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Jushi Holdings Inc.

Q1 2024 Earnings Call

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Michelle Mosier, *Chief Financial Officer*

CONFERENCE CALL PARTICIPANTS

Frederico Gomes, *ATB Capital Markets*

Andrew Semple, *Echelon Capital Market*

Donangelo Volpe, *Beacon Securities*

Pablo Zuanic, *Zuanic Associates*

PRESENTATION

Operator

Ladies and gentlemen, good afternoon. My name is Ryan and I will be your Conference Operator today.

At this time, I would like to welcome everyone to Jushi Holdings Inc. First Quarter 2024 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 afternoon, and thank you for joining us today on Jushi's first quarter 2024 earnings conference call. My name is Lisa Forman, and I am the Director of Investor Relations at Jushi Holdings Inc.

With me on today's call are Jim Cacioppo, our Chairman and Chief Executive Officer; Jon Barack, our President; and Michelle Mosier, our Chief Financial Officer. This call is also being broadcast live over the Internet and can be accessed from the Investor Relations section of the Company's website at ir.jushico.com.

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. 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 as well as the Investor Relations section of our website. These forward-looking statements speak only as of the date of this call and should not be relied upon as predictions of future events. Jushi expressly disclaims any obligation to update this forward-looking information.

I will now turn the call over to Jim.

Jim Cacioppo

Thank you, Lisa, and thank you, everyone, for joining our call today. This afternoon, I will provide a high-level overview of our financial performance as well as discuss our operational achievements and developments over the quarter. I will then turn the call over to Michelle to review our financial results in further detail before opening the question-and-answer period.

I want to start off the call with an important regulatory update. We are very happy to report that there has been important news that the DEA will potentially reschedule cannabis from Schedule I to III. The federal approach to cannabis has long needed to progress forward, and we are thrilled with this potential overdue development. This change would represent a dramatic positive shift for those of us in the industry. For corporations, this would mean relief from the 280E tax provision, as well as long sought recognition and legitimization for a market that provides jobs, economic growth, and medical alternatives to those who need them.

For medical patients and consumers, this potential outcome will aim to bring about a much stronger marketplace, which could help advance product innovation and accessibility to better serve customer needs. While we're excited about what this could mean for the future, we do anticipate that it would take time to come into effect. There are likely to be several steps that would need to take place first, including the White House Office of Management and Budget reviewing the proposal before it is published in the federal registrar for public comment.

Then there is a public comment period which could take two to three months. Once these steps have been completed, the DEA presents all comments to the administrative judge. Barring any lawsuits from opposing groups, the DEA would publish its final ruling. It is thought that the new Schedule III designation could be implemented as early as November of this year or sometime in the first half of 2025.

Looking at our operations, we began the year on strong footing as a result of the optimization efforts our team implemented in 2023. In the first quarter of 2024, our gross profit expanded to $32.3 million, reaching a gross profit margin of 49%. Additionally, our Adjusted EBITDA increased to $13.3 million with a 20% Adjusted EBITDA margin. These results demonstrate the effectiveness of our operational improvement plan and our ability to consistently generate margin growth, both on a sequential and annual basis.

Our revenue base of $65.5 million in the first quarter is a good result in the context of a seasonally weak first quarter in our predominantly weather-affected northern markets and a slowdown from the strong holiday sales in the fourth quarter. In addition, there was a reduction in store hours due to weather-related closures. Wholesale revenue continues to grow as we broaden our product lineup with high margin offerings, increase our product potency and quality, as well as our cost competitiveness as a result of further product development and optimization of our grower processors.

With a continued focus on our core priorities of reducing costs and scaling our grower processor operations, we achieved increasing yields and significant potency improvements over the first quarter. This equated to larger quantities of high-quality flower with enhanced terpene and cannabinoid profiles, enabling us to accelerate the launch dates for various high-margin SKUs across a variety of formats. We continued to ramp-up the production development pipeline during the quarter. We introduced 443 new and unique SKUs across our five vertical markets in the first quarter.

In our flower vertical, we introduced a larger 7 gram to 14 gram format in the bank brand in Pennsylvania and Massachusetts and rolled out the full-product offering under the Seche brand in Nevada. Under our concentrates portfolio, we relaunched the lab in Ohio and continue to expand our Tasteology edibles and Troche’s offerings with the introduction of new unit and pack sizes in Virginia and Pennsylvania. As a result of these expansions, Jushi branded product sales grew to approximately 54% of total retail revenue across the Company's five vertical markets for the quarter compared to 50% in Q1 2023.

By providing a highly diversified offering that suits many preferences, we aim to forge stronger connections with consumers and significantly expand our reach, fostering repeat visits and positive brand sentiment and engagement. In addition to seeing steady foot traffic across our retail network, our digital footprint is also performing strongly. Over the first quarter, downloads of our Hello Club loyalty app increased by 12% from the end of last year. At the state level, Virginia experienced an approximate 14% increase in online pre-order value on a year-over-year same-stores basis.

I'll now highlight several state-specific standout performances over the first quarter. Virginia continues to be our top growth performer with revenue of 33% compared to the first quarter of 2023. Statewide dispensary revenue exceeded our expectation towards the end of the quarter and was nearly in line with the last weeks of the fourth quarter during the holiday season.

On the product front, we introduced a new Tasteology package size which has already performed very well among patients. Also, we continue to expand deliveries outside our retail HSA 2 region. We are specifically focused on HSA 1 which has no stores. Fredericksburg and Charlottesville are just two examples of markets we are investing in to grow our patient base.

Next, in Pennsylvania, we opened our 17th Beyond Hello location in mid-January. The new Mount Pocono store has been positively received and continues to demonstrate consistent revenue growth week over week. During the quarter, we also made our first bulk sale from our grower processor which is an important milestone and reflects the opportunity we have to continue to grow our wholesale business.

In Illinois, we continue to see the return of customers having surpassed the year since adult-use sales launched in neighboring Missouri. Our retail network experienced steady growth every month during the quarter as a result of our competitive pricing and high-quality products. Our product availability, particularly in formats such as Flower and Gummies, has contributed to our growing customer loyalty in the state.

Demand in Massachusetts continues to be steady, prompting us to expand our opening hours for the Tyngsborough’s Nature's Remedy dispensary in February. Additionally, our everyday value one-eighth product offering remains popular with customers, driving our units sold in the first quarter.

Lastly, in Ohio, during the first quarter, we demonstrated consistent revenue growth month-over-month and attracted nearly 700 new patients in the first quarter alone. This achievement can be attributed to the introduction of a value menu that has resonated extremely well with the customers, which has contributed significantly to our growing retail market share in the state.

The organization-wide strategic improvements we made last year enabled us to begin 2024 stronger than ever from a margin standpoint. To help us drive our growth initiatives this year, we recently bolstered our leadership strength with the appointment of Todd West to Chief Operating Officer. Todd is an experienced cannabis executive with over 25 years of operations management experience in retail, manufacturing, and wholesale, including five years in cannabis with Cresco Labs, where he was an EVP of operations.

We continue our nationwide focus on efficiencies, including the initiatives we have spoken about before, such as the enhancement of equipment to deliver better output, higher batch and lower cost distillate methods, labor, model optimization, as well as minimizing green waste by improving cloning procedures and reducing bud loss during harvest.

On the new product side, our goal is to create greater alignment across our divisions to reduce the time to market for newer higher-margin products. This includes the debut of a new brand, Flower Foundry, a new high-quality, everyday flower brand that will bridge the space between our artisanal Hijinks brand and our Bank and Seche value brands. Stay tuned for more updates as this launch is expected in the second half of the year.

As our potency, terpenes, bud quality, and genetic varieties continue to improve, we expect it will be easier to capture pricing and margin with a new brand. A strong new genetic pipeline makes it an ideal time to launch a new flower brand. The opportunities for low, capital-intensive growth continue. We plan to open new dispensaries with licenses we own in Pennsylvania and Illinois, and one that may be granted to us in Ohio.

We should continue to grow our wholesale business as our product improves, as we increase yields at our grower processors, and as we launch new products. Virginia remains an organic growth market with new and better products, growing same-store sales and an increasing delivery business. In addition, we can enhance excitement at our retail stores across the country and potentially drive foot traffic and sales with a broader array of improved Jushi products, as well as new brands in our five vertical markets.

Also, Ohio adult use is around the corner, and we own an unleveraged grower that we can potentially use as collateral for an expansion loan. Lastly, we are in negotiations to buy retail stores and store licenses in Ohio.

In order to deliver sustainable growth to our shareholders, we have been diligently deleveraging our balance sheet and paying down debt. Since the summer of 2023 and through today, we have paid down approximately $9.8 million of first lien financing with SunStream Bancorp, Inc., including an April 1 payment of approximately $2.4 million and reduced our other debt by $5.1 million for a combined funded debt reduction of over $14.9 million. This has brought our debt subject to scheduled repayments down to approximately $190.4 million. Our goal remains to reduce debt with free cash flow, the sale of underperforming and noncash generating assets, state tax refunds, and the potential ERTC program refund claim for approximately $10.1 million.

Additionally, as we move towards certain debt maturity dates, we have been proactively engaging with many parties to refinance these obligations. We expect to further reduce the amount of first lien and other debt over the year. On the state-specific regulatory front, we are encouraged by the advancements toward an adult use market in Ohio, which we believe could see sales launch as early as this summer. We are confident in the infrastructure we have secured in the state, particularly on the retail side. On the grow processor side, we have a significant opportunity to grow with a lower cost of capital financing option as we own the grow real estate directly, and we can use tools such as mortgages to expand our footprint as necessary.

As part of the transition to an adult use market, Jushi's medical dispensary is expected to become a co-located medical and adult use store, and the Company will receive another adult use retail dispensary license as an owner of a class to cultivate our license. The regulator intends to begin the process of issuing additional dispensary licenses on or about June 7, 2024. Under the adult use legislation, all current licenses entitled to an additional dispensary can be assigned a lottery-based ranking to establish location priority among applicants.

The reach and outcome of Governor Youngkin's decision in Virginia is incredibly disappointing. However, we remain optimistic that a solution that supports the establishment of a safe and regulated adult use retail market is on the horizon. We believe this is the only logical way to combat the rampant illicit market that continues to be a threat to public health and safety. Legislation got very far this year as an adult use retail bill made it to the Governor's desk, and he seemed to have an adult use retail deal in mind before the widely reported stadium deal with the Washington Wizards and Capitals fell apart.

In Pennsylvania, many productive discussions are taking place between lawmakers on the establishment of an adult use market in the state. We believe momentum is building here and that there is a strong support to ensure Pennsylvania does not continue to lose out on significant tax revenue and job creation to bordering states.

Overall, there are numerous developments happening at both the state and federal levels and we are confident in our positioning and existing infrastructure to capitalize on potential upcoming changes in the industry. Approximately 69% of our current operating retail store footprint is in states that we believe are likely to soon transition to adult use and will be ready to scale and grow as these markets develop.

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

Michelle Mosier

Thanks, Jim, and good afternoon, everyone. Revenue in the first quarter was $65.5 million as compared to $69.9 million in the prior year quarter. The year-over-year decrease in revenue can be attributed to a reduction in sales in Illinois, Nevada and Pennsylvania due to increased competition and pricing pressures. The decrease was partially offset by increased resale sales in Virginia due in part to the opening of our Woodbridge location as well as increased wholesale revenue.

Wholesale revenue continues to improve and grew 7% compared to the previous year's quarter as a result of operating optimizations which have enabled us to diversify our product offerings as well as increase our competitiveness on quality, cost and distribution. Additionally, in our five vertical markets, Jushi branded product sales grew as a percentage of total retail sales from 50% in the prior year quarter to approximately 54% this year.

Gross profit was $32.2 million or 49% of revenue compared to $29.9 million or 43% of revenue in the prior year. Implementation of our cost optimization model, enhancements made to our grower processor facilities and increasing sell-through of our higher-margin Jushi branded products are primarily responsible for driving the increase in gross profit margin.

Operating expenses for the first quarter were $28.2 million, compared to $32.4 million in the prior year. The primary driver for the decrease in cost was changes in the staffing model at retail stores, as well as staff reductions as we rightsized the organization. Additionally, lower share-based compensation expense, which is attributable to lower values of share-based compensation granted, also contributed to the decrease in operating expenses.

Net loss for the first quarter was $18.4 million, compared to $12.4 million in the prior year's quarter. Adjusted EBITDA was $13.3 million, compared to $7.6 million in the prior year's quarter. On a sequential basis, Adjusted EBITDA margin, which represents Adjusted EBITDA as a percentage of revenue, was 20.4% compared to 16.7% in the fourth quarter of 2023. Adjusted EBITDA improved as a result of increased gross profit due to realizing the benefits of operational efficiencies and the reduction in selling, general and administrative expenses, as previously discussed.

Moving ahead to the balance sheet. As of March 31, the Company had approximately $30.6 million of cash, cash equivalents and restricted cash. Subsequent to quarter-end, in connection with the Manassas, Virginia Mortgage, the lender released approximately $3.1 million of restricted cash.

During the first quarter, we paid $1.1 million in capital expenditures. For the full-year 2024, the Company expects maintenance capital expenditures to be approximately $3 million to $5 million. Capital expenditures for new projects will be dependent on expansion in certain markets that may transition to recreational use.

As of March 31, we had $217.5 million of principal amount of total debt, excluding leases and properly (phon) plant and equipment financing obligations. As of March 31, 2024, we had $192.8 million of total future aggregate debt maturities, excluding the contractual maturities of the Company's promissory note payable to Sammartino and the Jushi Europe debt, as the repayment of these debts are contingent on the resolution of the Sammartino matter and completion of the liquidation of Jushi Europe, respectively.

Subsequent to the first quarter, we further reduced our debt with the scheduled payment of approximately $2.4 million on our first lien financing with SunStream Bancorp, Inc. In the first quarter, we had net cash flows provided by operating activities of $6.5 million, an improvement over the prior year's quarter where cash used in operating activities was $3.6 million.

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

Jim Cacioppo

Thank you, Michelle. We believe we had a winning combination of assets and operational prowess in key high-growth states which have yet to unlock their full potential. Upon anticipated regulatory advancements at both state and federal levels, we anticipate a sizable impact on both our top line revenue and operating margins.

I want to thank our team once again for all the work that they have done to start us off right in 2024, as well as thank you all for joining us on the call today.

Operator, please open the call to questions.

Operator

Ladies and gentlemen, we will now be conducting a question-and-answer session. If you would like to ask a question, please press star, and one on your telephone keypad. A confirmation tone will indicate your line is in the question queue. You may press star, and two if you would like to remove your question from the queue. For participants using speaker equipment, it may be necessary to pick up your handset before pressing the star key. Ladies and gentlemen, we will wait for a moment while we poll for questions.

Our first question is from the line of Frederico Gomes with ATB Capital Markets. Please go ahead.

Frederico Gomes

Hi, thanks for taking my questions. Congrats on the quarter, great margin improvement there. My first question is on that. You mentioned the efficiency that you're getting with the grower processors and everything you're doing there at the retail level as well. But when we look for the remainder of the year, do you think it can keep the same pace of margin expansion? Is there more low hanging fruit there? If so, if you could just expand on the drivers behind that? Thank you.

Jim Cacioppo

Yes, thanks, Federico, for your nice comment. Yes, so in terms of, first of all, our policy is not to project, so we don't—there is nothing that we say hardcore. But I will say that we do have the pace. Commenting to the pace, it's a big jump up from the fourth quarter. That would be misleading to talk about that big a jump, and I would say that—I would expect—again, not projecting but just common sense that these things move around quarter to quarter based upon some accounting entries that happen or inventory sales or things like that so there's, quarter-to-quarter, it's a tough job projecting which is one of the reasons why I don't do it.0

In terms of the trend over the year, looking out over a number of quarters, we are doing still a lot in terms of efficiencies, so I am not speaking to how it models out but I'm speaking to what we're doing. I gave you a list in the prepared remarks but things like bringing—we do an excess amount of testing. I didn't mention that but we bring down testing cost, bring down green waste which is over cloning and doing some things that are easy to correct. Then there's some things that we're doing to get more efficient that we haven't attacked yet like tracking labor hours, cultivation and so the number of plants touch per employee over an hour, as an example. Or you could do the same thing in processing and different areas and we are launching more of a detailed efficiency program for that sort of thing.

We continue to do some cost cutting around corporate here and there but we've done a lot of that, and then I think the big thing, and this is repeating prepared remarks, but the big thing is driving up—we have been traditionally more of a value brand and what we're doing is picking up margin by moving up the chain in terms of quality.

Our bud structure has improved quite dramatically just recently over the last few quarters and our potencies are increasing quite dramatically and it's really priced upon potency and then to put it in the highest quality packages, you need the bud quality, and things like moisture levels. It really gets complex, but flower is 50% of it, and I'm talking on flower because it's 50% of it.

The other thing is our new products are higher on margin, and we're doing more and more of those. We're not done with that. Then in terms of our vertical nets, we're up to 54% this quarter. That'll move around based on what we're doing and deals we can get when we're purchasing from third parties and maybe we get some great deals and we can offer our customers some fantastic deals and diversities. That'll move around.

But we don't have a full menu of products yet in most of our states, so by filling out our product category through new products, we're able to capture more of the vertical margin by offering, for example, in Pennsylvania, we have a hydrocarbon facility, but we haven't ramped it up, and so we can do that. We have rosin capabilities, but we don't sell those. Adding ratio gummies and ratio vapes, more of those. There's all kinds of things we can do to take more shelf space for us, and that helps your wholesale business.

I'm pretty confident that we can continue moving forward in the longer term. I would point out for a predominantly medical company, our margins are actually quite good. Remember, our two most valuable assets are Virginia and Pennsylvania. We'll see big jumps in margin when—if Pennsylvania happens to go, there's a lot of stuff going good there politically right now, but if that flips, we'll have a huge uptick in margins.

Then matching more of the people who have a huge adult use state, in Illinois, for example, or Florida. Then on top of that, we know we're pulling in Ohio as an adult use which increases margins. Adult use states just have more sales per store, and your GPs can expand what they sell overnight. That's how I'd answer that question; detailed, but obviously it's a big focus and a big passion here.

Frederico Gomes

Very helpful. Thank you. Then just a second question here, you mentioned Ohio. You have a presence there, but you also mentioned that maybe you're going to be looking to increase your footprint there, you're in negotiations for that, so maybe just comment on that. I know that maybe sales might start earlier than expected in that state, maybe early summer, and so would you be looking to do something ahead of that? Just, how far along are you in those negotiations? Thank you.

Jim Cacioppo

Yes, no, we've been talking to a lot of counter parties and there's a lot of opportunities. To that point, one of the people who help us out in business development is from Ohio and so we know the state deeply and we speak their language and so we feel—and we've been in the state for a while which is good, and also Jushi is a very favorable platform to people to join, right, because the valuation of the stock, Virginia is on the comp, Pennsylvania is on the comp, so it's a very favorable platform.

I think we offer an attractive package to people, and clearly people usually want stock because they believe in the upside of the industry, along with some cash. I think we're positioned well. Keep in mind, we expect to get a second dispensary so that means we can acquire six more licenses or (phon) stores and I think that although one or two may happen relatively quickly, maybe, I think to get all six would take 12 months at least, if not more; not open but to get those in-house, but that's fine and meanwhile we have to ramp up our grower processor as well so it will be a rapidly growing business for us over a two-year period, is the way I would think about that.

Frederico Gomes

Thank you very much. I'll hop back in the queue.

Operator

Thank you. Our next question is from the line of Andrew Semple with Echelon Capital Market. Please go ahead.

Andrew Semple

Hi. Good evening. Congrats on the Q1 results and the strong margin performance there. First off, I just want to ask on the integration of Jushi's own branded products on store shelves, I believe the commentary in the past is it'd be difficult to push that much above 50%, and with that hitting 54% in Q1, I'm sure the team's pleased with that, but are we getting to the upper limit of what we can expect to see in terms of internal products on store shelves at the rate we saw in Q1?

Jim Cacioppo

Yes, sometimes I can be conservative or you speak on these calls, but I don't recall saying I talked about 50%, but I could see me saying that, for sure. But I would say that the way I think about it is state by state. If I look at states, we've run over 60% in certain states, right. The big state that we have been behind on is Pennsylvania. We didn't have the capacity until recently. Remember, we brought on the expansion and then we ramped up, took a little slower than expected because of it's a hard job ramping up on huge scale.

I think our big gains will be in Pennsylvania, which is our biggest market. As that goes adult use, that will change the calculus. It could change it either way, to be quite honest, because you don't know exactly what your sales are going to be. You might run out of product, so you might bring another third-party product. But I do believe it's a medical business, as a vertical business. You could offer your customers really good variety and operate higher than 54%.

Remember, we're completing our menus. Even though we're at 54%, we don't have full menus. There's certain items we don't compete against. Again, I point out hydrocarbon, rosin, where we have capabilities, certainly in Pennsylvania, and rosin everywhere, but we haven't fired them up for a variety of reasons. Then we could add SKUs to have more lines of gummies and vapes than we do now, as other examples. The flower quality increasing should increase the popularity of our own products. Yes, I think there's reason to believe that it can go higher, but we'll see.

Andrew Semple

Great. Appreciate the clarification there. Then maybe your thoughts on Virginia. I know it’s a disappointing outcome with the governor this quarter. What do you view as next steps as the process towards adult use legalization in the states? Maybe just an update on how you're continuing to feel about the medical business in the interim?

Jim Cacioppo

Medical is growing. We have expansion capabilities in our grower processor that we need to spend some capital to get to, and some that we can expand our grower without putting any significant amount of capital, just moving some stuff around. We have expansion capabilities, so we can grow on a vertical basis medically quite well. I mentioned in prepared remarks delivery out of our HSA which is quite new to us, and that's an early effort in the process of ramping. In the last few weeks, we've done some things and built some scale, and we're starting to see that. I'm very interested to see that happen.

Also, there's a license that will be awarded in HSA 1 and which will be publicized. You'll follow it. There's been 40 applicants, is what I read, and you would think they'll open up those doors pretty quick because there'll be an opportunity, and we'll be able to service those doors. We do, right now anyway, as far as we can tell, we have some of the highest quality product, and we certainly can expand our grower processor and service that need.

We feel really good about the medical growth opportunity. That aside, in terms of adult use, it's a complex thing. You see what some of the operators are doing in Florida. Virginia's not that way because it's a commonwealth, but there's other things you can do. There's also a session in the first quarter of next year, and there's still things going on in the government this year as well. We'll see. We're active. We've been active for a number of years, and it's a great market, and in a way, it'll help us further ingrain our brands, further ingrain our app and our online sales - it’s become ubiquitous - and also build out our grower processor in a slower, more efficient manner. There are some positives to it, but we're going to continue to work at it to make it happen as quick as possible for the people of Virginia and for our business.

Andrew Semple

Understood. I appreciate you taking the time and taking my questions. Thank you.

Operator

Thank you. Our next question is from the line of Donangelo Volpe with Beacon Securities. Please go ahead.

Donangelo Volpe

Hey, thanks for taking my question. Since we were actually just talking about the HSA 1 applications, can you guys talk about how active your delivery service has been in that region? Do you guys envision the eventual winner of that license there to lead with retail and become a wholesale customer rather than wait for its own cultivation capacity to be in place? If so, when do you envision that winner being able to open its doors?

Jim Cacioppo

The answer to the second question about will the winner open retail first, yes, we've been talking to applicants and they definitely will do that. That's an obvious thing to do, especially when there's available products. That's 100% what you're supposed to do.

In terms of our delivery, it's small and growing, okay. There's virtually no chance that that will affect our sales in a negative way. We'll continue to grow our delivery. People like delivery and we offer a nice product, right. Never with delivery, you don't actually have a store so you actually have lower costs in a way, and you can reflect that in the way you conduct your business and price.

In terms of the timing of applicant pools, yes, they'll start in June. It'll take a bit. It's probably a '25. I would probably think of it as a mid-25 type thing, when we'll start getting sales, so about a year from now.

Donangelo Volpe

Okay, perfect, and then just moving over to Illinois, if I can. On the March call you reported that you saw some stabilization there with anecdotal evidence that Missouri customers are returning. Have you guys seen any additional improvement in customer traffic from across the border?

Jim Cacioppo

Yes, specifically on the four stores, two are border stores and two are in Bloomington Normal. The Illinois business is a solid business. Whether it's growing a little bit or getting beat up a little bit or whatever, it's not important as much as it's a solid business. With four stores that are all good stores, we are—and then without a GP, we are one of the largest buyers in the wholesale market.

It doesn't compete with the major sellers of that products' stores, which are typically in Chicago land area. We have this buying advantage and there's a nice capacity in Illinois of grower processor which when you have access to capacity somewhat stranded (phon) so we tend to be something that I would say is a stable business with ability to work margins by basically having several people which supply us and being a preferred buyer. Good credit would help as well. Some people aren't as good a credit, the newer folks.

We're expanding; we're going to expand another store that will open in the Peoria area. We're working on that as we speak and we'll grow the store base. I think the more of the growth—I think a stable business is the way to think about it and the growth will come from opening new stores. There's a scenario after we get going in Ohio where we go to 10 in Illinois without doing a grower processor. That's been the long-term strategic plan. The Peoria store, we already own that license; we won that license.

Donangelo Volpe

Okay, great. Thank you for taking my questions. I'll hop back in the queue.

Operator

Thank you. Our next question is from the line of Pablo Zuanic with Zuanic and Associates. Please go ahead.

Pablo Zuanic

Thank you, and I got disconnected so I'm sorry if my questions were asked. Just first on the balance sheet. Can you talk about your ability to refinance the $80 million in debt that's due this year? I know you've talked about with rescheduling and more states going (inaudible), conditions should be more favorable but how are you feeling about that right now? Remind also in terms of when does the biggest chunk of those $80 million mature in the next twelve months?

Related to that, if you have an update in terms of asset divestitures. I don't know if Nevada or California, if you can comment on that, and also if you have any line of sight in terms of the timing regarding some other litigation with Sammartino and Jushi Europe. The numbers are not small so that would also help us. Thank you.

Jim Cacioppo

I'm going to answer the third question and the first question together because your $80 million is not the right number. Sammartino is $21 million of that and that doesn't mature. It appears on our balance sheet for accounting reasons, realizing GAAP is not a perfect thing so we have to talk about debt which is difficult but it is what it is, right. But the $21 million is effectively, in my view, a contingent liability. It's not a debt claim; it's a lawsuit. It is indemnity claim, there is contract. We have a long history of doing very well in contractual battles and we're happy to share that with anybody who calls us up and asks. We think it's a competitive advantage. We feel really good about our position in that and we also could get money out of them in that scenario. That's somewhat significant.

The $80 million then is $59 million by your calculations. The $59 million, keeping in mind we have $30 million on the balance sheet, will be set aside, a not insignificant chunk of that for debt repayment. We just got—just this month we got a state tax refund in for almost $2 million. We did close on one of the California asset sales this month and we do expect to close something in Nevada.

When you when you add all these things up it becomes a very manageable amount. In the press release—or excuse me, prepared remarks, I made a comment about there's a process in place. I don't want to get into detail on that because there's a standard that we have to keep talking about it and we don't want to do that, but we have discussions, and beyond discussions, all the time. It's hopefully just a matter of cost, not a matter of doability.

Pablo Zuanic

Right, thank you. Then just moving on to Pennsylvania. Any update there in terms of the discussions within the Senate and the House? There's a mirror bill, but I think that one of the Republican sponsors said something recently that there's still issues to negotiate with the governor, so I don't know if you can provide some color there? But also related to Pennsylvania, how much CapEx would you need if the state goes (inaudible)? You go from your current 17, 18 stores, you're going to add six more. I suppose you want to add capacity also to be more active in the wholesale side. If you can quantify the CapEx need in Pennsylvania, if the state flips (inaudible) this year? Thank you.

Jim Cacioppo

Yes. I would say, on the political side, we don't comment specifically. As somebody who is involved in the political process, it's not wise, so we don't comment on the political process. But other than what we're saying is that things are going along we believe positively. It's all a public process, right. I would encourage you to do your work. I'm surprised that there aren't more people doing their work and we are definitely the state—the Company most exposed to the upside in that with 18 stores licenses and 17 open and large grower processor.

In terms of meeting the demand, so the way I think about it on a risk-adjusted basis is that my existing 18 stores we do believe will be far along, if not have that 18th store open this year. But it may take into next year, right. But I do believe we'll have immediate uptick in sales, and we do have a small CapEx, circa, and this is a guesstimate of about $5 million, where we could bring on a number of grow rooms inside the existing warehouse.

The other thing that's going on at Pennsylvania as part of the ramp is that we're going towards industry standard in grams per square foot. We're getting more yield on the exact same asset and that uptick is quite significant, think about 20%, 30%. Basically generating more flower, which is dollars, on the same—with the same employees, with the same facility, the same lease costs, the same lights, everything. The way I think about that is that's margin.

We have the ability to generate more out of the existing grow rooms and canopy and we're already doing it at much higher levels in Virginia. We know what other people are doing. We have a nice curve going there. But we're not there yet, and I don't anticipate us being there until the third or fourth quarter; late third, mid to late third at the earliest. In that scenario in a medical market, we probably have to dial back grow rooms not to overproduce. That's how you get there.

Then the risk-adjusted side, I do believe there could be a very active wholesale market. There's six independent grower processors that just have three stores each that they haven't even opened. There's one public company, you can speak to them, that has a humongous grower processor that I think is less than half operating, and they only have six stores. I do think there's some larger players who have excess capacity. I do believe I'll be able to fill my shelves with high-quality products that my customers will enjoy buying.

I don't think there's going to be a problem. Yes, we'll have some margin opportunity if we do a further expansion. But these things tend to peak out, and then you get into Illinois-type thing where there's a decline. For Jushi shareholders, what we're trying to figure out—and we have models and we talk about this, but we get these things wrong. Models aren't correct always, but we try to do it. We want to size it so, at peak, we're not at 60% of our shelf space, our own product. We'd rather be 40% to 50%, and then as you go past peak, we don't have stranded grower processor capacity.

There may not be as much on that basis, and there may not be as much CapEx needed. But if Pennsylvania goes (inaudible), I think we'll have access to the capital markets at a much cheaper price, and we'll do a risk-adjusted capital project where we don't want to have stranded capacity. As we've learned, it’s not a good thing in some of the markets like Illinois.

Pablo Zuanic

Thank you. One last one, if I may. In the case of Virginia, especially in your region, are you seeing the impact from Maryland going (inaudible), from the growth in the listed market in Washington, DC, lack of controls? Also in the case of Virginia, to my knowledge, despite any rules on hemp, hemp derivatives, Delta 8 is still widely available. Just talk about those types of four competitive forces are hitting the medical market in Virginia. Thank you. That's it.

Jim Cacioppo

Yes. The DC competition's always been there. I don't think the nature of that's really changed. The hemp competitors, they've been there and there's enforcement happening. The governors put money towards enforcement. I think that's peaked, but we'll monitor that. I don't think that's going to be growing substantially. The illegal competition, I would say, is stable, or the illicit competition, whatever you want to say to be nice to those folks who sell illegally.

But then Maryland, so I would point out that, keep in mind that this is a congested area. If you've ever driven around DC, you don't just pop over to Maryland and cross the bridge to save 20 bucks. You're going to use that in fuel. It's a very congested area and the competition is not right next to you. In addition, of our six dispensaries, four are nestled back, pretty far away from DC, Maryland, and are relatively, if not 100%, depending upon—unaffected by this. They appear to be unaffected. We have two dispensaries which are small dispensaries, closer to the border. I don't think there's a huge effect.

But the other thing is we have a very efficient operation. You see our margins and for our medical business, and we're going to grow in efficiency there as we ramp up that facility. We're price competitive already with the—it's not lost on us, what the prices are in Maryland, or DC for that matter, because it's online. These illicit competitors are quite sophisticated. Don't get me started on how that happens, with our legal system. But we know what the prices are and we're price competitive, and that's not a new thing. We've been that all along. The DC thing has really caused us always to be price competitive, and Maryland really hasn't changed that significantly.

Pablo Zuanic

Thank you.

Operator

Thank you. Ladies and gentlemen, this concludes our question-and-answer session. I would now hand the conference over to Jim Cacioppo for closing comments. Jim?

Jim Cacioppo

Thank you very much for joining us. One comment that I just wanted to do is, I don't usually do this, but I failed to get it into the prepared remarks. But the annual benefit to Jushi in 2023 of a 280E removal that would have to do with Schedule III implementation, we estimate would be about $27 million as the benefit, and there would be a one-time benefit in the first quarter of this year of $23 million for a combined $50 million benefit, and that would grow as SG&A increases and revenue increases.

I wanted to give people a sense of what that meant and we had some late-breaking analysis that provided me to give you that at the end of the call.

Thank you for joining us, and thanks to our employees for being who you are. Appreciate it. Bye.

Operator

Thank you. The conference of Jushi Holdings has now concluded. Thank you for your participation. You may now disconnect your lines.