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TRANSCRIPT

Q3 2022 Jushi Holdings Inc. Earnings Call

EVENT DATE/TIME: NOVEMBER 14, 2022 / 9:00AM ET

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PRESENTATION

Operator

Good morning. My name is Hilda, and I will be your conference operator today. At this time, I would like to welcome everyone to Jushi Holdings Incorporated Third Quarter 2021 Earnings Conference Call. Today's call is being recorded. I will now turn the call over to Michael Perlman, Executive Vice President of Investor Relations. Thank you. Sir, please go ahead.

Michael Perlman *Jushi Holdings Inc. - EVP of IR*

Good morning. Thank you for joining us today for Jushi Holdings, Inc. Third Quarter 2022 Earnings Conference Call. Joining me on today's call are Jim Cacioppo, Chief Executive Officer, Chairman and Founder; and Jon Barack, President, Interim Chief Financial Officer and Founder, Jushi. This morning, we issued a press release announcing our preliminary third-quarter 2022 financial results. The company also announced that it is in the process of completing its interim asset impairment assessment and expects to record a noncash and definite-lived asset impairment charge in the range of \$35 million to \$49 million. The press release, along with the presentation that accompanies this call are available on our website under the Investor Relations section and filed on EDGAR and SEDAR.

As a reminder, on August 12th, Jushi became a U.S. reporting issuer under United States securities laws and has converted its accounting standards from IFRS to U.S. GAAP. Thus, all financial statement information has been prepared based on U.S. GAAP. Additionally, non-GAAP financial measures referenced on this call are reconciled to the most directly comparable U.S. GAAP measure in the company's earnings release and will be available in the company's MD&A for the quarter ended September 30th, 2022, which will be filed on EDGAR and SEDAR.

Before we begin, I'd like to remind listeners that certain matters discussed in today's presentation or answers that may be given to questions asked could constitute forward-looking statements within the meaning of Canadian and United States securities laws which, by their nature, involve estimates, projections, plans, goals, forecasts and assumptions. Actual results could differ materially from those anticipated in these forward-looking statements. The risk factors that may affect actual results are detailed in Jushi's 10-Q and other periodic filings and registration statements. These documents may be accessed via EDGAR and SEDAR. These forward-looking statements speak only as of the date of this call and should not be relied upon as predictions of future events.

With that, I'll now turn the call over to Cacioppo, Chief Executive Officer, Chairman and Founder of Jushi.

James Anthony Cacioppo *Jushi Holdings Inc. - Founder, Chairman & CEO*

Thank you, Michael, and thank you, everyone, for joining our call today. Let's begin on Slide 4. This morning, I'll provide an overview of our third-quarter 2022 performance and review our recent operational achievements. I will then turn the call over to Jon to review our

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financials in more detail before I summarize the call. A question-and-answer period will then follow. Moving to Slide 5. During the quarter, we made considerable progress building out our robust operating platform while maintaining a strong top line despite a persistently challenging macroeconomic environment.

Year-over-year, our revenue grew 35% to \$73 million in the third quarter compared to \$54 million in the third quarter of 2021, driven primarily by our acquisitions in Massachusetts and Nevada increased sales in our existing stores in Virginia and the expansion of our nationwide retail footprint from 24 to 35 stores. While revenue was essentially flat on a sequential basis, I am pleased with the expansion of our margin profile in the third quarter as our gross profit margin expanded approximately 144 basis points to 38% compared to 37% in the second quarter of 2022. This increase is demonstrative of our early progress we are making on our initiatives to improve profitability, including increasing production in our grow processor facilities and the execution of our private brand sell-through strategy.

Let's move to Slide 6. In the third quarter, we continued to drive our vertical margin with a notable increase in private brand penetration across each of our markets as we expanded the available shelf space for our products in our stores. In fact, the sell-through rate of our own branded products improved by over 600 basis points to 28% of total retail revenue in comparison to approximately 21% in the second quarter of 2022. Most impressively, we saw an approximate 90% quarter-over-quarter increase in private branded products sold through our Beyond Hello stores in Pennsylvania, driven by increased production at our Grow process facility in Scranton.

Our private brand sales also grew in Virginia by approximately 13%. However, our growth was limited by our own product availability in this market more on this in a moment. We are seeing that our enhanced brand promotion, increased availability of Jushi branded products and recent innovative product launches are resonating with our customers. Specifically, in the third quarter, our concentrate brand, The Lab, which was recently expanded to include solventless and hydrocarbon products saw an approximate 150% increase in units sold as compared to the second quarter of 2022.

Also notable was the near 80% quarter-over-quarter increase in units sold of our flower brand, SÄ"che, indicating a continued interest in value products among our consumers. Wholesale sell-through also increased moderately by 7% quarter-over-quarter, showing continued positive momentum, particularly in Nevada, with an approximate 74% increase in Ohio and Massachusetts being the 2 other notable markets that improved sequentially.

In fact, we were able to increase the number of wholesale customers we work with by 38 during the quarter. Virginia wholesale sales were reduced as we were limited by our own production capacity, and we allocated most of our inventory to our 4 open stores, thereby reducing inventory available for wholesale. As we begin the fourth quarter, we are seeing our inventory position of proven in Virginia. New cultivars and form factors becoming available in Pennsylvania and increased distribution in Massachusetts, Pennsylvania, and Nevada. As a result, we expect wholesale sales to grow significantly in the fourth quarter.

The sequential growth in our wholesale business is notable since many dispensary operators have reduced shelf space dedicated to third-party suppliers in order to promote their own brands and maintain or improve profitability. Having a very significant retail business in 7 states, which purchases third-party products helps us on the wholesale side of our business. I am encouraged by our sell-through performance in the third quarter at both retail and wholesale and expect to continue to share progress on this metric as we increase

production at our grow processor facilities and broaden our product portfolio.

On our last 2 calls, we outlined our cost savings initiatives in detail. I'd now like to provide a brief update on each. First, at retail, we expect to have reduced costs by approximately \$8 million throughout 2022. Recently, we have made changes to our labor model that are expected to result in lower operating expenses beginning in the fourth quarter and accelerating into the new year. For example, we are increasing our mix of part-time employees, allowing us to flex staffing level to be more closely aligned with sales. Other fourth-quarter initiatives include optimizing our field leadership model by bringing in high-quality state-level retail directors, which has allowed us to reduce the number of field leadership roles needed to manage our retail footprint.

Reducing our construction labor force as store openings slowed from an average of about a dozen per year over the past 24 months to a much smaller number and reducing the number of nonessential staff at our dispensaries. I would also note that in our experience in medical markets, most stores lose money for at least 6 months after opening as advertising opportunities are very limited by regulation, and it takes time for a location to build its patient or customer list. Additionally, the 45 days before opening are big investments as we hire and train personnel without any corresponding sales. Given that we will have substantially built out our store licenses by year-end, this drag should dissipate in 2023.

Next, at our growth processor facilities, we remain on track to achieve our target of approximately \$12 million in total cost savings for fiscal 2022. We are also realizing the benefits of newly implemented automated technologies, including wet bucking and curing that have a positive impact on both quality and yields of our harvest. In Massachusetts, through automation, we have increased our capacity to produce package flower fourfold. As we plant our new flower rounds, we are closer to full-scale production at our newly expanded grow processor facilities in both Pennsylvania and Virginia.

While we plan to bring the initial harvest from new flower rooms to market beginning in early 2023, we expect these 2 facilities to break even by the end of the year and begin contributing materially to our profitability in 2023. It usually takes about 12 months to obtain peak yields with the diverse set of genetics, so we will see profit improvement throughout the next 12 months in both of these large expansions. Lastly, at the corporate level, we are finalizing the build-out of our accounting and IT departments to support our new financial reporting structure and continue to responsibly manage costs where necessary to maintain a steady-state G&A level, if at all possible. I'll now highlight our operational achievements over the next few slides.

Let's begin on Slide 8. In the third quarter, we experienced explosive growth into Virginia, demonstrated by our strong retail performance and expansion of our patient base following the removal of the patient-registration medical card requirement and new store openings in Fairfax and Alexandria. Sequentially, our active customer count in Virginia increased by over 210%, bringing in nearly 8,000 new patients in the third quarter compared to approximately 1,950 in the entire second quarter before the requirement was lifted. Moreover, Virginia retail sales grew sequentially by 48% and year-over-year by 200%. The opening of our third and fourth Beyond Hello stores in Alexandria and Fairfax contributed to this growth with both locations having our most successful new store openings in terms of media sales in the weeks following the openings.

In fact, both stores are tracking over \$3 million in annual revenue and continued to see sequential improvement month-over-month. We

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also saw record-breaking traffic on our Beyond Hello website in the third quarter, mostly attributable to this market expansion. Our Beyond Hello, Alexandria location is ideally positioned directly off the busy Capital Beltway Highway and located within a 15-minute drive to approximately 400,000 people. Our new Beyond Hello Fairfax location is nestled in suburban expanse of Washington, D.C. Metro region and spanning 10,500 square feet. Beyond Hello Fairfax is also built as a larger format store like Alexandria and is strategically located close to George Mason University as well as the various shopping centers.

Our Fairfax store may eventually be our best store system-wide. Each new location features several traditional express checkouts along with our convenient online reservation platform, combining our best-in-class physical and digital retail experiences to serve our growing patient base in the common well. The stores are also designed to be among the highest volume stores in the country and are well-positioned ahead of adult-use sales, which are expected to begin on January 1, 2024. And more recently, we partnered with high-road cannabis delivery in Virginia. This delivery program, which was initially launched at our stores in Alexandria and Fairfax is performing well, and we expect to roll it out to our stores in Manassas and Sterling. In early Q1, we expect to open additional store in Arlington, Virginia, which will mark our fifth in the Commonwealth, and we have plans to open our sixth location in Woodbridge in the first half of 2023. Our new store highlights include a recently relocated underperforming store in Scranton, Pennsylvania to a prime location in Dixon City. This store opened just last week and was our second-best store opening day in the company's history. We hope to move more stores in Pennsylvania in 2023 and early 2024 as we believe this is a very high return on investment initiative.

Let's continue on Slide 9. In just a couple of weeks, we expect to open our Beyond Hello Cincinnati, making our first retail location in Ohio and establishing our vertical presence in the state. We view being vertical in Ohio as absolutely necessary to being profitable. I would note that getting to profitability in Ohio has taken a long time due to stringent regulatory regime. We saved substantial shareholder dollars by entering Ohio as a vertical operator by separately acquiring a grower and a processor and winning a retail license, all for under \$10 million. However, this strategy required us to run substantial losses to open these licenses in a very vertical market in 2021 and 2022.

The state has difficult laws that make it expensive to enter the market but create a nice regulatory moat for operators. As we open our first store and gained from our experience in the market, this market should become profitable in the not-too-distant future. This is, without a doubt, a big investment priority for us as this market turns from a sleepy medical market in 2021 to a stronger medical market in 2023 with medical growth for several years and adult-use on the horizon in 2025 or after. We are working on several deals to acquire additional retail licenses. In addition, we purchased a property adjacent to our grow facility to allow for future expansion. Overall, if you look at our operating losses and acquisition costs, we will have entered the Ohio market at a much lower price than most of our MSO retro.

Moving to Slide 10. As mentioned earlier, we made notable progress on our expansion projects and our own grower processor facilities in Pennsylvania, Virginia in Q3, allowing us to significantly increase our production over the quarter. In Pennsylvania, at our Scranton grow processor facility, we nearly doubled our canopy size to approximately 27,000 square feet and increased our annual biomass production to approximately 15,000 pounds. We expect to end the year with more than 30,000 square feet of Canopy and approximately 22,000 pounds of annual biomass capacity. Additionally, we ended Q3 with 7 grow rooms and expect to add another 4 rooms in the fourth quarter. However, we are taking down 2 rooms, so only a net 9 will be open. These 2 rooms are too large and are of legacy quality cultivation. When Pennsylvania goes adult use, we can turn this 2 overscale low-quality grow rooms into 5 additional state-of-the-art 3,000 square foot flower rooms. This expansion can be quickly activated at very low cost relative to a new build as they are in our current warehouse and require minimal investment relative to a new build.

Let's move to Slide 11. The 4 new grow rooms we added in Virginia in Q2 and Q3 began generating revenue at the end of the third quarter. During the third quarter, we also introduced several new cultivars and launched our first product line of THC-only vapes. By the end of this year or in Q1 2023, we expect to increase Canopy and annual biomass production to approximately 16,000 square feet and over 10,000 pounds, respectively, and plant 2 new grow rooms. As mentioned earlier, our facilities are underway to running at full scale, and we expect to more fully absorb fixed costs in the fourth quarter and into 2023. We are also seeing an improvement in the quality of our products coming out of these facilities following the investment and implementation of various automation technologies that became operational in the third quarter.

Let's continue to Slide 12. In the third quarter, we launched our first line of Cannabis Infused Chocolates by Tasteology in Massachusetts with an expected launch of Virginia in the first quarter of 2023. At the end of last month, we continued to expand our Tasteology product offering in Massachusetts with the launch of newly formulated Cannabis Infused Fruit Chews. We have the expectation to roll out this new product line in Virginia, Ohio and Nevada in Q1 of 2023. We offer a full suite of almost all form factors across the company's asset portfolio and expect to complement it by utilizing the experiences from our test markets as we move to having a full suite of form factors in every market we operate in.

And with that, I'll now ask Jon to review our financial results before I summarize. Jon?

Louis Jonathan Barack Jushi Holdings Inc. - Founder, President, Corporate Secretary & Interim CFO

Thanks, Jim, and good morning, everyone. Before getting started, I would like to remind everyone that the results I will be going over today can be found in our soon-to-be-filed financial statements for the quarter ended September 30th, 2022. All results are stated in U.S. dollars and are now prepared under U.S. GAAP. I'll now begin on Slide 14. As Jim previously mentioned, revenue in the third quarter of 2022 increased 35% to \$73 million compared to \$54 million in the third quarter of 2021. The year-over-year increase was primarily attributable to our acquisitions in Massachusetts and Nevada and new Beyond Hello store openings across our footprint. As Jim mentioned earlier, on a sequential basis, revenue was essentially flat, but we saw some encouraging movement in our gross margin profile, which I will cover next on Slide 15.

Our gross profit was approximately \$28 million in the third quarter of 2022 or 38% of revenue, an increase of \$1 million or 144 basis points as compared to approximately \$27 million or 37% of revenue in Q2 2022. The improved gross margin is mostly attributed to an increase in sell-through of our branded products across our footprint and our ability to capture more vertical margin as we ramp up production and begin to absorb the fixed cost at our grower processor facilities in Pennsylvania and Virginia. This was partially offset by increased promotional activity of juicy branded products in Pennsylvania.

Third quarter of 2022, adjusted EBITDA was approximately \$1 million, which was flat as compared to the second quarter of 2022. Adjusted EBITDA benefited from increased sales of our branded products, offset by infrastructure and headcount investments at our grower processors that continue to have a transitional impact as we continue to scale our operations as well as lower-than-expected growth of wholesale operations. Third quarter net loss, including an indefinite-lived asset impairment charge in the range of \$35 million to \$49 million was \$52.9 million to \$62.8 million compared to net income of \$12.1 million in Q2 2022. Adjusted net loss, excluding the after-tax impairment charge was \$28.1 million.

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Moving on to the balance sheet on Slide 16. We ended the third quarter with approximately \$31 million of cash and cash equivalents on the balance sheet compared to approximately \$43 million at the end of the second quarter. The change in our cash position quarter-over-quarter was driven primarily by capital expenditures of \$8 million, reflecting investments related to the opening of 2 new stores in Virginia, one in California, the relocation of the store in Pennsylvania, the build-out of our dispensary in Ohio, the expansion and optimization of our grow processor facilities in Virginia, Pennsylvania and Massachusetts and corporate IT-related expenditures. For the fourth quarter, we expect capital expenditures to be in the range of approximately \$5 million to \$15 million prior to any potential TI reimbursements or financings for a total of approximately \$55 million to \$65 million for the full year 2022, subject to market conditions and regulatory changes.

Our large capital investment program should be substantially complete by year-end 2022. Focus remains on cash flow and the results of our efforts are best demonstrated by cash flow used in operating activities, which improved sequentially by approximately \$10 million as compared to the second quarter to be nearly breakeven for the quarter. As of September 30th, 2022, we had approximately \$209 million principal amount of total debt, excluding leases and property, plant and equipment financing obligations.

As of November 11th, 2022, our issued and outstanding shares were approximately \$196 million and our fully diluted shares outstanding were approximately \$291 million. With respect to our upcoming maturity of our senior secured notes coming due in January 2023, we are working diligently towards refinancing this debt, and we have seen significant interest from both our existing noteholders as well as several new prospective holders wanting to participate in the refinancing. We are confident we'll have a deal announced in the coming weeks.

And with that, I will now turn the call back to Jim to discuss our outlook.

James Anthony Cacioppo *Jushi Holdings Inc. - Founder, Chairman & CEO*

Thank you, Jon. I am confident that the progress we have made in the third quarter has laid the groundwork for a productive fourth quarter and a strong start to the approaching new fiscal year. Our goal to drive long-term profitability is beginning to come to fruition as we start to see the benefits of our efforts to transition from a business primarily focused on retail to one that is vertically integrated.

At the retail level, we expect to open 2 additional Beyond Hello stores by the end of this year or early next year, including 1 location in Virginia and 1 in Ohio. And we have recently moved an underperforming store in Pennsylvania to a prime location. At the GP level, we continue to expand our production by adding operational grow rooms and expanding production, while at the same time improving our product diversity, quality and yields. We continue to see an opportunity to increase the sell-through rate of our own branded products through our network of retail stores alongside pursuing wholesale opportunities.

Virginia has become a very strong market for us, and I would note that if you apply a typical medical market penetration rate similar to what can be found in Pennsylvania and Florida to Virginia's market. Jushi share of the Virginia Medical market should reach the \$150 million to \$200 million sales level. In addition, the adult-use market becomes legal on January 1, 2024, and the adult-use regulator called the cannabis control authority becomes our regulator per the law on July 1st, 2023. The CCA has already begun staffing itself up. We expect more news on the adult use in Virginia in the first quarter when the legislature goes into session.

Over the past month, we have seen some encouraging developments for our industry at both the federal and state levels. As our platform grows stronger and laws and regulation become more attractive, we will shift our expansion plans into high gear. I'm very confident in our position to take advantage of the unfolding market opportunity and generate long-term value for our shareholders. As always, I would like to close out by thanking our passionate team members. We would not be where we are today without your dedication and hard work.

With that, I would like to pass it back to the operator to open it up for questions. Operator?

QUESTIONS AND ANSWERS

Operator

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

Robert Joseph Burleson *Canaccord Genuity Corp., Research Division - MD & Analyst*

So I guess the first one would just be understanding the CapEx range for Q4. It's a wide range. Does that have to do with the timing of the 2 additional store openings or something else?

Louis Jonathan Barack *Jushi Holdings Inc. - Founder, President, Corporate Secretary & Interim CFO*

This is Jon. If the store openings and the Virginia expansion or the completion of the expansion of the GP, some of which is falling into -- or likely to fall into Q1 of '23 due to delays in delivery of construction materials, delays in regulatory inspection timing. And so really just depending on where it falls, it could push past the end of the year into Q1.

Robert Joseph Burleson *Canaccord Genuity Corp., Research Division - MD & Analyst*

Okay. Great. And then just in terms of the sell-through of our own brands through your own store network, are there any metrics there in terms of where you guys would like to get in terms of overall share of your retail sales coming from your own brands?

James Anthony Cacioppo *Jushi Holdings Inc. - Founder, Chairman & CEO*

Yes. Great, Bobby. It's Jim. Thank you. Yes, I think we want to get to where the most vertical operators, the MSOs are. And it appears to us that 50% is very achievable. And we have some operations that we acquired that were more in the 60%, even 65% or north of that percent. So I think depending upon the market, for example, Nevada is a very vertical market on that one, you can push it pretty far up to 65%, 70% has gone higher for the operations we've acquired. And then in a market like Virginia, right now, I think in Q1, Q2, Q3, we have all the incremental production in the market as far as we can tell.

We don't see any wholesale menus from the other MSOs these days. We have in the past. So it seems like they don't have any excess and they are buying our wholesale flower. Now we limited that. So we think that number in Virginia will run very high above the 50% threshold in the early part of the year. So it really moves around depending upon our production and what's available in the market. And keep in mind, we have Illinois where we don't have a grow processor. So that will always cause us to have a lower overall number until we vertically integrate there. But our longer-term goal netting all that stuff out in 2023 is to be at the 50% to 60% range.

Operator

Our next question comes from Glenn Mattson from Ladenburg Thalmann.

Glenn George Mattson *Ladenburg Thalmann & Co. Inc., Research Division - VP of Equity Research*

So curious about Virginia with -- you did make that comment about what it would look like if it was a more normal medical market in comparison maybe to some other states, I think you mentioned Pennsylvania, whatever. With them, oftentimes you see states that are

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about to go Rex see medical pull back, now Virginia, the medical market never really got going because of all the hurdles and red tape and everything. So given that Rex on the horizon, do you imagine the medical market is going to have significant momentum in 2023? Or do you imagine it's going to be a little bit slower because people are just going to wait for Rex to kick in or whatever? Color on that would be great.

James Anthony Cacioppo *Jushi Holdings Inc. - Founder, Chairman & CEO*

No, I don't think the Virginia -- I think the Virginia medical market has been super robust. And we put out the numbers of the patient growth. And we had 2,500 new patients, almost 2,500 new patients in October. So the revenue -- the patients just keep coming. But the big difference besides penetration, which is very low in Virginia, is that there's no medical card. So all you need is a doctor's prescription. There's no other market like this in the country. So the reason why that's a big difference is the cost. These medical cards in Florida cost about \$200 and so that's a big cost.

And so not -- the last quarter of the year, before it goes [Rex] or maybe the last 4 months, you could see people pulling back. So I think there's definitely a lot of evidence out there that 3% of the market is very comfortable being in the medical market. And then beyond 3 going to 4, 4.5, there are some people who aren't as confident in having their names in the databases or whatever it might be. So for employment reasons or whatever the other reasons that might be. So I think that's why we point to the 3%. I think Florida is 3.5%. Arizona got over 4%, 4.5%. So I think 3% is very doable, and I don't think the adult use because there's no ID cards and the cost associated with that or the database associated with that, I don't think you're going to see that in Virginia at all.

Glenn George Mattson *Ladenburg Thalmann & Co. Inc., Research Division - VP of Equity Research*

Great. And then just thinking about CapEx for next year, you talked about most of the major projects being completed and everything. Just maybe not want to give a number, but just a range of how to think about what your expectations are for next year?

James Anthony Cacioppo *Jushi Holdings Inc. - Founder, Chairman & CEO*

Yes. So it's -- our CapEx next year, the larger numbers were all very based on what we decide to do. And so what we are doing is likely opening a store in Woodbridge and in Virginia in advance of the adult-use market. And then we have a store in Peoria, Illinois. And grow processors are complete. We don't anticipate any additional expansion until we see in the large capital projects until we see much more clarity in regulation. So in Pennsylvania would be adult use, Virginia, we would be going live. And then the federal obviously, is something that we're looking at. We would like to see the capital markets become more robust for cannabis companies before taking on additional risk. So next year, I think it's very much up to management and our risk controls and how we think about how we want to run the company in what's been a very difficult capital markets environment. I think we can keep it well under \$10 million if we wanted to.

Operator

Our next question comes from Russell Stanley from Beacon Securities.

Russell Stanley *Beacon Securities Limited, Research Division - MD & Research Analyst*

Maybe if we could ask a few questions around Illinois and you mentioned that it's retail only. I'm just wondering what your latest interest is on adding cultivation there, just your remarks around CapEx, but wondering what your thoughts are on adding cultivation in Illinois given those 185 licenses and finally gone out of the door and actually boost wholesale demand, what the market might be for GP in Illinois.

James Anthony Cacioppo *Jushi Holdings Inc. - Founder, Chairman & CEO*

Yes. So yes, cultivation in Illinois and getting to 10 licenses has always been obvious to us as a great investment that the market would really appreciate. Relative to our investment in Virginia, just looking at it on a [DCF] basis and long-term value basis, it's just been much better investment to invest our capital in Virginia. Relative to the prices we would have had to pay for operating dispensaries and grow processors in an environment where people had inflated expectations historically. We've talked to every independent growth process, so we're trying to talk to them over a 2- or 3-year period. We really understand the market. We believe there will be opportunities to acquire -- there are opportunities to acquire grower processors. There's not a lot of us who aren't there. So the group of us buying them is rather

small. And so we will look at that in our investments.

I would note that given the capital markets and what I mentioned about limiting CapEx, we're not in the mood to go out there and take much risk. And so we have been talking to people about equity-oriented deals where the resulting deal is a deleveraging event for us. And that's how I would think of the structure if we bought an existing grower processor and sometimes they include retail and sometimes they don't. And we also have the option of developing our own over time through these craft licenses. I think we won one, and we could every inexpensive to buy 2 more.

And you could -- we think you could stack I mean the rules will change favorably for those to get almost 45,000 square feet of Canopy. We think that's where it's headed over time. So that's always an option. And so we have a plan. I would say that in our -- looking at adult use in Virginia in 2024, that remains our priority in an unconstrained capital market environment, unconstrained capital environment. Our second priority is probably Ohio because we just view getting early in the medical market early in the curve has been the winning strategy for use and then our third would be Illinois.

Russell Stanley Beacon Securities Limited, Research Division - MD & Research Analyst

Got it. And notwithstanding those last remarks there on the retail front with Missouri borders haven't voted the way they did. And I know your border locations are more destination stores and have some local features that draw a lot of traffic. But just wondering what your latest thoughts are on possible cannibalization once stores are allowed to open within Missouri's Border.

James Anthony Cacioppo Jushi Holdings Inc. - Founder, Chairman & CEO

Yes. No, I would point out we have a significant customer flow from Illinois, first of all, that don't come from Missouri. Second, the one store, the biggest store is in an area where I think the -- you can, I think, Missouri, all the nighttime activities like bars and clubs, et cetera, close around midnight. And I think in the area we're in, which is just across the bridge, they closed at 4 a.m. And there's -- I think there's a 50-year history of this town being a destination for nighttime activities that would include all the fun that you could have in life, including cannabis consumption.

And we are located smack in the middle of that. And we believe -- and I honestly think for a long time, the product in Illinois will be a lot better than Missouri. There's no MSOs in Missouri. We've looked at acquisitions in Missouri. It seems completely capital constraint to us. I just can't imagine how that's going to work so well. And so we think we have a significant time lag, and we have a strategy -- we have a Missouri strategy, again, in an unconstrained capital environment, we do have a Missouri strategy to bring our brands into the St. Louis area. So I think we have a strategy for that. The one store, I believe, will be substantially not affected the other store, more so adjusted that store probably has more Illinois traffic. So I don't know exactly. So it's going to be, I think, a headwind of 1 point in maybe 2024 thing. I'm not as worried about it this year -- I mean next year.

Operator

Our next question comes from Ty Colin from Eight Capital.

Ty Collin Eight Capital, Research Division - Analyst

I'm just wondering if you're able to comment on the same-store sales trend in the quarter outside of maybe Virginia, which you already alluded to in the remarks. And maybe which of the other markets were stronger or weaker from an organic growth perspective at retail?

James Anthony Cacioppo Jushi Holdings Inc. - Founder, Chairman & CEO

Yes. So Nevada was weaker based upon some seasonality, we hope, because the 120-degree temperatures and the desert don't seem very -- we're new to that market from a retailing perspective, but they don't seem like the best. Also, I think Nevada, the market declined

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a bit because it really had a big effect from COVID spending, just the demographics there and the people that are there with the -- all the money that flows into people, to give way of money and free rent, you did have to pay your rent. That worked in the favor of the market and so for local consumption.

And I think that there might be a little bit more effect in the bottom from the illicit market than you see moving to the East. But the Nevada market has come back to some degree in the fall. And so we're hopeful there as tourist traffic and everything else improves in the season, so to speak. The other market where we saw a decline was Pennsylvania. And it's the peak months in Pennsylvania were March and April. Now April is always a great month.

And I think March was a makeup month because January and February are very slow because of the winter. I don't know if you remember, in Pennsylvania got a lot of snow and a lot of bad weather. And so -- but they were the peak month, and there was a little bit of decline that didn't -- it was not unsurprising to us in May and June and then in July and then in August and September is where we saw a decline, I guess what happened in August, September, New Jersey opened. But the decline seemed somewhat similar to the price decline. If you just look at the price decline over the year and you look at our retail stores level, it's not too different.

So that's why we focused on being much better at moving expenses with this part-time help to being able to manage that. Also, we opened all 8 stores last year, and we've seen more openings in our areas. I think we've done quite well, and I think the market is poised for adult use there. So in terms of the number of stores and the amount of capacity in the market. And then on the positive of Illinois is up a bit, and Massachusetts was up a bit on retail. And I think that's it. Virginia, we disclosed already up a lot.

Ty Collin *Eight Capital, Research Division - Analyst*

Yes. Okay. Great. I appreciate that color. And then just for my follow-up, I'm wondering if you could provide a little more detail on the impairment charge you're taking this quarter, maybe what assets that relates to, what triggered the decision and have the relevant assets been written all the way down? Or is there potentially more to come in subsequent quarters?

Louis Jonathan Barack *Jushi Holdings Inc. - Founder, President, Corporate Secretary & Interim CFO*

Sure. This is Jon. The noncash impairment, which impacts goodwill and intangible license value related to our Massachusetts assets on the Nature's Remedy acquisition as a result of 2 factors since taking those assets over. One is whole oil price compression and the second is operational problems we discovered relating to the GP and R addressing.

On the first point, wholesale prices, as you may know, have dropped as much as 30% plus year-over-year as market-wide supply has increased, which led to a reassessment of potential wholesale profitability of our Lakeville GP, though it's important to note that while lower wholesale prices have filtered through the lower retail prices, our retail stores have performed very well by selling an incremental 30% to 40% more units year-over-year, which has offset the retail per unit price decline and led to steady growth, as Jim mentioned, in the retail revenue and adjusted EBITDA for those stores over the year.

On the operational front, our Lakeville facility has suffered from problems relating to utilities and mechanical performance, which we're in the process of addressing that has limited us from cultivating a peak output in quality, but we expect that to improve over the course of

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next year as enhancements are made. And just from a quantitative standpoint, it's still the valuation of these intangible assets is a fairly technical financial exercise that requires judgment as it relates to the selection of assumptions and discount rates. Our auditors are currently reviewing the report of our valuation consultant and we hope to have the valuation finalized later this week.

Operator

Our next question comes from Andrew Semple from Echelon Capital Markets.

Andrew Semple *Echelon Wealth Partners Inc., Research Division - Special Situations Associate*

First question, I just wanted to ask on the Q4 outlook that was initially, I guess, released with the Q2 results last quarter. Did not see that reiterated in the press release. Can you clarify whether that outlook remains still standing?

James Anthony Cacioppo *Jushi Holdings Inc. - Founder, Chairman & CEO*

Yes, it's still standing.

Andrew Semple *Echelon Wealth Partners Inc., Research Division - Special Situations Associate*

Okay. Great. And then my follow-up, you spoke to increased production capacity from recultivation and processing facilities this quarter. But did a substantial amount of that actually hit the market within the third quarter? I believe you mentioned in the prepared remarks you got a bit from Virginia late in Q3. How substantial is that? And then any comments on Pennsylvania and Ohio and production increasing there?

James Anthony Cacioppo *Jushi Holdings Inc. - Founder, Chairman & CEO*

Yes. So just to take the easy one, the Ohio's steady state. It's a very small facility that could support 1 or 2 stores, and there's no expansion plans, and we manage through on the growth side. The processor, we've taken some cost mitigation efforts there to bring the overall state to a profitable level, realizing how vertical the market we didn't anticipate how vertical it is, meaning you're selling a lot of your own product to the stores.

So we are opening that store, and we feel like Ohio, as I turned -- talked to in my prepared remarks is it's a heavy investment market for us this year and last year in terms of some losses that were generated but remember, we bought these licenses at a very, very cheap level. So it's even net with the losses we've done great. And I think Ohio is headed in the right direction for us. We've done a lot of the hard work over the last few years there. That's small. In Virginia, what happened in Virginia in the quarter was that we have a lot of new equipment. So we're doing wet trimming and something that's called AutoCare, which is rack drying in an automated process where without a person touching it, it gets burked, which is a technical term, believe it or not, and that takes out the humidity.

The results of that are very good in terms of quality and yields. The staff had never used this equipment before. There was also some new remediation equipment that's being used. So we've had a series of all this new equipment come in, which we anticipated. But what we didn't quite understand was how long it took to train people to get it right. So what we did was we didn't want to risk the flower. So we just slowed everything down. And it cost us about a month where we just made sure that we were doing everything the right way. So we didn't have to dispose of our hard-earned growth in the flower that's easy to sell.

So the good news is, is that it worked -- the strategy worked extremely well. I'm really proud of the team. I put a lot of pressure on the team to get this right, and they were very careful, but that flower started to flow and will continue to flow, but it started to flow in September into commercial hands. So if you look at Q2 in Virginia, we had substantial third-party sales, meaning we were selling wholesale, and we put an end to that, so we could get our hands around all this new equipment and operate it correctly and then also put inventory. Again, you're not selling it, you're putting inventory in your stores.

We have all these new stores and you need to put about 4 to 6 weeks of inventory in there to make sure you don't run out of SKUs that the patient may want. So that was the process of Virgin at a little slower than we thought. So you didn't see this amazing sell-through in margin, I would say, in Virginia at all. But in the fourth quarter, we've already had significant wholesale sales because we have -- we do have all the flower coming and it's coming to market. We have significant wholesale sales in October, and it seems to be working well. Yields are great. Quality is great. We have the best testing flower in the market and the yields per square foot level are the best at the company. So that's Virginia, a good story like a month late.

And then in Pennsylvania, we're bringing stuff up and just one of these things where everything goes a little bit slower than you think because of really supply chain issues and just dialing it in. It's all new mechanicals, it's all super high-tech stuff. We didn't have the issues of the same issues with regard to the new site, the team with more used to that equipment, and we learned from Virginia. So we got the people there sooner, and we had more focus and more knowledge internally, but we just had some fixed mechanicals and dial it in.

So I think Pennsylvania leads a month behind where we thought it was. So I just think that it's a pretty good job that we've done, and we're seeing the flow-through more definitely in the fourth quarter, and that's why we always just guided to the fourth quarter and not the third quarter because it's the third quarter, a lot of stuff's going on. And quite frankly, a lot of stuff going on in the fourth quarter as well.

Operator

Our next question comes from Jason Zandberg from PI Financial.

Jason Zandberg *PI Financial Corp., Research Division - Special Situations Analyst*

And I apologize, I joined a little bit late, so I hope you did cover this earlier in the call, but I just wanted to get your comments on basket sizes. I know in the last quarter, you mentioned that they had been trending down. Just wanted to know, get an update on that throughout Q3 and into Q4, what's happening with basket sizes in terms of consumption patterns.

Louis Jonathan Barack *Jushi Holdings Inc. - Founder, President, Corporate Secretary & Interim CFO*

Sure. This is John. Thanks for the question. It's definitely very market-specific. Virginia has a very high basket size, \$130, something like that. Across the portfolio, the blend you see a drop just from -- over the course of the year, Q1, the blended portfolio was around \$100. And now the most Q3 was really in the 80% to 85% range, and that's partly a result of the portfolio changing as we have Nevada baskets coming on, which are lower than, again, the Virginia baskets, which are now growing. So it's -- again, it's really market specific though, within each market, you definitely have value trading down from the premium brands to more value brands. So that's, I'd say, an economic factor. But again, it's really -- it's market specific where things are in the new markets, the limited supply markets versus the wide open adult-use markets.

James Anthony Cacioppo *Jushi Holdings Inc. - Founder, Chairman & CEO*

The basket side tend to be smaller in adult-use markets. And so part of that is we got into Massachusetts late last year and Nevada in the early second quarter. So that's -- part of it is that.

Operator

And at this moment, we have no further questions. I would like to turn the call over to Mr. Perlman for final remarks.

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Michael Perlman *Jushi Holdings Inc. - EVP of IR*

Thank you for everyone that joined us today. I look forward to providing you future updates and speaking to you on our call in the fourth quarter. Talk to you guys soon.

Operator

Thank you, ladies and gentlemen. This concludes today's conference. Thank you for participating. You may now disconnect.

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