Jushi Holdings Inc.

First Quarter 2020 Earnings Conference Call

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C O R P O R A T E P A R T I C I P A N T S

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P R E S E N T A T I O N

Operator

Good morning. My name is Donna and I will be your conference Operator today. At this time, I would like to welcome everyone to the Jushi Holdings First Quarter 2020 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. Thank you. Sir, you may begin.

Michael Perlman

Good morning. Thank you for joining us today for the Jushi Holdings Inc. First Quarter 2020 Earnings Conference Call. Joining me on today's call are Jim Cacioppo, Founder, Chairman and Chief Executive Officer, and Kimberly Bambach, Executive Vice President and Chief Financial Officer.

This morning we issued a press release announcing our financial results for the first quarter ended March 31, 2020. The press release, along with the unaudited financial statements, is available on our website under the Investor Relations section and filed on SEDAR.

Before we begin, I would like to remind you that the comments on today's call will include forward-looking statements, which by their nature involve estimates, projections, goals, forecasts and assumptions that may be based on anticipated operations, acquisitions and/or market conditions and are subject to risks and uncertainties that could cause actual results or outcomes to differ materially from those expressed in the forward-looking statements on certain material factors or assumptions that were applied in drawing a conclusion or making a forecast in such statements. These forward-looking statements speak only as of the date of this conference call and should not be relied upon as predictions of future events. Additional information about the material factors and assumptions forming the basis of the forward-looking statements and risk factors can be found in the Company's Management Discussion and Analysis filed on SEDAR.

With that, I would like to turn the call over to Jim Cacioppo, Founder, Chairman and CEO.

Jim Cacioppo

Thank you, Michael, and thank you, everyone, for joining our call today. I hope everyone is doing well and staying healthy during this time.

This morning, I would like to take a few minutes to review the progress we have made since our last call, as well as provide a broader update on our operational footprint. I'll then turn it over to Kim to review our financials, then we'll open it up to questions.

In terms of our progress, simply put, it has been a very productive first half of the year. We are pleased to report revenue of $8.6 million in the first quarter of 2020, and pre-announce record revenue of $15 million in the second quarter of 2020. The strength of the first half of 2020 was primarily driven by strong sales at sales at BEYOND/HELLO stores in Pennsylvania and the acquisition of two Illinois medical dispensaries, both of which have subsequently begun serving adult-use customers. We have also recently begun implementing several cost reduction initiatives across our network of retail stores with a focus on strengthening our financial rigor and driving long-term profitability. Broadly speaking, these initiatives include the implementation of strategic purchasing practices, optimizing our labor model, improving our in-store product mix, creating additional targeted promotions, and further leveraging our Beyond-Hello.com online platform. While the impact of these changes is not significantly reflected in our Q1 results, we expect these changes to become more evident in the second half of the year.

Speaking of Beyond-Hello.com, in April we very successfully relaunched our online platform in the second quarter, which now features a vastly improved customer experience, real-time access to store inventory, and, importantly, online reservations. Online pre-orders in a short period of time make up approximately two-thirds of our retail sales, which drives increased revenues, increased operating efficiencies and, therefore, reduced costs and improved customer safety by reducing in-store person-to-person contact. The traffic on the Beyond-Hello.com website has vastly outperformed our internal expectations. I would encourage all of our listeners, patients and customers to check out the website and let us know your feedback, we'd truly appreciate it. Given the ongoing COVID-19 pandemic, the timing of this launch could not have fallen at a more appropriate time.

On that front, we have implemented several initiatives to prioritize the health and safety of our employees, medical patients and customers across our network of dispensaries. These initiatives include reducing the number of point-of-sale registers in use at one time, restricting the number of people permitted in-store, limiting store hours to those most susceptible, and offering curbside pick-up. Despite the challenges posed by this pandemic, we continue to perform very well and I am very pleased with how our entire team has come together to ensure our patients and customers have access to the medicine and products they need.

Now, let's look more closely at our operations in the six states where we are currently active.

In Pennsylvania, we operated a total of six medical dispensaries under the BEYOND/HELLO brand in the first quarter. We recently expanded our footprint with the opening of our seventh store in Ardmore in June and we expect to open our eighth location in Reading, Pennsylvania later this month. As previously announced, we temporarily closed two of our stores in Philadelphia due to the damage sustained during the demonstrations in late May. We expect to reopen both locations by the end of July. We also hope to open three additional PA stores in 2020, and the five remaining stores in Pennsylvania in 2021.

Organic same store revenue growth in Pennsylvania was approximately 96% from January to June, excluding the two closed Philadelphia stores. The improved performance was due to better management and the relaunch of our Beyond/Hello.com website. In the second quarter, we hired a new head of retail operations in Pennsylvania with very significant retail experience in the Pennsylvania retail market.

In June, we signed a definitive agreement to acquire 100% of the equity of a grower-processor in Pennsylvania. The permittee operates a 90,000 square foot facility with approximately 45,000 square feet of high-quality, indoor cultivation when construction is complete. We will also have an assignable purchase option to acquire 100% of the equity of a medical marijuana dispensary permittee that currently operates two dispensaries in Scranton and Bethlehem, with the right to operate one additional dispensary in the region, subject to all necessary regulatory approvals.

Also, in June, we closed the acquisition of Agape Total Healthcare, who will open three retail locations in Pennsylvania, including the aforementioned location in Reading. With the closing of this deal and the prior announced acquisitions, we will have the right to operate up to 15 dispensaries in Pennsylvania.

There have been several adult-use proposals floating around Harrisburg recently. We are hopeful that adult-use will get some traction in the remainder of 2020. We believe Jushi offers the most concentrated investment play on the Pennsylvania market of any public company.

In regards to Illinois, Jushi, in the first quarter, acquired 100% of two Illinois medical cannabis dispensaries located in Sauget, adjacent to East St. Louis, and Normal, theBloomington-Normal metro area. Since acquiring the two dispensaries, both locations have been re-branded to BEYOND/HELLO and have begun adult-use sales. The Sauget dispensary began adult-use sales in March 2020, and the Normal dispensary began adult-use sales in May 2020. Each dispensary is able to seek approval from the IDFPR to open a second retail location, and we expect to exercise both of these options and have four adult-use stores operating by the end of 2020. We hope to open the second Sauget store in the early part of the fourth quarter 2020, and the Bloomington store in the late fourth quarter of 2020. We believe both of these stores have the ability to be our best performing stores in our national retail network due to their superior locations.

The two existing stores in Illinois have experienced an approximate 440% increase in monthly same store sales from their acquisition through June 30. This strong performance in the face of limitations due to the COVID 19 has to do with a combination of factors, that include the move to adult-use sales, the introduction of Beyond/Hello.com, improved procurement, additional store hours and a better customer experience. Additionally, in the second quarter, we hired a new Director of Operations with experience at Walmart to run the Illinois store network.

We also have several initiatives to vertically integrate our Illinois operations, including an application for a grower-processor license.

Moving on to Virginia, in September 2019, we acquired the majority membership interest in Dalitso, a Virginia-based pharmaceutical processor for medical cannabis extracts. The permit holder is one of five applicants to have received conditional approval for a pharmaceutical processor permit issued by the Virginia Board of Pharmacy. The designated area for the permit holder to operate is Health Service Area II in Northern Virginia.

With the enactment of Senate Bill 976 in April of 2020, we anticipate adding up to five additional cannabis dispensing facilities to our operations in Virginia, to bring the total to six dispensaries, with the added capability for home deliveries. These six cannabis dispensing facilities will be in addition to the pharmaceutical processing facility near the City of Manassas, which will also allow us to cultivate, process and deliver medical cannabis to registered patients in Virginia. Senate Bill 976 will also remove the statutory 5% cap on the concentration of THC within a cannabis oil formulation and expands the definition of products a patient can possess. We expect our pharmaceutical processor facility to become operational by the end of the summer and begin dispensing product by the end of the year. We believe the legislative changes have significantly improved the ability for us to serve the Virginia patient population and we are very excited about these changes. As a reminder, through Dalitso, Jushi has the exclusive right to serve the Virginia patient population in Northern Virginia, which has the top four MSAs in the state on a per capita income basis.

Although Jushi was known as a “retail first” acquirer in 2018 and 2019, with our acquisition in Pennsylvania and our operations in Virginia, we will be vertically integrated in two of our top three states. In Pennsylvania, we have proven our thesis that it is easier to vertically integrate through acquisition of licenses upstream into grower-processors rather than downstream into retail. We have seen very few retail transactions in Pennsylvania and quite a few grower-processor deals in Pennsylvania in the past year.

In California, through one of our subsidiaries, we anticipate owning and operating a store in Santa Barbara in the late summer, subject to the closing of a related acquisition agreement. We also received approval to move forward in the merit-based application process as one of the three selected applicants for a storefront retail and ancillary delivery permit in Culver City, California.

Given the increase in cannabis tax rates in 2020, and the corresponding resurgence of the unregulated market in California, we have slowed our growth strategy in the state. However, we remain well positioned to take advantage of some of the distressed sellers in California should prices meet our expectations.

We continue to operate a grower-processor in Nevada, which has been adversely impacted by the effects of COVID-19 in the first half of this year, and are in the process of building out our operations in Ohio.

Nevada has been the worst performing cannabis market due to the adverse effect of COVID on this tourism-dominated market. On a positive note, dispensaries in Nevada have begun to reopen and should result in improved demand and an increase in wholesale prices beginning in the third quarter. Additionally, Jushi has turned around its operations in Nevada. We operated close to breakeven profitability this June through improved operations even in the difficult COVID-related operating conditions. We expect further operating improvements and improved product prices to turn this into a profitable market for Jushi in the second half of 2020. In addition, we are working on expansion opportunities in the existing real estate and license footprint with a self-financed project.

We believe the footprint we have established in both Nevada and Ohio will give us a competitive advantage as the cannabis industry and regulation continues to progress and we will look to vertically integrate in both states, especially in this lower asset priced environment.

Before we further discuss our outlook, I will now ask Kim to review our first quarter performance. Kim?

Kimberly Bambach

Thanks, Jim, and good morning, everyone.

Before starting, as a reminder, the results I will be going over today can be found in our financial statements and MD&A, and are all in U.S. dollars.

Revenue for the first quarter of 2020 was $8.6 million, compared to $6 million in the fourth quarter of 2019. As mentioned earlier, the increase in revenue was driven by the acquisition of two Illinois medical dispensaries, one of which began serving adult-use customers in March, as well as strong revenue growth at the Company's BEYOND/HELLO stores in Pennsylvania, which we have continued to see into the second quarter.

Gross profit for the quarter was $4.2 million, resulting in a gross margin of 48%, a $1.5 million increase in gross profit and 400-basis-point increase in gross margin, when compared to the fourth quarter of 2019. The increase over the prior quarter was primarily due to higher margin adult-use sales, improved product mix, the implementation of strategic purchasing practices and more disciplined promotional offers.

Net loss for quarter was $15.9 million, or $0.17 per share, compared to net loss of $17.1 million, or $0.18 per share, in the fourth quarter of 2019. Contributing to net loss was an $8.2 million unrealized loss on investments due to market volatility, primarily from a reduction in value of the Cresco shares and warrants we received in the sale of our minority ownership interest in GSC, the parent company of Valley Agriceuticals and owner/operator of one of the 10 New York medical cannabis licenses. Approximately $3.1 million of the investment loss as of March 31, 2020 was recovered in the second quarter due primarily to a higher Cresco share price as of June 30. Additionally, since March 31, the Company has reduced its Cresco share ownership from 1.4 million shares to approximately 700,000 shares.

Adjusted EBITDA loss for the first quarter of 2020 was $6 million, compared to $7.3 million in fourth quarter 2019. Adjusted EBITDA has improved steadily during the quarter through the combination of higher gross margins and improved store revenue performance.

We define Adjusted EBITDA, a non-IFRS measure, as EBITDA before fair value adjustments on biological assets and the fair value adjustments on sale of inventory, share-based compensation expense, fair value changes in derivative warrants, net gain on business combination, gain and loss on investments and financial assets, as well as pre-acquisition expenses.

Turning to the balance sheet, as of the end of the first quarter the Company had cash and cash equivalents of $35.7 million and investments in securities of $13.6 million. Total current assets of $56.8 million and current liabilities of $27.7 million resulted in net working capital of $29.1 million at the end of March 2020. As of June 30, the Company had $38.4 million in cash and cash equivalents and $12.3 million in short-term investments.

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

Jim Cacioppo

Thank you, Kim.

We are extremely pleased with the revenue growth we have achieved to date and are very encouraged by our second quarter revenue results and our growth expectations for 2020 and 2021. We expect to continue to deliver industry-leading revenue growth in the quarters to come, as demonstrated by our 43% growth in the first quarter as compared to the fourth quarter of 2019, and our 74% growth in the second quarter as compared to the first quarter of 2020. On an annualized basis, our June 2020 revenue run rate is approximately $69 million.

As previously mentioned, we temporarily closed two stores in Philadelphia due to the damage sustained during the demonstrations in late May. Had the two stores in Philadelphia been open in June, we estimate that Q2 2020 total revenue would have been approximately $16 million, an increase of over 80%, as compared to the prior quarter, and would have resulted in a June annualized run rate of approximately $78 million, a 56% sequential increase from the March run rate of $50 million.

Most of this increase was achieved through organic same store sales, as we only opened one new store in the quarter, which was opened in the middle of June.

Our strategy remains focused on building out our high-quality footprint and pursuing attractive acquisition opportunities in our existing markets. Our corporate overhead is substantially built out and any further acquisitions and organic growth will not add significantly to our overhead, thereby creating a platform that we can very accretively bolt on new revenues and profits. This will make future acquisition deals very cash flow accretive to shareholders.

While there continues to be great uncertainty in the overall market, we believe our strong balance sheet and disciplined approach to capital deployment positions Jushi to continue to both organically grow in current markets and pursue acquisition opportunities across the supply chain in existing states that we currently operate in.

With respect to our outlook, on a pro forma basis, including the impact of the recently announced acquisition of a Pennsylvania grower-processor, we expect fourth quarter 2020 revenue of approximately $25 million to $30 million and Adjusted EBITDA to be positive in the fourth quarter. We are also reaffirming our 2021 revenue guidance of $200 million to $250 million, and will provide more detail at the expected close of the recently announced acquisition.

Thank you again for your time.

Operator, please open the call for questions.

Operator

Thank you. The floor is now open for questions. If you would like to ask a question, please press star, one on your telephone keypad at this time. A confirmation tone will indicate your line is in the question queue. You may press star, two if you would like to remove your question from the queue. For participants using speaker equipment, it may be necessary to pick up your handset before pressing the star key. Once again, that's star, one to register questions at this time.

Our first question today is coming from Graeme Kreindler of Eight Capital. Please go ahead.

Graeme Kreindler

Yes, hi, good morning, and thank you for taking my questions. The first question I had was with respect to the adjusted gross margin, which was in the high 40s this quarter. I was just wondering, in terms of the impact of bringing in the grower-processing license in Pennsylvania, what is that expected to do for the adjusted gross margin as you get vertically integrated in that market, and what would the timing be in terms of, you know, the directional expectations, how fast or how slow might those come on? Thanks.

Jim Cacioppo

Hi, Graeme, good morning. Yes. So, the gross margins should increase as we bring on the grower-processor in Pennsylvania, and also become a vertically integrated company in Virginia over time, in 2021, in particular.

In terms of the timing of the impact of the acquisition, the facility that we're buying was recently expanded, and so that had to be brought on and move into a different growing technique. Typically, for us, to turn around a grow to what we'd like to do with Jushi takes about nine months, so you'll see a step increase over a nine-month period, to where we're getting the kind of yields and the quality and testing that results from that sort of over that nine-month period.

Graeme Kreindler

Okay, thanks for that. Moving on, just with respect to the retail openings that you outlined on the call and on the press release this morning, I was just wondering a couple things. Is the real estate secured for all those openings in Pennsylvania, Illinois and California, and when you think about possible risks to moving those timelines, whether it's by the end of the year or by the end of next year, given where we are today in terms of the operating environment and perhaps having a bit more clarity on how things look or how things are opening back up, what do you see as being the biggest risk factors there in terms of meeting those timelines, or how would you characterize those? Thanks.

Jim Cacioppo

Thank you, Graeme. On the real estate, it is secured in many of the locations, not in all the locations, although—through 2021, which gets really the whole footprint opened up, more or less, so there are some stores that will be opening up in 2021, where we haven't secured the location yet. On the hand, for the ones in 2020 and early '21, we have secured the locations. It's really not a problem, it's more of a negotiation.

In terms of the timing, and I think what you're getting at is the delay potential of this industry, I think we've all learned that in a highly regulated business, especially with the strange environment we've been operating with COVID, demonstrations and riots, that there's some unpredictable things out there that occur, and I do believe that there can be small delays related to opening stores. I don't think they're super meaningful in terms of the value of the Company. In other words, if a store opens, we like to point to the run rate at the end of the quarter as to where we're going. If a store—for example, the Normal-Bloomington store is supposed to open late in the fourth quarter. If that happens, our run rate at the end of December is going to be extremely, I think, nice. If that gets pushed into January, well, it doesn't really affect value very much, because it's only one month, but it just doesn't make that quarter-over-quarter comparison look as good. So, I would say that relying on store openings, there's probably a month or two either way that could happen, and typically it's against you in terms of delay.

But, we have a pretty firm handle, particularly on the two stores in Illinois. We're working with the local authorities and we have some experience dealing with the IFPDR. In Pennsylvania, we've opened up seven stores already. We have a pretty good handle on that, as well, from a regulatory standpoint. I think the part where we are most concerned is just the performance of the general contractors. Anybody on the call who's done a construction project always understands that they get overburdened at times with work, and mistakes happen, where you find something, you find a gas line that wasn't on the plan and now you have to go back to the regulators. So, things happen during a construction project which are unforeseen and the general contractors can cause some delays. I would say that's the big risk factor in the projections.

Graeme Kreindler

Okay, thanks, I appreciate that. Then, finally, I wanted to ask about—just dig into some of the assumptions with respect to the outlook for 2021. First, I wanted to confirm whether that accounts for any sort of changes in the regulatory environment in Virginia, as it looks like there's a couple bills floating around right now that could open things up a bit more; and with respect to the contributions from the various states, would you be able to share what the hierarchy is, what you're forecasting internally in terms of largest contributors there?

Jim Cacioppo

In 2021, in terms of Virginia, we are working with the implementation of the current program that has been legislated—it hasn't been implemented yet, it's just the process—the Board of Pharmacy sort of implementing what has been legislated, meaning six stores, no THC cap, and that happened in April of 2020. So, we are working with that program. There is some uncertainty in that, in terms of the timing of them allowing you to open stores and those kinds of things, but we're working through that. This is what we do, we work with cannabis regulators throughout the country.

In terms of the—the big thing that could happen in Virginia, that the industry is working towards, is to allow flower sales in Virginia, and of course it could go adult-use. Typically, we would think that the flower would come first and then you would work on adult-use after that as a market, but that's, I would imagine, pretty far off in Virginia, and so our projections don't account for either of those. In terms of—that would be upside.

In terms of in Pennsylvania, on the legislative front, in particular, there, there's more of a discussion and a back-and-forth in Harrisburg, which is the capital, about adult-use. I'm not sure you're aware, but in New Jersey there's a vote and—New Jersey and Pennsylvania share a very, very long border—and the vote is in November, when we have our federal elections, and there are only a 50-plus one vote that needs to happen in favor of adult-use. New Jersey will turn into an adult-use state. We believe that causes a lot of change, including in New York and Pennsylvania, the two big neighboring states, and then ultimately Connecticut, as well, which borders New York. We do believe, with the COVID-19 expenses and economic stress that that's caused on states' budgets, that people are more actively looking at tax sources, which include cannabis taxes. So, we believe the activity in Harrisburg has picked up, but that upside is not in our projections for 2021, or in our model for 2022, for that matter. It's just something that will be a very, very big impact on our numbers when it happens.

Graeme Kreindler

Okay, thanks for that, and just to follow up on the second part of the question, would it be possible to share the hierarchy of contributions for states, of that range in 2021, that you're projecting internally?

Jim Cacioppo

Yes, sure. I don't have the numbers in front of me, but I do know what they'll look like. You would have—Pennsylvania and Illinois would be one and two, and with the grower-processor in Pennsylvania, I would believe it would be number one; and Illinois, these are four stores that really punch way above their weight because of where they are and the lack of competition in the area, the stores do tremendously, so I think Illinois would be number two; and then Virginia would be the third. Those are really the three big states. When you then fall below that, Nevada is very distant, and California very distant, the fourth and fifth in our ranking.

Graeme Kreindler

Okay, that was very helpful, thanks for that, Jim. Then, my last question here is—there was a bit of a discussion about some cost improvements at retail that you're going through right now, so I was just wondering is it possible to quantify exactly what the impacts of those cost improvements are, and are those going to show up more so on the fixed costs side or on the variable costs side? Thank you.

Jim Cacioppo

Yes. So, we believe they're going to show up on both fixed and variable. The variable would be particularly your procurement, so we are improving our procurement, and we're also improving our pricing, understanding which products sell and maybe you should charge more and which products are slow-moving and you should charge less and try to move them. So, there will be some pickup, I think, in gross margins as we better manage our procurement and pricing strategy. On the more fixed side at the store level, there is a fixed and variable at the store level, because you can shift hours around, depending upon stores, of operations.

So, yes, we really do understand about what we've done and we've taken out—we haven't put it in the press releases, because these aren't numbers that, you know, but it's around 40% cost reduction in Pennsylvania at the dispensary level in labor costs. We didn't acquire that business until the third quarter of 2019, and it took us a bit to get some stores open. I think when we acquired it, there were only two stores open, we've opened five more, and then in the process have figured out how to better optimize the stores and we've gotten grips around it. So, that cost reduction, the thought process, sort of the fourth quarter, and we implemented it some of it in the first quarter, so you don't have a full quarter of it the first quarter at all, and then the second quarter you're seeing some more, and then you see even more of it in the second half of this year, because we keep implementing more and more as we optimize the process of the business. So, we really feel like we have a firm grip on it now.

Like I mentioned in the press release, we hired two very senior retail executives, one to run Pennsylvania, who lives in Pennsylvania, has operated in the Pennsylvania market multi-stores and retail, and the other in the Illinois area, who's managed retail in that area for many years, including a Walmart. So, we feel like we're, you know, kind of—we still have more to go in sort of optimizing costs and flow through the store, and things like that. Things that increase margins at store level would be online ordering. For example, when they pre-order, the end of June we had about 68% of our sales come in from pre-order online, and that means when the customer, when the patient comes in, they just come in to pick it up. Well, that's a lot less burdensome sale because they spend less time in your store, because they get less human interaction. That's good from a COVID-19 perspective, and that's also good from a cost perspective, because they're coming in and coming out very quickly and you make the same on the revenue, and we're still optimizing that, as well, and then sort of changing the flow at the store to really accommodate more what we call "express pickup," and that's at the higher margin sales at the store level EBITDA margin.

Graeme Kreindler

Understood, appreciate the color. Thank you very much.

Operator

Thank you. Our next question is coming from Russell Stanley of Beacon Securities. Please go ahead.

Russell Stanley

Good morning, and thanks for taking my questions. I guess my first two relate to Pennsylvania, just wondering what your guidance assumes. I think you mentioned having the last five dispensaries opened in 2021, are those all expected to be opened in H1; and I guess a follow-up with respect to the grower-processor you're acquiring, when do you expect construction to be complete there?

Jim Cacioppo

The grower-processor acquisition, in terms of—when we close the deal, around when we close the deal, plus or minus, that construction will have been completed, more or less, I could be off by a month or something like that. Then, when Jushi takes over, we do an improvement program. We did this in Nevada, where we took it from 25 grams per square foot per year to 66 grams per square foot per year, and on its way to, we hope, 75, which is our initial target in these markets. So, we have a process of implementing our program of cultivation and growing that allows us to dramatically increase yields, and also we will improve the quality of the flower. We also have a very experienced team on the extraction side, which will come in and create a whole new array of extracted products. That program, which is not construction-related, but does have impact on the footprint, where you're moving things around and adding a little bit of capital in, as well, that program takes nine months. So, the building itself will be virtually complete. We inherited it and then over the next nine months we'll do some really great improvements to drive up yields and revenue, associated revenue.

In terms of your first question, which was opening the store base, the five in 2021, you should talk more to Michael Perlman, Investor Relations, but I, as CEO, I'll tell you this. When you're opening stores, where you're still working on the real estate and identifying sites, the process could take longer than you think, because, you know, the—as you go through that process, you reject certain sites because, you know, there's a school too close by, there's a church too close by, or the town doesn't want it, or whatever it might be, you know, a competitor shows up and you decide let's find something that's a little more—a little bit better for us. There are a couple of stores that are still in that zone. So, I think I'm more comfortable thinking those five stores will come throughout the year, and there might be one or two that are lagging, but we have a pretty firm handle on what we're doing in each store, but on some of them, we're still kind of trying to find the optimal location.

Russell Stanley

Excellent, that's great color. Just one more question for me. In Illinois, you mentioned efforts towards vertical integration there and I'm just wondering has product supply from third parties, has that improved at all over the last few months, or is this market still as tight as it was three to six months ago?

Jim Cacioppo

No, I would say, you know, from a Jushi perspective—it's hard for me to comment on the whole market, it's a big market, but from a Jushi perspective, it has improved. I'm not sure if everybody is seeing that, but it has improved. I would note that there's a lot of supply coming on in the third and fourth quarters. Cresco has a large project that they're opening up in the third quarter, that I think people are aware of, and some other large companies are expanding. So, yes, we have seen an improvement. We have one of the stronger balance sheets in the industry. We're able to use that balance sheet to create favorable terms of payment for the grower-processors. The other aspect is we tend to be easy to work with. We're professionals. Some of us have worked on Wall Street. We're people of our word, and so we're easy to deal with, and we're business people. Compared to a mom-and-pop cannabis entrepreneur, we tend to be quite professional, easy to deal with, and pay our bills on time, or even ahead of time in certain cases. That helps us. Part of the increase in sales in Illinois, which, as you've seen for us is quite tremendous, the numbers, it's us running the stores better. When we inherited them, these were medical stores, and when you were adult-use, it was just crazy how much of the volume increases. So, just getting a grip on that, and also the procurement, were the two big factors in driving just a large increase in same store sales.

In terms of vertically integrating that market, we do have an application pending. There was a grower-processor application period. I think it was in May you had to get them in by. Initially, you were going to hear in July, but we knew that wouldn't happen once COVID hit, because the Department was so busy with the health needs of their population, so they pushed that back, and I forget when they pushed that back to. There's also several grower-processors that, quite frankly, aren't doing a very good job with their yields and quality of flower and extracted product, and they seem like they could use somebody like ourselves to help them figure out to how to do this, so there are several of those that we talk to. There's nothing close or pending. The first big one for us was Pennsylvania, we have our hands full with that. We're going to turn that around and make that work. We have an application pending. An application is a much less expensive process than an acquisition, so we want to see what happens there. So, there's a strategy to get vertically integrated in that market, I think it will happen, but the good news with Jushi is we have two markets that we're opening up grower-processors in, with Virginia and Pennsylvania, roughly, at the same time. The acquisition closes, we think, by August 1, and then our plant in Virginia opens up August 1. So, as you look at this Company rolling forward, we're a very vertically integrated company. The only market, I think, that we're lagging is Illinois.

Russell Stanley

Excellent, that's great color. Thank you very much.

Jim Cacioppo

Thank you.

Operator

Once again, ladies and gentlemen, if you would like to register a question, you may do so by pressing star, one on your telephone keypad.

Our next question is coming from Brian Kadey of Canaccord. Please go ahead.

Brian Kadey

Jim, how you doing?

Jim Cacioppo

Good. Thank you, Brian. Good morning.

Brian Kadey

Yes, I just wondered, being that Pennsylvania is a massive catalyst for you guys to move from medical to rec, if you could just give us a little more insight on the political side, what's happening, and timing of that event?

Jim Cacioppo

Yes. So, reading the political situation in any United States government body, including the federal, but across the state level, is very difficult. There's a lot of lobbying that goes on by different folks trying to achieve different things. All of that right now is taking place on the cannabis side in Pennsylvania. So, what you're seeing is there's an education process. This is not—as you look at your average government, state government, Pennsylvania included, this is not a program that they're widely familiar with. I mean, they have lots of things that they do, they're very busy people, and so it's really incumbent upon the industry to really educate the government about sort of how this works and how it's worked in other states, like Illinois, and how we should work together on this. So, that process is taking place. There's some industry groups that we're part of.

There's discussion and education going on in the Pennsylvania government. There's discussion right now in Pennsylvania of them trying to do something in the fourth quarter, where they'd create legislation, which that could easily get pushed into next year, but the earliest you would see something, I think, would be the fourth quarter, but again that could easily get pushed into next year. As New Jersey goes rec, which I think it will in November, there's polls on that, and that's great for Pennsylvania, because it just creates a drain on their taxes if they don't address it, because people cross over the border to purchase in the neighboring state, which is widely talked about by governors. Andrew Cuomo talks about it all the time. He's leading this sort of tristate area to do it sort of simultaneously. So, I think Pennsylvania, although it's not in the tristate area, it's sort of in the group, and certainly was in the way they attacked COVID, because they did a great job in shutting down shortly after New York and New Jersey did. So, I think they sort of operate as a group, and I think 2021, I would be surprised if we don't have some sort of legislation in 2021.

Again, the impact on our numbers will be very, very dramatic. People talk about, typically, tripling the size of our market. Now, that doesn't mean each company increases by a factor of three, because there'll be some additional stores or competition, or whatever, but your impact is quite, quite dramatic. We saw it in Illinois, and we feel like we know how to model that.

Brian Kadey

Yes, great. Then, just in Virginia, I noticed that one of your competitors lost their license. Was that because they didn't have the capital to build out—I'm not sure if you can share any info around that—and how does that impact you guys in Virginia?

Jim Cacioppo

There's five zones. Virginia's a very unusual state, it's not well understood. There's only two public companies with footprints in Virginia, which we're one of them. So, it's not a well understood state. I think it's a fantastic state. If you look at Illinois and Pennsylvania, I believe most analysts, investors and companies believe they're two of the best states to be in, based upon strong regulation and market growth, sensible regulation, and the market's developed in a very systematic way. Pennsylvania, obviously, is still a medical market, and Illinois just turned in the first quarter this year to adult-use. So, I think those two are considered two of the best states. I would like to say I'll put my third state, Virginia, against anybody else's third state. I'm just so thrilled about it.

But, in particular, to answer your question, there's five service areas, of which we have Northern Virginia, so we are the sole provider of cannabis to that population. That population is one of the most thriving areas in the whole country, it goes up there with Seattle, the real estate wars in Seattle are very famous, and jurisdictions like that. Amazon put their second headquarters in Northern Virginia, and that's obviously a huge testament. They surveyed the whole country, this long 18-month process, and chose Northern Virginia, which is in our area. So, we have a fantastic MSA.

Now, the MSA where the license got taken away was to the south and west of us, I forget the service area's number, and that was MedMen. PharmaCann had won it, and as part of their breaking that deal off, MedMen got that license as kind of a break fee. Yes, they did not have the capital. Everybody knows that MedMen's short on capital. They did not have the capital to develop it and ultimately they lost it. The government has put on—most of these municipalities, state governments, what they do is they give you sort of time periods to get going, they want to see progress, and they're willing to give you small extensions if you're making good-faith efforts, and of course all the other four, we all have done what we're supposed to have done, and MedMen didn't break ground at all. So, it was a tough decision, I think, for the Board of Pharmacy and the government, but that's what they chose, and there's no impact, except that the four other remaining license holders feel like the patients in that jurisdiction should be able to have access, so we're all kind of lobbying to try and get a store or two for ourselves and sort of split it up that way, because we could increase our grow size and sort of service that area. That is kind of how the industry is trying to solve the patient need, because the only way for it to be done quickly is by the four of us that are in the state already.

Brian Kadey

Excellent, thank you. No more questions for me. Great quarter.

Jim Cacioppo

Thank you, Brian, appreciate it.

Operator

Thank you. At this time, I'd like to turn the floor back over to Mr. Cacioppo for closing comments.

Jim Cacioppo

Thank you for participating on our call today. We do appreciate all of the support and attention we get from the investor community. We will look forward to keeping you updated on the advancement of the business. Please be safe and stay well. Thank you.

Operator

Ladies and gentlemen, thank you for your participation. This concludes today's event. You may disconnect your lines and log off the webcast at this time, and have a wonderful day.