

## CORPORATE PARTICIPANTS

**Lisa Forman**, *Director of Investor Relations*

**James Cacioppo**, *Chairman and Chief Executive Officer*

**Michelle Mosier**, *Chief Financial Officer*

**Jonathan Barack**, *President*

## CONFERENCE CALL PARTICIPANTS

**Robert Burleson**, *Canaccord Genuity, Inc.*

**Russell Stanley**, *Beacon Securities*

**Ty Collin**, *Eight Capital*

**Andrew Semple**, *Echelon Capital Markets*

**Pablo Zuanic**, *Zuanic & Associates*

**Jesse Redmond**, *Water Tower Research*

## PRESENTATION

### Operator

Good afternoon. At this time, I would like to welcome everyone to Jushi Holdings, Inc. Third Quarter 2023 Earnings Conference Call.

Today's call is being recorded.

I would now like to hand the call over to Lisa Forman, Director of Investor Relations. Thank you, and please go ahead.

### Lisa Forman

Good afternoon and thank you for joining us today on Jushi's third quarter 2023 earnings conference call.

My name is Lisa Forman, and I am Director of Investor Relations at Jushi Holdings, Inc. With me on today's call are Jim Cacioppo, our Chairman and Chief Executive Officer; Jon Barack, our President; and Michelle Mosier, our Chief Financial Officer.

This call is also being broadcast live over the Internet and can be accessed from the Investor Relations section of the Company's website at [ir.jushico.com](http://ir.jushico.com).

In addition to the Company's GAAP results, Management will also provide supplementary results on a non-GAAP basis. Please refer to the press release issued today for a detailed reconciliation of GAAP and non-GAAP results, which can be accessed from the Investor Relations section of the Company's website at [ir.jushico.com](http://ir.jushico.com).

Additionally, we would like to remind you that during this conference call, we will make forward-looking statements. Forward-looking statements give our current expectations and projections relating to our financial conditions, results of operations, plans, objectives, future performance, and business. Although Jushi believes our estimates and assumptions to be reasonable, they are subject to a number of risks and uncertainties beyond our control and may prove to be inaccurate. We caution you that actual results may differ materially from any future performance suggested in the Company's forward-looking statements.

We refer you to the Company's current and periodic reports filed on EDGAR and on SEDAR, including our most recent annual report on Form 10-K for important risk factors that could cause actual results to differ materially from those contained in any forward-looking statements. Jushi expressly disclaims any obligation to update this forward-looking information.

I will now turn the call over to Jim.

**James Cacioppo**

Thank you, Lisa, and thank you everyone for joining our call today.

This afternoon, I will discuss recent developments in the industry and provide an overview of our third quarter 2023 performance and operational achievement. I will then turn the call over to Michelle to review our financial results in more detail before opening the question-and-answer period.

First, I'll begin with a brief update on the current regulatory environment. While the pace of progress has not yet accelerated to the levels we would like to see, we are encouraged by the numerous developments taking place that have the potential to significantly advance the industry. These include the scheduling review of cannabis under the federal law currently underway; recent support for the Safer Banking Act, which received approval from the Senate Committee on Banking, Housing, and Urban Affairs; and 280E State Tax Relief in Illinois and the potential for the same in Pennsylvania following legislation advancements this past fall.

Continuing this momentum, historic headway was made in the state-level elections last week in Ohio and Virginia. We were absolutely thrilled to see the people of Ohio come together and vote to make Ohio the twenty-fourth state to legalize adult use cannabis for adults 21 years and older. In addition, the wins by the Democratic Party in the Virginia House of Delegates and State Senate increases the potential likelihood for a push toward changes around cannabis.

With Ohioans voting to create an adult use market, Pennsylvania is expected to soon border five states with legal adult use cannabis, which we expect could accelerate ongoing discourse around cannabis reform to reduce continued losses in tax revenue with both patients and consumers moving across state lines to purchase products in Maryland, Delaware, New York, New Jersey, and now Ohio. Also, as discussed a little later on during the call, there's already an encouraging adult use process being conducted in Pennsylvania.

We believe these efforts, if successful, will all contribute to building a stronger and safer industry for our employees, consumers, and communities. In line with these hopeful and exciting advancements across our footprint, we continue to strengthen our platform for maximum efficiency and capacity to ramp up as

the market conditions improve.

Moving ahead to the numbers, revenue for the third quarter of 2023 was over \$65 million. Revenue declined by approximately 10% year-over-year. The year-over-year reduction was primarily due to lower sales in Illinois from the loss of sales at our Missouri border stores and lower sales in Nevada and Pennsylvania resulting from pricing pressure and increased competition, as well as the closure of three underperforming stores. These declines were partially offset by solid performance at our wholesale business and strong sales in Virginia, with contributions from recent new dispensary openings.

While we previously anticipated returning to our peak quarterly revenue threshold of approximately \$77 million this year, this has been impeded by continuing industry headwinds that are impacting operators across the board, slower store openings in Pennsylvania, and slower than anticipated new product approvals in Virginia due to an understaffed regulator.

Jushi-branded product sales grew to approximately 52% of total retail sales in the Company's five vertical markets in Q3 of 2023 and accounted for approximately 49% year-to-date of total retail sales in our vertical market.

Our gross profit was approximately \$29 million compared to approximately \$28 million in the prior year. Gross profit margin was approximately 44% compared to approximately 38% in the prior year. Our year-over-year increases in gross profit and margin were the result of the continued effectiveness of the operational improvements we have implemented at our grower-processor facilities in Pennsylvania, Massachusetts, and Virginia, as well as the increased sell-through of our branded products, which have higher margins. These were partially offset by the market price compression and competition in Illinois, Nevada, and Pennsylvania.

Our disciplined cost management strategy has further driven reductions in our operating expenses, which were approximately \$26 million for the third quarter of 2023. Year-over-year operating expenses were reduced by approximately \$53 million or approximately 67%. The prior year period included a non-cash impairment charge of approximately \$38 million related to the business license associated with operations in Massachusetts. Net of that, the improvement year-over-year was approximately \$15 million or approximately 37%.

Sequentially, our operating expenses decreased by approximately \$2 million or approximately 5%. Adjusted EBITDA improved by approximately \$9 million to approximately \$10 million in Q3 of 2023, compared to approximately \$1 million in Q3 2022. The results of the third quarter of 2023 demonstrate the continued progress we have made against our strategic initiatives to drive towards profitability. This includes improved productivity from our optimized retail labor hour model, corporate G&A savings, grower-processor efficiencies, and other cost savings.

On the grower-processor side, we are continuing to see material improvement in yield and productivity at our grower-processor facilities in Pennsylvania, Virginia, and Massachusetts. For example, we achieved up to approximately 19% increase of harvested pounds per hour in cultivation efficiencies and up to an approximate 49% increase of harvested and packaged pounds per hour in processing efficiencies at our Virginia facility in the third quarter compared to the first half of the year. We expect the remaining improvements to further bolster these numbers throughout the remainder of the year and next year. We are well exceeding our expected levels of gram grown per square foot in Virginia, with some impending improvements to come in Pennsylvania, which has been lagging due to various issues which should be behind us at some point in the fourth quarter. With every additional gram we grow per square foot, we are at a high incremental margin.

In my state-by-state discussion, I will begin with discussing Virginia, where we now have a full

complement of stores open. Our sixth BEYOND/HELLO retail dispensary opened this past August in Woodbridge, a suburban community close to bordering HSAs. Our Woodbridge dispensary has been an incredibly successful launch in the third quarter, a testament to its well-situated location on major highways and served by a commuter transportation route. We expect BEYOND/HELLO Woodbridge to have the strongest Virginia store growth in the coming quarters.

Patient growth in Virginia has remained robust with 31,347 total number of unique patient visits at BEYOND/HELLO dispensaries within Jushi's exclusive retail service area HSA-II as of the close of business on November 1. The growth was approximately 4% since October 1 when Jushi had 30,216 unique patient visits. We have increased our delivery capabilities to expand our store reach and patient services and currently provide delivery seven days a week. Also, we just opened delivery into HSA-I where there are no retail stores given that MedMen lost this region's license. Delivery into HSA-I should be a good growth opportunity over time.

Additionally, we have grown our wholesale business as others in the state have grown their retail presence and patient count. We continue to launch an array of new products to increase our product offerings for patients, which is something our recent survey shows they are demanding. In the third quarter, we've launched five new products in Virginia, and we are launching three additional new products during the fourth quarter, and we have a strong pipeline for 2024. As examples, we launched Tasteology Chocolates this month and going into the new year, we expect to launch our infused flower brand, SeChe Kind Grind, which will then lead to infused pre-roll. We expect our new SKUs will drive both sales and margin growth and over time, patient growth.

Moving on to Pennsylvania, the relocation process is underway for two of our previously closed stores, both of which are expected to reopen in 2024. With our deep market expertise, we have identified strong locations that should drive sales growth in the Commonwealth. Our seventeenth store is currently under construction and projected to open during the first quarter of 2024, followed by our eighteenth store later in the year. Statewide, we are starting to see signs that the pricing compression has not only stabilized, but it's beginning to lift.

In line with this encouraging trend, our wholesale business continues to perform well. There are numerous potential regulatory changes on the horizon, and the one that we are especially focused on is a bipartisan adult use bill that is currently under active development in the Senate. As previously stated, with adult use markets opening across various neighboring states such as New York, New Jersey, and Ohio, it is our belief there is an important incentive for lawmakers to support the passage of this bill to develop a popular and thriving in-state market with significant tax revenue benefits.

In addition to the bipartisan adult use bill, the Pennsylvania House approved, last month, a large-scale tax reform bill that contains language to provide state-level relief to medical marijuana businesses. Also, a Pennsylvania House committee convened for an informational meeting on November 1 to hear from experts about adult use marijuana legalization as legislators chart a path for the reform.

Governor Shapiro has been a consistent supporter of an adult use market and has included it in his 2025 budget. With a strong retail and grower-processor infrastructure, we have the capacity to increase our sales and production without investing additional capital in our operations should adult use become a reality.

Turning to Ohio, we are confident that we are in a solid position to establish our operations over time as the market develops here. Our vertical integration has put us in the enviable position to consolidate and bring on additional retail as the market demand builds. We are excited about the opportunity in Ohio and believe that we have the runway necessary to build a robust footprint in step with the state's industry growth. Many MSOs have completed their retail buildouts, which puts us in a small group of public

companies with the currency and ability to expand our retail footprint.

Ohio is projected to bring in over \$4 billion in adult use sales by its fourth year and will become the fourth largest state with the cannabis recreational program. Already boasting a strong medical market, Ohio is poised to significantly increase tax revenue, which will undoubtedly assist in the formation of a robust state program as it is expected to bring in consumers from other restrictive bordering states. Sales are anticipated to begin by the end of 2024, provided there are no major legislative hurdles. We look forward to maximizing our position in the state to serve a new demographic of consumers, and as regulations evolve, potentially bring new product offerings and brands to this expanding market.

Looking at our remaining markets, Massachusetts remains solid, while we are starting to see a steady state in Illinois. Nevada has become a high focus area for senior management to improve operations and efficiencies at this newer operation.

In Massachusetts, we have experienced incredibly positive consumer feedback, thanks to our excellent product diversification, with our grower-processor running at desired levels. In the third quarter, we met our operational performance target, and our landlord is finalizing a significant upgrade to the building's mechanical system per negotiated settlement. The Massachusetts market and our operational footprint in the state have been fantastic for our research and development pipeline in other states, and we are delighted to launch Solventless Concentrates under The Lab brand here in the third quarter.

Moving to Illinois, we have begun to see the expected leveling off following the initial drop post-Missouri adult usage. We are focused on ensuring our operations are running efficiently and capitalizing on our ability to acquire products at very attractive prices due to oversupply of supplier operations. We are collaborating with our industry partners on third-party branded product promotions to support sales on generally lower volume retail weekdays. Seventy-five percent of our third-party promotions offered on lower volume days have yielded above median year-to-date net sales. Our pricing net of taxes, as well as our product selection and quality are more favorable than the St. Louis market.

Lastly, our operational structural cultivation turnaround in Nevada is progressing well. Over the next two quarters, we look forward to launching several of our Jushi-branded products in Nevada that have proven to be successful in Massachusetts. This will help us achieve optimal production and high efficiency level. We believe our enhanced product offerings will be a significant potential growth area for a Nevada wholesale business. In addition, we had unforeseen building issues which were out of our control that negatively affected our grower-processor that we believe have been corrected.

As for our brands and products, the success we have achieved in optimizing our operational footprint has provided the capacity needed to diversify our product mix nationwide. New products accounted for 5% of total Jushi third quarter package sales. Many of these new products, like larger vape cartridges, offer better value to our customers, and better margins for Jushi. These larger format products are continuing to help us drive total dollar sales in our stores.

We were thrilled to introduce our new premium flower brand, Hijinks in Pennsylvania, and Massachusetts, where it was the top five selling SKU on our Massachusetts store menu during Q3 of 2023. We anticipate launching it in Nevada in the first quarter of 2024. Hijinx offers superior flower and ensures top-notch quality to deliver consumers unique and curated experiences.

Alongside this premium offering, we also bring value to customers who are looking for a better combination of quality and potency at the more affordable price point. An example is SeChe Kind Grind pre-ground infused flower and pre-rolled, which offers increased potency at a great price.

Kind Grind has been a phenomenal success in Massachusetts since its launch in the first quarter,

generating strong positive customer response. It's our number one selling (inaudible) in our stores. We were delighted to bring the brand to Pennsylvania during the third quarter where it sold out within five days after launching in our stores. The SeChe larger format 14-gram Fine Grind comprised 3% of sales and 2% of units sold in the quarter.

Overall, we've debuted 10 new SKUs in Q3 of 2023 across five brands, with a further approximately eight to 10 SKUs anticipated to be introduced to consumers by year-end. We expect to launch four new products in Massachusetts, six new products, including the launch of Tasteology (inaudible) in Pennsylvania, and three new products in Virginia across brands in the fourth quarter.

With these new products set to debut in the fourth quarter, we are maintaining our competitiveness on our own shelves with a whole range of flower products, from value brands all the way to the highest end products. The differentiation serves many purposes, including one, generating more demand; two, creating excitement in our retail network that drives sales growth; and three, selling more Jushi-branded products which generate higher margins.

We also have improved the user experience on e-commerce platforms, which has led to an approximately 20% conversion rate compared to an approximate 18% conversion rate from the previous quarter.

Looking briefly at our balance sheet, we had \$30.5 million of cash, cash equivalents, and restricted cash as of September 30, 2023. To further boost our cash position, we are in the process of selling several non-cash flow generating assets. We intend to complete additional asset sales during the fourth quarter, which, if completed, could potentially generate up to \$5.5 million in cash proceeds from these sales for this fiscal year, of which \$2.3 million was received year-to-date.

Additionally, as we have previously reported, during the second quarter, we submitted a refund claim for approximately \$10.1 million for the employee retention tax credit program, which is currently still under review.

In conjunction with our cash generating activities, we also reduced our senior debt with the scheduled payment in the fourth quarter of a further approximately \$2.4 million on the Company's first lien financing with SunStream Bancorp, for a total of \$4.9 million repayments under the facility year-to-date. The momentum we have generated over the past nine months has been encouraging. The efficiencies we have been able to attain, coupled with the response we are getting from customers to newer products, has been very positive.

As I look to 2024, I'm incredibly enthusiastic about what the future holds for us. With solid operational foundations in Ohio, Virginia, and Pennsylvania, we have the capabilities to not only meet growing medical use demands, but also capitalize upon the commencement of potential and long-awaited adult use. The impact of these states moving to adult use markets would be a positive game changer for both our top-line revenue and margin profile, given our store footprint in Pennsylvania and Virginia, which comprise approximately 65% of our retail store portfolio. As we have only one store in our vertical business in Ohio, we are excited to return to the M&A market with a very strategic platform build-out.

With that, I'll now ask Michelle to review our financial results before we open the call to questions.

**Michelle Mosier**

Thanks, Jim, and good afternoon, everyone.

As Jim mentioned, revenue in the third quarter was \$65.4 million compared to \$72.8 million in the third quarter of the prior year. The year-over-year reduction in revenue was driven by lower retail sales due to

the closure of three underperforming stores, as well as lower sales in Illinois from the loss of sales in the Missouri border stores, and lower sales in Nevada and Pennsylvania, resulting from pricing pressure and increased competition. We continue to drive various initiatives to improve sales, including the implementation of optimized promotions and the broadening of our product offering throughout our dispensaries. The decrease in revenue was partially offset by new dispensary openings in addition to an increase in sales in Virginia.

Wholesale revenue increased \$1.1 million year-over-year due to continued advancements at our cultivation and processing facilities that have enabled us to diversify our product offerings as well as increase our competitiveness on quality, cost, and distribution.

Gross profit was \$28.5 million, or 44% of revenue, compared to \$27.7 million, or 38% of revenue in the prior year. The growth in gross margin can be attributed to the realization of efficiencies at our grower-processor facilities in Massachusetts, Pennsylvania, and Virginia, as well as expanded Jushi-branded product sales in our retail location.

In the third quarter, Jushi-branded product sales accounted for approximately 52% of total retail revenue across our five vertical markets. The increase in gross margin was somewhat offset by market price compression and competition in Illinois, Nevada, and Pennsylvania.

Selling, general, and administrative expenses were \$25.7 million compared to \$40.6 million in the previous year, representing a reduction of \$14.9 million, or 36.7%.

Salaries, wages, and employee-related expenses decreased due to a decrease in the number of employees as the Company works to right-size the organization, as well as due to changes to the Company's staffing models at the retail stores.

Lower share-based compensation expense reflects lower value of share-based compensation granted as well as forfeitures for unvested equity awards. The prior year included expenses related to the Company's transition to GAAP reporting and costs associated with the Company's registration with the SEC.

Our net loss was \$20.6 million for the third quarter, primarily due to the fair value loss on derivatives of \$7.5 million, interest expense of \$9.3 million, and income tax expense of \$8 million, partially offset by income from operations of \$2.8 million. This compares to a net loss of \$54.7 million in the prior year, primarily due to a loss from operations of \$50.4 million that included a non-cash impairment charge of \$37.6 million related to the business license associated with operations in Massachusetts, and interest expense of \$13.1 million, partially offset by a gain on the fair value derivatives of \$6.4 million, and an income tax benefit of \$2.8 million.

For the third quarter, Adjusted EBITDA was \$9.7 million, an improvement of \$9.1 million compared to the \$653,000 in the third quarter of 2022.

Moving to the balance sheet. As mentioned earlier, we ended the second quarter with \$30.5 million in cash, cash equivalents, and restricted cash. Year-to-date, September 30, 2023, the Company has paid approximately \$8.4 million in capital expenditures. For the full year, we expect total commitments for capital expenditures to be approximately \$10 million to \$12 million, of which the majority is for maintenance CapEx as our expansion projects in Pennsylvania and Virginia were substantially completed last year.

As of September 30, 2023, we had approximately \$226.4 million in principal amount of debt outstanding. This excludes leases and financing obligations for property, plant, and equipment. Just after the second quarter, we began amortizing and paid down approximately \$2.4 million of principal on our first lien debt

with SunStream Bancorp, Inc., with the same scheduled equal quarterly payments continuing until the final maturity in December 2024, at which point, we will be required to make a final payment of \$50.4 million.

As previously discussed in our last earnings call, a portion of our debt, \$21.5 million, is subject to our indemnity claims against San Martino Investments, the former owner of Nature's Remedy. Our indemnity claims significantly exceed the value of the debt we owe to this counterparty. The parties are engaged in good-faith discussions, and if there is no resolution, the Company will determine the best path forward for addressing its damages. We will continue to provide an update on this matter when suitable.

In addition, there is \$3.2 million on our balance sheet due to Jushi Europe, a liquidating Swiss entity where we have no obligation for these debts. Accordingly, our total debt currently subject to schedule repayments is approximately \$201.8 million.

In connection with the preparation and filing of our fiscal 2022 federal income tax return, we changed our previous application of 280E to exclude certain parts of the business, a position supported by a legal opinion. However, since our new position on 280E may be challenged by the IRS, we elected to treat the deductibility of these related expenses as an uncertain tax position.

At quarter end, the balances in income tax payable and unrecognized tax benefits include the impact of the new tax position on 280E, which decreased current liabilities with a corresponding increase in non-current liabilities. There was no material impact to the P&L. As a result of this position, as well as previously disclosed positions, we have a liability for unrecognized tax benefits of approximately \$99 million at the end of the quarter compared to approximately \$57 million as of December 31, 2022.

With that, I will now turn the call back to Jim for concluding remarks.

**James Cacioppo**

Thank you, Michelle.

This has been an incredibly important year for Jushi. We're focused on positioning ourselves well for the future profitability and leveraging our strengths to continue building a dominant position in each of our cornerstone markets.

I want to take a moment to thank our fantastic team for their dedication and hard work to make this all possible. I also want to thank everyone who joined us on our call today for their continued support, and I look forward to providing progress updates in the new year.

Operator, please open the call to questions.

**Operator**

Great. Thank you. (Operator Instructions) Today's first question comes from Bobby Burleson with Canaccord. Please go ahead.

**Robert Burleson**

Yes, thanks for taking my questions. These are nice developments, obviously, in Ohio and Virginia. I wondered, maybe just looking at Virginia, how this might change timelines or maybe you could revisit timelines if this passes to get the reenactment done, passed through, what time by 2024 do you think we could have adult use potentially?



**James Cacioppo**

Okay. Great. Thanks. Hey, Bobby. Thanks for the question.

Virginia, just going through a little bit backward—why it's so positive is because there was already significant public support in the House and the Senate there. We have support and the Senate now runs the process. We should see legislation coming out of the Senate. If you go back on YouTube and watch Governor Youngkin the day after elections, all he talked about was the need to be bipartisan to get things done, and he has two years left, he's a lame duck, and he has aspirations to run for president in the future. He needs to work bipartisan because that's how our country works. Unfortunately, at the federal level, it's not working well that way. But I think you'll see over the next five years that will change federally because it has to, for not just for cannabis, but for our military. There's a lot of things going on in the world where we have to—budget deficits and Social Security and Medicare. That has to change.

This will be a feather in his cap, I believe, if he can get some things done. We understand from our lobbying efforts that this is a very important, if not the most important issue with Democrats to get done. We think there's a high probability that it gets brought up in Q1 when the legislative season starts. The new season starts for that. We're working on it now. Our efforts are already started. We're getting some bills put together by the end of this month to get them in line. It's how it works. Then the process takes from January to March in the legislature, and then the governor would likely sign or not sign. It could just become law if he doesn't sign or veto in April.

We believe that the legislature will work together with the governor's office in giving him something that he may not sign. It just comes into law automatically 30 days after they pass it. That's the process and the earliest date you'd see it come into effect, because we've had a lot of legislative changes in Virginia, is July 1. I'm not saying it is coming into effect July 1, but at the earliest you would see it.

**Robert Burleson**

Sure.

**James Cacioppo**

Almost everything we have gotten changed has come into effect July 1. Again, I'm not saying it is going to be July 1, but that's the earliest.

**Robert Burleson**

Okay. That is very helpful. Then just maybe elaborating a little bit on the product recall in Missouri that happened recently, what impact are you seeing on pricing? What benefit is maybe flowing through in terms of less supply in that market and for your border stores in Illinois?

**James Cacioppo**

Yes. I would say that it's hard to decipher exactly what it all means to be quite—because we're not in the Missouri market, we're just across the border, but we obviously have these knowledge and all these types of things.

Generally, our pricing, as I checked just a few weeks ago, and I can't remember the exact time I checked, but we were generally 10% to 13% lower net of taxes at that point. Now, it changes day to day, but I would think we're somewhat substantially cheaper. We've worked hard to do that without giving up too

much margin and there is excess capacity in Illinois from grower-processors, so we can get the product. It's a superior product in Illinois, given the top operators there. Not just the ones you know publicly, but there's also a lot of California companies there, working with locals and different things and there's a lot of really good product. The product variety and quality is better, and the deals are there on our shelves.

What we're doing right now is trying to work with a campaign to get known, maybe take the billboard space out of the bridge and things like that to generate. We've seen definitely a flattening and we've seen a lot of positive traffic on the internet, but there's definitely higher prices there and less selection. What we need to do is get people to drive across the bridge. We have our storage just across the bridge. That's up to us to execute on that.

**Robert Burleson**

Understood. Thank you.

**James Cacioppo**

Thank you, Bobby.

**Operator**

Thank you. The next question is from Russell Stanley with Beacon Securities. Please go ahead.

**Russell Stanley**

Hi. Thanks for taking my question. First, just on the gross margins here, you walked through the drivers of the year-over-year change, and I just wanted to clarify, were those same drivers at play in the quarter-over-quarter change? Related to that, can you provide any colors to the ranking that they had in terms of importance on that quarter-over-quarter change?

**James Cacioppo**

Yes, I came somewhat prepared for this because I had a feeling there was going to be a question. I purposely did not give any guidance last time, not only publicly, but in the calls, we had with all of you. We didn't talk about it because we thought there would be some variability to EBITDA margins.

There was lower sales by about \$1 million. That may have had to do with seasonality. I always thought Q3 was weaker than Q2, but it's changing as the industry changes. But it could be that. There's also consistent competition at the store level in PA. People opening up a store here or there is going on. Our stores have been there. Lower sales may cause some of that.

Also, for the remaining sales, the 65 and change versus 66 and change from Q2, we're putting out more units. With price compression, there's generally more units. You're hearing this from other operators. The good news is people are buying similar dollar amounts, but they're getting more units for that. Now, we have efficiencies that offset that, which is why we're able to have generally good margins for primarily a medical company in Pennsylvania and Virginia.

Then we had some, I would say, persistent inventory volatility in the year where it comes and goes that you're seeing this year. I don't want to get into that, but it's basically inventory movement where it's a little bit of a negative in this quarter for us. We might see a little bit more of that in the fourth quarter. We think next year that will help work through the system. But we're learning the business as we get to be a big grower processor in managing that and from your experience with other operators, I'm sure you've heard

similar type things.

We have a somewhat significant movement in Canadian dollars, which we have the debt, and on the EBITDA margin level it affected us. Then the last is, both the Nevada GP, we had a big roof issue, and the Pennsylvania GP, where we had some significant turnover in senior management. We still got out of whack a little bit on our grower-processors. We didn't get the efficiencies quite right. I alluded to that in the prepared remarks.

That's a lot of it. I'm very happy that we're in a good solid range of EBITDA margins compared to what we did earlier in the year. We had a solid growth throughout the year until—we're a little bit lower. I'm not surprised by that. Our goal is to get firmly above 20% on a consistent and permanent level as this medical company. As we go adult use in Pennsylvania and Virginia, or maybe just one of them, we'll get hopefully much higher than that, maybe toward the 30s as other people do. That's a big gain for us in the margins and 20s is there.

The one thing we didn't disclose in the prepared remarks, and it's just an oversight, is that we actually had positive cash flow from operations of about \$2.5 million, and you can get there by looking at our financial statements, taking the six months cash flow used in ops from the six-month numbers last quarter, which were disclosed, and you take the nine-month numbers, and you subtract the two and you get to the exact number. We've exceeded that because we weren't guiding to necessarily Q3 on that number we were saying in the future quarters. I think we have some offsets there on how we performed.

**Russell Stanley**

That's great color and congrats on that cash flow positive quarter. Maybe if I could just follow up on that, the vertical sell-through in the quarter looks strong. I've asked about this in the past, but I'm just wondering how you feel about the current level. Is it sustainable? Do you think there's room for further improvement there? Or are you're approaching the upper limit there where having too many of your own products on shelves cost you any foot traffic. Any thoughts on that would be great.

**James Cacioppo**

Yes. Every state is different. We seem to get a better vertical sell-through in Massachusetts and Nevada. Both those states work that way with the high vertical sell-through. Virginia, because of the way the market is, where we're exclusive provider, we have a very high vertical sell-through. Pennsylvania is below the 50. I think we can get Pennsylvania through the 50. I think there's some growth there and I feel good about the sustainability in the other markets.

**Russell Stanley**

That's great. Maybe if I could sneak in one last question just on new products. You noted there 5% of sales. I'm just wondering to clarify, are those products all launched within the last year? Is that how you're defining the product—

**James Cacioppo**

No. No. That's from the previous quarter. We've been rolling out a lot of new products throughout the whole year. I know another large operator did it the way you're discussing, but—

**Russell Stanley**

Exactly. Yes.

**James Cacioppo**

—we're doing it quarter-to-quarter, and I like the way they did it, and we will go back and organize ourselves that way.

**Russell Stanley**

Okay. That's great color. I'll get back in the queue. Thanks, Jim.

**James Cacioppo**

Yes. Yes. Thank you, Russell.

**Operator**

Thank you. The next question is from Ty Collin with Eight Capital. Please go ahead.

**Ty Collin**

Hey, good evening. Thanks for the questions, guys. Maybe for my first one, just a question on consumer demand trends. A couple of your peers have described seeing this barbell effect where consumers are showing a preference for both premium and value tier products and a bit of a thinning out in the middle. It sounds like you guys had some success launching some more premium-oriented brands recently. Just wondering if you could comment on whether that reflects what you're seeing in your stores today.

**James Cacioppo**

Yes. Again, every state's different. There are different economic effects, different income levels. Virginia tends to be a state where—we are located in Virginia; we tend to have a consumer who is less price sensitive. Rolling out value products, for example, doing 14-gram SeChe's, which is a half an ounce, and is not as popular as in Pennsylvania, for example. There's big differences. Gummies are very popular there. I think that's a different market than the general. We're big there. We don't have that many states, that's important to understand.

Pennsylvania, I think what you're saying about the barbell is exactly right. The middle definitely gets squeezed between the value and the high-end. In terms of the high-end, our rolling out a high-end product is because we had a gap there, not because we were saying, hey, the market needs that. It's because we have a gap, and we have stores, and we could be selling our product to get demand for it. It was just a gap in our product level.

One of our opportunities in the coming quarters is just to define the middle differently. We generally define it on terpenes, but mostly potency. There's a way to shrink the middle. That's going to help us. Because when the middle gets a lot of inventory, you tend to have to discount. You don't want it getting stale. I think the industry, just like others, are doing it, and so the same thing. I think it's just a better way to not just add to the value end, but you have to shrink the middle. There's easy ways to do that. It's just decision making, and we're in the process of doing that to generate more margins by less discounting on the products that may sit around a little bit too long.

But the consumer demand is generally not weakening. It's all weaker to us at some point in the second quarter than now. Maybe that has to do with the inflation moderating day. I think, historically, this is the biggest downward move in inflation we've ever seen. I saw an economist talk about that just today, the

move in 2023. I know there are some recession fears and all these things, but that's coming potentially. But people are well employed, the inflation gas prices are down, Pennsylvania is highly correlated to things like that that you have to spend on. People have locked in their housing. Our country is very different than Europe and Canada where people lock in these long-term mortgages, and you don't necessarily see interest rates affecting some people. Of course, on the credit cards, yes, but we're not so geared to credit cards in cannabis and it's a better feel, let's say, as opposed to a big uptick or anything like that.

**Ty Collin**

Right. Okay. Thanks for that color there, Jim. Then just for my follow-up, I'm wondering if you could comment on the working capital position today, obviously a key piece in the overall cash flow picture for you. It does look like you were able to bring down your inventories a little bit in Q3, just wondering if you could update us on how you're feeling about your working cap position today and then whether we can expect more of a drawdown in Q4.

**James Cacioppo**

Yes, the payables were pretty steady. We brought down payables a little bit. Then, yes, like you said, the inventories, we were able to manage those down and a little bit of uptake in receivables. But we're managing inventories very closely. We've had the pleasure and also the pain of ramping up two very large facilities. You tend to—you get this going and you might get offside a little bit, but we're managing that closely, but it's a bit of a long cycle. I expect, like I've been telling you, inventories to fluctuate this year as we get used to these plants operating at these levels. I think we have a pretty good handle on it, and we're running a pretty tight ship on the working capital.

**Ty Collin**

Thanks, Jim.

**Operator**

Thank you. The next question is from Andrew Semple with Echelon Capital Markets. Please go ahead.

**Andrew Semple**

Hi, there. Good evening. Thanks for taking my questions. First off, could you maybe comment on what portions of the business are now being deemed outside the purview of 280E with regards to your new income tax strategy?

**James Cacioppo**

We're not going to comment on our particular strategy. There's various reasons that we wouldn't do that, including competitive, but we feel good about our tax position.

**Andrew Semple**

Okay. Then moving on to my second question, you spoke to improvements in the grower-processor facilities, the yield improvements, and the cost efficiencies you've seen there. If my calculations are right, I believe wholesale revenues were down quarter-over-quarter. Could you maybe help me bridge that gap? Is it that the yield improvements were occurring in the third quarter and maybe we'll see those benefits come through in Q4? Or did you just allocate—did your retail stores absorb more of that—

**James Cacioppo**

No, I thought wholesale was up and if it was down, it wasn't by a lot. I just didn't come prepared to answer that and I see Michelle looking at the numbers. But I thought wholesale was up quarter-over-quarter, but I get year-over-year and quarter-over-quarter confused sometimes. But we had a good wholesale quarter. I felt it was a strong quarter. We felt Pennsylvania had a nice comeback, but I know we had a very strong June as well, which was second quarter. We can get back to you in private—but then there's a gross versus net, you have to look at that. We can walk you through that, how we look at it, but it was pretty steady, and I believed it was up, but again, I'm taking a—I don't have the numbers in front of me approach to that.

**Andrew Semple**

Okay. I'll take a look at my numbers as well. Thanks for answering my questions.

**James Cacioppo**

Yes.

**Andrew Semple**

I'll get back in the queue.

**James Cacioppo**

Okay. Yes.

**Operator**

Thank you. The next question is from Pablo Zuanic with Zuanic & Associates. Please go ahead.

**Pablo Zuanic**

Thank you. Jim, regarding Virginia, do we have a sense of what the program would look like? I suppose there's a blueprint from before, right? Is the industry, by that, I mean the three licensees there, would you mind working together in terms of lobbying for what that program would look like? Thanks.

**James Cacioppo**

Yes, we are trying to work together. I think one of the MSOs has two, and last year, they were tied up a bit. I think they're tied up in their deal, but I think this year, they're very engaged. I'm not saying they weren't engaged, but they're very engaged, and that's a positive. There's only three of us, and my hope is we work well together. We were all waiting around for the election, quite frankly. But we're working on this bill. We have a team and they're communicating. I don't manage it day in and day out of what's going on. But I don't want to comment on the particular program because we have lobbying efforts and we're trying to compromise and work with different parties and bring everybody together and get something done. I don't want to comment on that. It doesn't help our political process.

But I feel like Jushi is very engaged and we feel like the other two MSOs are engaged as well and we hope we work well together. We have decent relationships with them and good relationships with them as well. We do deals. We do a lot of buying and selling in states, in Virginia, and outside of Virginia and the

senior management of these companies generally know each other pretty well.

**Pablo Zuanic**

Okay. Then regarding Pennsylvania, obviously you put a positive spin on Pennsylvania. You said prices beginning to recover, things beginning to stabilize. On the other hand, there's been pressure from New Jersey and Maryland going rec, and that's impacting the industry. Here's a question, do the politicians, the legislature, the House of Senate there understand the pressure the industry has been facing because what's happening around Pennsylvania?

**James Cacioppo**

Yes, I will point to you that there was a Marijuana Moment article I thought that came out last Friday where Governor Shapiro's office said what you're saying, and I'll just paraphrase. But there was a long discourse that the Governor's office put out, but basically, the punch line for me was—this is their words, is we're not providing more access for our citizens because they already have access in all the bordering states. We're not providing more access; we're just losing tax revenue.

The Governor gets high marks. It's in the 2025 budget. I think something is going to happen next year in Pennsylvania. I'm challenging my folks to get it started in 2024 so we get some of the revenues and cash flows in in 2024. I believe the industry is ready for it because there's so many stores. There's about 200 store licenses, and I think a lot of them, if not all of them, are open, most of them, I should say, and the grower-processor capacity, I think, is there. We could bring capacity on, and I know others can. There's several independents who don't have retail. That's being addressed in a medical bill right now that probably gets passed that gives them retail. It gets us all on the same page because they were suffering from this difficult wholesale market. It seems pretty fair legislation to the industry.

That's happening. They're addressing 280E taxes, I believe, as well, and they're doing that in Illinois, which helps our cash flows. The Governor is focused. There's a Republican Senate. There's a bill called the Laughlin-Street Bill. Street is a Democrat. Laughlin is a Republican, and it's bipartisan. It's working its way through that Senate. When it gets past the Senate, that's where the Governor hopefully will get more involved. Not that he's not involved, but he wants them to do their work and lead the process.

**Pablo Zuanic**

One last one. Given all the potential opportunities in Virginia and Pennsylvania, how much of a priority is it going to be to expand the M&A in Ohio in terms of buying the four potential stores you could add? What's happening with valuations, I suppose it's going up now that Ohio would be going rec, or do you wait to get more line of sight in terms of what the governor and the legislature are going to do there with the rec program?

**James Cacioppo**

Yes, I would say two things. One, on the—big thing—first of all, we're going to get another adult use license and the (inaudible) raised, but if you had five and a Tier 1, you get three more. They are all—all the ones with five and a Tier 1, which I think all of them that have five have the Tier 1 license, they get three more. We have a Tier 2 license and that gets one more. Then we can go to eight, so we actually can buy six.

I think that we have a lot of buying capacity to buy retail in terms of that. There were 77 recently issued, very few of which have been transacted on, and then there's some in the original 55 that weren't sold. There's definitely more out there, three or four times the amount that are independent versus potential

publicly traded top 10 MSOs that can buy.

When you look at those that can buy, that the ones that can buy, they've done a pretty good job of buying dispensaries in Maryland. I think that set a mark for a state going adult use. The capital markets are still not kind to the industry and there hasn't been any substantial equity raised by the industry and most people feel like they—except maybe for one company, feel like they have too much debt. Although it's manageable, that's not what their goal was when they set out to build their companies. But the equity market shut down in January of 2021 or February of 2021, it hasn't reopened.

I do believe that if people come up with some cash and you have to have a public stock to really make transactions work. I do believe that there's a pretty good chance we get pretty good deals. The people who have held out and to try to operate independently, it hasn't been such a great trade so far. It's been better to sell, and people feel like they've been locked in for a long time without access. Just like we've been locked out of the equity markets, they've been locked out of getting money for their access for a long time, so they put money in. I think they can get good returns. We've talked to sellers and there's deals out there, (inaudible) cut some deals. I think this Ohio 5743 was not unanticipated. There was a lot of polls out there. Before it got through, we thought the prices were reasonable—transactionable, maybe not reasonable, but transactional and probably reasonable. Not too low. It was pretty good for the buyer and seller.

**Pablo Zuanic**

Can I add one last one maybe for you or Michelle? In terms of debt maturities in 2024, is the SunStream payment, is that the big one or do you have other big maturities in 2024?

**James Cacioppo**

I'm going let John answer the question.

**Jonathan Barack**

Yes, the big one is the SunStream first lien facility which we pay down a quarterly amort up until the December '24 maturity, and the bullet that remains in December '24 is about \$50 million.

**James Cacioppo**

Then the other, it's very minor compared to that.

**Operator**

Thank you. The next question comes from Jesse Redmond with Water Tower Research. Please go ahead.

**Jesse Redmond**

Hi, Jim. It looked like cost controls were a bright spot for the quarter and I know that's an area you've been working on. Looks like they were down about 5.5% quarter-over-quarter and over 67% year-over-year. How much more room do you have there and how do you think about managing cost controls heading into '24?

**James Cacioppo**



Yes, we've done a tremendous job with taking cost out of business. I think we took out \$2 million more of G&A quarter-over-quarter, and we've already cut a lot. I do believe there's some attritional gains that we'll see most quarters that will be—I'm not going to say it's \$2 million or \$1 million, but there'll be some ones that you'll talk about that will get to the seven figures. There might be some reductions in force over time, but not nearly compared to what we've done, and not on our lease at all, we've done all of that. It's more of a corporate overhead thing for the operating business. I think we're 90% there, but there's still a little bit more.

The big gains for us are operating our grower-processors more efficiently, because we've ramped and increased our production capacity by three to four times. Particularly, in Virginia and Pennsylvania, we have some new personnel. We're focusing. I think we're doing a good job. We'll set back in Pennsylvania in Q3 that bled into Q4. But we'll turn that ship. It's not bad, but it's not as good as we want. You'll pick up efficiencies there. You'll pick up some efficiencies in Nevada in the grower-processor. We had a roof that went out on us, and it wasn't our fault. We didn't know about this, and it took a year to get fixed, and we got that fixed. That's not affecting our business anymore. We're also rolling out our Jushi brands in that state, which will increase our whole wholesale presence in that state on a package basis.

There's a lot of things we're doing to increase efficiency at the grower-processor units still that will hopefully get done substantially by the second half of the year—in the first half of the year, but in the fourth quarter and the first half of the year.

We also opened retail in Pennsylvania in the first quarter and that's going to be—we have 50% sell-through or so, that'll be positive for margins and sales. That's the near-term stuff we're doing to increase margins and you'll continue to see corporate stuff roll off over time.

**Jesse Redmond**

Thanks. That's helpful. Just one quick question. The positive cash flow from operations is that a tax-adjusted number, meaning recurrent tax payments for the quarter. Was there any benefit from tax deferrals in that positive cash flow from operations?

**James Cacioppo**

We paid state-level taxes, and as we disclosed in the prepared remarks, we have a strategy for this 280E. Without 280E, we would pay very little if no income taxes on the federal level. As you would imagine for capital-intensive business that hasn't made—it's been growing for the last four or five years and wasn't focused on churning out net income. That's the answer.

**Jesse Redmond**

Okay. Thank you very much.

**Operator**

Thank you. This concludes our question-and-answer session. I would now like to turn the call back to Management for closing remarks.

**James Cacioppo**

Great. Thank you again to our employees, and thank you, everybody, for staying late to listen to the call. We appreciate it, and we look forward to talking to you again. If you have any questions, please reach out to our Investor Relations Department. Thank you.

**Operator**

The conference is now concluded. Thank you for your participation. You may now disconnect your lines.