VIAVID
communications simplified.

Jushi Holdings, Inc.

Second Quarter 2023 Earnings Conference Call

August 11, 2023

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

Lisa Forman, *Director, Investor Relations*

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

Michelle Mosier, *Chief Financial Officer*

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

Bobby Burleson, *Canaccord Genuity LLC*

Russell Stanley, *Beacon Securities*

Frederico Gomez, *ATB Capital Markets*

Andrew Semple, *Echelon Capital Markets*

Ty Collin, *Eight Capital*

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

Operator

Good morning. My name is Melissa, and I will be your conference Operator today. At this time, I would like to welcome everyone to the Jushi Holdings, Inc. Second Quarter 2023 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, and thank you for joining us today on Jushi's second quarter 2023 conference call.

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

This call is also being broadcast live over the web and can be accessed from the Investor Relations section of the Company's website at ir.jushico.com.

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

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

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

I will now turn the call over to Jim.

James Cacioppo

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

This morning, I will provide an overview of our second quarter 2023 performance and operational achievements. I will then turn the call over to Michelle to review our financial results in more detail before opening the question-and-answer period.

First, I'll begin with a summary of our top line results. Revenue for the second quarter of 2023 was approximately $66 million. The reduction in total revenue of approximately 9% year-over-year and 5% sequentially, was primarily due to lower retail sales as a result of the closure of three underperforming stores, exit of lower margin wholesale business, and market compression in competition in Illinois, Nevada, and Pennsylvania, which Michelle will expand on later. Specifically, Illinois sales declined approximately 20% sequentially and approximately 40% year-over-year. The Illinois sales decline was primarily attributable to adult use in Missouri. This was offset by new dispensary openings in Virginia and our newest vertical market in Ohio.

Our wholesale revenue continues to expand, growing over $1 million year-over-year. This was driven by various operational enhancements made over the last year, which have significantly increased efficiencies and production levels at our grower processor facilities in Massachusetts and Virginia. On that note, Jushi branded product sell-through grew to approximately 47% of total retail sales across our five vertical market in comparison to 32% in the second quarter of 2022. We again attribute this progression to improved product quality and increased activity at our optimized grower processor operation.

As communicated widely across the industry, revenue will continue to fluctuate as macroeconomic challenges persist. We expect to offset the impact of this with several upcoming catalysts in our core markets. This includes the opening of our Woodbridge, Virginia dispensary, the launch of competitive, higher margin products, and pending regulatory changes in Pennsylvania, which I will speak more about later in the call.

Q2 gross profit increased by approximately 15% year-over-year to $31 million. Our gross margin grew to approximately 46%, compared to 37% of revenue year-over-year. Although we experienced tremendous margin growth in the second quarter, we hope to maintain these margins and continue to grow them over time with sustained cost control, Company-wide optimization efforts, increased sell-through of our branded products, and launching new higher margin products, as well as other efforts.

In the second quarter, operating expenses were reduced by approximately 30% year-over-year from $39 million in second quarter of 2022, to $27 million in the second quarter of 2023. Most notably, in the second quarter of 2023 Adjusted EBITDA was $13 million, an increase of approximately $12 million year-over-year and approximately $5 million sequentially. Additionally, we achieved an Adjusted EBITDA margin of 19%, surpassing our internal target of 15%.

For the remainder of the year, one of our key focuses remains on growing our gross margin by continuing to streamline labor through process efficiencies, improving production yield, product potencies, and quality, as well as reducing other related production costs such as packaging material. With new store openings, more focus on consumer and store traffic and better pricing information, including localized pricing, we expect to increase foot traffic and retail revenues.

I'll now provide a brief update on our cost savings and efficiency optimization efforts across our footprint. At our grower processors, we have achieved the desired production to meet current demand and have the flexibility to expand our current scale as needed. Our costs continue to go down. Additionally, our plant yields and potency levels continue to improve across our footprint as operational upgrades are expected to continue into the second half of the year and are expected to help grow revenues and increase profitability.

At the beginning of the year, we switched over to a more sustainable cost-effective Mylar-based packaging across our major brands, which is expected to reduce Jushi's carbon footprint. This has resulted in cost savings of approximately $1 million in the second quarter of 2023, with an expected future run rate of savings of at least $1 million per quarter. Additionally, we expect larger savings to be realized as the new packaging continues to be vetted throughout our product.

Next, our optimized retail hour labor model continues to take hold and has driven significant savings. After just one quarter, we achieved over a 50% reduction of retail labor hours relative to last year's peak, following the implementation of the model in Q2 of 2023. Our overall headcount has been reduced from approximately 1,570 employees at our peak in 2022, to approximately 1,160 employees as of June 30, 2023. We have made significant progress in reducing our operating costs by approximately 30% year-over-year with a notable reduction in labor and employee-related expenses, including a reduction in share-based compensation as a result of our lower stock price.

Our streamlining of labor is nearly complete, although some of the cuts will flow through in the third quarter. Any further reductions are expected to be through attrition as opposed to reductions in force. With rigorous cost controls and robust operational discipline, we believe we are positioned to achieve our goal of generating positive operating cash flow within the next few quarters.

Moving ahead, I will walk through our operational achievements across our core market footprint for the second quarter of 2023 and going forward. Beginning with Virginia, we are gearing up to open our sixth medical dispensary in the State, in Woodbridge, before the end of the month. Virginia continues to lead the increase in our online reservation orders on our BEYOND/HELLO e-commerce platform as patients in the state have shown their preference for convenient pickup and delivery services. We continue to see an increase in the total number of unique patient visits within Jushi's exclusive retail service area.

As of July 21, we had approximately 27,240 total number of unique patient visits at BEYOND/HELLO dispensaries in our Virginia footprint. As for sales being impacted by Maryland going adult use, we are not seeing a similar impact as we did in Missouri affecting Illinois sale. Our main competitor continues to be the illicit market where products are not regulated or tested for consumer safety. Our grow processor operations in Virginia continue to improve but are still below our desired production goal. Through bringing on more grow rooms under the existing warehouse and improving yields, we could significantly increase production capacity as market grows. Bringing online additional available capacity will continue to be evaluated based on market demand.

As the fall election approaches in Virginia, we are optimistic about the historic turnover of approximately 30% of Virginia State Senate members and approximately 40% of the Virginia House of Delegates retiring ahead of the November election. The November elections will mark a generational shift among legislators and will have the potential to reinvigorate discord around the enactment of long-awaited policy changes in the State's cannabis market.

We are launching an array of new products in the back half of the year. We meet our tiny expectations, which is always a challenge due to required regulatory approval. We will launch 13 new products during the second half of the year. In a recent survey, our patients noted more product selection is what they want. We are well down the road of delivering these new SKUs, which should drive sales and margin growth in this nascent market. I will discuss some of our Company-wide new product developments in a few minutes.

Next onto Pennsylvania, two of our recently closed dispensaries are being relocated and are specced become operational at new locations in 2024, one of which is under construction and should be open in Q1 of 2024. Our deep knowledge of the market has enabled us to identify prime locations to grow and optimize our BEYOND/HELLO retail network.

At our grower processor in Scranton, Pennsylvania, we have dramatically improved product yields, potency, and other quality metrics, but we are still running below our desired plant yields as we ramp up. Deal growth will allow us to grow our production with the market and take down some older, less efficient grow rooms. Eventually, we will renovate these rooms in a high ROI fashion when Pennsylvania's adopts adult use legislation.

We are incredibly encouraged by the positive momentum surrounding the bipartisan Adult Use Bill under active consideration of Pennsylvania. The Bill is very middle of the road and allows medical cannabis operators, such as Jushi, to add adult-use operations to their existing operations. The Bill's bipartisan co-sponsors are committed to seeking pass this year with public backing from Governor Shapiro and Committee hearings are being targeted for the fall.

There is tremendous support from Pennsylvanians, demonstrated by various grassroots campaigns and polling results showing that over 65% of residents support legalization. It is expected that the impact that the nascent New York and strong New Jersey adult use markets have had on Pennsylvania will be mitigated with the passage of this Bill and the current industry is well equipped, ready, and eager to serve a new demographic of consumers in the commonwealth.

Moving to Massachusetts. Progress continues to be made on our Optimization Program at the Lakeville facility, which underperformed in 2022, relative to expectations, due to unexpected facility and process issues. As discussed on the last call, we have enhanced leadership and have implemented an aggressive set of performance goals to strengthen performance and satisfy safety standards across the facility. Our landlord is completing a significant upgrade to the building mechanical this summer per a negotiated settlement. These building improvements should allow us to get closer to our operational performance target.

On the cultivation side, we continue to make progress with increased yield and potency. There is a robust product innovation pipeline in the works, which has led Jushi's national innovation on new products, as Massachusetts, it's an easier market to introduce new products. Larger format dates and infused products have been a big hit with our customers as they get more value for each dollar spent, which they really appreciate in these tough economic times. With these new products, we can deliver better value to our customers, while improving our margins.

We still have various new products expected to be launched in the back half of the year, including additional (inaudible) formats under the Lab brand, which were initially introduced to the market in July. Increased efficiencies and savings are expected to be realized in the coming quarters, including the significant impact from our new sustainable packaging I detailed earlier, as it continues to be implemented in these operations.

On the brands and product front, we are thrilled to be closer to reviewing our anticipated premium Hijinks brand across several states in the second half of the year. Hijinks is a new line of product curated to meet the diverse needs of all types of cannabis consumers. Hijinks will boast various strains of premium flower housed in unique packages designed by local artists and Jushi team members, meaning not one package's branding is designed like the other. The brand places an importance on each consumer's experience above all else by having limited and select genetics with unique qualifications, as well as high cannabinoid and terpene content that is harvested, processed, and handled by hand.

Through an annual donation, Hijinks will support the building and restoration of water wells across the world as part of Jushi's existing partnership with DROP4DROP, an international organization with a mission to provide clean water to those in need. Hijinx will be our premium flower brand. The restructured Bank will be our mid-tier flower brand, and our popular Seche is our well-performing value flower brand that houses all of our new infused products.

Another big launch is the Seche Fine Grind, our line of high potency value-focused pre-ground infused flower and pre-roll recently launched in Q1 in Massachusetts. We are already seeing strong sales in our Massachusetts dispensaries. It is our number one selling product on our Massachusetts menus with above-average margins for Jushi in that market. We look forward to launching these products in our Pennsylvania and Virginia stores.

In the coming quarters, we are focused on expanding margins and increasing our market share with a strong lineup of new and competitive products. In addition to the launch of Hijinks and Seche Fine Grind, we expect to roll out several new products from our core brands across our footprint. Specifically, we will be launching four new products in Massachusetts, which has led the Company with three new products in Q2 of 2023. We expect to launch nine new products in Pennsylvania and 13 new products in Virginia across our brands in the second half of the year. Many of these new products, like larger vape cartridges and infused products, offer better value to our customers and better margins to Jushi.

Other products like concentrates in Virginia, further enhance our in-house product menus, which should help drive a higher percent of Jushi-branded product sales. In a nascent market like Virginia, we hope these new products drive customer traffic.

Before concluding, I will provide an overview of the initiatives we have undertaken to strengthen our financial position and optimize our capital structure. In the second quarter, we amended our 12% second lien note and detached warrants issued in connection with the December 2022 financing. The amendment removed the requirements that we offer to repay the notes on a change of control of the Company.

Just after the second quarter, we began amortizing and paid down approximately $2.4 million of principal on our first lien debt with Sunstream Bancorp, Inc. with the same equal quarterly payments continuing until the final maturity in December 2024, at which point we are required to make a final payment of $50.4 million at maturity. Additionally, we are anticipating a refund claim for the employee retention tax credit, ERTC program, which we submitted in the second quarter of 2023, which should result in a cash refund of up to $10 million. In addition, we are in the process of selling several non-cash flow generating assets, as well as closing on a small mortgage on unencumbered real estate.

In total, we could potentially generate between $5 million to $10 million in potential proceeds over the remainder of 2023, which we will expect to use to pay down debt. The higher end of the range should become more achievable during 2024, given regulatory requirements and other potential timing risks. Finally, as Michelle will expand upon, our lease liability has been reduced as we have updated certain lease renewal assumptions.

To wrap up, I'm incredibly pleased with the strides we've made in strengthening our business since the beginning of the year. As an organization, we are confident that we have strategically identified the initiatives that must be aggressively executed to generate long-term, reliable profitability, with our continued focus on optimizing margins. In terms of revenue growth, I would note we are increasing our dispensary base by about 10% in 2023 and 2024, through developing existing licenses in Virginia and Pennsylvania. We have the ability to increase production at our grower processors in Virginia and Pennsylvania to meet any growing retail or wholesale market needs.

In addition, Jushi is in a very unique situation in the industry where our large footprint in Pennsylvania and Virginia, including one Ohio store, means that 25 of our 35 store licenses, excluding California, which represents approximately 71% of our retail stores, will likely flip to adult use at some point in the next couple of years. Our cultivation assets in these states are not only our largest, but also the most expandable, as well as being some of the most up-to-date and technically advanced in the country.

We are working diligently to make adult use markets happen sooner or rather than later in both of these states. Missouri, New Jersey, and Maryland provide analysts with comparable data to come up with scenario analyses that should demonstrate the strong growth we can achieve under these assumptions. If just one of these states flip to adult use, Jushi would be well positioned for industry-leading growth and profitability, and we expect the incremental revenue should have much higher margins than existing revenues given the embedded operating leverage in the business.

Given the upside in our business and current market conditions, we have no current intention of acquiring any significant assets at this time and are focusing on profitability and debt reduction. Because of our concentrated footprint, Jushi should have many strategic options once the capital markets normalize in our industry. Our current strategy is to focus inward and pursue a significant M&A transaction at an opportunistic time after capital markets normalize.

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

Michelle Mosier

Thanks, Jim, and good morning, everyone.

As Jim mentioned, revenue in the second quarter was $66.4 million, compared to $72.8 million in the second quarter of prior year. The year-over-year reduction in revenue was driven by lower retail sales due to the closure of three underperforming stores, and also due to market compression and competition in Nevada and Pennsylvania.

Missouri recreational sales continued to impact retail revenue at our two bordering Sauget stores in Illinois. However, in response to this situation, we implemented several initiatives, including optimized promotions and diversified product selections that are beginning to take hold and are expected to continue to lessen the impact on Illinois sales in the back half of the year.

Wholesale revenue increased $1.3 million year-over-year, due to continued operational improvements and increased efficiencies at our grower processors in Massachusetts and Virginia. The gross profit was $30.6 million or 46% of revenue compared to $26.7 million or 36.7% of revenue in the prior year.

In addition to the realization of the benefit from the efficiencies at our grower processors in Massachusetts and Virginia, the increase in gross margin was also driven by growth in Jushi-branded product sell-through, reaching nearly half of total retail sales in the second quarter across our five vertical markets, as compared to approximately 32% in the second quarter of 2022. The increase in gross margin was somewhat offset by market price compression and competition in Illinois, Nevada, and Pennsylvania.

Operating expenses were $27.2 million or a decrease of approximately 30%, compared to $38.7 million in the prior year. Continued efforts to rightsize the business, such as the implementation of a budgeted retail labor hour model and a decrease in share-based compensation, reflecting our lower stock price, as well as forfeitures of unvested equity awards, contributed to the decrease in operating expenses.

Our net loss was $14 million for the second quarter, compared to net income of $12.1 million in the second quarter of 2022. For the second quarter, Adjusted EBITDA was $12.6 million, an improvement of $12.1 million, compared to $522,000 in the second quarter of 2022. Sequentially, Adjusted EBITDA increased $5 million, compared to $7.6 million in the first quarter of 2023.

Moving to the balance sheet, we ended the first quarter with $32.1 million in cash, cash equivalents, and restricted cash. In 2023, we expect total commitments for capital expenditures to be approximately $10 million to $12 million, of which the majority is for maintenance CapEx as a substantial amount of our expansion projects in Pennsylvania and Virginia were completed last year. As of June 30, 2023, we had approximately $229.4 million in principal amount of debt outstanding. This excludes leases and financing obligations for property, plant, and equipment.

In April, we closed a $20 million secured commercial loans with FVCbank. The loan has a five-year term and is principally secured by a facility located in Manassas, Virginia. It bears interest based on the 30-day average secured overnight financing rate, plus 3.55% and a floor interest rate of not less than 8.25%.

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

In addition, there's $3.3 million on our balance sheet due to Jushi Europe, a liquidating Swiss entity, where we have no obligation for these debts. Accordingly, our total debt currently subject to scheduled repayments is approximately $205 million. Finally, in June due to the evolving market conditions and changing demographics, we reassessed our previously classified real estate finance leases and removed certain option renewal periods contained in the leases. As a result of this reassessment, certain leases were now considered operating leases instead of financing leases.

The impact of the reassessment was an aggregate decrease in finance lease obligations and related right-of-use assets of $45.8 million and $42.3 million, respectively, and an aggregate increase in operating lease obligations and right-of-use assets of $8.7 million and $5.3 million, respectively. In connection with the change from finance to operating lease, our depreciation related to right-of-use assets and related interest expense will be lower after the change and the rent expense will be higher. The expiry dates of the leases, including estimated renewal periods, are between 2023 and 2043.

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

James Cacioppo

Thank you, Michelle.

As always, I would like to thank everyone who joined the call today and our dedicated employees for their tremendous hard work and passion. We look forward to continuing to update you on our progress as we enter the back half of the year.

Operator, please open the call to questions.

Operator

Thank you. At this time, we'll conducting a question-and-answer session. (Operator Instructions) Thank you. Our first question comes from the line of Bobby Burleson with Canaccord Genuity. Please proceed with your question.

Bobby Burleson

Hey, good morning. Thanks for taking my question. Curious on the EBITDA margin surprise, you guys are ahead of your plan there in terms of your internal plan in terms of margin percent. I'm just kind of curious what the sources of that faster-than-expected progress were kind of by order of magnitude?

James Cacioppo

Thanks, Bobby. We spent a lot of the conference call going through what we thought drove our margin accretion, the additional margin. I'm not necessarily putting these in order, because I don't have that level of detail in front of me. The important factors are the operating efficiency gains at the grow processors. When you grow more yield on the plant that you're really tending to the plant with the same number of employees. When you grow more biomass or flower content on that plant, it generates more revenue at the same cost, a variable cost, and the fixed cost—addition on the fixed costs as well.

I think improving plant yields is a very important factor, in addition to generating higher quality product. Because your pricing structure is high, mid, and low pricing with a value component, and we have different brands to represent those different price points, and higher quality product flows to the mix higher into the higher price product points. That is a very large component improvement at the grow processors, as I just outlined.

In addition to just the yields and potency, we also gained a lot of labor efficiencies by just operating more efficiently, looking at processes and looking at hours that we're putting into a particular task. Just better nuts and bolts operations in doing that. There's really two big factors there at the grow processors. This is something that's gone on for six months or more, but you really just start to get those as the grow rooms, which have an eight-week cycle, plus it takes about 30 days to get it into packages, cost start coming down. That happened in the second quarter, where you have the better labor content and the better flower yields and potency. That's a big factor there.

Then the second big factor is the retail cutting to budget labor hours. I believe we started that on April 2. We had put in, over the previous six to nine months, a much larger component of part-time employees versus full-time employees, which allowed us to go to this budgeted model. Then you sort of flip over and go to a budgeted model, meaning corporate tells everybody what they're allowed to use labor hour wise. We flipped over and have worked very well for us.

Michelle, do you have anything to add to that?

Michelle Mosier

No, Jim, I think that covered the key factors.

Bobby Burleson

Great. Just for my follow-up, curious on, obviously, there are some headwinds here, but you've got this better pricing expectation. I think a lot of it's driven by the 13 new products that you plan on launching. I know some of that is constrained by whether or not—just going through the whole regulatory process there can be a little uncertain timing wise. I'm wondering whether or not kind of waning inflationary pressures on consumers might create some indirect benefit on pricing.

James Cacioppo

Yes. We're not going to take that bet when we're operating the business. We're going to assume the consumer is in a difficult position. We're going to assume that until we see that—we see them act differently. We're not going to try and guess if they're going to go better. Just to your first point, getting more price—more margin, excuse me, in products is kind of—right now, I think the consumer is kind of fulfilling the pinch. You see this in non-cannabis companies. If you follow people like Walmart, Dollar General, they speak to the consumer. Airlines are talking about consumer, where the consumer is, most companies are seeing this, and talking about it.

I believe that it's a cycle that we're sort of right in the middle of. I don't know if we're at the tail end, and we're going to keep operating that way. As we turn out these new products, the biggest part of the new product push is adding SKUs that are popular, obviously, and people want to buy. People are looking for more bang for their dollar, and infused products, it's a way to give them that, where you're using some of your lower quality flower and infusing into that some of the products you gained from solvent lift and hydrocarbon production.

For us, we could offer really well-priced potency, while also increasing our margin, because it's lower quality flower that we're adding to sell at lower prices. That's an example. Another example is a large-format vape, like a 1 gram vape, the consumer is—would have been a 0.5 gram vape before. You're offering twice the amount, in the same product. Our cost of filling a 0.5 gram vape, and a 1 gram vape, are quite similar. It gives us more margin and gives them a much better value. We can share that productivity pickup. Those are two examples, but that just keeps going throughout what we're doing.

Hijinks, which is our premium flower brand rollout, we were very disciplined about waiting on doing that, preparing for that. That's just us being at the level of Jushi growing into the level of quality that folks at the highest levels in the industry, and you know who some of those folks are, have had in their portfolio. That's just us gaining that part of that market where we haven't played. You're basically charging $5 more an eighth for that product in that premium segment than you would sort of in the middle tier segment.

That adds more margin in sales dollars. That's the strategy. That's us being able to deliver those kinds of products because we now have these high-tech sophisticated grow processors that can deliver that and turn that out, and now we can move more aggressively into those segments. Of course, in these vertical states that we're in, our retail channel provides us a very captive market to sort of understand what the consumer wants, and to deliver that immediately to a large segment of the consumer, so we don't have to rely on wholesale.

Bobby Burleson

Understood. Thanks for taking my questions.

James Cacioppo

Thank you.

Operator

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

Russell Stanley

Good morning, and thanks for taking my question. First, just around operating cash flow. I think in prior quarters, you talked to a Q4 target and maybe I'm reading into the press release wording a little too much, but say, within the next few quarters, is there an outside chance of getting there in Q3. Am I seeing that correctly?

James Cacioppo

Yes. The other way to read it is maybe it flips into Q1 of '24, a few quarters as opposed to a couple of quarters. We noticed with the EBITDA margin uptick that it's harder to predict. These are long-term things we've been working on for a number of months. It's really hard to predict when they flip. There's a lot of puts and takes in the quarter from an accounting standpoint and from like an accounts payable standpoint. For example, one of the things that might have prevented it in Q2 this year is we had these very, very large CapEx projects given the scale of the Company in Pennsylvania and Virginia running simultaneously.

These kinds of projects on the grow processors are the kinds of projects that the largest companies in the industry are doing, we're a much smaller Company. As we finished up those projects, there was some negotiations with the vendors, particularly the contractors, on the final bills and stuff. Some of those flow through chunky in Q2 and maybe, probably, Q3 as well. Those are things that you just can't judge the timing of. It's not smooth.

I think that's why we want to just broaden out the range as opposed to pinpoint. It’s not really because we've changed our feeling. It's because I think Q1 to Q2 proved the chunkiness of things that happen and how it's hard to predict that when you're right on the edge. I think the important thing is as we roll into 2024, whether it happens in Q3, Q4 or Q1, there should be a machine here that can generate what we need to generate in operating cash flow.

Russell Stanley

For my follow-up, congrats on the improved sell-through at almost 47%. I think I've asked this question before, but just wondering what your latest thinking is as to where the effective max is in balance optimizing margins against ensuring you have the variety to drive traffic? Thank you.

James Cacioppo

Yes, thank you. Yes, I don't think we're at our max at all. I think the big ability to get there is really having the SKUs from Jushi grow processors in every category. If you look in Pennsylvania, where we have hydrocarbon and we have solvent lifts. We can have all those concentrated products, all of those new maybe rosin gummies, and we don't have all that stuff. We should be able to, in Pennsylvania, take it from much higher levels, because we have sort of every SKU. We have the ability to do every SKU we don't have every SKU. I think it's going to take us—we'll grind there in Pennsylvania over the next 12 months.

You have regulatory considerations of sort of getting it through the regulator. Then you have some changes needed by regulators for things like pre-rolls that they don't allow, for example. I guess nobody has those, but that would probably drive the market size. In Pennsylvania, we're not where we need to be in terms of delivering a full menu of Jushi products, even though we have the facility that can do it, but we'll get there over the next six to 12 months.

In Massachusetts, we're pretty far along on that. We have much fewer SKUs to add to our menus, and we're operating at a much higher levels than 47%, in Massachusetts, of Company products in our stores. We see in Massachusetts, to how far we can take this, and we're much lower in Pennsylvania. Then Virginia, Virginia is a pretty—we're pretty high as a percent, because it's a nascent market, and there's only three producers. We're pretty high. But there's Virginia, the new products, what customers want, I think that can help drive revenue growth more than anything else, because they really want new form factors, and they want the full array. We're in a position to give that to them.

Again, I think the biggest timing risk there as we roll these out one at a time is going to be just getting regulatory approval.

Russell Stanley

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

James Cacioppo

Thank you, Russell.

Operator

Thank you. Our next question comes from the line of Frederico Gomez with ATB Capital Markets. Please proceed with your questions.

Frederico Gomez

Hi, good morning. Thank you for taking my questions. Just you mentioned selling non-cashflow generating assets. I'm just curious if you can give some color on those assets. You also mentioned that a potential additional mortgage. Would that be in addition to the $5 million to $10 million you're looking to get for those assets? Or is that included in that sort of guidance? Thank you.

James Cacioppo

Yes. That mortgage is included in that, to answer your second question. Yes, and I would say the $5 million to $10 million is an amalgamation of some retail businesses that we closed down and some grower processors where we have excess capacity. We own the real estate. Then we have some land that we've acquired where we thought we put a grow processor in a state where we obviously don't need it. It's actually permitted for that, but we believe the better use of that land in that market is actually non-cannabis related.

Some of these sales are going from us to non-cannabis folks as real estate. Others have a use in cannabis. We have a grower processor in a state where there's interest from other cannabis companies. I'm not sure where we are. I don't want to go into that exactly anyway. There's a mix of all these things, and there's a number of transactions that are retail and grower processor and land oriented. Then what it doesn't include are larger, which could add to it, but our larger—we have some nonstrategic dispensary that—where we could sell that. We would take a small hit; I think would be accretive to us if we did it. It would be a good sale if we did it for the Company, but we're not actively doing that, but we have people call us from time to time interested in it as an example.

Then, there's also a smaller state where some people might be interested in our operations. There's lots of ways, but we're actively considering that $5 million to $10 million bucket evaluating interest in that. But there's a number of these assets, these ones in particular have no cash flow generation to the Company. It's really ideal because it's easy to analyze for you. That's just money that's going to flow in and sort of clean up our footprint.

Frederico Gomez

Thank you. That's great color. Then on Pennsylvania, you mentioned price compression. I think we had some other operators mentioning price compression as well, but they're seeing a potential stabilization of that market. Are you seeing a similar trend? Would you expect some sort of inflection point for prices at this point?

James Cacioppo

Yes. I would say, for us, again, I'm going to caveat this by saying that I don't have the numbers in front of me. I'm not looking at stuff, but this is going by my feel of the business as somebody who's very involved in the business. It feels to me like it's really on the edges right now for us. We might have one product here where we're off or there's a company running out there with an outlet model, and you sort of see—they open up close to one of your dispensaries you sort of see some customers go over to their facility.

It's on the edges as opposed to across the board. It's not at a largely unhealthy level. Then you have New Jersey with a big order in Pennsylvania, where we could be losing business to that. I think when you step back from it all and say, where is the industry in Pennsylvania, I think if you talk to some of the large—because we have relationships with these folks—the large MSOs, people have pulled back grower processor capacity in the state.

Some of them have less efficient Gen 1, Gen 2 rooms and they pull back grow capacity and waiting for adult use, because people had really built that for adult use. Or they haven't put it back on. They never put it on. I think you see the industry acting in a disciplined manner waiting for the adult use, which is very, very important.

I think that's relatively across the board. There's a few people who aren't as focused on Pennsylvania, but most of the MSOs are focused on their profitability and not and some of internal sales. You're not really doing anything but hurting yourself anyway. I think there's some pretty good discipline out there. Then I would also add to that, there's some independent grow processors. I think they sort of run through what they could do. I think they're at where they're at. There's no more additional capacity coming on there. I think you'll continue to see drifts primarily, because a lot of states around it flip to adult use. The program is not growing, particularly.

Then the consumer in Pennsylvania, if you look at Pennsylvania state and the economic pushes and takes, it's not a coastal state and there's a lot of working-class people. This inflation kicks in there more, I would say, immediately to the consumer than in a place like for us Virginia, Northern Virginia. I think I would look at that as well as Pennsylvania. You're probably—I had one other question this morning from somebody about how this inflation could be ending. If you think that's going on, it's State like Pennsylvania is where you see that effect more immediately.

Frederico Gomez

Got it. Thank you very much.

Operator

Thank you. (Operator Instructions) Our next question comes from the line of Andrew Semple with Echelon Capital Markets. Please proceed with your question.

Andrew Sample

HI, there good morning and thanks for taking my question. Jim, in the prepared remarks, you mentioned exiting some of the lower margin in the wholesale business within the quarter. Just maybe looking for some additional details around that. Did this involve branded products that weren't selling well? Or did this involve scaling down one state or two states in particular? What would you say would be the magnitude of these lower-margin wholesale revenues that you exited within the second quarter? That would be helpful.

James Cacioppo

Yes, it's a lot of factors that go into what we're doing to increase margins and focus on more profitable sales and less risky sales. This basically refers to a number of things we've done over the last six or nine months for different reasons, to buy stuff bulk, whether it was bulk trim or bulk distillate or bulk flower and where we process it and package it. You might get some really good bulk sales, really good print on some purchases and stuff like that.

One market in particular that really inspired me for this comment, where we had a pretty large business, where we were buying bulk trim, processing it, and then selling it as distillate. I just thought it was like picking up nickels or dimes in front of a freight train, given the volatility in the markets and the potential to get it wrong in terms of where pricing actually are. Pricing can move down a little bit more than—a little bit and then you lose that margin.

Then it just gets into a lot of credit risk out there because lots of times of people you're buying bulk from, maybe some of the smaller folks who don't have as much access to credit as they should. You're taking credit risk. I looked at it more like picking up nickels and dimes in front of freight trains for the most part. We just exited that strategy. It's kind of, it's a risk reward, you can easily give up a tight margin.

Andrew Semple

Got you. Understood. Then apologies if I missed this, but on the three stores closing in the quarter, I would assume that two of those are the two Pennsylvania stores that are currently or just temporarily being relocated. Where was that third store location? Is that a permanent closure or a temporary closure...?

James Cacioppo

That one is—yes, it's California and it's one of the assets that are being sold off.

Andrew Semple

Is that being permanently closed or sold or…

James Cacioppo

Life’s long, there's a lot of changes going on in California. I heard there was a complaint about one of the largest companies in the industry that they exited California. Listen, California, the prices are improving. It could change. But right now, we have people interested in buying it. It's not our strategic focus. For Jushi, in your forecast model, we will not be opening that, let me put it to you that way.

Andrew Semple

Great, okay. Thank you, that’s very helpful. I’ll get back into queue.

James Cacioppo

Yes, yes.

Operator

Thank you. Our next question comes from the line of Ty Collin with Eight Capital. Please proceed with your question.

Ty Collin

Hey, good morning. Thanks for the question. Just one for me. Jim, I wanted to follow up on the comment you made earlier in the call about potentially pursuing a bigger M&A transaction once the business and the market environment stabilizes a little bit. Could you just elaborate on that thought? How you're thinking about the longer-term future of the business, and maybe how that remark about a strategic M&A transaction ties into the modification you guys made in the change of control on the debt?

James Cacioppo

Yes. Thank you, Ty. Yes, so some of us on the Management team felt we needed to address our M&A strategy, going back to the Company's routes, we generated a lot of value. Over time, and effectively, we started out as a cash-only Company without any assets that we've had an acquisition strategy throughout the history of the Company. We obviously pulled back on that. There's some other people in Tier 1s, now a lot and some Tier 2s who've been acquiring assets here and there, but on a very small scale relative to history for those Companies and the industry in particular.

We felt we needed to give an update on what is our acquisition strategy going forward. The State like Ohio is an example where we could pick up a dispensary here and there. It should go to adult use over time. We have a grower processor, but when we do our work as we've done over the last two years with a million counterparties trying to buy stuff, and there are situations where there's MSOs out there that are private, for example, that have a pretty decent footprints that fit well with us. There's obviously the public folks that you guys could do your work on. You start to see—we don't have a great currency because our stock price is down, we don't want to give out stock.

We have a decently healthy cash balance, but we don't—we're not interested in using that for M&A. Then in terms of debt, we're kind of delever. We're not interested in seller notes unless or long-term low interest notes that aren’t going to be that appealing to the counterparty. We don't have a lot of options there to start with. Beyond that, from a strategic standpoint, we're more interested in doing a bigger deal down the line as capital markets normalize, and not have to worry about overlaps. I think most of the players out there that are public, if you look in the Tier 1 and Tier 2, they suffer from extreme overlap in any decent-sized deal.

You can see with that large transaction that got called off recently, it's a killer. It's hard to draw up an M&A agreement that has a ton of overlap, who's taking that risk. Is the seller taking that risk? Is the buyer taking that? It's really, really hard. If you're doing a big transaction, and I'm not talking about us just as a Company being a seller, but I'm also saying us as a buyer and we're buying somebody else. There's assets that need to get sold.

What we're interested in doing is riding out the rest of this economic storm and this quite violent capital market storm for cannabis in particular, where we've gotten to be out of favor by the capital markets to a really great extent as an industry. Just sort of batten down the hatches, mind your own business, I think that—preventing any kind of downside outcomes for us as much as we could possibly do it. Then the plus for us on that is we fit very well with a lot of different counterparties out there. If we keep acquiring things, it's not going to fit so well.

Then from an operational standpoint, we have everybody focused on really just optimizing our businesses. When you're looking at (inaudible) situation, they have to go off and help you out on that. It's really distracting. We really slimmed down the workforce, we don't have this excess capacity out there. We're focused on cash flows and EBITDA. It just fits with what we're doing. We thought we owed everybody an update. Yes. Our strategy is to ride out the capital markets storm for cannabis, perform as a Company on our operating cash flow and EBITDA metrics, in particular, grow revenues and really focus on regulatory change, particularly in Pennsylvania and in Virginia and possibly federal.

We have a big government relations push in Pennsylvania for ourselves and have had historically and will continue to have post-election in Virginia. That's really a ton of incremental growth. I don't need to do acquisitions and dilute my Shareholders down here and give away that upside to these lucky people that we would acquire.

Ty Collin

Great. Thanks for that commentary, Jim. That’s it from me.

James Cacioppo

Thanks, Ty.

Operator

Thank you. Ladies and gentlemen, that concludes our question-and-answer session. I'll turn the floor back to Mr. Cacioppo for any final comments.

James Cacioppo

Great. Thank you, everybody for joining the call, and we appreciate your time. Of course, we thank our wonderful employees for all their hard efforts and allowing us to achieve what we've achieved in this quarter. We'll keep at it and keep you abreast in the future. Thank you.

Operator

Thank you. This concludes today's conference call. You may disconnect your lines at this time. Thank you for your participation.