

## **Jushi Holdings Inc. (Q2 2022 Earnings)**

**August 29, 2022**

### **Corporate Speakers:**

- Michael Perlman; Jushi Holdings Inc.; EVP of IR
- James Cacioppo; Jushi Holdings Inc.; Founder, Chairman & CEO
- Louis Barack; Jushi Holdings Inc.; Founder, President, Corporate Secretary & Interim CFO

### **Participants:**

- Robert Burleson; Canaccord Genuity Corp.; Research Division, MD & Analyst
- Russell Stanley; Beacon Securities Limited; Research Division, MD & Research Analyst
- Matthew Baker; Cantor Fitzgerald; Equity Research Associate
- Glenn Mattson; Ladenburg Thalmann & Co. Inc.; Research Division, VP of Equity Research
- Ty Collin; Eight Capital; Research Division, Analyst

## **PRESENTATION**

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

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

This morning, we issued a press release announcing our second quarter 2022 financial results. The press release, along with the presentation that accompanies this call, are available on our website under the Investor Relations section and filed on SEDAR and EDGAR. On August 12, Jushi became a U.S. reporting issuer under the United States securities laws and has converted its accounting standards from IFRS to U.S. GAAP, beginning with our second quarter 2022 results.

Thus, all financial information has been prepared based on U.S. GAAP. Additionally, non-GAAP financial measures referenced on this call are reconciled to the most directly comparable U.S. GAAP measure in the company's earnings release and will be available in the company's MD&A for the quarter ended June 30, 2022, which will be filed on SEDAR.

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

The risk factors that may affect actual results are detailed in Jushi's S-1 registration statement and other periodic filings and registration statements. These documents may be accessed via EDGAR and SEDAR. These forward-looking statements speak only as of the date of this call and should not be relied upon as predictions of future events. With that, I would now like to turn the call over to Jim Cacioppo, Chief Executive Officer, Chairman and Founder of Jushi.

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

In a challenging macroeconomic environment, I'm pleased to report solid second quarter revenue growth and more initiatives to improve profitability. The company reported solid sequential and year-over-year top line revenue growth for the second quarter. On a sequential basis, revenue increased 18% driven primarily by the acquisitions in Nevada in the first half of 2022, increased retail and wholesale activity in Massachusetts and growth in retail stores in Illinois and Virginia.

Year-over-year revenue grew 52% to \$73 million compared to \$48 million in the second quarter of 2021 driven by our acquisitions in Nevada and Massachusetts, and new Beyond Halo store openings in Pennsylvania and Virginia. On a GAAP basis, adjusted EBITDA for the second quarter was approximately \$0.5 million as compared to a loss of \$0.9 million in the first quarter of 2022.

Let's move to Slide 6. It is important to note that increasing the sell-through rate of our Jushi-branded products is one of our more important initiatives, and a significant profitability driver for the company in the coming quarters.

As of the second quarter, sell-through rate of our own branded products improved by approximately 770 basis points to 21% of total retail revenue as compared to approximately 14% in the first quarter of 2022 driven primarily by the acquisition of NuLeaf. Excluding the NuLeaf acquisition, our own brand penetration increased by approximately 270 basis points to 16%.

This is an encouraging signal as we look to increase the penetration of our own branded products in the second half of the year, especially as we continue to diversify our

offerings and add new strains. As a further data point, we've seen accelerating traction recently with our own branded sales of our flower and vape products in Pennsylvania, reaching levels as high as 40% plus of weekly units sold.

Let's move to Slide 7. Throughout the second quarter, we continue to aggressively execute on the cost savings measures we implemented at the beginning of the year, and I'm pleased to report that these efforts have led to another quarter of reduced operating expenses as a percentage of total overall revenue.

I'd now like to provide a brief update on these initiatives. At retail, we continue to optimize our labor model to ensure we are allocating the appropriate amount of resources and staff across our footprint in alignment with market activity and demand.

First, in Virginia, where the patient registration requirement was recently lifted, we are improving our staffing structure and zoning of pharmacists to ensure we are providing the best in-store experience for the influx of new patients entering the medical program. Additionally, in late Q1, we brought on a labor analyst to support our retail team with the optimization of the labor model in our stores.

Together, they standardize store headcount and staff schedules to ensure optimized labor while maintaining best-in-class customer care and continued operational excellence. Part of this newly established standard includes a greater emphasis on utilization of part-time store team members, which gives us the ability to be highly flexible and nimble in managing any fluctuation in store revenue. We are starting to see the positive impact this optimization is having, and expect to continue to realize that impact in Q3 and beyond.

Additionally, our vendor and product rationalization that we initiated in the first quarter gives us the ability to be more strategic with our pricing and frequency of promotions across our footprint, which has helped drive gross profit dollars, and gives us a better understanding of the current purchasing habits and trends unique to each market. Similar to what many of our peers have reported, we have seen average spend per transaction decline in the second quarter with smaller basket sizes showing a focus on value products.

However, it has been more than offset by an increase in the number of visits and the number of new customers shopping at our stores. While we believe the cannabis business is recession-resistant, no business is completely recession-proof. We will continue to improve our vendor purchasing processes to further increase retail gross margins across our footprint.

Next, at our grower-processor facilities as our new (inaudible) rooms come online in the second half of this year, particularly in Virginia and Pennsylvania, we expect to see a meaningful improvement in the genetic diversity, quality and yield of our harvest as we implement new processes, introduce new automation technologies. This should increase cost efficiencies over time, and allow us to realize higher margins for our branded product as quality and diversity of product improves.

We expect the facilities' KPIs to be on an improving trend for the next 12 months as these facilities scale up and move along the learning curve to our desired peak operating goals. In both Pennsylvania and Virginia, we will be feeding our own substantial retail sales, and will not be overly reliant on the wholesale market.

And at the corporate level, with the exception of recruiting our replacement Chief Financial Officer, we have completed the buildout of our executive and senior management team with the addition of [Shano Patrick] who will oversee the growth of our wholesale sales as our new Executive Vice President of Wholesale Operations. We are also in the final stages of hiring for our accounting and IT departments to support our transition to being a U.S. reporting issuer.

I will now like to highlight our second quarter operational achievements over the next few slides. Let's begin with Slide 8, with an update on our state level operations. In Nevada, we completed our acquisition of NuLeaf, which significantly expanded our vertically integrated operations in the state.

This was our third acquisition in Nevada, and substantially increased our presence in the market with the addition of a 27,000 square foot cultivation facility, a 13,000 square foot processing facility, two operating retail dispensaries and one licensed dispensary to be opened. Following the close of the acquisition, we opened the third new leaf retail location on the Las Vegas Strip, bringing our total store count to four in the state.

Let's move to Slide 9 and 10. In Pennsylvania, we expanded our Scranton facility from 81,000 square feet to approximately 123,000 square feet. We remain on track to more than double total number of operational grow rooms from 4 to 10, and increased canopy and annual biomass production to 36,000 square feet and 22,000 pounds, respectively, by the end of this year.

In our new processing area of the facility, we have introduced various automation technologies, which we expect will drive efficiencies and improve quality in the coming quarters.

Our new hydrocarbon and [solvent list] extraction and processing capabilities at the facility allow us to provide a full breadth of vape and concentrate product formats to the Pennsylvania market, which, as of August, are fully introduced to the market and are getting great patient reviews. We expect to further diversify our offering in the second half of the year with new strains of flowers varieties which have just hit the market.

Moving to Slide 11. In Virginia, we have expanded our Manassas grower-processor facility from 30,000 square feet to approximately 93,000 square feet. We went from only one flower room planted early in the second quarter to 5 by the end of June, and are expecting these new rooms to generate revenue at the end of this quarter, which is a bit delayed from the last time we reported.

Our target is to add two additional grow rooms for a total of seven, and increased canopy an annual biomass production to 19,000 square feet and 12,000 pounds, respectively, by the end of this year.

At the retail level in Virginia, both our Manassas and [Sterling] locations experienced a significant increase in revenue since July 1, following the removal of the patient registration process requirement, which eliminated a significant barrier for patients waiting to enter into the medical cannabis program.

As a point of reference, we saw approximately 1,950 new patients over the course of the whole second quarter before the change in the requirement. In only the first month following the change, we saw approximately 2,300 new patients. August looks equally as promising even though the state has experienced some product shortages.

Subsequent to the second quarter, we opened our third store in Alexandria, which was our most successful new store opening ever in terms of immediate sales in the weeks following the opening. And in just a couple of days, we expect to open our fourth store in Fairfax, which we believe is also well positioned for a strong opening.

As a reminder, both Fairfax and Alexandria stores are designed to be among the highest volume stores in the country which we expect when Virginia brings on adult use in the first quarter of 2024. And in Massachusetts, we have grown our wholesale business and expanded our offering of Jushi-branded products we sell through our Nature's remedy stores. We are now in 73 licensed dispensaries in Massachusetts, up from 62 as we previously reported in May of this year.

Continuing to Slide 12. In the second quarter, we established our fifth vertically integrated state-level operation in Ohio with a provisional medical retail license awarded by the Ohio Medical Marijuana Control program.

Construction began this summer. And the new location is expected to open in the fourth quarter of this year, subject to regulatory approval. Establishing a retail presence in Ohio and becoming vertically integrated is expected to accelerate our path to profitability and turnaround business that historically has not been profitable.

Additionally, we have secured a parcel of land adjacent to our facility, which provides additional expansion opportunities as we look to triple our cultivation area from 3,000 square feet to 9,000 square feet over time, pending regulatory approval. With triple stacking, we should be able to adequately support a store base of 5, which is a limit in the state. We continue to explore and sign LOIs to grow our store base.

Moving to Slide 13. We expanded our West Coast retail network in the second quarter with the opening of Beyond Hello Grover Beach, California. This store opening marks our third dispensary in the Golden State and is located in the thriving beach town that sees an annual tourist population of approximately 2.2 million. Additionally, after the

quarter, we reopened our Beyond Hello Pump Springs, California location with the reimagined design and in-store experience.

Let's move to Slide 14 for a discussion of our branded products expansion. In the second and third quarters of 2022, we debuted two new innovative product lines in Pennsylvania under our brand, The Lab. The first line is comprised of over list live rosin and extract products, including live rosin, date cartridges and [Jared] concentrates, a first of its kind in Pennsylvania. The process formulated using premium flower and extracted using proprietary processes to preserve the integrity of the plant.

The second line is made up of live resin vape cartridges and concentrates produced using hydrocarbon extraction process, which uses high-quality fresh frozen cannabis. Throughout 2023, The Lab (inaudible), live rosin and hydrocarbon live resin lines are expected to be fully available across our footprint in Massachusetts, Nevada, Ohio and Virginia, pending regulatory approvals.

Looking ahead in Pennsylvania, we expect to increase our profitability by diversifying our branded product offering and increasing penetration of our own branded products throughout our large dispensary network of 18 dispensaries, including the addition of many new strains under our brand, The Bank. An historic lack of strain diversity due to historic regulatory constraints caused us too often to have to mark down pricing in the first half of the year.

In addition, the very limited strain diversity and lack of hydrocarbon and favelas products limited the number of Jushi-branded products and thereby negatively impacted our vertical margin during the quarter as we needed to carry much more third-party products to satisfy patient demand.

Also, lost sales due to the vape recall, and onetime discounting occurred following the reversal of the vape recall, where temporarily and unjustifiably recall products replace back on to our shelves as they approach their expiration date and subsequently needed to be moved at expedited rates. With the regulatory change in December of 2021, we are now producing many new strains which has started to help drive SKU count and product diversity and ultimately expand vertical sell-through as well as wholesale potential.

In Massachusetts, we will be debuting a new line of infused chocolates under our (inaudible) technology brand in September. These cannabis-infused chocolates are made of 100% premium French chocolate and developed by a five-star pastry chef. Additionally, Early in the fourth quarter, we expect to launch newly reformulated cannabis [views] chews that are 100% vegan, gluten-free and contained real fruit.

In California, through a capital-light strategic partnership, we expect to launch several new and innovative Jushi-branded products to be exclusively sold at our Beyond Hello dispensaries in California. These products are expected to increase gross margins at our California stores as we expect these to be our lowest price, highest volume and highest margin products.

We have also introduced third-party branded flower products as our house brands which also should achieve the same financial goals as the above-mentioned Jushi-branded products.

Before I hand over the line, I am pleased to announce that just a couple of weeks ago, we officially transitioned to reporting issuer status in the United States. As mentioned earlier, with this transition, we have converted our financial reporting from IFRS to GAAP in accordance with SEC reporting requirements.

With our new status as a U.S. reporting issuer, we are well positioned to take advantage of potential opportunities that could come with U.S. legislation changes surrounding cannabis, including the ability to uplift to a U.S. exchange, among other potential benefits related to capital funding and banking.

In the meantime, we continue to focus on building a robust cannabis platform, while simultaneously preparing to take advantage of these opportunities when they arise. With that, I'll now ask Jon to review our financial results before we discuss our 2022 outlook. Jon?

Louis Barack^ 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 filed financial statements for the quarter ended June 30, 2022. As a reminder, all results are stated in U.S. dollars, and are now prepared under U.S. GAAP. I'll now begin on Slide 16.

As Jim previously mentioned, revenue in the second quarter of 2022 increased 52% to \$73 million compared to \$48 million in the second quarter of 2021 and increased 18% from \$62 million in the first quarter of 2022. Second quarter retail revenue increased 16% to \$67 million, and wholesale revenue increased 42% to \$5 million as compared to the first quarter of 2022.

The year-over-year increase was primarily attributable to our acquisitions in Massachusetts and Nevada and New Beyond Hello store openings in Pennsylvania and Virginia. The quarter-over-quarter increase in revenue was driven primarily by our Nevada acquisitions in the first half of the year, an increase in wholesale and retail activity in Massachusetts and retail sales growth in Illinois and Virginia.

Moving to Slide 17. Our gross profit was approximately \$27 million in the second quarter of 2022 or 37% of revenue as compared to approximately \$19 million or 31% of revenue in Q1 2022. On an adjusted basis, second quarter 2022 gross margin was 38% as compared to 40% in the first quarter of 2022.

Adjusted gross margin was negatively impacted by the underabsorption of fixed costs at our GP facilities as we scale our wholesale business and increase promotional activity of Jushi-branded products in Pennsylvania. As Jim mentioned earlier, we reduced prices of

certain Jushi-branded products in Pennsylvania due to limited genetics in the vape recall that was ultimately reversed.

Operating expenses in Q2 2022 were approximately \$39 million or 53% of revenue compared to approximately \$37 million or 60% of revenue in Q1 2022.

The approximate 700 basis point improvement in operating expenses as a percentage of revenue was primarily driven by managing labor and staffing expenses across the organization and lower share-based compensation. For the second quarter of 2022, adjusted EBITDA was \$0.5 million as compared to a loss of \$0.9 million in the first quarter of 2022.

As Jim mentioned earlier, adjusted EBITDA growth was negatively impacted by infrastructure and head count investments at our grower processors that continue to have a transitional impact as we continue to scale, and slower-than-expected growth of our wholesale operations. Second quarter net income was \$12 million or a loss of \$0.15 per diluted share. The net loss of \$0.15 per diluted share in Q2 2022 was primarily due to the dilutive impact of the outstanding warrant derivative liability.

Moving to the balance sheet on Slide 18. We ended the second quarter with approximately \$43 million of cash and cash equivalents on the balance sheet compared to approximately \$76 million at the end of the first quarter.

The change in our cash position was driven primarily by cash CapEx, which year-to-date totals approximately \$41 million, reflecting investments related to the expansion and optimization of our grower processor facilities in Virginia, Pennsylvania and Massachusetts as well as the continued development of our retail store footprint. The company also made a tax -- income tax payments totaling approximately \$7 million in the quarter.

For the balance of the year, we expect CapEx to be in the range of approximately \$15 million to \$25 million prior to any potential TI reimbursements or financings for a total of \$55 million to \$65 million for the full year 2022 subject to market conditions and regulatory changes. This will substantially complete our capital expenditure program to open new stores in Virginia and elsewhere as well as to substantially grow our Pennsylvania and Virginia grower-processor facilities.

We ended the quarter with \$45 million in inventory, representing a \$5 million improvement from the prior quarter, driven by operational improvements in inventory turnover. As of June 30, 2022, we had approximately \$200 million principal amount of total debt, excluding leases and PP&E financing obligations.

During the second quarter, we drew down \$25 million from our acquisition facility for the two Nevada acquisitions, resulting in current availability under the facility of \$35 million with a potential ability to increase the capacity of the facility by an incremental amount of up to \$25 million. Regarding our January 2023 secured notes maturity, we are



currently in discussions with multiple lenders, and are in the process of collecting and reviewing term sheets for the refinancing.

Given the recent volatility in the capital markets, we are looking at different sources of financing in order to get the lowest cost of capital we can, including traditional mortgage debt, sale leaseback financing on our unencumbered Manassas facility as well as corporate term debt or new secured notes. Additionally, and subject to lender approval, we could utilize available capacity under our acquisition facility to refinance debt.

As of August 29, 2022, our issued and outstanding shares were approximately 196 million and our fully diluted shares outstanding were approximately 291 million. As pertains to the disclosure on our press release regarding our Q1 financials, we are currently working with our auditors to restate the period ended March 31, 2022, as soon as practicable.

While there is no impact on our year-to-date financials being discussed today, we believe there was a misclassification of cash flow items in our Q1 filing, principally related to accrued capital expenditures in our large PAMS expansion project, so we believe it ultimately had no net effect on total change in cash during the period.

We will obviously provide more detail when our auditors have finalized their procedures and revised Q1 filing is completed. And with that, I will now turn the call back to Jim to discuss our outlook for the remainder of 2022.

James Cacioppo^ Thank you, Jon. Let's take a look at our outlook on Slide 20. We are revising our fourth quarter 2022 annualized revenue to be between \$320 million to \$350 million with the target exit margin percentage of low double-digit adjusted EBITDA.

While we faced some of the same industry headwinds as our competitors, including a weak macro backdrop, and certain regulatory delays, we believe our near-term margin growth is more of an internal execution challenge as we scale two large-scale plants simultaneously in Pennsylvania and Virginia, and seek to become a substantial vertical operator by the fourth quarter and rolling into 2023.

In 2022, we will have transformed the company from a substantially retail-only company selling mostly third-party products to a fully vertical company with the exception of Illinois and California. At the retail level, we expect to open three additional Beyond Hello stores in the next 4 months, including two locations in Virginia and one in Ohio.

We are also moving an underperforming store in Pennsylvania. Moreover, we will continue on adding additional operational grow rooms and expanding production at our grower-processor facilities as we look to increase the sell-through rate of our own branded products through our network of retail stores, along with pursuing wholesale opportunities.

By the end of 2022, we expect to have 40 retail licenses across seven markets, including approximately 37 operating retail locations and approximately \$330,000 in square feet of cultivation and processing capabilities, including 100,000 square feet of canopy.

Jushi remains committed to long-term growth in 2023 and 2024. Besides M&A bolt-on opportunities in Ohio retail and Illinois, Jushi has significant organic growth opportunities as the Virginia medical market matures from about a 0.5% penetration rate to a readily achievable 3% rate that we have seen in other states.

With adult-use sales pending in 2024 in Virginia and a potential opportunity for adult-use sales in Pennsylvania in the not-too-distant future, we see Jushi as leading the pack in organic sales growth well beyond 2023.

The profitability growth story should also become well established as we become a more vertical company over the coming quarters and as we dial in our 2 large grower-processor expansions in Virginia and Pennsylvania over the next 12 months. Additionally, we hope to expand our grower-processor to Virginia for adult-use sales, and continue to move several underperforming stores in Pennsylvania.

We believe we have created a solid foundation on which we can continue to execute against our core vision of creating a market-leading cannabis platform, and we will only work to strengthen this throughout the second half of the year and beyond. To reiterate, we remain committed to generating sustained long-term value for our shareholders, and I look forward to updating you all on the significant strides we expect to continue to make for the balance of the year.

As always, I would like to thank our dedicated team for all of their work. I'm extremely proud of all we have accomplished so far this year, and I could not be more excited for what we will continue to achieve as a team. With that, I would like to pass it back to the operator to open it up for questions. Operator?

## QUESTIONS AND ANSWERS

Operator^ (Operator Instructions) We have a question from Bobby Burleson from Canaccord Genuity.

Robert Burleson^ Just wondering now that you guys have a pretty broad footprint in terms of state markets. You have this lower basket size you alluded to. Can you walk us through maybe some of the places where you've seen the biggest negative impact to basket size in terms of state market, and maybe where basket size is kind of hanging in there?

James Cacioppo^ Yes. Thank you, Bobby. So basket size is hanging in there in Illinois, Pennsylvania and Virginia, and we've seen some degradation in Nevada and Massachusetts.

Robert Burleson^ Okay. Great. And then similarly, like just same-store sales growth, stripping out what you guys are doing in terms of expanding your footprint, if you look at just static market statistics year-on-year, quarter-on-quarter, whatever you guys have handy, where are you seeing the most growth and the weakest growth environments?

James Cacioppo^ Organic growth ex the Nevada acquisition was about 4%, and that included same-store sales growth in Virginia, especially, a bit in Illinois. And then the wholesale business has grown as well.

Robert Burleson^ Okay. And then just one last one. The bolt-on acquisition opportunities that might be out there in this capital markets environment, are smaller operators that aren't as well capitalized. Are they starting to capitulate a little bit in terms of what they think they're worth is seeing more opportunities in that sense?

James Cacioppo^ Yes. I mean, absolutely. I mean, the valuations have come down quite dramatically in the private M&A market. There are single states where they put people withdrawn selling assets because people like us are not even close to their expectations. They substantially revised downward expectations.

So yes, I think the sort of bolt-on type stuff where you're bringing on states definitely has gone down in terms of most companies' priority list. When I say companies, I mean the sort of the public MSOs. But what you have seen is an uptick in strategic dialogues amongst multistate, whether private or whatever it is, over the last 3 to 6 months. And the level of strategic activity on that level has never been as high as it is today.

Operator^ Our next question comes from Russell Stanley from Beacon Securities.

Russell Stanley^ Thanks for the color on the pickup in activity in Virginia since the July 1 rule change. And just looking at Virginia over the last few years, added flower and eliminated the medical card. What other notable bottlenecks to patient count growth are there now, if any, beyond the macro headwinds? Or is this otherwise a market that's just free to accelerate growth?

James Cacioppo^ So listen, I think -- thanks, Russell. Well, I would say there's shorter-term headwinds. So we have to -- and we've done a really good job senior management, including myself, have really focused our team on getting Virginia right knowing that's a tremendous value opportunity in the near term.

So our stores, we transform our stores to handle this volume in July. So we saw a substantial uptick in July even though our stores got overwhelmed by customer traffic, and there were lines. By August, we had much less of that. We had -- and it wasn't necessarily adding a lot of employees as much as getting procedures in place to deal with higher volumes. So that was the first. The second is product. We build product levels up in July to handle higher sales.

We took a bet on that. We did some significant purchases in the wholesale market, cleaning up anything that was out there. We took a point of view. I'm a Wall Street guy. I'm not used to taking points of view. And we took a point of view when we bought whatever inventory we could. And by August, we were in the highest volume products, which are vapes and flower, including pre-rolls. We were at a week of inventory or less.

And in a market like Illinois or Pennsylvania, you're looking to carry about 4 weeks at -- sort of at a minimum. We try to get it below that, but in reality, you'll run into shortages in certain areas if you're much below 4 weeks right now in those markets. So inventory levels are low. But the good news is that our flower rooms now are coming down.

Remember, I said on the prepared remarks, how we had a few weeks delay in our flower room. That's just part of opening up a large-scale plant. The good news is one of our flower rooms had 100% passing rate on its product that came out of the flower room in terms of the testing, and the results were quite good in potency in the 20 -- low to mid-20s, which is great. And by the way, that is some of the highest testing flower in the state.

The only higher testing flower than that is our own flower, which we brought down a couple of months ago -- brought to the market a couple of months ago. And so if we can continue to just take these grow rooms down and transforming that product into commercial product, I believe that will be the biggest bottleneck along with getting our stores open. Now we're getting the Fairfax open in a couple of days. Again, these store openings are tremendous.

I'm going to give you an example. In Pennsylvania, our best-performing medical store took 6 months to get to sort of a \$3.5 million run rate. But this is years ago before there was much competition. That store eventually got to almost a \$20 million run rate of sales, annual run rate, before other stores opened up a little bit closer to it.

And in a few -- just a few weeks or what -- I don't know exactly, but we were at that \$3.5 million level in Alexandria, Virginia, which is just tremendous if you think about that. And so if we can supply the stores, get our stores opened on time. The next one after Fairfax would be Arlington, which is in the middle of a city, by the way. So it should be a tremendous store.

I mean one of the -- it could be one of the best in the nation in adult-use format. But it -- cities tend to have a little bit more oversight and maybe red vape and those types of things. So we hope to open that. It's scheduled to open in the fourth quarter. So -- and then we have another store that probably slips to the first quarter because we found out our potential landlord had refi to Bank of America who doesn't prefer cannabis lenders.

The Bank of America seems to be kicking out cannabis customers on the verge of it getting to Safe Banking plus, another great move by the Bank of America. So -- but anyway, that being aside, that was a great location, but we have three more on flying to see this week to choose a store in the area where we want to be.

So those will be getting the product taken down, getting it into the system will be the biggest growth driver. And if we get all the product down, our sales projections -- and we can sell it all, which I think we can because we can always sell in the wholesale market, our sales -- what we have in our model will be exceeded for the fourth quarter, I believe, in Virginia.

Russell Stanley^ That's great color. And maybe if I could, your comments around Arlington. You talked about your -- the health service area that you're in, I think, is home to 5 of the 10 -- 5 of the states, 10 (inaudible) and neighborhood. Just wondering what kind of demographic data you have on the patients coming through your stores, what you can say about them to the extent you can generalize.

Louis Barack^ So this is Jon. I mean, I think just at a high level, I mean, the per capita income of Northern Virginia is about 2 to 3x the average for other health service areas within the state. And I think the people who -- the demographics, I mean, we don't -- there's certain things we can track and certain things we can track.

But I think our medical population is indicative of the people who live in that area, and we're excited about the growth potential there and that our health service area also has 29% of the population of the state. So it's in excess of its pro rata share and there are 2.5 million people in that health service area. So from a patient potential medical patient population standpoint, it's a very significant opportunity.

James Cacioppo^ Yes. I would point out, too, that the -- if you measure it by basket sizes, the basket sizes of Virginia are extremely high.

Louis Barack^ Yes. We've seen them as high as 150 plus. Yes. So I think that -- I mean that's the data we have is that if you're walking in and dropping that much in a basket, then that must mean you have some spare cash.

Russell Stanley^ Great. That's excellent. Maybe if I could -- one more and I'll get back in the queue. Just switching gears to Illinois. The states finally issued the additional 185 retail licenses. Just wondering how that informs your strategy going forward from a standpoint of adding more retail and/or cultivation there to be vertically integrated.

James Cacioppo^ Yes. I would say that we have [Peoria] where we want a license. And so we're looking to open that up and we have multiple LOIs and leases behind the LOIs, where we've done the work to find the location, which is maybe even more tricky than getting the LOIs these days, by the way. So we've gotten -- given how prices have come down, there's a fair number of licenses to buy. And -- but we've gotten some good real estate there.

And in terms of getting vertical there, which if you think about Jushi, it's a bit of Nirvana because all of a sudden, we look a lot like some of the larger MSOs where we have three tremendous states: Pennsylvania, Virginia and then Illinois that are big vertical states.

So obviously, that's something that we've been very focused on, I would say, the expectations over the years were highly inflated of people who owned Illinois assets, maybe for a good reason, it's been a good performing state, and we chose not to play -- now we see multiple strategic combinations that include Illinois with some private -- and so -- and also, we have won a craft grow license, and we have a strategy -- an alternative strategy to buy two more craft grows.

And we believe we can -- we have a way to virtually stack those licenses where we could supply 10 stores on our -- our 10 stores at a nice vertical a nice vertical story, 50%, 60% of our own product or something in that neighborhood and then have a small exposure to be -- a very small exposure to the wholesale market.

And if you think about that, that's a pretty nice strategy. right, because I'm not sure you want to go big into vertical wholesale at this point, if you're not there ready. So we're liking our patients there. And that opportunity is one of the sort of attractions for combinations that we -- from Jushi's standpoint.

Operator^ Our next question comes from Pablo Zuanic from Cantor Fitzgerald.

Matthew Baker^ This is Matthew Baker on for Pablo. Nice to see the pickup of new patients in Virginia in July. But how does the medical program now compare with other medical states in terms of the process of doctors getting registered, and for new patients getting a prescription. We just want to understand how unique Virginia is after the change versus other states? And then also, do you know roughly what the number of patients is now in Virginia? Or is this something that we can't know if they're not getting registered.

James Cacioppo^ Yes. So Jon could comment if he has more detail, but I'll start. So first of all, on the patient count, we mentioned -- I mentioned in my prepared remarks that the penetration rate is 0.5%. If you look at the 3% marker, that's where penetration tends to get to at a pretty nice curve in places like Florida. Arizona on its way to 4%, 4.5% and Pennsylvania, which is a touch north of 3% now.

So usually, there's a pretty good march up to that level in a medical market. In my view, the timing of that March based upon what we see. In other words, going from 0.5% to 3%, will be quicker now probably in any market. If you look at what's happened in Missouri, for example, or Arkansas, these newer markets, they get to 3% pretty quickly.

So there's less stores of Virginia, but we think that the march to Virginia -- especially in our MSA because we can deliver, and we've set up our stores, where we have a separate delivery vault.

We have a third-party service coming in as we speak to do delivery for us, which we think will accelerate that at, by the way, a lower cost per transaction than we could do it ourselves. And so we believe we'll be able to get to that 3% in a more accelerated rate

than you've seen in states like Pennsylvania, which we're in. And that has to do with, I think, a lot of things.

One is the industry has gotten better, we've gotten better, but also, it has to do with just the fact that cannabis -- legal cannabis is so well publicized now and people are looking for it. In terms of getting a patient prescription, so you don't require a card anymore in Pennsylvania, which is quite unique -- excuse me, in Virginia, which is quite unique. So that's great, right? I mean that reduces the cost of getting into the program. But in terms of conditions, qualified conditions, I think it's probably as good as any state.

Louis Barack^ Yes, doctors can prescribe for anything that they see fit. There's no limitations on indications that are -- that qualify. And the way the program works now is as patients see a doctor, the doctor prescribes it fills out the form for the patient who takes it directly to the dispensary and they can get dispensed that day. So there is no regulatory bottleneck, which had really been a hold up for the program given an understaffed regulator until this July 1 period.

And people are still -- the -- as Jim mentioned, there was a huge influx in the beginning of July and through August for people who knew about it. Now it's just as we open more stores and expand the footprint, it's getting people more aware of really how seamless the process is getting medicine these days.

James Cacioppo^ Yes. I mean -- and given our inventory levels, that's been such a big uptick for us, our inventory levels are low, and there was a huge uptick coming into our stores. We haven't done any marketing at all.

We've done nothing to stimulate demand in terms of getting the word out. Now we started a small-scale program with small dollars. Again, given the product shortages just to get it out there and build that backlog going in to the -- going through the fourth quarter.

Matthew Baker^ All right. And then just for a follow-up regarding Pennsylvania, both retail prices and wholesale prices are down, but are your retail gross margins up? Any color there would be helpful.

And then I guess as another follow-up, if the MSOs were to -- are paying the \$20 million fee in New York, do you think that, that is set a precedent for other states? For example, you might have to pay that be in a market like Virginia. Do you think that's something that could happen? Just any color there is helpful.

Louis Barack^ Sure. So from a Pennsylvania retail gross margin standpoint, we've been doing our best to hold the line there so that the -- as a retailer, we don't get penalized for the -- what's been some margin compression, and split that with our vendors who we buy from. Again, we are a grower as well.

But our bigger issue from a gross margin standpoint from our grower has a lot more to do with unabsorbed fixed costs and under-absorbed fixed costs as we expand rather than anything specific to the prices that we sell for as we bring our new grower rooms online, we'll have 4 to 5x the product available, and then be able to fully absorb our fixed costs and push the vertical margin through our own stores as we expand our shelf space with our private label brands. As for New York.

James Cacioppo^ Well, I'll get to that in a second. I just want one other comment on that. In terms of the wholesale market, I'd like to point out that Jushi is a disruptor in Pennsylvania rather than exposure -- a legacy exposure to wholesale.

So if you sort of think of an MSO that's been there, and benefited from very large prices, high prices, which are now coming down as their volumes remain somewhat flat. That's not great. From a Jushi standpoint, we haven't participated in that to any great extent at all. I mean small. And we also are taking -- I believe, we're the largest buyer of wholesale products, both in Pennsylvania and Virginia and by going --

Louis Barack^ And Illinois.

James Cacioppo^ Excuse me, Pennsylvania and Illinois. And likely Virginia, too, by the way, but Pennsylvania and Illinois. And as we feed our system, it appears to us after a lot of knowledge in the industry and knowing people that people sell about 65% of their own products in their stores.

We've been at pathetic numbers because we don't have the product, and we have genetics. By the way, the genetic story is something that wasn't our story. We acquired this facility with this genetic pool. We got a great price, but we didn't realize it would take the regulator -- we had to beat the regulator over the head basically to get the genetics in. So that's something we're a benefit.

In terms of New York, I'd like to point out that I lived in New York for 30 years. I now live in Florida since 2014. I haven't been a late comer. So I sort of voted with my feet, so to speak, and -- in two ways. In the cannabis way, Jushi owned almost 20% of a license called Valia, which got sold to Cresco about when we went public in 2019, we were a bidder for that.

We tapped out and turned into the seller. So those are 2 factoids about Jushi. New York happens to be, along with California in terms of any business, uniquely positioned to dissuade anybody from doing business. Tesla moved out of California. They both happen to have gold mines buried in their states.

One is in California, it's the technology industry, which generates huge amounts of revenue in terms of capital gains taxes. And then New York is obviously Wall Street historically.



So they happened to -- New York diswaighted frackers from being in New York through regulatory. I've always thought New York to be not the -- one of the worst regulators in the country as we do California. So I don't think anything like that will occur in other states, which are much more friendly to people who are trying to do legitimate businesses in their states.

Operator^ Our next question comes from Glenn Mattson from Ladenburg.

Glenn Mattson^ Can you just elaborate further on the guidance, and just thinking about the change from prior guidance. I guess top line reduces by not a significant amount as significant necessarily as the bottom line. So just with cost-cutting measures underway and with you getting more vertical, and just kind of think about the -- what kind of pressures there are out there that are causing the reduction in the EBITDA guidance more so than the top line?

James Cacioppo^ Yes. So yes, as you pointed out, the top line, we centered around the lower point of the range, which I think has been pretty similar to a lot of other reporting companies. In terms of the EBITDA margin, what I said in my prepared remarks, different from other companies, we are going from 1 grower room in Illinois -- in Virginia, excuse me, to 7, and we're going to -- from four grower rooms in Pennsylvania to 10. And that sounds like, okay, that's a lot of cultivation.

But for everything you actually take down, then you need to process. So the volume in those facilities are going way up. And the good news for our shareholders is that capital will have been spent this year substantially spent. Anything we're spending next year is just paying invoices off from this year. So that's capital expenditures this year, and it's done, including our retail buildout, by the way.

So our capital -- a huge capital investment program have to grow the company, increase margins in the company. It will be done substantially by the end of the year. And -- but bringing those up and getting to peak, if you talk to the top MSOs, which I have. Remember, we're one of the biggest customers out there, and we're friendly with them, it takes 12 months to dial in these plants.

So for us, I mean, that's a work in progress. And we will execute. The question is the timing of the execution. So that's just us getting sort of more sort of used to -- what it feels like to build out one of these facilities and then operate it and say, you know what, let's be more conservative and maybe more realistic.

Glenn Mattson^ Great. That's very helpful. And then on the refinancing, can you just talk about the challenges there? Like is it more that the rates are above a level you're interested in paying? Or is it just difficult to get the whole thing done? I know you talked about shifting to maybe using the acquisition facility or some other methods. Just a little more detail there.

James Cacioppo^ I'll turn it over to Jon to talk about this, but we've actually -- in the dog days of the summer, July and August, we've had a tremendous, I think, response to what we're doing, given market conditions, of course, right? So not -- so in that context, I think we have a lot of interest. And our -- the way we do things is to take things very, very seriously. So we obviously don't pretend like the capital markets necessarily will improve, and there will be volatility in the sector.

So what we do is we're looking at everything across the spectrum across the capital structure, and response has been really, really good. And we had a deal in place which got too expensive for us given the capital markets how pathetic they were, particularly, I think, if I remember correctly, it was May and June and into July. July was the improvement. But yes, May and June is when that sort of -- we pushed that off.

And then remembering our \$75 million facility, which comes due was primarily -- not primarily, almost, I think, 100% shareholder base. So in other words, everybody in that facility [has] a significant exposure to Jushi's equity. At that time, we did that, the capital markets were also constrained, so there was 75% warrant coverage.

And my Head Fund and myself, we were the biggest lender at that time and that a lot of other shareholders stepped up, too. And then there were some newer folks who came in who have us warrant coverage. So it's a different kind of facility than others, and there's opportunity there in a sort of a worst-case scenario.

Louis Barack^ And just adding to what Jim said, the markets kind of fell out from term sheet we had early summer. And basically, summers, it's slow to get people to do work, but we now have multiple term sheets, have focused more on the unlevered Virginia asset as a source of leveraging at the lowest cost of capital and using that as a base for building the cash we need for the maturity.

James Cacioppo^ I mean our Virginia facilities, we have \$100 million in Virginia, including the license, and we haven't borrowed against that. And obviously, it's a great state. We have a top strategic interest in that state. So it's obviously great. I think I've said this before, I think publicly many times, but it's the best collateral in the whole business.

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

Ty Collin^ Congrats on the strong revenue growth in the quarter. Jim, I appreciate your commentary earlier in the call surrounding some of the consumer trends you're seeing. You mentioned that you saw kind of smaller basket sizes being offset in part by new customers coming into your stores. I'm wondering if you could comment on where you're seeing those new customers coming from? Is that sort of illicit market capture, share capture from some of your peers? I appreciate any incremental color there.

James Cacioppo^ Yes. I mean, I'll turn it over to Jon if he has more color. But yes, we don't have clarity down to that. We don't pull people when they come in. about. But I would say that Pennsylvania medical market continues to slowly grow, made it slower

than we'd like when it hit the 3% level, which seems to be the magic level where it slows down. And Illinois, you continue to have a pretty -- a very popular program, and we have some good stores.

And prices have come down in those states which stimulates purchasing, and new customers because for them, it's -- if you're coming into the market and you buy a illicit, it's -- at some point, you go to the dispensaries -- and that point tends to be not breakeven, but I believe, again, no data necessarily, but above breakeven purchase where you want to go in and get tested products, better products, and more variety. And so -- and get away from an illicit market transaction, which may not be the most comfortable thing for a lot of our customers.

Louis Barack^ And just to add to that, I'll say, Massachusetts is interesting. I think we've seen some of our highest numbers of patients. So we're seeing incremental patients even as the basket sizes have come down, which as Jim said, could very well be people who were formerly participating in the illicit market who are now coming into the legal market as the pricing is -- matches, or is much closer to black market pricing.

James Cacioppo^ Yes. And I think, Ty, that the price is coming down, that story being so negative, it does 100% stimulate demand. I mean, do we know exactly where that is? No. But I mean it 100% does. So that story being negative is really negative for the people who have legacy businesses with big wholesale exposure and big vertical sell-throughs, right? Because as their volume increases, their prices are coming down.

So we don't have that. Again, we're more of a disruptor or later to the game on that. And so -- and once they get through that, I think people will see it's a very good business, but they just have to get through that themselves. And a lot of them have new states opening up, and they will continue to have a flow in new states opening up like we have Virginia. So they'll have offsets to that. It will get there eventually.

Ty Collin^ Got it. That's great color. And then just for my follow-up, hoping to get a little more color on the CapEx outlook. It looks like the full year guide did increase a little bit compared to what you put out last quarter. So I'm wondering if you could speak to what changed there. And then maybe if you could also touch on what you sort of think the CapEx investment will be in 2023 compared to '22, given that it sounds like you've kind of got a lot of heavy lifting done this year.

Louis Barack^ Yes, this is Jon. I think the guide is \$15 million to \$25 million for the rest of the year. And it really -- it just has to do with the pace of the completion of the GP projects largely which, as Jim said, will be substantially complete this year.

But my bits and pieces, it might fall into Q1, depending on the timing for regulatory approvals. I mean that -- it's -- some of these projects are phased from a regulatory approval standpoint. So until the regulator passes one part, we don't complete the next part.

And so that's part of the reason for the range as well as the stores that we have, the entitlements that we have in hand that we're building out, how many -- do we get the sort of green light from the regulator to start working on this year. In VA, when do we get the lease signed for the 6 property? And then when do we get the building permit and the plans done in blah, blah, blah, so does that fall in Q4 or Q1 next year.

So that's really the large reason for that range, which frankly, is in that bigger range compared to the total year spend. And then as far as 2023, I mean, we haven't guided to that yet. So I'm not going to give you a specific number, but what's really hanging out there are those extra couple of stores. And then to the extent that there are regulatory changes, improvements, et cetera, in other states, then the numbers, they'll evolve.

And Ohio is an example of that. We have plans to expand there from our [3k canopy], but exactly how much we're going to expand there could change depending on certain bills that are out there that could get passed that could really increase the size of that canopy.

James Cacioppo^ Yes. I mean in 2023, it's really just a tale of a few stores. And additionally, we have -- we've identified three more. We're already moving one in Pennsylvania, underperforming stores. That we'd like to move, especially anticipation of adult-use likely in 2024, in my view.

So that's something that we'll get to. But we have -- we don't have that lined up yet. In other words, we don't have the new leases, we don't have regulatory approval in those three cases. And then so it's pretty minor. We're really looking to take advantage of what we did in 2022 and 2021, and really sort of grow the company off of that.

The one exception to that will be capital market dependent is we could have a secondary expansion in Virginia we're looking forward to the adult-use market in the first quarter of 2024, which I'll remind people is already law, and there's a cannabis regulator for the adult-use market being set up, which takes control of the program in law July 1, 2023, so 6 months before.

And so we -- as things go along in Virginia, and we get used to what we're operating and capital markets, we'll be there. We'll look to do that. And we already submitted that for approval, but there's a process there that takes some time. So again, the 3 new stores and the VA, none of that is committed to -- or that close and all of it somewhat capital market dependent.

Operator^ We have reached the end of the question-and-answer session. I would like to turn the call over to Mr. Perlman for final remarks.

Michael Perlman^ Thank you for joining us today. If you have any follow-up questions, please reach out to me at [investors@jushigo.com](mailto:investors@jushigo.com). Thank you very much. Have a great day.

Operator^ Thank you. Ladies and gentlemen, this concludes today's conference. Thank you for participating. You may now disconnect.