of revenue, an approximate $14 million increase as compared to $25 million, or 46% of revenue, in the third quarter. The increase was driven by an approximate $4.5 million increase in labor and staffing costs to support our ongoing expansion, including growth in both retail network and buildout of our grower processor operations. Specifically, we added key personnel at corporate within accounting, construction and human resources to support our strategic initiatives, incurred startup expenses related to increased headcount ahead of new stores openings and the ramp of stores opened into the prior quarter. We also experienced an increase in startup expenses at our grower processor facilities in Massachusetts and Pennsylvania as we added staff and incurred operational expenses prior to the commercialization of our wholesale business. Other operating expenses increased $1.4 million, driven by technology and associated costs to support our expanding footprint

For the fourth quarter of 2021, Adjusted EBITDA was $1.5 million, as compared to $6.4 million in the third quarter of 2021. Adjusted EBITDA was impacted by the increase in operating expenses, as discussed earlier, in addition to slowed growth in gross profit due to retail and wholesale margin compression. Full Year 2021 Adjusted EBITDA was $17 million, an increase of $16 million compared to $1 million in 2020.

Fourth quarter net income was $9 million, or $0.05 per basic share with net loss per diluted share of $0.14. The net loss of $0.14 per diluted share in the fourth quarter was primarily due to the dilutive effects of the derivative warrants as accounted for under IFRS. The fair value gain on the derivative warrants is removed from the basic earnings to calculate diluted net loss, which is then divided by the diluted weighted average number of shares. Full Year 2021 net income was $25 million, or a loss of $0.40 per diluted share, compared to a net loss of $212 million, or a loss of $2.11 per diluted share, in 2020. As compared to the prior year, net income increased $166 million from the fourth quarter of 2020.

Moving to the balance sheet and cash flow on Slide 20. We ended the year with $95 million of cash and cash equivalents on the balance sheet, which includes a net $12 million legal settlement gain in the fourth quarter, but does not include the $14 million private placement that occurred subsequent to quarter end. We ended the year with $52 million in inventory, inclusive of approximately $11 million of biological assets. This represented a $13 million improvement from the prior quarter, driven by operational improvements and inventory turnover, while increasing our sales substantially.

We had approximately $147 million principal amount of total debt, excluding leases and property, plant, and equipment financing obligations, but including the previously mentioned $40 million drawdown from the $100 million acquisition facility to finance the cash portion of the Nature's Remedy acquisition. Current availability under the acquisition facility is $60 million, and we have the ability to increase the capacity of the facility by an incremental amount of up to $25 million.

The Company incurred approximately $74 million in cash capital expenditures during the year, reflecting investments related to the buildout of our retail store footprint, the purchase and buildout of our grower processor facility in Manassas, Virginia, and the expansion of our grower processor facility in Scranton, Pennsylvania. Given the uncertainty around timing of regulatory approvals and construction delays for the Full Year 2022, we expect to incur approximately $40 million to $60 million of capital expenditures, of which a portion will be funded by an existing financing relationship. As of March 24, 2022, our issued and

outstanding shares were approximately 190 million and our fully diluted shares outstanding were approximately 277 million.

With that, I would now like to turn the call over back to Jim to discuss our 2022 outlook.

Jim.

Jim Cacioppo

Thank you, Ed.

Let's take a look at Slide 21 and Slide 22. Two-thousand Twenty-one was a very successful year for Jushi. We put in a significant amount of work to buildout our platform and expand our strategic footprint across the U.S. We scaled our operations across both our core and developing markets, and now reach consumers and patients across seven states. Our concentration on limited-license states with favorable regulatory developments has allowed us to purposefully grow our presence and build the scale and infrastructure required to aggressively execute in these high-growth markets. As I have stated in the past, it is our purpose to establish Jushi as an industry leader and demonstrate what really sets us apart from our competitors. With a new year upon us, we are in a better position than ever to do this.

After reporting strong sequential revenue growth in the fourth quarter, we are experiencing a slowdown in revenue as we begin the year, which is consistent with what other MSOs have reported to date. The headwinds include the following. Seasonality across our retail network following the holiday season. Ongoing inflationary pressures, which have universally impacted consumer discretionary spending budgets. Lingering safety measures, due to the onset of the Omicron variant, which led to store closures and reduced hours across our footprint. Significant store closures due to snowstorms, which also may be part of the seasonal weakness we saw in the first quarter. The recall of selected vape cartridges by the Pennsylvania Department of Health and regulatory delays in bringing our high-margin, hydrocarbon extracted products online in Pennsylvania, which has prevented us from expanding our offering across our robust store network in the Commonwealth.

Furthermore, due to a combination of regulatory delays, supply chain issues, and contractor shortages, the buildout of our grower processor facilities in Virginia and Pennsylvania have experienced unexpected delays of over the three months. However, as we move further through this post-COVID environment, we look to forge ahead and restore construction levels back to normal as more resources become available.

On the M&A side, in addition to the delays in closing our Nevada acquisitions, we have proactively slowed down the deal activity. We have been prudent due to volatile market conditions, including weak capital markets and unrealistic price expectations by sellers of assets across our target footprint. Jushi's industry leading revenue growth rates force us to have a higher bar when it comes to valuation, as the seller's typically are exchanging lower growth assets for participation in Jushi's growth potential in 2023 and 2024, as we anticipate Virginia and Pennsylvania to transition to adult use, and as we complete our vertical and retail buildouts in Illinois and Ohio through license acquisitions out of a large pool of newly issued licenses.

Additionally, in Virginia we expect the delay in adult use sales to impact our 2022 results. However, as I mentioned earlier, we are hopeful that the Virginia Board of Pharmacy will swiftly find a solution to the currently overburdened medical cannabis program, which has limited access to patients seeking products. Increasing the flow and availability of more product formats will also help fuel the displacement of the illicit market, which is estimated at $1.8 billion in Virginia.

As result of these expected headwinds, we are revising our previously provided guidance range to an annualized fourth quarter 2022 run rate. We now expect fourth quarter revenue on an annualized basis to be between $375 million to $425 million and Adjusted EBITDA to be between $70 million to $90 million on an IFRS basis.

Looking ahead, we have identified three strategic priorities over the year that I will review on Slide 23.

First, we remain focused on expanding our strong retail network. In 2022, we expect to add up to 10 BEYOND / HELLO locations, and potentially secure additional licenses and locations through either applications, or acquisitions.

Next, as previously mentioned, we will continue to build out our cultivation and processing capacity in Pennsylvania, Ohio, Virginia, Massachusetts and Nevada, which will allow us to become a more vertical business as we sell more of our own product through our own substantial retail footprint. As we become a more vertically integrated company in the coming years, our margins should look more like the margins of more mature, larger, vertically integrated companies in the industry.

Lastly, we will continue to identify accretive opportunities to expand our business and increase our competitiveness. We will look to uphold our best-in-class track record of acquiring high-value assets at attractive prices, all with the goal of creating sustained value for our shareholders through mergers and acquisitions.

I am pleased with our performance and execution to date, and with the continued progress we have made to strengthen our platform. As always, I would like to thank our team for their hard work and continued dedication to making Jushi what it is today.

With that, I would like to thank everyone for their time today.

Operator, please open the call for questions.

Operator

Our first question comes from the line of Russell Stanley with Beacon Securities. You may proceed with your question.

Russell Stanley

Good morning and thank you for the color.

Maybe if I can start on Pennsylvania. Jim, given your comments around a bill expected to be filed in the near term, I guess what are your latest thoughts around timeline for implementation and when you think that might take hold?

I guess, secondly, I guess preliminary thoughts as to how that market will look. Do you envision something like a New York-like priority for social equity, or more of a New Jersey approach with incumbents allowed to open first? Thank you.

Jim Cacioppo

Thanks, Russell, for your question.

You know, I don't like to comment on the political process, because we're involved in political process very, very actively. But the timeline, I would just note, I'll give you my sort of macro thoughts. The prelim thoughts are, I can't, I'm not going to comment too much on the politics. But what I'll say is that when you look at Pennsylvania with 155-ish stores, right, and we have grower processor capacity that is substantial (audio interference). It's much different than other states, like even Illinois that only had 155 dispensaries, right, and less grower processor capacity. Or New Jersey which had almost no stores, I mean, I know there's like 15 or whatever it was when it was medical, and much lower, I mean significantly, almost no grower or processor capacity. Just to point to the extremes.

When you look at Pennsylvania, it has the capacity to absorb adult use without crowding out medical patients, right. It has a vast program, right, that has 600,000 patients. It's been a very, very successful program. The growth rate of the medical market has been much, much better than the growth rate in even Florida, I believe. It's one of the best states out there for a large state in terms of the take up of the medical program.

When you look at the ability and the number of stores out there, the grower processor capacity, the expansion plans of the grower processors that we all have that we're holding out to wait to see what happens (audio interruption) and I would say that we've seen some bipartisan work. The Democratic governor, Republican controls one of the Houses, and I think there's a real balance of what the program will look like, and they all have to compromise. Pennsylvania has a long history of being bipartisan, and I do believe that I'm fairly optimistic that we can get something done there.

Next question.

Russell Stanley

That's great. Maybe just one more. Maybe if I could, just one more on Virgina.

Jim Cacioppo

Absolutely, yes.

Russell Stanley

Wondering if you can update us on the performance of the second store and whether the performance there validates your choice of going to a larger layout with the additional openings you've planned for this year. Thank you.

Jim Cacioppo

Yes, I would say the limitation of Virginia really has been related to the patients getting cards. Remember, there's 12,000 to 15,000 waiting. The Board of Pharmacy has recognized that and is taking measures to improve that. I'm very optimistic that we can get something done there to try and get the number of patients increased quite dramatically. The only hold back in the medical market, in my mind, is that. I think we're ready with our grower processor. We have room sitting there. We were subject to some crazy regulatory delays on that, unrelated to the Board of Pharmacy, but just some local stuff. But it's brand spanking new and looks fantastic.

Then I think some other of our competitors in the state have a lot of capacity. We have the capacity to serve the patients. Our stores have much higher capacity than what they're doing. Our new Sterling store is doing about a $6 million run rate, which could be vastly higher very, very quickly. It has tremendous parking. The other thing that limits the stores initially in the uptake of the stores in Virginia is that there's a

very strict law on marketing and advertising, stricter than we've seen in other states. We just can't paste up billboards and just blast out, hey, here we are. It's just, a lot of it is word of mouth and our website. That's going to cause it to go a little bit slower, besides the card issue.

They're slower than I would have liked, for sure, but there's just tons of capacity there to serve patients, both at the store level and the grower processor level within the state, and I'm very optimistic. It's hard to predict that these stores are going to achieve very, very satisfying numbers from a medical market on a revenue per store basis. Some of the best, we have the potential to have some of the best in the country.

Next question.

Russell Stanley

Thank you.

Jim Cacioppo

Russell, I'm sorry. I didn't know you were still on. Do you have any more?

Russell Stanley

No, that's it. I'll get back in the queue. Thank you.

Jim Cacioppo

Great, thank you.

Next question, Operator.

Operator

Our next question comes from the line of Bobby Burleson with Canaccord. You may proceed with your question.

Bobby Burleson

Yes, good morning.

Maybe this one is for Jim. Curious, just any components behind the revenue and EBITDA guidance where you think you're being a little bit more conservative, where there could be some upside this year.

Jim Cacioppo

Yes, thanks Bobby.

Yes, I would say there's definitely areas where we're being conservative, but there's also we've shown to get surprised on the downside. There should be an offset. I would say, again, I'll continue to say that the hardest part to predict in my mind, of all our states, is really Virginia because of the patient and some improvements that can go. You know, I think we're finally being more conservative on that. I would hope there's upside there, but we'll see.

We haven't been right in that direction since we projected Virginia. But what could happen there to speed up the access for patients through issuing, you know, the access to patients and so there's not such delays, I believe, could be very helpful for our business. Then we'll see how it goes. There's some regulatory stuff and trying to get it so we can let them know where the stores are as well. Those are kinds of things we're looking for, but it's hard to predict when though.

I would say the slowness that we've seen for the industry. I think, you know, I haven't listened to the conference calls of some of the people who reported before us, so I don't know exactly what's been said, but I will say that one of the things that there's been regulatory delays more this year than I've seen in our footprint. Part of that is obviously COVID. We had the Omicron scare. These departments are underfunded, and they've been dealing with COVID, they're predominantly health departments, right. They have to do the work related to the COVID stuff, and it just keeps hitting them. It's been a couple years of these. These people are probably exhausted from all of that, right. It also gives a nice excuse as well, not saying that people are using that in our footprint, but there's also, hey, I've been dealing with COVID.

I would say that the regulatory stuff, just little things of implementation, have been slower than we would like to expect. I think it's across the country. In their defense, I believe that money is an issue, that COVID is an issue, and so we've kind of been somewhat conservative on that, because that's a large part where we've been wrong on our grower processors getting approved and the new expansion, and some of these things in retail that would make the markets better.

M&A is another area. The question is, you know, we're sitting here in March now. The sellers, in my mind, have not adjusted to the stock market (audio interruption) and they haven't adjusted to the fact there's less purchasers are out there. We saw the big deal yesterday with Cresco and Columbia Care. I love that for Jushi. There's two buyers now who are sort of out of the market. They were good buyers. Now they've turned into sellers, you know, I believe, and substantial sellers.

I believe that the M&A market is coming our way. I think our discipline is paying off, so I'm happy to give up some revenue growth for long-term value for our shareholders who are getting the right deal at the right time from the right seller. I believe the sellers haven't figured out how to price their assets. They will figure it out soon with these forced divestitures. I mean, it's getting to the point where how many people can buy Ohio assets? Figure it out. Right? How many people can buy Illinois assets? Figure it out, whether it's grower processors or retail.

I hate to be the bearer of bad news for these sellers, but figure it out. I mean, like if you want to sell your assets, that's great. If you want to open them up and struggle, go do that. By the way, retail only, don't forget about 2AD taxes, my friend. Free cash flow can be very, very limited. We know what the value of these assets are. We're not willing to overpay. We hope to surprise you on the upside, but we'll see.

Bobby Burleson

Great, great color. Then maybe just on the cash flow, Ed. It seems like you've been able to drive some nice operating cash. Curious, you know, what the main sources are and kind of what you think the opportunities are this year.

Ed Kremer

Thanks, Bobby. Look, appreciate the question.

I think in the fourth quarter we generated $15 million of operating cash flow, and a lot of that, $10 million of that, came really from an improvement in our inventory turns. We're very proud of being able to take

our weeks-on-hand down. If you think about it, our inventory decreased by about the same percentage, about 20%, relative to our growth, about 22%. Huge improvement in our weeks-on-hand, and the other 5% came from just better management of working capital. I think, look, it's hard to take inventory down any further, so I think that you saw that hit pick up in the fourth quarter. We hope to continue that trend and continue and improve on our overall working capital.

Jim Cacioppo

Thanks, Ed.

I just want to point out, Bobby, while I have that question, you know, adding to that.

We started to manage the business better from an expense and inventory turn (audio interference), right, 159%. We opened. We doubled our store base, practically last year. That's huge growth, and we're building these huge grower processors. How much CapEx did we spend last year, like $74 million, right? That's as big as the big boys, right. Massive expansion, we had to hire a lot of people. We had all this management that came in place at the very senior levels, and they build out their department, so we've gotten better. I think quickly or on time, maybe a little late, but not drastically late, right.

As we move through the year, you're going to see. We announced that we haven't—I noticed some of the other operators announced that they were cutting costs. We've already done it. We just said, okay, boom. We started the program in the fourth quarter on the purchasing side. It took very, very dramatic cost savings of a lot of money, especially in Pennsylvania, but also in Illinois. We're a big retail purchaser. We have great respect and admiration for our vendors, but they have to play ball. We knocked almost eight vendors off our shelves in Pennsylvania because they didn't want to play ball, and that's it. They're gone. We gave that shelf space to other vendors who wanted to play ball.

Then in terms of opening stores, we were so busy doing that. We got them open relatively on time with all the regulatory shenanigans that goes on with the COVID and everything else that I mentioned. We got them open, and we've learned how to do that more efficiently toward the end of the year. We will open stores much more efficiently. Instead of using approximately 25 people per store, we can do 11 people per store, and we can do a better job of varying it for ones we think we can open quicker and have more knowledge of how the store should take off quicker, which ones may be a little bit slower.

But things like that, you know, it's hard for me to give you an estimate of what that means, but believe me, it's real, right. Things like we did some things where we made some small mistakes. Ohio, we staffed up, and then the regulatory stuff just really hurt us, and we sat there too long with unproductive employees that we were paying. We're going to be going through each month in the next two or three months and you'll see some more cost cutting. That could be an upside to what you're saying; but like what we did with inventory turns, you're going to see us on the cost side.

I was wading through hires last year. We raised almost $200 million when there was a bull market and we had the ability to grow our team that we hadn't seen for a while, so we went and did that and now we're going to go back and figure out where we can prune to get more efficiencies in the system. Of course, we'll keep growing expenses over time, but the pace of it will slow and certainly some areas will decline, okay. I want to point out that the inventory turns is a great example, but we're going to continue on the cost side.

Bobby Burleson

Great, thanks for all the color.

Operator

Our next question comes from the line of Kenric Tyghe with ATB Capital Markets. You may proceed with your question.

Kenric Tyghe

Thank you and good morning.

Jim, I wonder if you could speak to not just the pricing pressure but promotional intensity, how that evolved through the back end of the quarter, because that certainly seemed to be where we saw pressure increase. Or at least based on peer reports, the pressures on the consumer certainly started to be felt late in the quarter. To the extent you're willing to comment, how has that impacted your guide for 2022 in terms of that margin or that gross margin? It certainly doesn't read as if there's an expectation of any marked or material recovery in gross margins given the backdrop. Any color there would be great. Thank you.

Jim Cacioppo

Yes, thank you Kenric.

I mean, getting to Bobby's point about where the upside is, we've significantly cut our purchasing costs. In other words, we're big; unlike some of the other companies, we're different. We're much higher percent of retail, but which we will change. We're looking to, if you want to look at our margins overall, whether it's gross or net, but really on the EBITDA margin, it's going to trend much more of a vertical company. Pick a GTI, there's a lot of disclosure between retail and wholesale, or a Sand (phon). They break out retail, wholesale so you can play with their margins. You can see where we would go as we increase our wholesale, our own product sell through to our own system, which is much lower compared to most people just because we have expanded facilities just to provide that. We don't have it.

We were a retail-only company at first, which was great on the M&A side. We saved our shareholders a lot of money purchasing assets, no question. But on the margins, you're being much more long-term oriented. Now we're getting there. We said all the canopy we're building. I think we'll match, if you look at these industry leaders on vertical, we'll match what's out there, whether it takes us 12 or 24 months, we'll get there. When you focus on margins, I would focus on that. That's a big move. That's a structural move in our Company.

In terms of pricing pressure and promotional pressure, I would note what it felt like to me was we were promoting in the third quarter, late in the third quarter, our usual promotions, and into the fourth quarter, right. We noticed the effect wasn't there. With our promotions, we would drive traffic and gross profit dollars, not percentages, would go up, and we'd have these measurement tools to figure out if they were effective or ineffective promotions. Is it red or green? It was clear the way we were looking at it, right.

What happened was, it started going red, but we could have definitely been six weeks, maybe eight weeks, better in figuring this out and adjusting, but what we did when we figured it out and had got up to my desk is we went and renegotiated our purchase price contract and, said no, no, no, if you want to be on our shelf, you've got to cut your price. And it was substantial. That's it. We have 18 stores. We have a big part of the market. A large percent and we were able to successfully do that.

What it means in our margins, where we are gross and net, we are building back our margin, because I think we probably hit our nadir in the third quarter in March. We saw it, right, Ed?

Ed Kremer

We started to see based upon improvements at a pretty good clip going into the first quarter and certainly into March.

Jim Cacioppo

Yes, we had it nice, so our margins are recovering. January and February, I think one of the things that people don't understand and they don't talk enough about is the seasonality in the business. I'm getting quite sure that January is the weakest month of the year. Just think about it. You've got your January resolution, the Peloton bike, the snow comes, snowstorms come, you know, you're not going out. The stores are closing because of snowstorms. That happens all the time to us. It happened this year in spades, and so that's a bad month.

February, now you're the polar bear. You're in there for the winter. You're not going out as much. You're not doing as much, right. You're missing your trips to the store. Then you also spent all your money at Christmas, right. I mean, you bought people presents. You bought yourself presents. You've overspent and you've enjoyed our promotions that we give for Christmas as well. Those are weak months. I would say that March is a big tell for us what happened, and we're not through March yet, but it's a big tell. I'm quite instructed that our margins we're building back up our margins. We plan to cut more costs as well.

Operator

Our next question comes from the line of Ty Collin with Eight Capital. You may proceed with your question.

Ty Collin

Hi, thanks for taking my question here.

Given some of the challenges we've seen in those individual markets like Pennsylvania, which can really kind of weigh down on company-wide performance, I wonder if you can share your thoughts on geographic diversification as a consideration when you're thinking about your investment decisions, kind of weighing spending between your existing footprint versus expanding into new markets for example. Thanks.

Jim Cacioppo

Yes, Ty, thank you. That's a very good point.

I think we've done a good job of diversifying, so we're now in the Massachusetts markets. We're also in the Nevada market in a pretty big way when we close this deal in April with NuLeaf. We're vertical now with Apothecarium. Yes, we've been slow. Yes, geographic diversification sounds great in theory; but what's the price I've got to pay for that today versus yesterday or two years ago? What we've done is generated shareholder value by being disciplined and not rushing. Right now, the world is running out of buyers. I mean, Columbia Care and Cresco, guess what people? They're sellers. They were buyers, okay. Patience pays off.

We were very concentrated to PA and Illinois. Now we have PA We have Illinois and Massachusetts, and Virginia is going to blow people's minds over the next couple of years, I believe. We're making a big bet on that. I mean, we've got a lot of capital there, right. I mean, I don't throw around capital. How much money have we put into Virginia? (Audio interference) these facilities, I mean, this is a lot of money. It's a

big bet, okay. I think we are diversified smartly and we're going slower, much slower approach, but you know, and there is an odd example of a market where it's going to be hard to get into in a big way, like Arizona until they change the laws, which they probably will. But that's okay, there's 5 million people in Arizona, okay. All right. They can have all that. There's 330 million people in this country.

There's plenty of opportunities to expand geographically. I would note that what you're seeing in PA is because all the MSOs came in—and by the way, we got great prices from that, but we bought 18 dispensaries for $80 million, right. Regularly, some of these bigger players are spending between $50 million and $130 million, including earnouts, for three dispensaries, right. But they're all coming in because it's going to be a great belt use market, and that takes time. That's a transitional thing, and yes, there's a little bit more capacity, but there will be product shortages when that flips over, in my view.

I like our geographic concentration, which is not that concentrated. We're in seven states and getting pretty big in all of them except for California. But I like our concentration, because you get the most exposure to PA, which is going to flip. You get the most exposure to Virginia which is manna from heaven, eventually. I mean, I like that as a shareholder.

Operator

Our next question comes from the line of Andrew Semple from Echelon Capital. You may proceed with your question.

Andrew Semple

Good morning.

Just first question here on the guidance and the EBITDA margins. If I look to the midpoint of the prior guidance range, it would have implied about a 30% EBITDA margin, whereas the midpoint of new guidance range would imply a lower 20% EBITDA margin. I'm trying to mix and match that with your comments that you feel you are rebuilding your gross margin profile, kind of getting towards the end of the first quarter. I guess, you know, are you seeing increased Opex kind of persist throughout the balance of the year? Or do you think maybe margins exiting this year could have been lower than the previously anticipated?

Jim Cacioppo

Andrew, I think it's a timing issue for the most part, the big move. We obviously noticed this ourselves and analyzed this, and we have like a slide that we're not sharing that we're looking at.

Jon, my president, is going to take you through this.

Jon Barack

Hi, Andrew.

Basically, the difference is the time or the point at which we have the full benefit of the vertical margins as we expand our GPs and then push that product both through our system and into the wholesale market. Previously, the guidance for the year assumed that that was going to happen in the year, and so that 30% margin or so assumed the sort of full benefit of verticality which we see from our peers, etc.

What's happening now is that the fourth quarter exit is better than obviously current, and there's improvement over the course of the year that's definitely back half weighted, because that's really when our expanded GPs are coming online, but we don't have the full benefit of that in the fourth quarter.

The margin improvement into let's say where you're saying the 20% is from the 30%, that's not the end of it. That is just midway through that improvement that will continue into next year and definitely benefit further, obviously if and when the adult use expansion happens in states where we have the largest GPs for us, which are Pennsylvania and Virgina. Basically, we still expect to get to those full vertical margins. It's just pushed out.

Jim Cacioppo

Yes, I want to point out, just because this is an issue we had trouble explaining. We were going back and forth how to explain this, and I think it's an important issue.

When you look at the scale of a company, look at the comps that give you—look at the comp that gives you vertical-ness data, like Ascend (phon) and GTI. Look at it as they go from retail to vertical, what happens to their margins as they get to scale, so look at GTI's number from '19, '20, '21. As they get to scale, what are their margins, right? Why would we be different?

We're going to get to that target of that balance, right. We're going to get there. I guarantee you that. I can't guarantee you that, I guess, but that's our intent. That is our intent, okay. But the point is, as we exited, so in our old numbers we were exiting the year, right, not at our exit of $375 million to $425 million.

We were exiting at, what is it, Jon?

Jon Barack

The exit in the old projection was Q4 run rate of about $440 million and EBITDA run rate of about $130 million.

Jim Cacioppo

Yes, on an annualized basis. That was the exit. The margins were higher because you're taking in when you are more of a scale company, and you are amortizing all that corporate overhead, and also you're more vertical at that point as well. There's two big, big moves there. I would say that's part of the big thing, and then I think there is that little margin compression. Our starting point is lower in the first quarter.

First quarter was weak, remember, right, because of the seasonality that I think the industry fails to talk about and maybe we're a little sloppy in our modeling and we didn't pick up. But on top of that, we had Omicron in the first quarter, which we pointed out. We had snowstorms that were pretty dramatic in Pennsylvania, Illinois, and Massachusetts, which we had to close stores for both Omicron and significant store closures, right. Then we had the vape recall in Pennsylvania. Who would have predicted that? I think it's completely wrong, but they did it and we're fighting that, but those are three big things, including and then the seasonality that, you know, the modeling probably error on our part.

The first quarter is less, right. Then we had this lower starting point to get us to a lower finishing point.

Yes, so I mean I think there's that big timing thing of getting to scale. We believe we'll get to industry margins. Industry margins could come down a bit. When I say industry leaders, I mean leaders. Look at the companies that I'm pointing out, especially like we're looking at GTI is the one that we're kind of trying

to get. Not that we're trying to emulate them, but just in terms of what we think we'll end up looking like as a balanced company could look a lot like that.

Operator

Our next question comes from the line of Glenn Mattson with Ladenburg Thalmann. You may proceed with your question.

Glenn Mattson

Hi, yes, thanks for taking the question.

And just building on that last one, if you look at the Q4 EBITDA guidance that you put out there, that's an annualized rate, right, so you're going to build to that throughout the year. I'm just comparing that to like the Massachusetts acquisition, the Nature's Remedy. At the time of the purchase, you talked about multiple of two and a half to three times 2022 EBITDA of $34 million to $38 million. Maybe just as an example, can you talk about Massachusetts and how that acquisition is going versus what you had expected when you purchased it versus what you expect for this year?

Jim Cacioppo

Yes, that's a great question, Glenn.

I would say, you know, we've had more issues than we expected, okay. The issues, which was to prove our due diligence, and it's a great thing that we go slow. When you do these revenue acquisitions, there's no question you get surprised, right. These are cannabis entrepreneurs who started this company. They're trying to sell the company, and you do due diligence, but it is what it is. One of the things that surprised us was their level of A bud, right, which we are not going to make this mistake. We're going to test it next time, but they were growing much less A bud than we grow, right. It was all just trimming, how you trim the plant, and maybe a little bit of air conditioning, humidity control, which we understood the humidity control, but it was more how they were trimming the plant. We improved that already, but that started a little bit slower. I'd say improving.

Another one that we didn't expect, because it's the only state, I think you see other operators talk about this, is employee issues in Massachusetts are much harder. You have this labor shortage. You know about that in the country, the inflation. We don't see that in Scranton, Pennsylvania, for our grower processor. We're not seeing it to this point in Virginia. It's a growing state. People are moving there, but we do see it in Massachusetts, and other people talk about that in the cannabis industry. In other words, we're understaffed by a good number of people, and we have not been able to close that gap. Because it's a tight employment market, we feel like every time we get back, we get people, we're losing people. That's been an issue to get to our goal.

There was also, we had to take down the grow room because the cannabis entrepreneurs we bought from didn't get the proper certification, and so we took down the grow room. Then we decided to be safe, and we did some things to on the regulatory side. We slowed everything down because we were like, okay, there's a little bit of cowboy-ness in there. We slowed everything down to make sure we're complying with all the rules and regulations once we took it over.

Then I would say on top of that, and a big thing is the wholesale. I think ultimately we'll get to our numbers. We'll get to our numbers, but it's going to take longer. On the wholesale side, we're thinking like people from Pennsylvania where people have 18 stores and we're big buyers all over the country, and we can wheel and deal with people that we buy from, and there's a lot of MSOs. Because of the store caps,

you've got to go out and get a lot more doors. Now, we understood that; but with the employee shortages, we didn't understand just the timing of us getting a wholesale staff in place for one that didn't have it. We're turning that around and getting the wholesale group in place. That's taken a good six months longer than we anticipated.

Operator

Ladies and gentlemen, we have reached the end of today's question-and-answer session. I would like to turn this call back over to Mr. Michael Perlman for closing remarks.

Michael Perlman

Thank you for participating in today's conference call. We look forward to speaking to you again soon. Have a good one.

Operator

This concludes today's conference. You may disconnect your lines at this time. Thank you for your participation. Enjoy the rest of your day.