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Jushi Holdings Inc.

Fourth Quarter and Full Year 2020 and First Quarter 2021 Earnings Conference Call

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CORPORATE PARTICIPANTS

Michael Perlman, *Executive Vice President, Investor Relations and Treasury*

Jim Cacioppo, *Founder, Chief Executive Officer, and Chairman of the Board*

Kimberly Bambach, *Chief Financial Officer*

CONFERENCE CALL PARTICIPANTS

Russell Stanley, *Beacon Securities*

Bobby Burleson, *Canaccord Genuity*

Andrew Semple, *Echelon Wealth Partners*

Glenn Mattson, Jr., *Ladenburg Thalmann & Co. Inc.*

Graeme Kreindler, *Eight Capital*

Jason Zandberg, *PI Financial*

PRESENTATION

Operator

At this time, I would like to welcome everyone to Jushi Holdings' First Quarter 2021 Earnings Conference Call.

Today's call is being recorded.

I will now turn the call over to Michael Perlman, Executive Vice President of Investor Relations and Treasury.

Michael Perlman

Good morning. Thank you for joining us today for Jushi Holdings Inc. First Quarter 2021 Earnings Conference Call where we will also discuss our fourth quarter and full-year 2020 earnings.

Joining me on today's call are Jim Cacioppo, Chief Executive Officer, Chairman and Founder, and Kimberly Bambach, Chief Financial Officer.

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This morning we issued a press release announcing our first quarter results as well as our fourth quarter and full-year 2020 financial results. The press release, along with the financial statements, are available on our website under the Investor Relations section and filed on SEDAR.

Before we begin, I'd like to remind listeners that certain matters discussed in today's presentation, or answers that may be given to questions asked, could constitute as 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 Annual Information Form and other periodic filings and registration statements. These documents may be accessed via the SEDAR database. These forward-looking statements speak only as the date of this call and should not be relied upon as predictions of future events.

With that, I'd like to turn the call over to Jim Cacioppo, Chief Executive Officer, Chairman and Founder.

Jim.

Jim Cacioppo

Thank you, Michael.

And thank you, everyone, for joining our call today. I hope everyone is doing well and staying healthy.

First, I would like to thank our investors and extend our sincerest appreciation for their support and patience as our auditors finalize their procedures. The delay in the filing of our annual results was unexpected and unfortunate. However, I am pleased to report that our Board of Directors has proposed the appointment of Marcum LLP as the Company's new auditor. We look forward to working with the Marcum team.

I would now like to take a few minutes to review the significant progress we made in 2020, provide an update on our first quarter performance, and review key developments with our operational footprint. I'll then turn it over to Kim to review our financials. Then we'll open it up for the questions.

While 2020 proved to be a challenging year for the entire world due to the COVID-19 pandemic, I'm very pleased with all that Jushi has accomplished during the year and particularly over the last two quarters. To start things off, let's review our fourth quarter 2020 results.

I'm pleased to report our revenue increased 30% sequentially to $32.3 million in the fourth quarter of 2020. The increase of revenue was driven primarily by strong organic growth at the Company's BEYOND / HELLO stores in Pennsylvania and Illinois, and increase in cultivation and manufacturing activity due to the acquisition of a Pennsylvania grow process and permit holder, and increased operating activity at our Nevada cultivation and processing facility.

We continued to see strength and strong momentum into the first quarter, with revenue increasing 29% sequentially to $41.7 million, ahead of our previously guided revenue range of $37 million to $40 million.

I'm also pleased to confirm that we have continued to report sustained positive Adjusted EBITDA in the fourth quarter of 2020 and into the first quarter of 2021. This was achieved as a result of revenue growth across our portfolio, improved operating leverage as we scaled our businesses, and a focus on cost optimization throughout our retail network. These operating efficiencies were offset by the increase in

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staffing-related expenses in advance of opening 10 to 12 new stores in 2021, the increase in staffing at our Ohio facility before the commencement of operations, the expansion of our Virginia and Pennsylvania grower-processor assets in anticipation of the introduction of adult use sales and more robust medical sales, and some additional corporate overhead costs as we meaningfully increased the pace of acquisitions.

In addition to our strong financial performance in our two most recent quarters, I'd also like to highlight some of the operational achievements and progress we've made across the Organization.

First, I'm very proud of the work we have done to establish a deep and talented Management team, which includes the upgrades we made to the operational talent across the business. During the fourth quarter and into the first quarter of 2021, we upgraded our talent by adding several new hires with expertise in retail, cultivation, and security. These individuals are experts in their respective fields and come from both inside and outside of the industry. Their focus continues to be on optimizing our current operation along with further developing and overseeing our retail and cultivation expansion initiatives.

Second, we continue to execute on our strategy to strategically expand our footprint, including opening 10 to 12 new stores in 2021, which will result in a total count of 25 to 27 by year end. We also are in the process of very significantly expanding our cultivation assets from three states to five states and entering into new markets through acquisitions like Nature's Remedy of Massachusetts.

Third, we continue to focus on expanding and elevating our high quality retail experiences at our BEYOND / HELLO retail dispensaries. We remain focused on creating a frictionless experience for our customers, both online and in store. Over the past 12 months, we have collected a vast amount of anonymized data on our customers that allows us to understand their preferences and behaviors, which in turn helps us curate a more personalized shopping experience. Additionally, our newly introduced loyalty program, the Hello Club, which allows us to drive sales by offering more targeted promotions and helps build brand loyalty with our customers, has seen membership increase to over 70,000 members.

Fourth, we have rolled out a suite of cannabis brands across multiple states, under the names The Bank, The Lab, Tasteology, Nira+ Medicinals and Seche. These five new brands will address a wide variety of consumer and patient needs.

Fifth, to date, we have raised approximately $400 million, including approximately $122 million in gross proceeds from three equity financings since October of 2020 and approximately $57 million of warrant exercises. With these recent raises, as well as the debt financing that we completed in July of 2020, we have further strengthened our balance sheet and have capital to support additional opportunistic M&A activities.

Finally, due to the COVID-19 pandemic, we were forced, like so many other industries, to rethink our retail strategy as social distancing protocols and stay-at-home orders were put in place across the country. I'm very proud of the work our team has done to quickly address the needs and safety concerns of our consumers during this very uncertain time. Some of the highlights include the rollout of our online reservation platform at beyond-hello.com and additional distribution channels like curbside delivery and express pickup.

Now let's take a closer look at our U.S. operations state by state. Let's begin at Pennsylvania. In August 2020, we completed our acquisition of Pennsylvania Medical Solutions LLC, a Scranton-based grower-processor permit holder, which added an approximate 90,000 square foot cultivation and processing facility to our in-state retail footprint. The facility currently provides efficient distribution to the 121 dispensaries in the state, including our 12 BEYOND / HELLO dispensaries.

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Since the close of the acquisition, we have shifted our focus to the optimization of the grower-processor facility to help address current and future market demand. To this end, we have implemented several improvements to the operations, including introducing new extraction technology, increasing automation, and improving our overall utilization. With these upgrades being implemented over the next 12 months, we expect to be able to significantly increase our production for both prepackaged flower and extracted products to continue serving the growing market.

Furthermore, in April, we announced that we had commenced Phase I of the expansion of our approximately 90,000 square foot facility. Phase I of the expansion, which is expected to be completed by the fourth quarter of 2021, will add at completion approximately 40,000 square feet, bringing the total square footage to 130,000 square feet. Our subsidiary is also in the design stage for the second phase of the planned expansion, which would add an additional 60,000 square feet to the building for a total of 190,000 square feet and increase total canopy to approximately 110,000 square feet. We expect Phase II of the expansion to be completed by the second quarter of 2022. Additionally, our subsidiary continues to assess and develop further expansion opportunities at the facility to help meet the needs of patients and wholesale market demand now and in the future.

We also announced that we acquired the remaining equity interest in Agape Total Health Care, Inc., a Pennsylvania marijuana dispensary permit holder, and exercised the option to purchase Pennsylvania Dispensary Solutions LLC, a Pennsylvania marijuana dispensary permit holder. As of today, we operate 12 medical marijuana dispensaries in Pennsylvania and anticipate opening our 13 stores in the next week, with five additional locations to be opened by the end of 2021 for a total of 18 dispensaries in the state.

In Pennsylvania, we continue to have record sales levels due to increased volumes, targeted promotions, improvements to the reservation online experience, and improved pickup efficiency at our stores. We remain focused on inventory management and strong staffing at the store level to improve the patient experience.

In Illinois, we currently operate four high-performing BEYOND / HELLO retail stores. Two of the stores are located in Sauget in the East St. Louis metro area, and two in the Bloomington-Normal metro area. We opened our second Sauget location in December 2020 and our second Bloomington-Normal location in January of 2021. Our Illinois locations have been performing well, and we expect to see increased operating activity as COVID-19 restrictions are eased.

Revenue in Illinois for the first quarter of 2021 remained robust, driven primarily by the successful opening of our two new stores in Sauget and Bloomington-Normal and the successful procurement of greater quantities of both medical and adult use products, which has led to improved product availability and product diversity. Our stores are some of the top-performing stores in the state, and supplies have been robust as wholesalers appreciate Jushi's professionalism, strong balance sheet, and national retail presence.

In Virginia, we increased our equity ownership interest in Dalitso LLC, the Company's Virginia pharmaceutical processor permit holder, to 100% and purchased the 93,000 square foot cultivation, manufacturing, processing and retail facility operated by Dalitso, including the surrounding nine acres of land. We also commenced operations and opened our first retail location in the Commonwealth in December of 2020, with plans to open our second store in the third quarter and possibly one additional location by the end of the year. We expect to open the remaining locations in 2022 and operate a total of six retail locations by the end of 2022.

The five new Virginia BEYOND / HELLO locations are expected to be freestanding superstore concepts in prime locations that will feature very large store formats, substantial parking, convenient highway

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access, and separate delivery vaults (phon) supported by a dedicated delivery space to capitalize on Virginia's delivery potential. Our hope is that these stores will be some of the top-performing stores in the country.

During the first quarter of 2021, we saw month-over-month revenue improvement, strong average basket size, and an increase in the number of transactions as the Virginia medical market continues to expand. We continue to focus on patient engagement by identifying patient needs, reducing wait times, and conducting efficient pharmacist consultations. We also saw increased engagement following the introduction of the Hello Club loyalty program.

In Massachusetts, and following the first quarter, we entered into a definitive binding agreement to acquire Nature's Remedy of Massachusetts Inc., a vertically integrated single-state operator, for a total consideration of up to $110 million. Nature's Remedy currently operates two adult-use dispensaries in Millbury and Tyngsborough and a 50,000 square foot cultivation and production facility in Lakeville. The Lakeville facility flower canopy encompasses approximately 19,500 square feet, which Nature's Remedy expects to expand to approximately 31,000 square feet during the second half of 2021.

In addition to this expansion, Nature's Remedy is evaluating further expansion opportunities in the existing Lakeville industrial complex and/or on 10 acres of land owned by Nature's Remedy in Grafton, Massachusetts. The Lakeville facility could potentially accommodate an additional 18,000 to 20,000 square feet of flower canopy through the expansion into approximately 26,000 square feet of adjacent space in the existing building. The 10 acres of land in Grafton could accommodate a 35,000 to 40,000 square foot facility with approximately 18,000 square feet of flower canopy. The acquisition is expected to close in the second half of 2021 and will be the seventh state where we operate cannabis assets and the third state where we are vertically integrated.

Moving to the West Coast, in January, we announced that we entered into a definitive agreement to acquire 100% of the equity of Organic Solutions of the Desert LLC, an operating dispensary located in Palm Springs, California, and approximately 78% of the equity of a retail license holder located in Grover Beach, California, with the rights to acquire the remaining equity in the future. Subsequent to the first quarter, we announced that we closed on both acquisitions and now operate two stores in California, one in Santa Barbara and the other in Palm Springs, and expect to open the Grover Beach location by the third quarter of 2021.

We also moved forward in the merit-based application process as one of only three selected applicants for a storefront retail and ancillary delivery permit in Culver City, California, and expect to open the dispensary by the second quarter of 2022.

In California, we remain focused on product selection, pricing, and continuing to build a strong team at both of our store locations. At our BEYOND / HELLO Santa Barbara location, we saw sequential month-over-month improvement in revenue in the first quarter as well as an increase in membership within our newly launched loyalty program. We expect to see a continued increase in operating activity at the Santa Barbara location as COVID-19 restrictions are lifted.

At our newly acquired Palm Springs location, we plan to renovate the store in three stages that will allow for the store to remain open while construction is ongoing. Some of the renovation highlights include a new Coachella festival themed retail space, the sale of live plants, express pickup options, and a distribution hub for home delivery.

In Ohio, and subsequent to the first quarter, we signed a definitive binding agreement to acquire OhiGrow LLC, one of 34 licensed cultivators in the state. The total consideration for the acquisition was $5 million in cash and is inclusive of a 10,000 square foot facility and 1.35 acres of land. OhiGrow will complement

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our soon-to-be-operational 8,000 square foot state-of-the-art medical cannabis processing facility and move us one step closer to vertical integration in Ohio.

In Nevada, our subsidiary, Production Excellence, completed the previously announced acquisition of 100% of the equity of FBS Nevada. FBS Nevada operates a state-of-the-art indoor double-stacked cultivation that yields approximately 2,500 pounds of high-quality dried flower per year. Additionally, to better serve the Nevada market, we recently announced plans to expand the production space of the facility, which would double our cultivation capacity.

I would now like to ask Kim to review our financial results for the fourth quarter full-year 2020 and the first quarter 2021 before we discuss our 2021 outlook.

Kim.

Kimberly Bambach

Thanks, Jim, and good morning, everyone.

Before I begin, I would like to thank our Board of Directors for proposing the appointment of Marcum LLP as our independent registered public accounting firm. We have complex technical accounting, active M&A activity, and exponential growth. We feel confident that Marcum will keep pace with us as we scale the business. As a reminder, the results we'll be going over today can be found in our financial statements and MD&A, and all are in U.S. dollars.

Beginning with our fourth quarter and full-year 2020 results, revenue in the fourth quarter increased 30% to $32.3 million compared to $24.9 million in the third quarter of 2020. The increase in revenue was primarily driven by strong organic growth at the Company's BEYOND / HELLO stores in Pennsylvania and Illinois and initial contribution through our recently acquired grower-processor facilities. For the full-year 2020, the revenue increased 690% to $80.8 million compared to $10.2 million in 2019. The increase in revenue was driven by the expansion of the Company's retail portfolio, which includes the addition of nine new stores during the year and increased activity among all the operating stores.

Gross profit in the fourth quarter was $19.2 million compared to $12.3 million in the third quarter of 2020. The 57% increase in gross profit was primarily driven by the increase in revenue and unrealized gain on biological assets at our PA grower-processor facility. For the full-year 2020, gross profit was $43.1 million compared to $4.8 million in 2019, a 793% increase in gross profit over the prior year.

Adjusted EBITDA in the fourth quarter was $2.6 million compared to $1.9 million in the third quarter. Adjusted EBITDA for the full year was negative $2.6 million.

Net loss for the fourth quarter was $156.7 million or $1.35 per diluted share compared to net loss of $30 million or $0.31 per diluted share in the third quarter of 2020. Full-year 2020 net loss was $211.9 million or $2.11 per diluted share compared to a net loss of $30.8 million in 2019 or $0.37 per diluted share. The increase in net loss in the fourth quarter and full-year 2020 was driven primarily by an increase in the derivative warrant liability prompted by the rise of the Company's share price and its increase in operating expenses, partially offset by higher revenue and gross profit.

Now let's move on to our first quarter 2021 results.

For the first quarter of 2021, revenue increased 29% to $41.7 million compared to $32.3 million in the fourth quarter of 2020. The 29% increase in revenue was driven by solid revenue growth of the

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Company's BEYOND / HELLO stores in Pennsylvania and Illinois, early stage revenue contributions from our Virginia retail operation, and improved productivity at our PAMS facility.

Gross profit in the first quarter of 2021 was $20.1 million compared to $19.2 million in the fourth quarter of 2020. The increase in gross profit was driven primarily by the aforementioned 29% increase in revenue.

Adjusted EBITDA in the first quarter of 2021 was $3 million compared to $2.6 million in the fourth quarter of 2020. The increase in Adjusted EBITDA on a sequential quarterly basis was driven by higher revenues and gross profit, partially offset by an increase in staffing-related expenses in advance of new store openings, the increase in staffing at our Ohio facility before the commencement of operations, and the expansion of our Pennsylvania and Virginia grower-processor assets.

Net loss for the first quarter 2021 was $26.8 million or $0.18 per diluted share compared to a net loss of $156.7 million or $1.35 per diluted share in the fourth quarter of 2020. The $129.9 million improvement in net loss in the first quarter was driven primarily by a decrease in the derivative warrant liabilities along with higher revenue and gross profit.

As a reminder, we define Adjusted EBITDA, a non-IFRS measure, as EBITDA before fair value changes included in inventory sold and fair value changes included in biological assets, share-based compensation expense, fair value changes in derivatives, net gain on business combinations, the gain and losses on investment and financial assets, net losses on debt and warrant modifications, gains and losses on legal settlement, pre-acquisition expenses, listing expense, and goodwill impairment.

Turning to the balance sheet, as of March 31, the Company had $168 million of cash and short-term investments, total current assets of $197 million, and current liabilities of $50 million. In the first quarter, the Company incurred approximately $9 million in capital expenditures and expects to incur approximately $80 million to $100 million for the balance of the year, which includes the $22 million acquisition of the 93,000 square foot Virginia-based pharmaceutical processor and surrounding nine acres of land, subject to market conditions and regulatory changes. Additionally, as of March 31, the Company had approximately $82 million in total debt, excluding leases and property, plant and equipment financing obligations.

Total basic and fully diluted shares outstanding, both on an as-converted basis, for the three months ended March 31 were approximately 169 million shares and 255 million shares respectively.

I would like to turn the call back over to Jim to discuss our outlook.

Jim Cacioppo

Thank you, Kim.

The first quarter was a strong quarter for us, and I'm very proud of the hard work and strong execution by our team that enabled us to achieve this industry-leading organic revenue growth rate. We expect to maintain this trajectory of robust operating results for the remainder of the year. In the second quarter of 2021, we expect revenue to be between $45 million to $48 million and Adjusted EBITDA to be between $4 million to $6 million.

We expect to open two stores in June, two additional stores in July, and five more in a very busy September. For the end of the year, we should have very significant grower-processor capacity in Pennsylvania and Virginia where flower sales become legal. Therefore, the second quarter should be the slowest revenue growth quarter of the year, and we expect to regain our industry-leading organic growth rate in the back half of the year and into Q1 and Q2 of 2022. The organic growth is expected to be

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bolstered by M&A activity, with Nature's Remedy of Massachusetts closing the second half of the year and a robust M&A pipeline.

As we continue into 2021, we are focused on three main areas, the first being the continued build-out of our BEYOND / HELLO retail footprint, which includes the opening of up to 10 new stores by the end of the year. The second is the optimization and expansion of our grower-processor assets in Pennsylvania and Virginia, which will position the Company to scale its operations in anticipation of robust future market demand. The third is the continued pursuit of M&A opportunities that will allow us to add attractive assets to our portfolio in both new and existing markets.

With our enhanced financial flexibility following our latest raise and our disciplined approach to our capital deployment, we are very excited to enter our next phase of growth.

Thank you again for your time.

Operator, please open the call for questions.

Operator

Thank you.

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

Russell Stanley

Good morning and thank you for taking my questions.

The first, just on the guidance front; thanks for the Q2 outlook. The latest investor deck, I think, still shows you as on track for the 2021 revenue guidance that you provided before, but just wondering, your latest thoughts on EBITDA for the full-year 2021. Are you still looking to produce $40 million to $50 million?

Jim Cacioppo

Thanks, Russell. It's Jim, thanks for the question.

We haven't updated our guidance yet; it's only the first quarter. We're mid-second quarter, the books haven't closed. We have a lot of acquisition activity. I would say that we're definitely very focused on revenue growth, and given all the equity we've raised, between the warrant squeezes and the equity deals, we've raised about $180 million. We're very focused on really having this great revenue growth that we've experienced into '22 and through '22, which, if you look at the cadence of everything we're opening, the grower-processors for example come on at the end of the year, and that's substantial Capex and expense.

We're not as focused on EBITDA as we are on revenue for this year, because we think that's not a good way to do it. But having said that, there are ways for us to get into that range that include M&A, and I would remind you that things that we're doing that caused EBITDA to be impacted by juicing growth would be opening eight to 10 new stores in Q2 and Q3. We have to staff those up. We get to full staffing 30 days prior to the store opening, which means we start hiring before then, so you have expenses but no revenue for a significant period: six, seven weeks, maybe eight weeks.

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In addition, unfortunately in Ohio, there was a change at the regulatory agency where the person reviewing our application changed and will cause an unexpected delay. We've been fully staffed up there for almost three months prior to opening. We expect to get it shortly, but that's just the way it goes in cannabis sometimes.

Just to give you the scale of the Pennsylvania expansion, 88,000 to 190,000 square feet this year, and the 88,000 that we got from Vireo, we're substantially upgrading, so when you look at what we're creating there, it's just beautiful compared to what it was. Then Virginia, we're going from 25,000 to 93,000. Since we put out the guidance, we've increased the pace of acquisitions and we've increased G&A just to plan for adult use in PA, which we think there's going to be activity this year on the legislative front in that regard, the flower in Virginia, which we just found out will be later in the year, and also adult use in Virginia, which has been passed for 2024 in January but could get pulled forward. We're expanding for all these things, and that's what's causing us to really just focus our revenue.

But having said that, if we thought we couldn't make that guidance range, we would've put that out, but we're not ready to do that yet. We are just focused on pulling the numbers together; we have acquisitions that could close, all kinds of things that could change, it's only the end of the first quarter here. I hope that answers your question.

Russell Stanley

That's really helpful and great color, thanks on that.

Maybe if I could, one more on Illinois, in particular the two dispensaries in Sauget. Just wondering, they've performed very well for you, we understand, in the past. Just wondering, I guess, how much more upside is there with the reopening, and how much more throughput could they handle with greater traffic.

Jim Cacioppo

That's a good question. Right now, there's a couple things going on in Sauget. One is, Sauget is a town with lots of nightclubs where people from St. Louis come. As you can imagine, that was really impacted by COVID, the activity in the nightclubs. As soon as those restrictions came up, there was a bridge closure, so the bridge was actually closed, the exit that you would go to the stores, the first new store, the big new store. We had some drag from COVID and then some infrastructure activity.

Secondly, in Bloomington-Normal, the schools haven't been open; it's a big college town, Illinois State University and others, so we've had impacted—so it's a negative impact. You have a lot of okay impacts from COVID where people were at home using it, but in our stores in Illinois, we feel like it's also been an offsetting negative impact. We have to see. It's kind of hard for us to predict.

I could say 10% to 20% growth or something like that, but we have to wait and see. I do think there's some more to come. The good news is, in Illinois, Jushi has done a great job of procurement, so we have about three weeks of inventory in flower, which tends to drive usage. We believe that prices are coming down a bit from grower-processors, which will increase demand by customers as it becomes more competitive.

Russell Stanley

That's great. If I could sneak in one more, I guess, just around Pennsylvania, because you mentioned some optimism that you could see movement on the adult use front out of the legislature, I guess, any color on the driver behind your optimism on that front. That's it for me, thanks, I'll get back in the queue.

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Jim Cacioppo

Yes. We're actively involved in the process and educating the legislators. The industry's doing a good job, as they did in Illinois and other states. When you're involved in that process, we feel like—Pennsylvania, keep in mind, it's confusing in the United States. Some legislatures are part-time, and Virginia, they're only working part of the year. Texas, for example, is just once every two years. Florida's part of the year. Pennsylvania, they work year round. We think that, with the summer coming up, we think there's going to be legislation brought up and negotiated, and hopefully there'll be a positive resolution for the state.

Russell Stanley

That's great, thanks for the color.

Jim Cacioppo

Yes.

Operator

Our next question comes from the line of Bobby Burleson with Canaccord Genuity. Please proceed with your question.

Bobby Burleson

Yes, good morning and thanks for taking my questions.

I guess the first one is just on your house brands. Curious what your goals are there for share of your own shelf space at your stores, and any color kind of across your seven states where you think you might have much higher penetration overall, anything you've gleaned so far on how those brands are performing.

Jim Cacioppo

Yes. Really, Jushi is a company that's going from a retail-first company to a vertically integrated company where we're going to have a more balanced wholesale and retail sell-through, so moving towards what you'd see in the larger companies, that big footprint. Again, our Pennsylvania will be 190,000 square feet by the end of Q2. Recall, the initial expansion kept it to 130,000 square feet by the end of the year, and then Virginia, 93,000 square feet. We're going to have significant wholesale capabilities, and then we also have significant shelf space.

For us, we'll find a balance of retail and wholesale generally, and how much we sell through our shelves, we haven't, to be quite honest, drilled down to that yet, how we're going to do that. We're kind of under discussions and we're doing the analysis; we're very data driven. The closer we get to opening those up, we have months, we'll focus more in on that. But I would expect that our products will be very competitively priced at our locations.

The early reviews, going to that question, on The Bank in Nevada, which is one of our earlier grower-processors, on some measures, it's a top-selling product out there by an independent. Because in Nevada, it's a funny market: a lot of the vertically integrated people, they don't even have a wholesale, they just sell right through to their retail. We're one of the top-selling, it sells out immediately. It's called The Bank, there's three levels of it, and it does really, really well. We're rolling out. The Bank does well,

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very well in Pennsylvania as well. It sells out very, very well; we can't keep it on the shelves, to be quite honest. But having said that, we're expanding supply dramatically, and that'll be the bigger test.

The Lab, which is our vape product, that has a long-standing tradition that's been around in Colorado since six, seven, eight years ago, and it's been one of the top-selling products ever. I think it's a very well-received product, and recently we did a promotion and we sold everything. Again, we're expanding capabilities of that as well, and that'll be a test. We're very excited about our edible brand called Tasteology, which is newer, so that'll be exciting to talk about in the coming quarters. I don't want to make too many comments about that. We like the recipe, and we think it's great, and we'll have to make sure we get everything correct in the rollout.

Then Seche is us taking what we call fine grind, and that's a lot of stuff that normally would go into the extraction process, and we're getting higher value per pound by selling it as an inexpensive flower alternative, because it's not the big fancy buds that people love with the aroma and the beautiful look, but it's priced the way that customers—one of the lowest prices on the shelf, if not the lowest, so they love that. There's a price point that you have to get to for certain customers to be able to afford the product, so I think that's a great product.

I'm super proud of our Creative team, led by Andreas Neumann, that's come up with all these brands. It's very expensive to buy brands; we've built out these architectures, if you look at the websites for each brand, you look at the packaging, and you look at the promotions we're doing and the artistic work, it's fantastic. By the way, this has all been well tested. We run typically a dozen or so tests, consumer-oriented tests before we roll out a brand or different packaging, etc.

Bobby Burleson

Great, thanks for that.

Then just on the M&A front, obviously you've had some issues with your accountant, and it sounds like you're making a nice transition there for someone else. But curious, your due diligence and the execution on M&A, has anything been delayed because of this distraction, and/or should we expect some acceleration there now that you're getting back on track, or are the two issues kind of totally unrelated?

Jim Cacioppo

I think they're totally unrelated. There's been no delays.

To put this in context, we were unaware of a delay until the last week or two, whenever we put it out, we started hearing of it. It was a surprise to us. They had all the data. This was really an auditor that was overwhelmed by their clientele. Probably, my guess, if there was (inaudible) reduce the number of cannabis clients or get out of cannabis because they acquire a type of cannabis clients last (phon), I think you've seen that with some other companies that have had this auditor. That's their prerogative.

Ultimately they got the job done. From my perspective as CEO, there wasn't a lot of change in the numbers. There was never a risk of anything significant. We're talking about valuing leases, valuing biological assets, which is an industry thing. Then for us, we had the unfortunate and fortunate thing to have to do, what's called bargain accounting, bargain purchase accounting.

Kimberly Bambach

Bargain purchase, yes.

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Jim Cacioppo

Bargain purchase accounting, so our purchases in Illinois were so good last year and the one in Pennsylvania for the grower-processor, and the $5 million expense on dispensaries where other people are spending $30 million, $50 million on dispensaries in Pennsylvania, for three. We had to account for those in an accounting method that I had never heard of. Now, it's not particularly—it's a high judgment area, but we were aware of that, but when you think about EBITDA, cash flow and revenues, it doesn't affect the balance sheet item, so all stuff that we were aware of, and they just took their time. Our acquisition targets, to the extent we disclosed it because we were far enough along, because we're in the cannabis business, typically when we look at people, we had to spend a lot of time on their numbers to get them up to snuff, to be quite honest. When we're doing this exercise with them and we were disclosing it, they're fine with it, they get it, they've been through it. Their auditors are usually less sophisticated than ours, if they have auditors. We haven't had any delay whatsoever.

In terms of a cadence of acquisitions, it looks good. We have a lot of stuff in the hopper. We don't participate in auctions. We get a call from bankers and we'd say, "If you're wanting to process, no thanks." We develop relationships with our sellers. These are hard deals if there's no auction, let alone if there's an auction. Cannabis is hard deals, because all the regulation, the past history of operations, the numbers themselves, it takes a lot of upfront work to make sure that you can get the company there so you could buy them. It could be 280E that hasn't been paid, accounting that needs to be approved, all kinds of things.

We tend to develop deep relationships with those companies that we acquire, and usually they're focused on Jushi because they believe in our stock. If you look at, they're going to take some stock, I believe the upside of Jushi is as good as any company or better than most companies, and so that's what they're really focused on.

Bobby Burleson

Okay, great. Thank you.

Operator

Our next question comes from the line of Andrew Semple with Echelon Wealth Partners. Please proceed with your question.

Andrew Semple

Good morning and congrats on the results.

My first question here, I just wanted to ask on your outlook for Q2 revenues. Could you comment on whether you expect wholesale to be a meaningful contributor to the quarter-over-quarter growth, or do we really have to wait until the second half of the year to see that meaningfully pick up from here? Would you expect retail to really drive the bulk of quarter-over-quarter growth that you're expecting?

Jim Cacioppo

Yes, I mean, on the Q2 growth I would say it's definitely retail, not wholesale. Wholesale, our big expansions come online in the fourth quarter, and remember, with cannabis, you have to plant the product in the rooms, and it takes a couple months to grow, and then process time. You really don't get the impact of the grower-processors, for the most part, until 2022, to be quite honest.

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For 2021, we're primarily driven by retail, and that is what it is. We've gone through very big expansions because the regulatory changes in our market and the opportunities in our market. The dollar of Capex that we spend on these grower-processors really is very, very impactful to EBITDA, and compared to an acquisition, it's super accretive, and we do great deals. I mean, our deal in Massachusetts was 3, 3.5 times EBITDA. Our Capex dollars, when we spend those on these grower-processors, assuming there's no leverage involved, assuming that's just $1.00 of Capex without a lease in place or without debt financing, assuming that, the accretion is almost dollar for dollar in terms of EBITDA production.

These are tremendous projects; if you look at Jushi's shareholders, the impact on revenue and EBITDA margins for '22 is how we really all should be looking at this. I've always been very conservative, downside protection for myself and shareholders in the Company, our balance sheet. If I have 18 stores opened, as I'm expanding the grower-processor in Pennsylvania, I have, really, protection on distribution, because my store base is very valuable to other wholesalers. If I need a place to go with my wholesale, there'll be a good trade there. Then also, we'll have to be able to price our product competitively on our retail channel. We are building out retail and then ramping up wholesale, and it really comes together quite nicely in Pennsylvania.

Virginia, again, it's the end of the year finish, so it's really a '22 thing for wholesale. With Virginia, the stores will come on all of '22. It'll be probably somewhat of a bigger wholesale market if the patients are coming online in Virginia.

Andrew Semple

Understood, that's very helpful. If I could ask on Virginia and your early experience there, at this date we're not getting a ton of transparency out of regulators, not releasing too much data as of yet. I just wanted to ask, are you happy with how your initial store is performing? Are patient registrations up to your expectations. And do you feel like your store is adequately supplied for the next several quarters ahead as your cultivation capacity ramps up?

Jim Cacioppo

Yes, so there's 22,000 patients around today, and we're adding 800 patients a week. It's been slow, getting to this point, I would say, in my perspective. It's been taking about 30 days—is that right, Michael, about 30 days for patients to get cards? Yes; he's shaking his head, yes. But the regulators are aware of a backlog, and they're trying to accelerate the access to cards.

Michael, can you comment on what's being discussed?

Michael Perlman

Sure. Right now, it is mail-in, so they are looking to streamline the process as they move it to online, so we hope to see some movement related to that prior to, potentially, flower being introduced in the fourth quarter, which as we know will be a big mover from a patient adoption perspective.

Jim Cacioppo

Right. Yes, flower's in the fourth quarter. We've done this work internally, but I would encourage you to look at what happened in Florida as an example when flower came on, and Pennsylvania, patient counts upticked dramatically. Flower and the related products, like prerolls, are typically 50% of a market.

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It's also, the customers who, if they can't get flower, they're just going to stay in the illicit market. That's a big thing for a medical market, and that's a fourth quarter. A little bit later than we would've thought, to be quite honest; we thought it would come in July, initially.

Virginia's gone definitely a little bit slower, but the great news in Virginia is the regulatory change has been as fast as any medical state. They added stores for us last year, as you recall. They took away a THC cap, or it could be read to be a THC cap, it was lack of clarity; they made it clear there wasn't one. Then this year, they've added flower, and they've made adult use, as of January 1, 2024, and they're decriminalizing this year. We think there's a lot of support by the governor and others to pull forward the adult use in Virginia, so the decriminalized community out there will have the legal option to fulfill their need. We think that's an upside in Virginia. Virginia's a little slower this year, but it's bigger, definitely, in the out years.

Andrew Semple

That's very helpful. Thank you very much for taking my questions.

Operator

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

Glenn Mattson, Jr.

Hi, thanks for taking the questions.

Just curious, you talk about a robust M&A pipeline. Can you just go through the puts and takes on exactly how much room you have in terms of—you have $168 million in cash, and then I think you spoke to an additional about $80 million-ish more in Capex this year, including the Virginia purchase. I'm not sure if that includes the cash portions of the Massachusetts purchase or not, so clarify on that. Then just what's left over and what other access you have in terms of the ability to pursue that M&A strategy.

Jim Cacioppo

Yes. I would point out that there's a couple things that go in when you evaluate M&A and capabilities. One of those is, if you remember, I said Capex, it's accretive almost dollar per dollar spent. That's kind of a rule of thumb, so a dollar of spend in Capex is a dollar EBITDA. One times EBITDA, it would be your acquisition cost. If you're in great states like we are, in Pennsylvania and Virginia, you want to push that, right.

How much do we want to focus in on Capex, and then how do we finance that? We've seen some opening in the financing markets. Our Virginia facility, we just put $22 million in buying nine acres of land. If it goes to adult use, we could take it up to 250,000 square feet, and that's already something we're focused on. Then we own the facility that we were previously leasing. That's a $22 million use, so our Virginia asset is unlevered, and Virginia real estate market is as good as any real estate market that we've been in for cannabis, because like, I would say, Southern California or some market like that, there's great alternative uses with industrial warehouse space, there's almost no faster-growing area in the country. It's in the highest quartile for sure, probably the highest 10%, in a large city as Northern Virginia.

We have an unlevered asset there that we could take down financing. We're talking to quite a few parties. Then we have the PAMS facility where we have (inaudible) and a sale leaseback. We just expanded that,

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and we could expand that to more, and we're doing more expansion there. There's some give and takes on Capex and how we finance that. It comes to be a complicated formula and I really shouldn't comment on that numbers themselves on this call, but you're welcome to talk to Michael more to try and understand how we think about it.

But in terms of M&A, we have people who are interested in all-equity, okay? It's a question of where our stock's trading and how do we feel about that. We're seeing the market shift in M&A where people, I would say two or three years ago, by and large, wanted more and more cash. Now, the market has gone towards more equity finance, they're more willing to take seller notes. Some are not interested in cash. They really, at Jushi you see the upside and they want to… We're really probably in the second inning or third inning in cannabis, so some of the entrepreneurs get that. They're like, "Okay, I don't want to just sell and give up the upside over the next five to 10 years."

That's the kind of thing, so it's really hard for me to say what our capacity is. I will tell you this: I do believe we have capacity in our balance sheet, assuming we get the financing for these Capex projects to do another decent-sized deal this year. Then we're doing small dispensary deals, hopefully; we have a few of those out there. That (inaudible) be able to pay not 100% equity deal, and we're all looking at some 100% equity deal.

We have different things out there that we're looking on, and then we also, by the way on M&A, we also have a management capability, right. We don't want to put too much on the platform at once. We want to kind of go it, and I think you'll see nice cadence to 2022, very responsible, that'll really get some great growth. I think the M&A platform at Jushi is kind of undervalued by the market, because when you look at our G&A, it's very, very built out. We've built it out this year, and we can put this EBITDA on the platform without substantially increasing G&A, which of course makes it very accretive when you think about asset level EBITDA, then dropping right to effectively the bottom line on the financial statement.

Glenn Mattson, Jr.

Great, that was helpful. You touched on California. I know you guys have a strategy mostly to be opportunistic and things like that, but it's a really tough market. You have a couple of stores there. Is there an overarching strategy beyond just kind of trying to pick off assets that you find undervalued, is there a brand-building exercise going on, is it to learn more about the most advanced cannabis market to think about how to operate better in other states? Just some color there, more on California and your strategy (multiple speakers).

Jim Cacioppo

Yes, okay. California is something that I've personally spent a lot of time and the Company's spent a lot of time on. I think you know this, but just for everybody on the call, it's the largest cannabis market in the world. It's one of the largest GDPs in the world, as if it was considered a country. I've seen statistics around number eight or something. California's a big market.

I don't think if you're going to be a national company you can just say, "Oh, well, California doesn't exist". I will say it's a fine line or drinking a whiskey. It sort of takes a while to gain the taste for it. I think it's kind of really misunderstood, to be quite honest with you. We have a divergent view in the markets. What makes a market is somebody's the buyer and somebody's the seller, and there's maybe less sellers or— we have a divergent view in California.

Yes, there's some strategy in our California. Number one is, first of all we have two retail dispensaries now operating; we have two more coming online, one this year and then one in second quarter next year. We're looking at more acquisitions. I would like to get to 10 in a relatively expedited timeframe, and we're

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looking at market-by-market. It's a big state. You're talking about, again, maybe the eighth largest GDP in the world. Seventy percent of the counties in California are dry, and a significant number of the towns and cities present more than X number of—so there's limited licensed jurisdictions.

Unlike some other companies, if you look at Jushi, we're not in L.A. and we're not in San Francisco. That's our purpose. We view those markets as kind of wide open markets from being able to open dispensaries. We also look at it like the illicit market is really strong in those two markets, including retail, illicit retail storefronts that just pop up.

That's a strategy, we've stayed out of those markets. There's other places where we're focused, like Santa Barbara, Grover Beach, four licenses, Santa Barbara, three licenses, that are very, very limited. Then there's ones that are in between where we see really good opportunities as well. We have a very good retail strategy, we really understand the market; we have a team in the West Coast just focused on this. I think picking them up one at a time is the most accretive way to do it. We've looked at larger deals as well that could happen, but it might not happen. We're happy to do one at a time, but we have a nice backlog of those.

Then in terms of the grower-processor side, there's stuff out there. The genetics are great out in California. You could build brands that you suggested out in California, and you could also—I call it talent-accretive. You could do talent-accretive deals in California. In terms of gaining grower-processors that have been in the business world a long, long time and have a lot of great techniques that allow you to expand in other states, so you could take some of that talent and their connections in the market in California and bring that talent to other markets. Because every time you go to a new state, that's more people. Yes, if we do something on that front of the business, it will be very talent-accretive.

Then branding, yes. We would expect over time to develop brands in California, bring it East. In addition, if it goes federal, legal, and there's interstate commerce, which could happen five, 10 years from now, it'll be great to have this base in California. I think it's a very strategic place to be, and although the stores themselves don't have the revenue growth like we saw in Illinois, we had two medical stores that went from $7 million, then that grew about $80 million (inaudible) in 18 months. Of course, we're going to do that all day long, but what you can do is you can do these very accretive deals buying dispensaries, kind of just keep adding them onto the base. There's just an unlimited pace of acquisitions if you have the ability, and I've talked to a lot of competitors who really valued our knowledge and just didn't feel like they could do it, larger companies than us.

I think we're in a place, as we've spent time and effort doing it. We haven't yielded a ton from it, so it's not like it's been a huge homerun for us, but I think it's part of the Company that I'm very much looking forward to seeing where it is in the next 18 months to 24 months.

Glenn Mattson, Jr.

Great, that's very helpful. Thanks for the color, I'll jump back in the queue.

Operator

Our next question comes from the line of Graeme Kreindler with Eight Capital. Please proceed with your question.

Graeme Kreindler

Hi, good morning and thanks for taking my question.

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I just had a follow-up to Russ' question earlier with respect to the Adjusted EBITDA, particularly in Q1, the number coming in slightly below created at least the expectation. I'm wondering if the integration of PAMS was a significant contributor to that and whether that has continued to be some drag from integration heading into Q2. Thank you very much.

Jim Cacioppo

Yes. I think that PAMS has been somewhat of a drag relative to our model, absolutely. When we went into PAMS and we modeled it out, remember, we did Investor Day around October 1, I believe it was, which we had just acquired PAMS in August. We were just getting in there and figuring it out. We've had to sort of rebuild some of the grow rooms and move around manufacturing and post-production.

But very importantly, when we presented that deal to the market, we said expansion opportunities were about 45,000 total square feet addition, is what we thought we could do. Well, we've since doubled that to 190,000 square feet. When you have a 90,000 or 88,000 square foot facility going to 190,000 square feet, you have a lot of work to do to get the flow of that operation right. We've got to take down grow rooms, increased expenses in a way in terms of construction. Our Construction team used to be two, and now it's 12. That's our internal people, not external, and so we're paying architecture fees, we're paying—just think of all the things that go into a $30 million to $50 million project. It's a lot of things upfront. Remember, this EBITDA tends to be $1.00 of Capex on an unlevered basis to $1.00 of EBITDA, more or less. Rule of thumb: don't hold me to that, don't hold the Company to that, please, but rule of thumb.

For me, it's a fabulous ROI. I'm thrilled with the acquisition. Now, we could take it to 190,000 square feet. We've also bought a lot of land around there, so we could take it beyond the 190,000 square feet if we deem it appropriate in an adult-use scenario. We think 190,000 square feet is adequate in the medical case, given that we have 18 dispensaries and a lot of great relationships. We are ready in a ton of dispensaries in wholesale. Our product is very popular, and patients like choice.

That was definitely a drag, and by the way, that's controllable. That was our decision, right? Our focus on long-term revenue growth, if you look at the valuation of a company like Jushi or other companies in the industry, it's like any growth company. Our revenue growth rate, 30% quarter-over-quarter, annualized, is over 100% on the revenue. I'll put that into perspective: Google and Facebook are doing 22%, 23%, 25% annual.

When you look at that, it's really, on the VTF (phon) would be future-value based and getting that EBITDA but putting a multiple on it at that time and discounting it back. That's where the value is, and that's how we look at it. Managing for an EBITDA in Q1 of '21, that's just not my thing. That doesn't drive value.

I'll repeat this from the earlier question, but the retail stores, when you're opening—I think we're going to be opening 12 to 14 this year, company-wide. We came into the year with 15, so we almost double our store base pre-acquisitions, and with acquisitions, I think it's going to be double. We're doubling our store base, more or less, with acquisitions. Most of that's organic. We've got 15 to start, we're adding about 12 or more, and organically.

Every time you open those dispensaries, you have 30 days, on average, that is—you have 40 days, on average, of upfront, full expenses. You're training people, you're hiring them, before you even open the store. Just think of that on the scale of the Company, you're multiplying that number times 12 or 13 at Jushi. Those are the type of things. And then what goes with that too, is the general administrative expense to support that. We have to be a well-managed company. We can't be doing all this and then get out of control. Construction group was just a few people, and now it's 12. We've grown our Accounting department, we've grown our Human Resource department. We have almost 900 people. At the

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beginning of the year, I don't know what the number was. (Multiple speakers). We had 200. Yes, so the Human Resources department's grown quite dramatically.

This is what you're doing, and I think if you focus on your model in building out '22, you're going to see the dramatic revenue growth that all this work in '21 gives us, which is an investment in the business both on a capital, Capex, going onto the balance sheet, and Opex. That's the answer on how we do EBITDA in Q1 and then even Q2.

Graeme Kreindler

Okay, understood, thanks for the color. Then just a follow-up with respect to the planned retail openings in the back half of the year, does that include any openings on the Nature's Remedy side of things? Then on a state basis, are Pennsylvania and California the focus, or are any other states included within there? Thank you.

Jim Cacioppo

No, it doesn't include Nature's Remedy in the number that was 12 (inaudible) for the year. It could be north of 12 for the year. That's just Jushi opening BEYOND / HELLO stores, not acquisitions. It's stuff we own already, let's put it that way. For example, we bought Grover Beach earlier in the year, and we plan to open that in September. We bought a license.

There is maybe just one example where we're opening something we bought earlier in the year, but the Nature's Remedy is on top of that, and we're not opening those stores; those are existing stores, generating a very large amount of revenue. One of the stores is in the range of our top stores in Illinois in terms of its revenue. These are very well-run, mature stores.

Graeme Kreindler

Okay, thank you very much.

Operator

Our next question comes from the line of Jason Zandberg with PI Financial. Please proceed with your question.

Jason Zandberg

Hi, thanks for taking the questions.

First of all, just wanted to just quickly touch base on your Santa Barbara store in California; you've had it open since November. Just wanted to sort of get your thoughts on whether it's performing to your expectations. Just generally how robust that store has been.

Jim Cacioppo

Yes, I would say Santa Barbara is probably one of the most COVID-affected stores we've had. To put that in perspective, California had pretty significant restrictions on travel and restrictions on out-to-dinner and masks and all these types of things that would prevent—not our industry, but Wall Street calls mobility. If you look at Open Table and stuff like that, you would have lower mobility in California than you would in a state like Florida, for example.

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But Santa Barbara in particular, you have nine million tourists a year, so that goes very significantly down. Probably not zero, but very, very significantly down. Then you also have the University of California sits in the school of Santa Barbara, which is a top University, big University, so that's closed, students aren't there. Very significant.

In addition, California's a very different market. There was a question earlier about learning in California. You have to work up to about 550 SKUs before the customer feels like it's a store they want to drop another store for. They want vast selection and there's product, so it takes a little bit of time. That was our first operating store for us to figure out what should be on the shelves and what the customers want. We've seen good growth out of that store, but it's still operating I would say on an annualized basis a couple of million dollars less than we would've forecasted.

Jason Zandberg

Okay, fair enough. Then just shifting over to the Illinois market, wondering if you could make a comment on the supply scenario there, especially given it sounds like you have some good upside moving forward as schools go back into session in the fall and the nightclub scene gets more active as the economy reopens and gains momentum throughout the year. Just wondered what the supply has been like and what's the supply outlook in Illinois.

Jim Cacioppo

Yes, I would say, I can only speak for Jushi. There's some companies you could speak to that are very—Wisconsin, Illinois, have 10 stores and huge grower-processors that might have a different view. But we are the only two dispensaries open in Bloomington-Normal area, and the only two dispensaries open in the Sauget, East St. Louis area. There's one other dispensary that's a little further away, but that's an integrated producer who really moves a lot of their own product.

When you look at the major wholesalers in Illinois, our stores are not competitive to theirs. We provide these great channels, distribution for them. By the way, we're national, right, because we have the Pennsylvania footprint, and we're a very sought-after footprint for wholesalers. And oh, by the way, we're building up in California. If you're out in California, very sought-after to get our shelves out there.

When you start piecing that all together, and our balance sheet, we're very professional. Look, we have a Commercial Operations Group that's very knowledgeable. We work deals with them. We're coming up with feedback from them about how their products are doing and how they should run a promotion.

I don't know this for a fact, because I don't talk to these people every day, but the feedback I get from my Organization is that we do very well in stocking our shelves in Illinois, and by the way, in Pennsylvania too, because it's related. A lot of the GPs are similar.

We've had consistently, over the past few months, two to three weeks of flower, which is how we measure it on our shelves, which is good. To put that in perspective, six months ago, it might've been two or three days, or a day, of flower on the shelf. We would never restore that restricted flower sale. If we had it on the shelves, you can buy it all you want up to a regulatory limit, depending upon the state. Some people would actually allocate it only so much when you come in, and we didn't do that.

We've always had a robust and better than most what I say independents on our shelves. Moving forward, there are more stores opening in the state, but there's also more grower-processors coming on. I would say, my guesstimate, not being the world's expert on exactly who's doing what to whom in Illinois in terms of store openings and grower-processors, again, there's companies better situated to comment on that. But from what we see, people like dealing with us. They get paid early, they get paid on time, they

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don't have credit risk, and they get our Pennsylvania and our California, so people like dealing with us. I don't anticipate us having any problems.

Jason Zandberg

That's great color, thanks.

Operator

We have no further questions at this time. I would now like to turn the floor back over to Management for closing comments.

Michael Perlman

Great, thank you for joining us today.

We look forward to speaking to you next quarter. Have a great day.

Operator

Ladies and gentlemen, this does conclude today's conference. You may disconnect your lines at this time. Thank you for your participation, and have a wonderful day.

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