Jushi Holdings Inc. (Q4 2022 and Full Year2022 Earnings)

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Corporate Speakers:

- Lisa Forman; Jushi Holdings Inc.; Director of IR
- James Cacioppo; Jushi Holdings Inc.; Founder, Chairman & CEO
- Michelle Mosier; Jushi Holdings Inc.; CFO & CAO

Participants:

- Russell Stanley; Beacon Securities Limited; Research Division, MD & Research Analyst
- Kenric Tyghe; ATB Capital Markets Inc.; Research Division, MD of Consumer and Retail & Analyst
- Robert Burleson; Canaccord Genuity Corp.; Research Division, MD & Analyst
- Jonathan DeCourcey; BTIG, LLC; Research Division, Director & Cannabis Analyst
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PRESENTATION

Operator^ Good morning. My name is Julian, and I will be your conference operator today. At this time, I would like to welcome everyone to Jushi Holdings Inc.'s Fourth Quarter and Full Year 2022 Earnings Conference Call. Today's call is being recorded. I will now turn the call over to [Lisa Forman], Director of Investor Relations. Thank you. Please go ahead.

Lisa Forman^ Good morning. Thank you for joining us today for the Jushi Holdings Fourth Quarter and Full Year 2022 Earnings Conference Call. Joining me on today's call are Jim Cacioppo, Chief Executive Officer, Chairman and Founder; Jon Barack, President and Founder; and Michelle Mosier, Chief Financial Officer, Jushi.

This morning, we issued a press release announcing our unaudited preliminary fourth quarter and full year 2022 financial results, which are available on our website under the Investor Relations section and filed on EDGAR and SEDAR. The company has not yet completed its reporting process for Q4 2022. The preliminary results presented herein are unaudited and based on the company's reasonable estimates and the information available to the company at this time.

As such, the company's actual results may materially vary from the preliminary results presented herein and will not be finalized until the completion of its annual audit. In addition, any statements regarding the company's preliminary financial performance do not present all the information necessary for an understanding of the company's financial condition and results of operations. The unaudited preliminary financial results presented herein are not reviewed by our independent registered public accounting firm.

The 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, which is posted in the Investor Relations section of our website and will also be available in the company's MD&A for the year ended December 31, 2022, which will be filed in the company's annual report on Form 10-K on EDGAR and on SEDAR. All numbers herein are approximate and rounded to the nearest whole number.

Before we begin, I would 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 information within the meaning of Canadian and securities laws and forward-looking statements with the [meaning] of United States security 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 will be detailed in Jushi's 10-K and other periodic filings and registration statements.

These documents may be accessed via EDGAR and SEDAR. These forward-looking statements speak only as of the date of this call and should not be relied upon as predictions of future events. With that, I would now like to turn the call over to Jim Cacioppo, Chief Executive Officer, Chairman and Founder of Jushi.

James Cacioppo^ Thank you, Lisa, and thank you, everyone, for joining our call today. This morning, I will provide an overview of our fourth quarter and full year 2022 performance and operational achievements. I will then turn the call over to Michelle to review our financial results in more detail before providing closing comments and opening the question-and-answer period.

To begin, I'm happy to report both annual and quarterly top line growth despite an unquestionably challenging year for the cannabis industry. In the fourth quarter of 2022, revenue grew 17% year-over-year and 6% sequentially, to a record $76.8 million compared to $65.9 million in Q4 of 2021 and $72.8 million in Q3 of 2022.

Full year 2022 revenue increased 36% to a record $284.3 million as compared to $209.3 million in 2021. Additionally, in the fourth quarter of 2022, we showed strong adjusted EBITDA growth compared to Q4 of 2021 and Q3 2022, which Michelle will discuss later.

Furthermore, in Q4 2022, Jushi had positive cash flow from operations in the amount of $2.9 million. We generated the strong growth as a result of several operational achievements over the course of the year and in the fourth quarter of 2022, including the expansion of our retail network and vertical footprint.

However, as already mentioned by many of our peers, we in the industry face substantial macroeconomic headwinds, which had an overall impact on operating results. These included significant inflationary pressures, disrupted supply chains and rising interest rates, among other things. These factors have led to increased cost of capital for Jushi and the industry, slower completion of investment projects and pricing pressures across some of our markets.

These pressures have unfortunately overshadowed the growth potential of the U.S. industry, especially in large developing markets which have yet to implement (inaudible) programs such as Virginia, Pennsylvania, 2 of our primary markets.

But first, I will summarize our operational achievements, including those that took place throughout 2022 and to date in the first quarter of 2023. First, our vertical operations grew from 3 to 5 states with acquisitions in Nevada in 2022 and the establishment of an Ohio retail operation in Q1 2023. Through the acquisition of NuLeaf and [Apocacarium], we expanded our operational footprint in Nevada to 4 operating retail accessories 47,000 square feet of cultivation and processing capacity and 9,000 square feet of Canopy.

Additionally, in the first quarter of 2023, our first retail store opened near Cincinnati, Ohio, enabling us to capture the vertical margin in the state with our existing 17,000 square foot cultivation and processing facilities.

Since opening the store has remained consistently busy and has exceeded our expectations. Next, 7 new retail stores were opened over the course of 2022 across a few markets, including Nevada, Pennsylvania and Virginia. As of the first quarter of 2023, we are now operating 37 dispensaries nationwide, having just recently opened medical dispensaries in Arlington, Virginia and the aforementioned Cincinnati, Ohio location.

We expect to open 1 additional medical dispensary in Woodbridge, Virginia in 2023 and which will take our nationwide retail footprint to a total of 38 stores. In 2023, our focus has shifted from rapidly expanding our brick-and-mortar footprint to optimizing our existing wide-reaching retail network, which includes our largest store, our BEYOND/HELLO e-commerce platform.

Lastly, significant progress was made on our expansion project at our grower processors in Pennsylvania and Virginia. Throughout 2023, our Pennsylvania and Virginia grower-processor are expected to continue showing more of their output potential with meaningful improvements in the second quarter.

We should approach the full potential of these facilities in the second half of 2023, and as cultivation and downstream processes are dialed in and the construction and supply chain issues like CO2 and mechanical systems are fully solved. In Virginia, we are also in the design phase of a second connected building that can increase the facility's total square footage up to approximately 260,000 square feet.

However, we expect to do this in multiple phases, and we will not make a final investment decision on this expansion until we have visibility into the timing of the rollout of an [adult-use] program in the state or we have a line of sight on the potential for $100 million of revenue in the medical market, which our current capacity should support with no third-party purchases or sales.

Given our higher cost of capital, we have recently split the next phase into 2 pieces to develop the next leg of the expansion at a much reduced $35 million cost. Our 123,000 square foot Pennsylvania facility is now delivering better yields and potency.

This facility is equipped to produce ample supply for our [18] BEYOND/HELLO medical dispensaries which represent approximately 10% of the state's retail market. Margins should increase as we increase efficiencies, ramp up and eliminate third-party bulk biomass purchases, improve yields and potency and roll out our new innovative, high-end hygiene flower brand with new and improved genetics.

I would note that unlike many operators, Jushi has had an established strong value offering with Sèchè and [Bank gold]. However, our current high-end offering has been priced well below the best flower offerings in the market. [Hygiene] is being developed and rolled out to address the premium flower market to increase our margins as our newer [dynamics] get more fully dialed in. In Q1 2023, we expanded our 93,000 square foot Virginia facility and is Canopy to approximately 15,700 square feet by bringing additional flower room online for a total of 6 rooms.

Later in 2023, the facility is expected to be running at approximately 18,700 square feet of Canopy with 1 more flower room for a total of 7 flower rooms. When the market requires more capacity, we can add an eighth grow room with minimal CapEx in the existing warehouse as part of our discretionary capital investment program.

Our Virginia facility is well equipped to support our significant wholesale business as other Virginia license holders are opening additional medical dispensaries in 2023. In Virginia, we have grown a significant wholesale business, and we believe we have not yet fully met current wholesale demand.

As a reminder, our 6 Beyond/Hello location in Woodbridge is expected to come online in 2023. In Q4 2022, Jushi has scaled to become EBITDA positive in Virginia and we are seeing a continued steady growth of the medical market. We are adding approximately 1,000 new patient certifications a month in Jushi's exclusive retail service area and the total number of certified patients in our footprint to date in Virginia is approximately 22,620.

With most of our capital expenditures requirements for Pennsylvania and Virginia facilities behind us, our 2023 spend for new projects is estimated to be approximately $13 million, of which $7 million is nondiscretionary and $6 million is discretionary growth capital.

The company's focus is now on optimizing our retail capabilities, improving product quality and maximizing our yields, potency and production efficiencies at the [GP]. Part of this optimization includes expanded vertical sell-through of Jushi branded products into our stores. This has increased Jushi branded sales as a percent of total retail sales in our 5 vertical markets from 41% in Q3 2022 to 47% in Q4 2022 and 50% in Q1 '23. As a percent of total retail sales, including Illinois and California, where we are not vertically integrated, Jushi branded products represent 36% of Q1 '23 sales.

We have made good progress with our cost savings and efficiency optimization plan. Throughout 2022, we have made significant cost cuts reducing our employee headcount from approximately 1,570 total employees at our peak in 2022 to approximately 1,310 total employees now. We also have significant nonemployee cost cuts, which are more difficult to quantify but are significant in our view.

At the corporate level, our workforce was reduced by 31%. At retail, there has been a 13% reduction in our average labor hours per dispensary per month from approximately 3,100 hours in April of 2022 to approximately 2,700 hours in February of 2023. As of April 2, 2023, we expect to move to a budgeted labor hour model that will result in approximately 1,550 average hours per dispensary per month, resulting in a total estimated 50% labor hour savings since April of 2022, and we will seek to continue to improve our labor model to drive profitability.

At our grower-processor, we are rightsizing direct labor costs based on production KPIs and rationalizing our national team by deploying most of our formerly shared resources directly into facilities.

We also drove significant packaging savings in 2022, and we'll seek to continue this process in 2023 with a shift to new packaging such as [Mylar]. Another example is our introduction of a 1 [gram cart] in Massachusetts that has virtually the same cost to fill and package as smaller carts. These efficiencies began to hit our P&L in 2022 and will continue to flow through the P&L throughout 2023.

On the legislative side in Virginia, we were disappointed at the slowdown in the implementation of adult use. However, our continued focus is on serving our rapidly growing medical patient population. Also, on January 1, 2024, the medical program is expected to formally transition to the Cannabis Control Authority, known as the CCA, the cannabis-focused regulatory body.

This transition is favorable for a license for operators since the CCA is staffed with individuals with cannabis-specific regulatory experience. I note that Virginia's implementation of adult-use program is [not off] the table given that the CCA will begin regulating medical cannabis on January 1, 2024, and newly elected legislators will meet in Q1 of 2024 when Virginia is back in session. Cannabis remains very popular in

Virginia, and we are hopeful that the new legislative body will reconsider adult-use legislation.

In the meantime, it appears that the current Governor of Virginia has no appetite for additional licenses, which increases Jushi's strategic value and gives us time to invest in the market. In Pennsylvania, we are encouraged by recent movements with [Governor Shapiro's] 2025 budget request to include the legalization and taxing of adult-use cannabis as well as the current increasing bipartisan interest in progressing adult-use legislation in the Pennsylvania Senate in house. We will continue to work with the industry to seek to make adult use of reality in Pennsylvania as soon as reasonably possible.

In summary, our footprint grew significantly in 2022. This year, we are shifting our focus to, one, optimizing the strong asset base we have built in 2022. Two, becoming more operationally efficient and three, generating positive free cash flow as soon as practicable.

Our new and increased cultivation and production capacity, better genetics and improved growing and production techniques that we have worked so hard on in 2022 and thus far this year gives us the ability to increase sell-through of our growing product line on our own shelves and through wholesale at higher margins.

We have a fast-growing medical market in Virginia and our 2 most important markets have a path to adult use in the coming year or 2. As I mentioned earlier, we have only $7 million of mandatory capital expenditures for new projects. We also have identified an additional $6 million of very small but very high ROI capital investments such as potentially moving a few stores in Pennsylvania and potentially adding an 8th [grower] room in Virginia.

I'll now provide a brief update on actions we have taken that we expect will strengthen our capital position. In the fourth quarter of 2022, we successfully refinanced our senior secured notes, extending the maturity to 2026 in a very unique second lien structure, which creates a lower cost of capital at the first lien level. This second lien structure should help to minimize the first lien refinancing risk at the end of 2024. We are in discussions with several potential commercial banks for additional financings.

Going forward, we do not currently expect to have any acquisitions in 2023 is developmental assets that were built several years ago are the only assets of theoretical value but will take significant cash to modernize to more efficient standards. Given our higher growth profile and scale in our most important markets, we do not feel the need to buy assets at this time.

And instead, we are focused on the efficiency and optimization of the assets we already own. We have some opportunity to raise nondilutive capital by selling noncash flow generating assets as well as taking part in the employee retention credit program. We currently plan to hold off on using these funds for investment until we reach sustainable positive free cash flow so they can act as a buffer for the unexpected.

To conclude, I'm extremely proud of our team and their dedication to achieving our shared goals. At the end of the year, we strengthened our Board of Directors with the addition of Bill Wafford as an Independent Director and Chair of the Audit Committee. Additionally, senior leadership appointments and management changes were made, including Tobi Lebowitz to Chief Legal Officer and Corporate Secretary; Nichole Upshaw to Chief People Officer; and Shaunna Patrick to Chief Commercial Director; and Trent Woloveck to Chief Strategy Director.

And now I'd like to welcome Michelle Mosier, who assumed the role of Chief Financial Officer at Jushi earlier this year. Michelle joins us from Hamilton Beach Brands and brings over 20 years of financial leadership experience, particularly in the CPG and global manufacturing industries. We are pleased to have Michelle on our leadership team, and I have no doubt that we will significantly benefit from our expertise as we continue to strengthen our financial and accounting practices across the business. With that, I'll now ask Michelle to review our financial results.

Michelle Mosier^ Thanks for the warm introduction, Jim, and good morning, everyone. Before we get started, I would like to say that I'm thrilled to join the Jushi family and work alongside such a highly talented team with a relentless passion for the cannabis industry. I look forward to contributing to the execution of the company's strategic priorities while upholding the demonstrated financial and operational discipline of the leadership team.

Let me begin by reviewing our operating results for 2022 compared to the prior year. As Jim mentioned, revenue in the fourth quarter increased 17% to $76.8 million compared to $65.9 million in the prior year. Full year revenue increased 36% to $284.3 million compared to $209.3 million. The year-over-year growth in revenue for both the quarter and full year is primarily attributed to the expansion of our retail operations in Nevada, Massachusetts, Pennsylvania and Virginia.

In addition, wholesale revenue grew 38% quarter-over-quarter and 67.9% for the full year due to growth primarily in Massachusetts, Nevada and Virginia. During 2022, we opened 7 stores, including the reopening of our Palm Springs, California store and a more centrally located store in Scranton, Pennsylvania. We ended the year with 35 operating dispensaries in 6 markets as compared to [20] and 5 markets in 2021.

Gross profit was $22 million in the fourth quarter of 2022 or 29% of revenue compared to $19.7 million or 30% of revenue in the prior year. For the full year, gross profit was $95.5 million or 34% of revenue compared to $83.4 million or 40% of revenue in 2021.

While gross profit for both the quarter and full year was impacted by investments in the expansion of our wholesale operations in Pennsylvania and Virginia, which includes significantly higher depreciation in 2022, the impact on the fourth quarter was less significant as we started to realize the benefits of our expansion efforts. We expect that we will continue to have a transitional impact as we scale this side of the business.

Additionally, gross profit for the current year is negatively impacted by an increase in [noncash] inventory charges of approximately $3 million for the quarter and approximately $4 million for the year. Furthermore, price compression across various markets and increased promotional activity in Pennsylvania also affected gross margin.

Operating expenses for the fourth quarter of 2022 were $161.2 million compared to $45.7 million. On a full year basis, operating expenses were $315.8 million compared to $119.2 million. While selling, general and administrative expenses quarter-over-quarter were relatively flat at approximately $39.1 million as we work to rightsize the organization. For the full year, SG&A expenses increased from $112.8 million to $156.2 million due to our investment employees to support our ongoing growth, including recent acquisitions.

Noncash impairment charges were $122 million in the fourth quarter of 2022 compared to $6.3 million in the prior year. For the full year, noncash impairment charges were $159.6 million compared to $6.3 million. The impairment charges relate to goodwill and [indefinite-lived] intangible assets and are due to lower-than-expected operating results of the company's operations in California, Massachusetts, Nevada, Ohio and Pennsylvania, driven in part by significant price compression, operational issues and overall economy in the [respective] states.

The net loss, including noncash inventory charges and asset impairment charges, was $139.9 million for the quarter and $202.3 million for the full year. This compares to net income of $6.2 million in the prior year fourth quarter and $17.5 million in the prior year. For the quarter, adjusted EBITDA was $6 million compared to $600,000 in the prior year. The improvement in adjusted EBITDA is primarily due to the increased sales and realizing the benefits of operational efficiencies. For the full year, adjusted EBITDA was $7.1 million compared to $14.3 million in the prior year.

Moving to the balance sheet. We ended the year with $27.1 million of cash, cash equivalents and restricted cash on the balance sheet. As of December 31, our inventory was $35.1 million, a reduction of $8.2 million versus the prior year and down $7 million versus the prior quarter.

Cash outflows for capital expenditures were approximately $55 million in 2022 and included investments related to the build-out of new and existing retail stores across 5 states and our grower-processor expansions in Pennsylvania and Virginia. As of December 31, 2022, we had $206.4 million principal amount of debt outstanding. This excludes leases and financing obligations for property, plant and equipment.

Finally, as previously mentioned and previously disclosed, in December, we completed a $73.2 million debt financing to redeem our senior secured notes that were due in January. And with that, I'll now turn the call back to Jim for concluding remarks.

James Cacioppo^ Thank you, Michelle. To reiterate, in 2023, our focus will shift from top line growth to cash flow generation and driving a highly disciplined capital allocation strategy on existing assets versus M&A. With strong financial and operational discipline and the further implementation of cost savings and efficiency optimization measures, similar to those laid out earlier in the call, we hope to see further improvement in our operating cash flows in the second half of the year.

I would like to thank our shareholders for their continued support and confidence in our vision, maximizing return on investment for our shareholders remains a core priority. And lastly, I would like to thank our dedicated employees. I appreciate all that you do, and we would not be where we are today without your hard work and passion for what we are building. With that, I ask the operator to open up the call to questions.

QUESTIONS AND ANSWERS

Operator^ (Operator Instructions) Our first question comes from Russell Stanley from Beacon Securities.

Russell Stanley^ I guess, first, around the retail end and efforts to optimize there. And congrats on the improved vertical sell-through. Just wondering what you see as the effect of limit or ceiling to that share, given what you're seeing in your markets? How high do you think you can effectively take that before perhaps you're sacrificing product variety?

James Cacioppo^ Yes. Thanks, Russell. Every market that we're in has its own sort of dynamic and you can push it sort of pretty far in some markets because that's how the market is. For example, Nevada is a very vertical market.

We've seen vertical sell-through in Nevada approaching 70%. As an example, we've seen even higher before we purchased the business. In Virginia, we see 70%, but that -- again, that's a market that's newer. And then Massachusetts is lower, more like 50%, 55%. And then Pennsylvania, the -- I would say, Pennsylvania is around 50% or -- we're trying to get there. Yes, we're getting there.

The Pennsylvania, that's an example of a market where they're more used to selection, right? There's a lot of grower-processor, there's a lot of diversity and the patients -- and our strategy has been retail first. We were first retail in Pennsylvania. So I think our customers like the selection we offer them in Pennsylvania, and we don't want to take that away. So we're just sort of maximizing overall sales. And there's a nice wholesale market. And with all of our shelf space, we can sell our product, wholesale in Pennsylvania as people want to get on our shelves.

Russell Stanley^ Thanks for that color. And maybe if I could, on Virginia. Given the immediate focus on the medical market, just wondering, obviously, the state has taken a number of measures that have opened the medical market over the last few years. Just wondering what's left to be done there? What major initiatives are required in order to really help accelerate growth here? That's already growing nicely, but just wondering if there are any other roadblocks or debottlenecking that needs to be done at the regulatory level.

James Cacioppo^ Okay. So Russell, thanks for the question on that. I think the Virginia regulation for Medical is very far along at this point. Our big issue is -- was related more to efficiencies in operating versus patient access. So as a reminder to the listeners, in Virginia, you just need a prescription from your doctor or it's not even a doctor. It's a registered practitioner, somebody who has the certification. And so for us, the patient access has been quite good on a relative basis to other states.

What the holdup for us was we have costs associated with being a part of a pharmaceutical regulatory body. They do a great job, but they're underfunded, so everything is slow. Product changes if you come without -- out of a variance, you have to sort of get a new product registration, which takes longer. So it just creates more work in process inventory as an example.

Another -- and we're figuring how to work these regulations. We just did a cost efficiency, which was great for us to see led by our Virginia Retail Director. It was his idea and he consolidated 2 technology platforms into 1 which we think increase the patient experience in terms of timing. So the transaction got quicker, which reduced labor cost and also not entering into 2 systems saved an employee per store.

So those are the types of things that we are doing. We think that the new law that we think the governor will place around April 12, will increase some variance limitations and stuff and really kind of technical stuff, so I don't want to talk about it on the call. That allows us to just be more efficient in the way we serve the patient, which brings down increased profitability and brings down cost to the patients.

And as the CCA takes over in January, they're more funded, there's a healthy budget, we could speak to you more about what we think the [budget] will be for next year -- this year, excuse me, and -- next year (inaudible). They have a budget this year, they're already building it. So they have the budget this year. They have a budget next year, and we believe there's something out there already for 2025. They're going to have quite a large budget, which allows them to actively regulate us and allows a dialogue and for them to respond to our efficiency concerns.

So Virginia is growing by 39% sequentially, right, from Q4 -- from Q3 of 2022 to Q4 2022, we saw a 39% revenue growth, so growth is there. It's just a matter of getting it more profitable. And the growth will continue, right, because a lot of these stores we added last year are reaching their potential you can advertise. It's a regulated market, it's medical. So if you look at store like Fairfax, which I think would be our best store ever at Jushi in the adult-use program and our best medical store and I think there's only 1 store that might be competitive to that in my own mind, it'll be kind of like a betting pool like the final 4, right?

The other store that I really like is coming online, it's called Woodbridge, and I'll talk about that in a second. But these stores, they keep getting momentum in a newer market like that. We saw this in Pennsylvania when it was a new market. They continue on a growth path over 2 years or something like that before they get to -- like before it starts to get more and more pedestrian growth.

And Fairfax just opened last August. So -- and that's just an example. All of our stores are [in] that growth curve in Virginia (inaudible) we're seeing for each one. And we opened a store in January in Arlington and then -- and so that's a brand-new store. And then we -- and then we're opening a store in Woodbridge.

And Woodbridge is sort of an underserved area and it sort of reaches into the underserved [HSA, where MedMen] had of a license that was lost. So we feel with -- I feel Woodbridge to be the best medical store in the system, probably competing with Fairfax and some of the best in the country. So the growth is there.

It's just us figuring out from how to serve that growth at a lower level with all the rules and regulations that were required by our pharmaceutical regulator, which, again, the regulator changes January 1, new rules come into effect July 1. We think the governor signed April 2. And we've already got more efficient by figuring it out and just working through it. So that's happening on an ongoing basis. So those are the 3 things we're doing to get more efficient and profitable.

Operator^ Our next question comes from Kenric Tyghe from ATB Capital Markets.

Kenric Tyghe^ Jim, just with respect to optimization and the margin profile. Can you speak to in the context of the (inaudible) high single-digit EBITDA margin in this quarter. Could you speak to your expected evolution of the EBITDA margin through 2023? And perhaps also more importantly, the levers in terms of that evolution for us to kind of better understand the trajectory here, is a low double-digit type EBITDA margin reasonable expectation? And how should we think about the evolution of margins through the...

James Cacioppo^ Yes. I don't want to -- we're not going to provide guidance. It's too tough with the inflationary recessionary pressures out there and just in a highly regulated business, things seem to move slower on the regulatory process and then the CapEx for us is always slower because we can't get air conditioners, for example, for sometimes 26 weeks, right? So I mean, it's just -- it's a very difficult market.

Now we're through most of that, but I feel [scared] and to say the least. But in terms of what our levers are, I would call it -- we're not -- pulling levers makes it sound subtle, and this is not subtle. So in my prepared remarks, if you go back and look at the transcript, we talked about in retail, in our retail force going forward, taking our -- the call, what are our hours going from and to, on a per store basis?

Michelle Mosier^ So from February 2023, we're going from [3,000] per store per month to about [1,500].

James Cacioppo^ Yes. So from February '23, right, from 3,000 on April 2, we're going to a budgeted hours versus sort of a person-by-person deal and managed by corporate, managed by the number of people at corporate to [15 hours]. That's a huge number. That plus, we're switching over packaging -- our packaging over the course of the year, and we started last year.

This isn't sort of new to us, but it's still on the newer side to us for sure. We're switching over to mylar which is quite competitive and widely used in more competitive markets like California as an example. And that savings, the Mylar savings plus the labor savings gets us over budgeted over $1 million a month of cost savings coming out of the system. And when I say over, there's room to fail to get to $1 million a month. So that's our expectations is over and we're being somewhat conservative based on just running the math.

So that's not subtle. That's not a [lever] in my view. And then the other thing that's going on that's very -- there's 2 other things going on that are very, very dramatic. One is we finally reached EBITDA positive of Virginia in Q4. And that's not -- it's not like intuitive how long -- how much you have to grow the business to get it there. Because remember, we put this GP in place.

We did the [second floor]. We just moved up to the second floor in Q1. We're -- all those, there's a lot of costs that go into that aren't capitalized. Getting these dispensaries operating at an efficient level, again, the number of patients in each dispensary.

Especially in the medical market typically loses money for 6 months in a pretty good medical market, right, before you get to your EBITDA breakeven. So getting that market, which grew again sequentially at 39% quarter-over-quarter to EBITDA positive. I mean, if you value us based on EBITDA, which nobody was as we didn't have it, but if you valued us, you're getting 0 value based on Virginia, which is our most valuable asset in my view.

So that's number two. Next, again, that's not a lever that is not subtle. That's big and it has momentum. Number three, and I think that probably has potential to be as big as 1 and 2 is the grower-processor ramp-up and efficiency drive. There's been a lot of leadership changes that grow our processors.

I personally am taking -- have taken, not am taking -- have taken in Q4 personal charge of that. So there'll be nobody to blame but me, the CEO, if we don't get to where we need to be, and I'm taking full, full responsibility for what goes further. And that means that we're running people hard, and we are -- have high expectations and there -- we are not messing around.

We have the genetics now, now we need the efficiencies. We need all of the facilities, and we're out there at some facilities at about 75 grams per square foot. We need high testing levels of between 20% and 30% of THC. And we are getting there. We need flower ratios of 70% or 80%. We're not there all of our facilities and have all our grow rooms.

We -- I expect significant progress, particularly in Q2, although I've already seen progress because GPs turned positive as far as I can tell so far in Q1 as a unit, and then -- and we're getting momentum throughout the quarter that goes into Q2. I think Q2 based upon the ramp-up should be where a lot of this starts to come together, but you're not going to get a full quarter of that coming together.

Q3, Q4, I would hope we're operating much closer to peak potential. If you were like a Tier 1 MSO that's been doing this (inaudible) years. So if you go back in your head, you think about the people who did Tier 1 stuff, how it took them to ramp up. I've talked to some of these CEOs, I sort of have a good sense of how this works, and we're on that track. 3 things that aren't subtle that aren't levers that we're working hard on and we have momentum in already.

Kenric Tyghe^ Great insights. And just quickly on California. Could you sort of speak to the performance of your operations in that market and we haven't actually touched on those yet? And perhaps also just your commitment and thoughts around the California market, please.

James Cacioppo^ Okay. So California is an operation that -- and we've done this in probably 3 or 4 places where you increase your EBITDA by decreasing your losses. And so we were very fortunate -- we were unfortunate that we spent so much time trying to acquire businesses in California. We were very fortunate that we didn't acquire very much. We acquired 3 businesses, and we won a license and we were extremely fortunate that they were all retail. So we're not in that whole grower processor that's where you just can't make money for the most part, as you know, from other MSOs.

And I'm sure there are some people making some money, but it seems to me that a lot of those people are selling to distributors. They don't know where that product is going. Hit hint, if you look at the 1,200 dispensaries in New York that are illegal, you'll find on the shelf tested California product. You will find tested California product on in illegal dispensaries in New York. On Madison Avenue in the '90s, okay? So my point is that's what's going on. And for people who are making money are probably doing it that way, right?

So for the retail dispensaries, we're basically running a round of breakeven business, plus or minus, it changes month-to-month, and we're looking at that business as -- we have people who would like to acquire our assets.

Obviously, it's a tough time to sell assets, and we're not necessarily selling the assets, but getting what I call a 4-pack plus a license in California retail is a pretty big deal. And these are nice markets, Santa Barbara, (inaudible) Beach. They're nice markets. It's not L.A., it's not San Francisco. And so I would say we likely go that direction. We learned a lot in California, and we would -- and that the real skill that we have in sort of not making the same mistakes twice.

Operator^ Our next question comes from Bobby Burleson from Canaccord.

Robert Burleson^ Maybe this is kind of, I guess, more broad. But if you look across your different geographies and what you're seeing with average basket and kind of consumer behavior relative to the price sensitivity, are you seeing any kind of leveling off or maybe even recovery in terms of some of the consumer trends that have acted as headwinds in 2022?

James Cacioppo^ I don't -- we don't focus on this so much because we're really, really focused on a ton of efficiencies on the cost side. But for us, we think it's been relatively flat. Our numbers -- because we've grown a lot like in Virginia, our numbers and the high margin as a company, we have to really dig in deep to our different states. Nevada is 1 where you've seen the market decline has gotten more competitive in Massachusetts. But the transactions have gone up and the dollars per transaction have gone down, and that trend seems to have stabilized.

I would say backing away from the way you're looking at it and other MSOs have had great comments on that. We follow that and it's quite similar to what they're experiencing. But stepping away from that, I would note like 2 green shoots, okay? Green shoots is a word that's a green shoot. It's not like cautiously optimistic. It's not like the trend has changed.

A green shoot is like something you're seeing that's kind of positive kind of new, right? We raised prices on some wholesale products in Nevada. [Flower One] is done, they're out, they're gone. (inaudible) I think they're selling the facility to a noncannabis company is 500,000 square feet, not fully utilized. But as an example of what's going on in Nevada. So there's some prices that we've raised there.

And then in Pennsylvania, due to ramp-up issues, we've had to buy bulk flower in Q1, and we might have our last bulk purchase coming up in the next week or 2. It definitely got a lot harder to get it at the prices we were used to.

We had to work real hard. We had to push around people based upon our retail sort of shelf space for their branded products. We were able to get the job done, but it was much harder in Q1 than it was in Q4 or Q3. So those are green shoots out there of markets -- to markets that people have some concerns about including us that where you see these green shoots, where things might be changing.

Robert Burleson^ Great. And then in terms of the kind of cost cutting and optimization work you're doing, are there states that you would call out as major beneficiaries of that effort this year where you could really see margin improvement. How would you kind of rank that?

James Cacioppo^ I would say it's system-wide, to be honest with you, it is just -- we're doing everywhere like retail, we run quite centrally in the sense that we run retail through a retail management system that's a national and so we have a national online system that services all of our retail.

We call it our biggest store BEYOND/HELLO online. And so -- but I would say that the techniques where we're taking 3,000 hours per store down to 1,500 hours per store, that's coming up starting in April, that's a national effort, okay. So the biggest things are national efforts.

In terms of the grower processor improvements, we have 3 big ones. So the ones -- and I would say the 3 -- the 1 Nevada was left was operating at a higher level. So that's a smaller one. It doesn't -- that's so material to our operations overall. But the 3 big ones, Massachusetts, Pennsylvania and Virginia are all ramping up. Massachusetts is out of ramp-up. It's an improvement story, okay? I don't want to get into it in too much detail here. You can ask questions about it, but it's an improvement story.

Virginia and Pennsylvania, we just finished these facilities. Yes, they took way too long as everybody else's will as well. And I will tell you that 1 of the things when you look at an operator like us in Pennsylvania, which would be a great state of [flip] to adult use, eventually and Virginia, which is definitely a great state will flip to adult use. We hope all this happen sooner.

But like these grow processors a lot more valuable than they used to be based upon inflation, based upon time, and like it just -- and it's just not so easy to do it as it was a standard or a lot higher. Operators like us and some of the large MSOs in the top 10, we're building world-class facilities. So a small operator coming building an inefficient plant in these already entrenched markets where we are, it's almost impossible to make that investment because you can't justify it. You're not going to be able to get down the cost curve.

So like when you're thinking about the market going forward in the newer markets where the MSOs put big investments in their plants are much more efficient and much more expensive to build. So I do believe that there's this sort of positive play in terms of assets in the ground are 2 major assets. The biggest assets in the company are still getting up to speed, and that's Virginia grower-processor at Pennsylvania grower-processor.

Operator^ Our next question comes from John DeCourcey from BTIG.

Jonathan DeCourcey^ One question [out of me]. I'm kind of surprised that it didn't come up more on the prepared remarks or anything else, but just wanted to touch on the Illinois kind of as we look to this year and particularly Q1, the Illinois drag from [Las Sales] to Missouri. A lot of your peers have talked about that being a big exposure. And I know the

St. Louis area has always been a real benefit for you guys. So what are you seeing there? How are you kind of mitigating that and kind of resetting expectations for this year for those related stores, assuming there is a drag?

James Cacioppo^ So we've really been focused on year-end here and focus on the fourth quarter and the actions we're taking on the cost side. So we haven't closed our books yet, and it was a mid-quarter kind of thing. So we don't want to get too aggressive in providing numbers. But I would refer you to the [Ascent] call, they did go through this for their business. And our business looks to be similarly affected as their business and we might have had -- because we're closer to St. Louis. We probably had a little bit more decrease, more reliance on Missouri.

I would say that net-net, they're still good stores and on their own operating today. And I would point out that -- and I think in Q1, we'll see the worst of it. Not -- we have 36 days of having no rec sales in Missouri in Q1, which will lose in Q2. But in terms of what happened on February 6, I think we saw the worst of it in early February for 2 reasons.

One, it was clear that the Missouri market, what surprised us on February -- in January, was February, I should say, is that they had so much product to sell. I think what goes on in these medical markets, when you know the prices are going up for a few months, you kind of -- you start hoarding your product. So I think there was some hoarding going on and to hit the market hard with a lot of product and which allows pricing to be probably better than it will sort of naturally get to.

Number 2 is we made a decision rightly or wrongly, who knows, not to react to it until we knew what it was. So the week we saw it happening, our prices were the same. We said, let's see what happens. Maybe they don't have product. I mean we just -- we're not in Missouri.

We don't have a lot of -- there's -- you can't just call it, but, yes, hey, how much product do you have? These are all private companies. And so what we did was we went to our vendors. We got appropriate discounts and their vendors have been very, very supportive because they like to sell their product, and there is product in Illinois. So right now, our stores offer more competitive prices after taxes than in Missouri.

And I'm reading things like live. You can go out and read these things. I have no more knowledge than you can get on Google that they're running out of product in Missouri and prices are either starting to go up or expect it to go up -- expect it to go up. So is what somebody just reminded me here. So that's what's going on. You can read that part on Google, and then our pricing is more competitive on an after-tax basis after sales tax basis and in Missouri right now.

And then remember, Illinois because it's a developed market has a much bigger suite of product especially in the quality end, right? I mean, it's not hard to go out and buy low testing flower, right, anywhere. And -- but to get higher testing, better [buds], better vapes, better gummies, more selection, wild and [tea], which will come to Missouri, all these different things.

So we have better selection and right now, better prices. And so we have a competitive strategy and we're monitoring it and we're on it. We've cut store labor in those stores quite dramatically, in half basically. And so we have a cost response and there's some lagging in that, too.

But I would point out that we -- what I'm focused on is going forward -- is moving forward, is we have a huge growth market. Virginia grew at 36%, 37% or whatever it was. I said it already in Q4 from Q3. So that will catch up and make up for that, right? So that will happen. And then we opened 2 stores, 1 in Cincinnati, which exceeded our expectations. It seems like a great store, 1 of our best door openings that is not in Virginia, and we opened Arlington, Virginia in January. So we have a -- and we're increasing our wholesale business probably on a year-over-year or Q-over-Q basis, it's increasing.

So we feel pretty good about sort of getting back to peak revenue post this thing. And we have another store we could open in Illinois in (inaudible). So we feel good about getting past -- going to peak revenue. I can't tell you which quarter it happens, but I think it happens this year and hopefully sooner rather than later. And again, we're not in the prediction business on this call.

And in terms of margins, I didn't answer somebody's call about margins. I would say our margins were focused on -- I look at the Tier 2 companies that are about our size and a little bit bigger in 1 case, smaller. I would say clearly in the 15% to 20% range, right? So I think that is sustainable and the 15%, 20%, and that's our target margin.

And when we get there, I can't tell you, but all I can tell you is me, the CEO, known to be somewhat aggressive and detailed oriented and very much in the data are very, very focused on achieving that number. So the sales will get back there. And unfortunately, we lost that. But -- and the margins were something I'm very, very focused on.

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

Glenn Mattson^ So can you just give us a kind of a comprehensive overview of what the various kind of what the access to capital is right now, basically like I know you used to have a acquisition facility that you talked about.

You can tap into that for things that were potentially nonacquisition related. Can you talk about what assets that you have that are unencumbered that you might -- could maybe put a mortgage on or that kind of thing? Or just give a general sense of like if you're looking to tap into the markets this year to raise capital, what are the various avenues and paths that will allow you to do that.

James Cacioppo^ Yes. We're very focused on that, obviously. So the deal that we -- so in terms of the acquisition facility, there's no acquisitions. There was no reason for us to pay for the excess. So we did away with the sort of facility -- the open part of the facility. And as part of the refi in Q4, we announced that, that's just a term loan now. I wouldn't even call it an acquisition facility. If the term loan that matures at the end of 2024, and we pay, I think, 11% on that.

And then it's a first lien. And so I'll get back to that. But the -- what the big unencumbered -- the biggest unencumbered asset we have is in Virginia. We have $70 million in the ground in our grower processor. We've been actively talking to financial institutions, including commercial banks, about capital and do that. And we are in documentation phase there. And so I don't want to say more about that.

The other thing I would point out to you is the employee retention credit program, which is a U.S. federal government program. We saw some of our competitors and partners. [Terasen] as an example and (inaudible) sand, and we know some others that have hit it to. And so we've done the calculations.

We think it's a significant influx of capital. Remember, it's not debt. It's more like it's a grant. So we feel great about that, knock on wood. We've done all the work and the timing, we don't want to get into that because there's other -- there's ways to speed that up, that costs a little bit of money. So that's -- that would be a nice chunk of capital. I would look at like Terasen and what they got.

And I would say we were probably smaller than they were, at the time, when you go back to the period you look at, which is 2019 and 2020 -- in the past years, we were probably a smaller company. We don't have access to the internal data, but I would look at kind of what those guys got. And so that's what we're shooting for is that kind of money, maybe on a smaller level.

And then lastly, we do have assets that are noncash flowing assets since we're focused on free cash flow and margins. And we have noncash flowing assets that -- and we own a lot of real estate in our smaller assets that we can sell as real estate or to a cannabis company including -- we talked about those California dispensaries, that's -- I don't think that's (inaudible) term. I'm just -- it was brought up on the call already. So that -- I think that's something you might see a continual sort of small deals over maybe a 12-month period. We have Ohio facility that's unencumbered and that's not for sale. So that would be 1 that we would look at financing.

And there's always little things here and there in our system that we (inaudible) We have capacity to go to [$150 million] second lien warrants were priced at a [25%] premium to market. At some point, that's going to start to look very attractive. We could take it to $140 million.

And the first lien is right now only $65 million. I would point out that it has a licenses of Virginia and Pennsylvania on a first lien basis, very protected piece of paper. At some point, when the capital markets come back, that should be the easiest part of the capital structure to refi because [you're] safe, very, very safe and control. A lot of these lenders like control as well. So we feel good about our capital structure, but [we don't feel] good about our EBITDA margins, and that's what we're focused on.

Operator^ Next question comes from Ty Collin from Eight Capital.

Ty Collin^ I'll keep it to 1 because I know we're tight on time here. Jim, I just wanted to clarify your comments around M&A in 2023. I think it was just last quarter that you were talking about potentially picking up retail assets in Ohio and Illinois. So I just want to clarify if that's firmly off the table now? Or would you still consider acquiring something very opportunistically in those markets?

James Cacioppo^ Yes. I think last call was probably -- last quarter was probably in November, yes. So that was [pretty] safe banking going to the [west] side. Our stock is really a lot higher. We thought that -- I mean maybe we were being optimistic, but we were in the process. We had a lot of -- we felt that was more than a possibility that we felt like it was a decent probability that, that could happen. Under that scenario, we had a growth plan in place. We tore up that growth plan and put it in the trash can and any employee associated with the growth plan is no longer with us.

So we are not doing acquisitions until we are pretty cash flow positive. Our stock is too [low], cost of capital is too high and that's just what -- it's not even a consideration. I'm not doing deals. Now there are deals associated with licenses, like you can get licenses in states like New Jersey, and we have partners we're working with. We have things like that, that aren't capital intensive, but we -- we'll see some growth but those are more likely things you might put in place in '23 where you might see something at '24.

So we have a growth strategy. But remember, with Virginia, we have a state where we have production capacity, plus we could add another grow room for like [$1 million or] something to get to $100 million of sales, assuming we don't do any wholesale purchases or sales.

That's just through our retail network and our product going through our retail network. That's a lot of revenue compared to where we're at. I'm just telling you the capacity of our system at pretty close to current prices in the market, right? So the money for us is focusing just on that and getting margins in place. And I find acquisitions that won't give you any cash flow relative to what you pay out for until '24, '25 unappealing.

Operator^ Our last question will come from Andrew Semple from Echelon Capital Markets.

Andrew Semple^ I will also just ask 1 here. I just want to touch on the $5.5 million of inventory adjustments that were added back to this quarter. Just wanted to, first of all, make sure we're understanding this correctly. So could you maybe walk through what those items were. Secondly, would you expect these impacts to bleed into Q1 because we're seeing any other operators signal that might be the case. And then would the expectation be that kind of Q2 should be fairly clean from this perspective?

James Cacioppo^ Andrew, this is a fairly detailed question. We have some notes. I'm going to ask you to call if you don't already have a call this afternoon or this morning with our team, I'll be on some of those calls and our CFO will be available, Michelle.

But I would ask you to get more in detail. Inventory is a very frustrating item for cannabis companies and it shows up for us a certain way because of our size, it's more material, and we have to report this. But we'll take you through that privately.

Operator^ We have no further questions. I would like to turn the call back over to Jim Cacioppo for any closing remarks.

James Cacioppo^ Great. We appreciate everybody listening in this morning, getting up early to follow Jushi, and we're looking forward to delivering some great results and we thank our team. We have a great team throughout the network both in the growth processors and retail and all stepped up.

I gave an example of our Virginia manager doing some great things, and they're getting involved in the efficiencies and we couldn't be more proud of what they do for us. Thank you very much.

Operator^ This concludes today's conference call. Thank you for your participation. You may now disconnect.