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Jushi Holdings, Inc.

Second Quarter 2024 Earnings Conference Call

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CORPORATE PARTICIPANTS

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Michelle Mosier, *Chief Financial Officer*

CONFERENCE CALL PARTICIPANTS

Luke Hannan, *Canaccord Genuity*

Pablo Zuanic, *Zuanic & Associates, LLC*

Russell Stanley, *Beacon Securities Limited*

PRESENTATION

Operator

At this time, I would like to welcome everyone to Jushi Holdings, Inc.'s Second Quarter 2024 Earnings Conference Call.

Today's call is being recorded.

I will now turn the call over to Trent Woloveck, Chief Strategy Director. Thank you. Please go ahead.

Trent Woloveck

Good afternoon, and thank you for joining us today on Jushi's second quarter 2024 earnings conference call. My name is Trent Woloveck and I'm the Chief Strategy Director 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, Trent, 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.

Beginning with our financial performance, our focus on improvement has delivered strong results this quarter. Thanks to the diligent efforts across our organization, we continue to report an increase in margins with gross profit of $32.6 million for the second quarter of 2024, representing a gross profit margin of 50.4%.

In line with this continued margin expansion, Adjusted EBITDA has grown to $14.5 million with a 22.4% Adjusted EBITDA margin. The sequential increase in margin is largely a result of the increasing verticality in our business, backed by significant growth in Virginia and the comprehensive enhancements made to our grower process facilities to improve product quality, diversify our product offerings, increase output, and reduce costs, especially in Virginia and Pennsylvania.

Our revenue base remains strong at $64.6 million for Q2 2024 compared with $66.4 million in Q2 2023. Despite continued market price compression and increased competition, retail revenue has remained relatively stable at $57 million, compared to $59.6 million in Q2 2023 and was achieved with a footprint of 35 operating dispensaries across seven states at the end of the quarter compared to 34 at the end of Q2 2023.

Wholesale revenue improved year-over-year to $7.6 million compared to $6.8 million in Q2 2023. As ongoing improvements, our grower process facilities have enabled us to broaden our product range while enhancing our competitive edge in terms of quality, cost, and distribution. The continued commercialization of our new cultivars at our grower process facilities has helped to increase the grams per square foot we can produce and help to improve our potency.

As these new genetics rolled out and as we developed more manufactured products, we added 308 unique SKUs to our total available assortment across our five vertical markets during the second quarter. This included the full product offering rollout of the Lab and Tasteology brands in Nevada, as well as new high-dose Tasteology troches and the introduction of the Lab 2g vape carts in Pennsylvania.

Our own brands continue to perform extremely well and as we expand our lineup to reach more customers across the consumer spectrum, our Jushi branded product sales grew to approximately 56% of our total revenue across the Company's five vertical markets for the quarter, compared to approximately 47% in Q2 2023.

I will now highlight key state specific performances over the second quarter. Virginia remains a standout state for us with significant growth across several metrics. Wholesale sales increased 8% sequentially compared with Q1 2024, and 59% compared to Q2 2023, driven by the introduction of new SKUs including the latest Tasteology flavors as well as the consistent availability of in-house concentrates. With the steady introduction of new SKUs, Jushi branded sales are strong in Virginia at 72% of total net retail sales.

Sales have been supported by an overall increase in the patient count outside of our retail HSA. We believe this external to HAS-II patient count has grown by over 100% since last quarter due to the growth of our delivery business to the external HSAs. We now offer delivery of Fredericksburg, Spotsylvania, King George, and Colonial Beach and anticipate in the third quarter that we can add an additional two delivery days to expand our offerings.

Looking ahead, we believe certain regulatory changes will have future positive impacts such as product shelf-life expanding to 12 months as opposed to six months, which became effective July 1. This longer shelf-life will allow larger product lines which should enhance productivity. In addition, we expect the HAS-I vertical license to be awarded shortly.

The new license holder can operate six dispensaries significantly in advance of completing the build out of the grower processor facility. This mismatch of timing should allow us to significantly increase our wholesale sales out of our cultivation facility in Manassas. We plan to expand our grower processor operations through a small capital expenditure project to add canopy and new products in the existing warehouse to meet this expected wholesale demand, while allowing for growth of our own retail and delivery business. We are also looking to increase efficiencies and service levels at our retail stores over the next several quarters.

Turning to Pennsylvania. The ongoing implementation of efficiency measures at the grower processor facility is having positive impact, with third-party tested potency up 53% in Q1 2024 compared to Q1 2023 and yields up 62% over the same period. These quality and output improvements are driving margin growth in the state.

At the retail store level, we are identifying individualized strategies to enhance our competitive position and have increased Jushi's branded sales to 50% of net sales. We also plan to reopen our 18th store in Pennsylvania in Q1 of 2025, while exploring the possibility of relocating another store or two in 2025.

Let's turn to Ohio, an incredibly exciting state for us, where we just officially kicked off non-medical cannabis sales beginning August 6 (phon). We view Ohio as a pivotal growth market and are thrilled to have successfully reached this major milestone in alignment with our strategic expansion plans.

Our existing Cincinnati store has been awarded a license to become a co-located medical and non-medical dispensary and we began non-medical cannabis sales there this week. We have identified a second dispensary location in Springdale that could be open as soon as Q1 2025.

Lastly, over the last six months, we implemented a business development plan to acquire six more stores or licenses to open stores. Although no acquisitions have occurred to date, we hope to consistently open these stores over the next 12 months. We will announce these acquisitions as they occur.

On the grower processor side, we have a two-part plan to support the expected demand for products as adult-use sales begin. In the short-term, we plan to modestly increase the capacity at our current grower processor facility with minimal capital investment. We have also put into place a long-term plan to build out 15,000 square feet of new cultivation space in a new warehouse.

We own the grower processor facility debt free. We continue to evaluate competitive financing options, preferably from a commercial bank or other lending institution. We are incredibly excited about the tremendous opportunities in Ohio, which we believe will significantly increase Company sales in an early adult-use market.

If we do open seven more stores in Ohio, we will have increased our overall store count by 20% just with these Ohio openings. In terms of expectations, we believe the average store sales in Ohio should be above the overall Jushi average because of their co-located medical adult-use nature, which differs from most of our stores which are medical in nature.

In addition, we expect our state level margins to be above average for the Company given that this will be an early adult-use market with a vertical footprint.

In Massachusetts, our retail business remains strong, while wholesale was lower than anticipated due to oversupply at certain competitors' grower processor facilities. This impacted both volume and pricing towards the end of the second quarter. Quarter-to-date, units sold have increased by 2% in the Commonwealth as our flower offerings from Hijinks and Seche's Kind Grind continue to perform well.

Over the third quarter, we expect to launch a number of new products across various formats in Massachusetts, and in June, we began harvesting 21 new genetics.

Lastly, our turnaround in Nevada has begun. After the turnaround in Pennsylvania and ramp up of Virginia, senior management has turned its focus to the underperforming Nevada business. Enhancement efforts are currently underway at our cultivation facility, which will result in the implementation of industry standard equipment and processes to drastically improve the quality of our product. We have implemented a plan to support retail sell through of this new lower cost and higher quality Jushi branded products, which should expand our margins. We recently had success with the rollout of our Tasteology gummies.

Turning to our financial position. Over the past 12 months, we have executed on our stated goal to deleverage our balance sheet and reduce our debt level. Subsequent to the second quarter end in July 2024, we refinanced our SunStream Bancorp, Inc. first lien debt with a $48.5 million term loan with new lenders at an interest rate of 12.25% and an original issue discount of 2% and reduced leverage by using $4.3 million of cash on hand. This refinancing reduced the size of the first lien debt which peaked at $65 million.

Before the refinancing, we had previously reduced our principal debt by $23.9 million, which brings a total reduction since July 1 of 2023 of $28.2 million. This has brought our debt subject to scheduled repayment down to approximately $180 million. We have no maturities until 2026. At year-end, we had concluded that absent of refinancing, we would not be able to meet our obligations and there was a substantial doubt about our ability to continue as a going concern.

With the financing complete and our improved liquidity, you will see in our Form 10-Q that we have concluded that substantial doubt no longer exists. Looking at the state specific regulatory front in Pennsylvania, lawmakers are actively engaged in discussions regarding the establishment of an adult-use market. We believe there is growing momentum and support among legislators to prevent the state from losing substantial amounts of tax revenue and many thousands of job opportunities to neighboring states, all of which are now adult-use or about to legalize adult-use.

In July, Pennsylvania enacted a law that decouples state taxes from Section 280E of the federal tax code. This will be reflected in our financial statements during the third quarter.

Based upon our first half 2024 results, we estimate that the annual tax savings will be approximately $2.4 million. In addition, we will have a one-time benefit of $1.5 million related to the release of the liability for uncertain tax positions for the state.

In Virginia, we continue to advocate for a safe and regulated adult-use market, which we maintain is the best solution to combat and challenge the rampant illicit market that we believe continues to be a threat to public health and safety.

While Governor Youngkin's decision earlier this year was disappointing, we remain optimistic that adult-use market will eventually be established and many in the industry are organizing a push for recreational in 2026.

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.

I'll start with our second quarter 2024 results compared to the second quarter of 2023. Revenue in the second quarter was $64.6 million, as compared to $66.4 million in the prior year. The year-over-year decrease can be attributed to a reduction in sales in our retail channel, while units sold in all states except Pennsylvania and California increased, we continue to experience pricing pressures, resulting in a lower average selling price per unit. The decreases were partially offset by continued strong sales performance in Virginia as a result of adding an additional store in August 2023.

Wholesale revenue has maintained its positive trajectory and grew 12% compared to last year's second quarter. The increase is primarily attributable to growth in Virginia of 72% as the cultivation and processing facility has matured and we had more product available for sale to third parties. The growth in Virginia was partially offset by a decline in Massachusetts due to continued competition.

Gross profit was $32.6 million or 50.4% of revenue compared to $30.6 million or 46% of revenue in the prior year. The increase in gross profit and gross profit margin was driven by efficiencies at our cultivation and processing facilities, which have enabled us to be more competitive on cost. During the quarter, we generated positive gross profit and gross profit margin from our wholesale revenue, whereas last year, we generated a loss.

In our retail channel, gross profit declined due to lower sales. However, gross profit margin improved 110 basis points as a result of increased sell-through of Jushi branded products at our retail stores. Jushi branded product sales as a percentage of total retail revenue were 56% across the Company's five vertical markets compared to 47% in the prior year.

Operating expenses for the second quarter were $24.2 million compared to $27.2 million in the last year's second quarter. The $3 million or 11% reduction cost was primarily due to lower share-based compensation expense attributed lower value of share-based compensation granted as well as forfeitures, gains on the sale of certain non-core assets, and lease terminations. These declines were partially offset by an increase in depreciation and amortization expense due to the expansion of our retail operations, which resulted in certain fixed assets placed into service, as well as amortization of our business licenses which commenced during the current quarter as we concluded, based on our assessment that our business licenses no longer have indefinite useful lives.

Net loss for the second quarter was $1.9 million compared to $14 million in the prior year. Adjusted EBITDA was $14.5 million compared to $12.6 million in the prior year second quarter. On a sequential basis, Adjusted EBITDA margin, which represents Adjusted EBITDA as a percentage of revenue was 22.4% compared to 20.4% in the first quarter of 2024.

Moving ahead to the balance sheet. As of June 30, the Company had approximately $35 million of cash, cash equivalents, and restricted cash. During the six months ended June 30, 2024, we paid $1.8 million in capital expenditures. For the full year, we expect 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 Jim mentioned, we refinanced our first lien debt with a new $48.5 million term loan. From January 1 through July 31, 2024, we have reduced our total principal obligations by $24.5 million, bringing the principal amount of debt subject to repayment, excluding leases and property, plant, equipment, and financing obligations to $180 million.

Included in the $24.5 million reduction in principal obligations is $3.3 million related to Jushi Europe. As we had previously disclosed, Jushi Europe had filed for bankruptcy in the Swiss courts. During the quarter, we concluded that we had no obligation to pay this debt and had lost control of the entity, leading to the deconsolidation and derecognition of the liabilities.

Additionally, during the quarter, $16.5 million related to Sammartino was reclassified to long-term as the Company currently has no obligation to pay this indebtedness.

Our short-term debt subject to repayments is less than $1 million as of July 31, which represents regularly scheduled amortization payments. This frees up cash flow to reinvest in the business to support our growth.

As Jim also mentioned, with the completion of our refinancing efforts, we have concluded that substantial doubt about our ability to continue as a going concern no longer exists. For the six months ended June 30, 2024, we had net cash flows provided by operating activities of $12 million, a significant improvement over the prior year where we had a use of cash of $10.3 million.

As Jim mentioned, we are pleased to see the Commonwealth of Pennsylvania enacting law permitting medical cannabis businesses to deduct ordinary and necessary business expenses for state income tax purposes, which are disallowed under Section 280E of the federal tax code. We expect to see the benefit of this change beginning in the back half of this year, and we estimate the annual run rate benefit to be approximately $2.4 million based upon our first half 2024 results.

We continue to monitor rescheduling efforts at a federal level. We believe rescheduling cannabis to Schedule III would eliminate the application of 280E of the federal tax code to our business, which could add an additional estimated annual tax benefit of $27 million.

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

Jim Cacioppo

Thank you, Michelle.

By scaling strategically, we believe we have established an enviable footprint with significant growth ahead for us. Our positive second quarter results demonstrate the efficacy of our strategy, and with our improved financial flexibility, we are ready to scale and grow as these markets develop. We remain dedicated to achieving profitable growth by leveraging our robust infrastructure and strategic positioning to capitalize on the many potential upcoming changes in the industry.

As we look ahead to the remainder of 2024, we are excited to once again be entering a very significant growth phase. First, in Ohio, non-medical cannabis sales just began on August 6. We plan on opening a second dispensary in Q1 next year. We also plan to acquire and open six more stores. We are also expanding our grower processor facility to scale with the market demand.

Second, we will add more retail stores across the country. For example, in Illinois, we are growing our retail network with our Peoria store opening in the fourth quarter this year and have capacity to add five more dispensaries in Illinois after Peoria. We also have been exploring potentially bring our BEYOND/HELLO retail presence to the New Jersey market.

Lastly, we are preparing both our retail and grower processor operations in Pennsylvania for the potential launch of adult use sales, which could happen as early as 2025. There's currently bipartisan legislation active in Pennsylvania with efforts underway to make progress. While the timeline is not yet certain, we are closely monitoring the situation and preparing accordingly.

Additionally, we are preparing our Virginia grower processor for the growth in the medical demand ahead of the potential introduction of adult-use sales for which the timeline is not yet certain.

From a balance sheet and cash flow perspective, the retail store openings are fairly reasonable from a capital standpoint as these are small capital projects. In Virginia and Pennsylvania, we are planning modest expansions in the existing warehouses. As we plan for substantial growth in Adjusted EBITDA with only modest increases in debt, our debt ratios should improve on a debt to Adjusted EBITDA standpoint, which would reduce our cost of capital.

I would like to extend my gratitude to our outstanding team for all their efforts and hard work to deliver a strong start for us in 2024. I also want to thank each of you for joining us on the call today.

Operator, please open the call to questions.

Operator

Thank you, sir.

Ladies and gentlemen, we will now be conducting the question-and-answer session. If you'd like to ask a question, please press star, and then one on your telephone keypad. A confirmation tone will indicate that your line is in the question queue. You may press star, two to leave the question queue. For participants making use of speaker equipment, it may be necessary to pick up your handset before pressing the star keys.

Our first question comes from Luke Hannan of Canaccord Genuity. Please go ahead.

Luke Hannan

Thank you. Good afternoon, everyone. Jim, I'd like to start, if we can, just taking a step back if you look at the developments across your market, it looks like you've seen price compression in several states. But what stands out to me is that Pennsylvania seems relatively stable, still a competitive market there. Can you just share with us and what you're seeing in Pennsylvania that's led out to be the case?

Jim Cacioppo

Yes. I don't think there's any—been any material change in price compression from what we've seen the last couple quarters. You see a little here, you see a little there. Our costs are going down more than the prices are compressing, obviously, which is why our margins go up. Also, we're verticalizing the business. It's just a fact of the business that you manage around. I would not sit there and that's not my—that's not keeping me up at night. The Ohio growth that I laid out in my prepared remarks far exceeds any kind of price compression we're going to get.

In addition, we're going to open a new store in Pennsylvania in the not-too-distant future, a new store in Illinois in the not-too-distant future, and we have the Ohio store that just flipped. We have another Ohio store we tested in Q1. When you add all that up, the price compression that we've seen is pretty modest, but it's a fact of the business, and we manage that, and there's nothing keeping me up at night. I'd rather not get into too specifics because it's not really productive.

Luke Hannan

Okay. That's fair. If we switch gears then and talk a little bit about Virginia. You mentioned that your wholesale revenue was—the growth there was exceptional because of the cultivation ramp up. Then I think I heard you correctly in your prepared remarks, you mentioned that there's going to be two additional delivery days for HAS-II. Can you talk about your ability to serve a customer there? How big is your fleet now, and how well utilized is that fleet as well, even just with the current delivery days that you have?

Jim Cacioppo

Luke, the delivery business that I mentioned was HAS I, we are HAS-II. Jushi operates in HSA II. HSA I was where MedMen have lost the license. It's an underserved market. I named some of the cities that we're—towns and cities that we're delivering to. This is a new effort this year, I talked about it on the Q1 call. You just roll out the capacity for delivery as you sort of need it. It's scalable. We need some notice to the delivery, the Company, and there needs to be some notice and management of that, which we've gotten very good at. But we've been able to grow this. There's a need out there. There's people very close to our HSA who drives all the way to Richmond to get there. We have databases that help us see that. There's an underserved market there and we plan to continue to grow that business. It's been a personal passion project of mine.

In terms of—we have same-store sales growth in our retail segment. Part of that is delivery, particularly in what we're finding in Alexandria and Arlington, which are closer to DC. People maybe tired of traffic. They may work for the government or maybe want to not walk into a cannabis store. Maybe it's a fairly concern, whatever it is, we seem to be able to grow the stores there through delivery more than the other stores like Fairfax and Woodbridge, where people just like to come in.

But HSA II, which is one we operate in, delivery tends to be about 10% of our sales, and a bit more in those other Alexandria and Arlington stores. It's a good business. The focus of ours, the delivery of business, the former MedMen, HSA I is business that we wouldn't get otherwise. It's very high margin, if you think about it through our retail stores, but adding no additional employees, basically it's like a wholesale margin with no additional cost to us. We're super. It's wholesale plus because we do make a retail margin on that. It's a very good business for us and we continue to grow it.

Luke Hannan

Okay. That's helpful. Then my last question here, and then I'll pass the line. You mentioned that you want to get to the eight stores in Ohio and M&A is going to be a part of that. Without sharing too much, obviously, how advanced are those conversations today? Because I imagine there's several operators in the market that are focused on serving the adult-use customer today and maybe are less keen to sell, but maybe that's not actually the case.

Jim Cacioppo

Yes. I'm not giving you too much information, but other than that, we're very good at this. We built the Company by buying store licenses. Pennsylvania, we bought 15 store licenses when we started the Company. We bought three additional more. We bought four in Illinois. It's actually two meds that were doing almost nothing. That went to four racks. We've done this before. We're very good at this. My team, Jon Barack runs this process with Trent Woloveck business development. Trent's actually from Ohio. The team's very strong.

We have the same real estate guy in place since we did the BEYOND/HELLO acquisition. He did sightings in Pennsylvania and Virginia for us and everywhere. My lawyer who runs the legal side, the client side, has been with us since '18, '19. We got the team. They're chopping at the bit. We have all kinds of different things going on, but I'm not going to comment on that. I told you that I thought we could—I thought I said in prepared remarks, we think we could roll them out over 12 months. I'm not in the habit of giving guidance or stuff, but that was pretty specific for me. Maybe 12 to 14 or 15 or whatever for the last one or two laggards, because it's some red tape. You know how this goes.

Then in terms of the competition. Okay. If you look at all the Tier 1, right, all the Tier 1—the people who own Tier 1 cultivators, most of them had five stores. They got three. They're done. They're capped out. Those are the public MSOs, the larger public MSOs. There's a couple of us with Tier 2s, but we also have stores. We had the least amount of anybody.

What we found in the market is we're not competing against these public companies as much as private entities. It helps us audit our financial statements, cash balances, cash flows, transparency. We're considered a reliable credit. We've done this before. We're a bigger entity than what we're competing against by a lot. We haven't run into the major MSOs. Most of them don't have capacity. I think there's a mismatch between—and buyers to be quite frank. Then if you solve for buyers with actually money, it's a bigger mismatch.

Luke Hannan

Great. Thanks for the commentary.

Operator

Our next question comes from Pablo Zuanic of Zuanic & Associates. Please go ahead.

Pablo Zuanic

Thank you. Jim, regarding Pennsylvania and Virginia, I don't know if you agree with my projection here, but potentially, Pennsylvania happens in mid/late 2025. Then in the case of Virginia, you need to have the election in November '25, the new Commonwealth chambers there and the governor to agree. Virginia doesn't happen until 2027. You have about a two-year window between one and the other, if you can comment on that.

Then the second point, if what I'm saying is somewhat true, can you add more stores in Pennsylvania? Some companies are talking about affiliated stores, some are 21, 22. In your opinion, how far can you go in Pennsylvania in terms of a store based on what seems to be a store count that seems to continue to move up?

Jim Cacioppo

Okay. Part 1 of the question, remind me of Part 2 if I forget. But part 1 of the question, at Pennsylvania, the process has been hot and heavy this year. It's a negotiation—it seems to us like it's a negotiation between here's what we want. They passed a budget that we feel has a pretty substantial deficit. They still have some rainy day funds, as far as we know leftover from COVID but that can't go—gone forever, it seems to us. It seems like they have a deadline that they need to get this revenue in. It's the easiest revenue to pick up. Keeping in mind that every bordering state, including Delaware, is going to start, little old Delaware is going to start ahead of Pennsylvania. They're just losing revenues to other folks and losing jobs. That's at Pennsylvania. We'll figure out when that happens. My crystal ball is really not better than anybody else's.

In terms of Pennsylvania, then Virginia, I would say that if I could choose one or the other, I'd absolutely take Pennsylvania for a number of reasons. One, our revenue base is substantial. Two, as Luke mentioned, there's little price—have been price compression there over the past 12 months. The market's primed for it. There's a ton of GP capacity. We won't have troubles in industry doubling sales or more based upon available product, I think. There's 200-ish stores in the market which will make this very good back market, keeping in mind when Illinois started, similar size, Phase 55. When Ohio started, it's a lot less as well, 100s.

Pennsylvania's primed and ready. I don't think they need this big waiting phase, but we'll see. That's up to them. They want the taxes. That's great. They don't want the taxes, they don't want the taxes. The fact that Governor Shapiro is remaining the Pennsylvania Governor warms my heart because I think he's very good. I was a little worried about he becoming the vice president. Not that we don't think he'd make a great vice president, but I prefer him as the Governor of the State of Pennsylvania. That was our own selfish corporate need.

Then in terms of Virginia, we're growing a medical business. We have to do a capital project to service a significant wholesale business and possibly even our retail network in Virginia. We could use some extra time there to maximize Day 1 to be quite frank. We're going to do a small CapEx program to fully grow into our medical facility which we sized around 95,000 square feet. Just to make sure you understand that, that's being fueled by two things. One, we have growing same-store sales and growing delivery business that I talked about.

Number two, the HSA I stores we expect will come on significantly in advance of their GP facility. Could be wrong, but I think that's a pretty safe assumption. That's going to—they're going to need product, right, and we work with some of the applicants to assure them that we would be delivering products to them as part of their application process. We believe that there's a really nice wholesale market which would be strong margins for us. We're ramping up a few million-dollar project. I don't know. I'm not going to get beyond that. But it's not like the existing warehouse to bring on canopy and the hydrocarbon facility. There's growth there. I'm happy with that. With Ohio growing and with Pennsylvania potentially just going, I got plenty of time for Virginia, and '27 to '27 and '26 to '26, it'll be where it'll be.

We're certainly lobbying and spending time and money on that. You never know, maybe if Trump wins, maybe Youngkin gets a job in the administration. Keeping in mind, there's only one term in the governorship. His term is up in '25. He's not giving up a lot. By the way, he's getting nothing done because you need to do things on a bipartisan basis. Even though he claims that he was to be bipartisan, he is not—he's been nothing but a hardcore Republican. We would wish him good riddance if he did go to the Trump administration, if that happened.

Pablo Zuanic

The second question was more about, in terms of Pennsylvania, can you add more stores there? I understand how the licenses work, right? Three times 6, you're at 18. But other people keep talking about affiliated stores and adding more stores. Can you do that? Or what's the cap if there is one?

Jim Cacioppo

First of all, the regulatory system in place is a medical system. I do believe most MSOs believe they can add stores onto the medical system, and there's no clear cap. But however, we're drafting a new law, and currently there's no cap in that current draft. But things change between them and the signature that gets them put in place. We'll see how it works out.

Pablo Zuanic

Right. Okay. Just two last questions on the debt front. Given the IRS letter that they issued on June 28, are you planning differently around 280E at the federal level? The second question related to that, I think I did read the press release on the refinancing very carefully, and of course, congratulations for that. I'm just trying to understand how much is left with SunStream, and is that just a different seniority or was that fully repaid? Thank you.

Jim Cacioppo

SunStream is left with zero. We completely refi'd SunStream.

Pablo Zuanic

Okay.

Jim Cacioppo

They're out.

Pablo Zuanic

All right. Yes. Okay.

Jim Cacioppo

Done. Thank you. Nice relationship. Good luck in building up your business, but that's done. I think we have a very good group of lenders. I know most of these—both of the organizations pretty well from my history of the hedge fund world, and I think it's an equity-friendly deal. I'm a big participant, and so is Denis Arsenault, one of our largest shareholders.

It's a great deal, I think, for shareholders. I obviously thought it was a good deal on economic basis for debt holders, too, but it reflected market conditions, and there was an independent committee in place, I should point out. In terms of—what's the other part of that question?

Male Speaker

IRS.

Pablo Zuanic

The IRS.

Jim Cacioppo

Oh, the IRS.

Pablo Zuanic

Yes, go on.

Jim Cacioppo

Yes. our position has not changed and we feel very confident in our position. That’s it. That’s all I'm going to comment on the IRS.

Pablo Zuanic

Thank you.

Operator

The next question comes from Russell Stanley of Beacon Securities. Please go ahead.

Russell Stanley

Good afternoon, and thanks for taking the question. Just coming back to your sales of house brands at retail up to 56%, really nice improvement there. Apologies if I missed it, but we talked about this before. Do you think you’re at or near the upper limit for where you can take that? Or does Ohio adult-use change the calculus there? How much more room for growth might we see in that number?

Jim Cacioppo

Well, a lot of it depends upon—our growing state today is Virginia, and Virginia is our most vertical state. Massachusetts, it’s higher than our average. Nevada has been higher than our average for the most part. Then there’s Pennsylvania which is our big facility, I think there’s room to grow in Pennsylvania.

As we grow Virginia, the vertical percentage will—within Ohio, Ohio will bring down that number because we won’t be that vertical in the beginning. It’ll take us 18 months at least to bring on a growth—not to bring on, we have a grower process, but to scale it for eight stores. We expect maybe in the first quarter of adult-use this quarter, it’s not too different, but as we bring on these stores, we'll become less vertical in Ohio until that expansion plan gets put into place.

That’s it on a state-by-state level. Where that shakes out, I personally believe—one of the things about being what I call a fast follower, Jushi versus—we get to look at some of the large MSOs and say, "Okay. We like this and like that." I believe their businesses are more vertical than us. Certain cases, forgetting even adjusting Florida out, which is all 100% vertical, but even adjusting that out, I believe they can be very, very vertical in markets like Pennsylvania. In Illinois, obviously, it’s harder for them and Florida is 100% vertical. Those numbers reflect that.

But if you go into a state where they don’t have those Illinois, the cap on shelf space, or Florida vertical, you go into, say, Pennsylvania, I think they’re running 56% or 70% vertical. I’m not sure I want to do that, by the way, because I think we have a retail competitive advantage because we’re offering a lot of products at competitive prices, because we buy a lot of products and we can get good prices and we've got customers like that. It’s not just that you have to go find X, Y, Z dispensary to buy, you’re going to get just this product for the most part. It’s a business decision and we’ll kind of make that decision as we go along.

Russell Stanley

That's great. Thanks for the color. I'll hop back in the queue.

Jim Cacioppo

Thank you, Russell.

Operator

Ladies and gentlemen, we have reached the end of the question-and-answer session. I will now hand over to Jim Cacioppo for closing remarks.

Jim Cacioppo

Great. We appreciate all of you attending the call. I know there's a busy earnings season. It seems like all the MSOs are getting it sooner and sooner now, and we're all bunched in there together. I appreciate you attending the call and the questions and interactivity. Also, we just do a shout out to our employees who have done a great job in helping us grow margins and get efficient and do all the things they do. Thank you.

Operator

Thank you, sir. Ladies and gentlemen, that concludes today's event. Thank you for attending. You may now disconnect your lines.