Jushi Holdings, Inc.

Third Quarter 2024 Earnings Conference Call

November 7, 2024

CORPORATE PARTICIPANTS

Trent Woloveck, *Chief Strategy Director*

Jim Cacioppo, *Chairman and Chief Executive Officer*

Michelle Mosier, *Chief Financial Officer*

CONFERENCE CALL PARTICIPANTS

Luke Hannan, *Canaccord Genuity*

Pablo Zuanic, *Zuanic & Associates, LLC*

Federico Gomes, *ATB Capital Markets*

PRESENTATION

Operator

this time, I would like to welcome everyone to Jushi Holdings Inc.'s Third 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 third quarter 2024 earnings conference call.

My name is Trent Woloveck, and I am 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 Chief Revenue Officer, 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

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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 provide 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'll provide a high-level overview of our financial performance during the third quarter and discuss our operational achievements and developments over the period. I'll then turn the call over to Michelle to review our financial results in further detail before opening the question-and-answer period.

Before I begin my review of our financial performance, I want to discuss the current macroeconomic conditions that have caused us to face some headwinds. During the quarter, we saw a continuing trend of price competition due to many factors currently affecting consumer spending. We are facing a period where many consumers are impacted by affordability challenges due to the higher-interest rate environment and inflation, which has been compounded by the uncertainty leading up to the election.

Over the past few years, the overall increase in consumer prices, including necessities like food, rents and energy costs have been over 20% and in many cases incomes have not kept pace with price increases. This affordability issue hits the mid and lower income population particularly hard and can be seen in top and bottom lines of other retail businesses like discount stores, fast food and apparel. While overall economic conditions have had an impact on our financial performance during the quarter, we believe our strong positioning and strategic footprint will continue to help us as we navigate this landscape and prepare for future growth and positive regulatory development and move past cyclical issues with more normal consumer behavior returning.

Revenue for the quarter was $61.6 million as compared to $65.4 million in Q3 of 2023, with the decrease attributable to price compression, increased competition and some internal production and sales issues. Gross profit for the quarter was $28 million compared to $28.5 million in Q3 2023. Despite the small decrease in gross profit year-over-year, gross profit margin improved to 45.4% of revenue, compared to 43.6% of revenue in Q3 2023. This 180-basis point improvement in margin is largely due to the efficiencies and cost-saving measures we have implemented across our organization, including initiatives such as streamlined packing efforts.

Adjusted EBITDA was $10.3 million, an increase of 6.5% compared to $9.7 million for Q3 2023. While Adjusted EBITDA increased relative to the comparable period in 2023, it did decline on a sequential basis compared to Q2 2024. The decline from the second quarter is partially due to the seasonality of the business, repositioning expenses of approximately $700,000 in Ohio, and $1.4 million in discounting costs in Virginia due to a regulatory change that I will discuss later in the call, and the economic factors cited earlier, but also has to do with some operational missteps on our part in the third quarter. For example, our Pennsylvania and Massachusetts grower processors for various reasons were not able to get product to market on a timely basis, resulting in missed sales on the retail and the wholesale level.

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Our commercial group also missed the mark in production planning and on menu and price changes. During the last few months, we have made many Management changes to address this, including a change in leadership in commercial and in our Pennsylvania operations. As part of our Company-wide efforts to optimize sales and customer satisfaction, we are currently doing a revamp across certain areas of our retail operations. We also have continued with our efficiency drive across the Company and have delayered and will not replace several recent senior managers. The retail revamp and the delayering of Management over the past two quarters should save approximately $3 million per year.

The commercial end of the business has become a key focus for both myself and our President and recently appointed Chief Revenue Officer, Jon Barack. Jon and I have taken an expanded hands-on role over the pricing and product decision making and our streamlining and improving of our production planning process, product promotions and pricing, wholesale sales and repositioning of the stores. Our goal is to have a best-in-class commercial operation that leverages our strong retail distribution business to support wholesale sales. We will continue to leverage my and Jon's trading skills to optimize sales on both a retail and wholesale basis.

After quarter end, we completed the refinancing of our first lien credit facility with a small syndicate of lenders including several new Investors to Jushi and two of the Founders who have consistently supported the Company, me and Denis Arsenault. In addition, we have begun to see progress on payments from our employee retention credit claims. We have recently received notice that two refund payments from the federal government on our $10 million ERC refund have been approved, and one of those has been received. Although the refunds were small, they represent the first move by the IRS since May of 2023 when we filed 43 refund claims.

On the two largest claims, we have an IRS advocate working on our behalf. Additionally, we have $1.6 million of state tax refunds due as of the end of September and a significant portion has been received already in the fourth quarter. We continue to focus on the sale of non-core assets, and subject to regulatory approvals, expect to generate approximately $3 million in proceeds in the first half of 2025.

We have been very active in implementing a growth strategy centered around substantially increasing our retail store units. In Ohio, we have one provisional dispensary license that we expect to open in the first half of 2025. Also, we recently signed two definitive agreements for four dispensaries in Ohio, two of which are operating, and one of which should be opened in January 2025 and the other in the first half of 2025. With these five stores in Ohio, our Peoria, Illinois store opening on November 8 and the opening of a store in Pennsylvania in the first quarter of 2025, we are on target to add seven new retail stores by the middle of 2025, a 20% increase in our store base.

The Company also entered into a non-binding LOI to purchase an additional dispensary in Ohio which could be the Company's seventh dispensary in Ohio. The purchase is subject to the execution of definitive agreements as well as regulatory approval. Including the seventh Ohio store, I have our business development team working on 10 additional retail license opportunities in a drive to create a pipeline to open at least seven additional stores from the back half of 2025 through mid-2026 as part of our 7&7 program, seven new stores by the end of June 2025 followed by seven more new stores by June of 2026. This would increase our current store base by 40% in total.

The other locations we are actively working on are in Pennsylvania, Illinois, New Jersey, Maryland and our eight and last planned store in Ohio. With this 7&7 program, we are doubling down on Jushi's historic retail first strategy as we are growing our retail business far in excess of our grower processor expansions. The 40% increase in retail outlets will drive revenue and profit growth and should further enhance our purchasing power to allow us to get better deals for our patients and customers. This will also help us optimize trading

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on the wholesale side of the business while limiting the risk of stranded capital in grower processors when markets turn more competitive.

I will now discuss selected state-specific performances in the third quarter. Pennsylvania is showing positive momentum for adult use legislation, with predictions that it may be passed and signed into law as early as Q1 2025. Until adult use markets start, the Pennsylvania market will continue to experience challenges as Pennsylvania is bordered by adult-use markets on every side of the state, leading many patients to forgo renewing their medical cards. Pennsylvania is a State that experiences a third quarter lull due to travel that coincides with school and other summer vacations.

We plan to open our 18th store in Pennsylvania in Q1 of 2025, while exploring the possibility of relocating another store or two in 2025 and 2026. Wholesale and internal retail sales in Pennsylvania were impacted by operational issues due to many days of extreme heat and humidity during the summer months and poor leadership on several levels, which led to a decrease in both yields and potency, which hurt sales and margins in the third quarter.

With lower than typical yields, most of our product was going into our own retail stores to meet consumer demand and limited the opportunity for wholesale sales. As weather has cooled down recently, we have seen improvements in yields which should improve sales and margins throughout this quarter and the first half of 2025. We also enhanced controls and changed commercial personnel and leadership where creativity and adherence to leadership goals was lacking. We are also in the design phase of a canopy expansion in the existing warehouse that we hope can be quickly implemented once the adult use legislation has been enacted.

Next, we are ramping up cultivation in Virginia to support our operations in the state where we have built a strong leadership position in both the retail and wholesale channels. By strategically scaling up cultivation through a phased approach, we can effectively meet growing demand while maintaining the quality and consistency that our patients expect. This will allow us to service the growth we expect with Verano's acquisition of one of the HSAs along with AYR being awarded the HSA I provisional license. We expect AYR to open their retail stores prior to getting their GP to scale. We will be there to support the patient growth in that region of the Commonwealth with our products. Virginia continues to be our best growth and our most profitable market.

In the third quarter our "out of HSA2" delivery service continues to perform well. We view this out of HSA service akin to a seventh store in our retail portfolio in Virginia. As a detractor in the quarter, Virginia was likely impacted by summer vacations especially in our relatively high income HSA in Northern Virginia. Additionally, the growth in wholesale sales was negatively impacted by the sale of the license from Cannabist to Verano as both parties slowed their activities during the strategic process and change of control of the asset.

Growth and profitability were also impacted by the implementation on July 1st of the change in the shelf life of all packaged products from 6 months to 12 months. Prior to July 1, 2024 all products were labeled with a 6 month expiration. After July 1, 2024 all newly packaged products are labeled with a 12 month expiration date. Virginia operators, including Jushi, discounted product to move the 6 month product in Q3 through their own retail system which reduced wholesale sales and retail margins across the industry. The total impact before accounting for increased unit sales driven by the severe price markdowns was $1.4 million. The concern is that this product which was not aged would seem much more aged due to the change from a 6 month expiration to a 12 month expiration. These all appear to be seasonal and temporary issues and Virginia should continue its path as a strong growing medical market.

As expected, Ohio emerged as a solid revenue performer during the quarter, demonstrating impressive growth with a 73% increase in year-over-year sales. This was also complemented by an improvement in

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gross margin, reflecting the effectiveness of our operational efficiencies in the state. This performance in this state underscores the strong opportunity for growth. Because of growth expenses related to acquisitions, facility design and construction, and licensing as well as unusually large inventory write-downs of $700,000, we did lose money in Ohio in Q3. We expect profitability in Ohio to significantly turn the corner in the coming quarters as we grow retail units, scale the business and improve our grower processor yields and potencies.

Besides quickly opening seven additional stores in Ohio, we are in the process of increasing our cultivation capacity by a factor of 2.4 times. This expansion at our Grow Facility will be fully in-place by yearend with the new yields rolling out starting in the second quarter of 2025. We will remain a large purchaser of packaged and bulk third party products in the state, which have been available from several growers. We are in the design phase of a further grower and processor expansion but will not make the final investment decision for about 9 to 12 months.

While the issuance of 10(B) licenses for new retail dispensaries has been slower than expected, we recently have seen issuances for Jushi's acquisition targets. As I mentioned earlier, after quarter end, the Company entered into two definitive agreements to purchase four retail assets in Ohio. The agreements are subject to regulatory approvals. We expect to transfer ownership on three of these dispensaries in the first half of 2025 with the fourth transfer of ownership expected in the back half of 2025. We are managing the two operating stores as part of Management Service Agreements and the others may open under MSAs as well if the regulatory approvals are delayed.

I will now discuss additional national highlights for the third quarter. We are expanding our product offering across our footprint launching 278 new unique SKUs across our vertical footprint in Q3 2024. After quarter-end, we launched a new edibles brand called Uncommon Kind, which features high-quality chews crafted with RSO, live resin, or live rosin concentrates. Although we have strong demand for our products, we have recently launched a multi-month effort to improve our concentrate products both in the Hydrocarbon and Solventless concentrates and to reduce costs in all manufacturing areas including our very popular distillate products.

We have begun adding an array of minor cannabinoids and terpenes in our distillate products. We are actively listening to patient and consumer feedback and strive to launch products to market quickly that meet changing consumer preferences.

The enhancements of our genetics program is a core focus to increase variety and quality of products, as well as increase our yields and potencies which should translate to more gross margin. At the beginning of the call, I mentioned that many consumers are facing affordability challenges. As cannabis operates as a cash-only business, the recent expiration of the Farm Bill has created additional obstacles for legally operating companies. Since credit card transactions are not permitted in this cash-only business, many are exploiting the loophole in smoke shops, where THCA flower can be purchased with a credit card. This significant issue arises from a lack of enforcement against illicit channels, ultimately undermining the regulated industry and creating an unfair advantage for those operating outside the law.

We are hopeful that this issue will be addressed in the future to support the growth of the legal regulated industry in the best interests of consumers and operators.

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 afternoon, everyone.

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I'll begin with a discussion of our third quarter 2024 results, compared to the third quarter of 2023. Revenue for the third quarter was $61.6 million, as compared to $65.4 million in the prior year. The year-over-year decrease was largely due to retail sales declines in Illinois, Massachusetts, Nevada and Pennsylvania due to pricing pressure as a result of increased competition. These decreases in our retail channel were partially offset by sales growth in Virginia and the launch of non-medical sales in Ohio.

Wholesale revenue was $6.2 million in the third quarter of 2024 compared to $6.8 million in the comparable quarter. The decrease was primarily attributable to declines in Massachusetts and Pennsylvania due to increased competition. Pennsylvania was also impacted by above average heat and humidity during the summer which resulted in a decrease in both yield and potency, with the bulk of product entering our own retail stores and limiting the opportunity for wholesale sales.

Additionally, in Massachusetts, a processing bottleneck resulted in a lighter product menu available for wholesale sales, which has since been addressed. These declines were slightly offset by growth in Virginia as the cultivation and processing facility has matured and we had more product available for sale to third parties.

Gross profit was $28 million or 45.4% of revenue compared to $28.5 million or 43.6% of revenue in Q3 2023. The increase in gross profit margin year-over-year was driven by continued efficiencies at our cultivation and processing facilities which have enabled us to reduce cost, partially offset by additional expenses in Ohio, including inventory write-downs, as we ramp up our facilities in Ohio to support the transition to adult-use. In our retail channel, gross profit and gross profit margin declined due to competition which resulted in increased utilization of sales promotions.

Gross profit margin was sequentially lower compared to Q2 2024 due to discounts on products in inventory nearing their six-month expiration in Virginia. This was due to new regulations that extended the expiration period to twelve months for newly introduced products. This process had a negative impact during the quarter on Virginia margins of approximately 700 basis points when compared to the second quarter. Jushi branded product sales as a percentage of total retail revenue was 55% across the Company's five vertical markets compared to 52% in Q3 2023.

Operating expenses for the third quarter were $27.8 million compared to $25.7 million in the last year's third quarter. The increase was primarily due to higher SG&A costs due to higher employee-related expenses, as well as increased depreciation and amortization expenses due to the amortization of business licenses which were determined to no longer have indefinite useful lives in Q2 2024.

Net loss for the third quarter of 2024 was $16 million compared to $20.6 million in the prior year and Adjusted EBITDA was $10.3 million compared to $9.7 million in the third quarter of 2023.

Turning to the balance sheet, as of September 30, 2024, the Company had approximately $22.9 million of cash, cash equivalents and restricted cash. During the nine months ended September 30, 2024, we paid $2.5 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 have refinanced our first lien debt with a new $48.5 million term loan. From January 1 through September 30, 2024, we have reduced our total principal obligations by $19.7 million, bringing the principal amount of debt subject to scheduled repayment, excluding leases and property, plant, equipment and financing obligations to $181.1 million.

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Our short-term debt subject to scheduled repayments is $1.8 million as of September 30, which represents regularly scheduled amortization payments. This frees up cash flow to reinvest in the business to support our growth.

For the nine months ended September 30, 2024, we had cash flows provided by operating activities of $14.4 million. As Jim mentioned, following quarter end, we have received notification that two of our refunds from our employee retention credit claims have been approved, one of which has been received. To-date the amounts have been minimal relative to our $10 million receivable. However we are pleased to see this process has begun.

As shared on our previous call, Pennsylvania had enacted legislation decoupling from 280E for cultivators, with the law retroactive to January 1, 2024. Although this change was also meant to include dispensary licensees, they were unintentionally left out of the initial legislation. This oversight was corrected with new legislation in October. As of September 30, 2024, the tax balances in our financial statements reflect the law as enacted at that time, and uncertain tax positions have been recorded for our Pennsylvania dispensaries related to the entities' 2024 activity.

As of September 30, 2024, the tax balances in the financial statement reflect the law as enacted at that time, and uncertain tax positions have been recorded for our Pennsylvania dispensaries related to 2024 activity. Based upon our September 30 balance sheet, with the correction to the law, we will release $3.3 million of uncertain tax position liabilities in the fourth quarter.

We continue to monitor rescheduling efforts at the federal level. We believe that if cannabis were rescheduled to Schedule III that would eliminate the application of 280E of the federal tax code to our business, which could provide a potential estimated annual federal and state tax benefit of $27 million based on current estimates using our most recent full year's results. However, this figure is subject to various factors and actual outcomes including but not limited to fluctuations in the Company's performance, variations in market conditions, changes in tax regulations, and unforeseen regulatory challenges and could vary materially depending on the final form of legislation, timing and specific regulatory interpretations.

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

Jim Cacioppo

Thank you, Michelle.

Heading into 2025, I want to reiterate just how exciting the Ohio market is for us. Having only started non-medical sales on August 6 in one Ohio store, Jushi is at a very early stage in this exciting market. We expect the average sales per store in Ohio to exceed our Company average given that we are mostly a medical company with our large Virginia and Pennsylvania footprint. Also I noted earlier, we have signed deals for four additional stores and one LOI which will bring us seven retail stores within Ohio. We are actively pursuing additional opportunities to get us to the regulatory cap of eight dispensaries.

Jushi's growth will be further enhanced by retail unit growth in other states. For example, we have received our license and are opening a store in Illinois this week and expect to open our 18th Pennsylvania store in Q1 2025. As part of our 7&7 initiative, we should have seven new stores open by the end of the second quarter of 2025 and we expect to open at least seven more stores by the end of the second quarter of 2026 for a total of 14 stores over 20 months, a 40% growth in our retail units.

In addition, we are in the planning and execution phases of several grower processor expansions in our key states of Ohio, Virginia and Pennsylvania. Some are smaller scale and on-going, while others are larger and dependent upon regulatory change, market conditions and available financing.

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We are excited to have a very significant growth plan, independent of regulatory change that will allow Jushi a multi-year growth opportunity in both revenues and operating cash flows. On the regulatory front, this election season has been a watershed for the industry where both Presidential candidates became backers of the industry given the popular support across the broad electorate. Given Jushi's exposure to the medical programs in Pennsylvania, Virginia and the Federal laws, we believe we can be an outsized beneficiary of a more positive regulatory environment that should unfold given changes in the tone and positions of both party leaders and the normalization of cannabis in society.

I would like to extend my thanks to our extraordinary team for all their efforts and hard work as we look ahead to an exciting 2025. Thank you for your continued support, and we look forward to sharing more updates in the near future.

Operator, please open the call to questions.

Operator

We will now begin the question-and-answer session. To ask a question, you may press star, then one on your telephone keypad. If using a speakerphone, please pick up your handset before pressing the keys. To withdraw your question, please press star, then two. At this time, we'll pause momentarily to assemble our roster.

Our first question will come from Luke Hannan with Canaccord Genuity. You may now go ahead.

Luke Hannan

Thanks. Good afternoon, everyone. Jim, maybe we'll start with Ohio. If I heard you correctly in the prepared remarks, you said that there is, I think, a 70% increase in sales year-on-year, but it was also a money-losing state for you in the quarter, partly because of inventory write-downs. But I think there's other dynamics at play. Can you just walk us through exactly what happened in the quarter in Ohio that drove that?

Jim Cacioppo

Yes. It was a 73% increase in sales. The biggest piece of that is the inventory write-down. We discovered we had some material. We had shut down in the medical market because we didn't need it, part of the processor. When we went back and restarted it, we had aged material that had de minimis value. We wrote it down. It's a non-cash charge. I'm not getting technical on you, but non-cash for about $700,000. It was $700,000, what we said.

In addition to that, when you're ramping up, like we are getting to eight dispensaries very quickly, we have one, but adding seven more. There's the M&A cost. You're hiring lawyers and—increases your SG&A. Citing fees and architects and builders and all these kinds of things. We're up and going and ramping for growth there. Those are the two major items. I do believe that is behind us, because we're not going to have any more inventory write-downs there.

Luke Hannan

Yes. Okay. That makes sense. Great. Then actually sticking with Ohio too. You called out, again, in your prepared remarks and in the press release as well, you are going to be expanding your footprint in Ohio. Maybe we'll start with the price for the assets that you have the definitive agreements for. Right now, we did see another operator expand their footprint in Ohio as well. Can you maybe share with us, roughly

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speaking, where you expect price to be for these Ohio acquisitions, and then also what the expected funding is going to be for that as well, or the funding mix rather?

Jim Cacioppo

Yes, I really don't want to disclose price because there's the competitive market. I don't want to let my competitors know, but also I don't want to let the sellers—we want to complete our job. We think we're getting a fair deal. We think the sellers are getting a fair deal. It's a combination of cash and seller notes. We're pleased with what we've been able to do. Remember, we've been in the state operating with a grow processor and a retail store. The Ohio regulatory complex is quite unusual.

I think that gives us significant advantage compared to people who aren't in the market, whether private or public. We got off to a fast start. While we were paying down our debt and doing a refi, we weren't interested in cutting deals. We moved very quickly after the refi. We had a pipeline in place, etc., etc. We think we're creating EBITDA at roughly fully in—fully bagged (phon). We think we're creating it at a very reasonable multiple. It's very, very accretive to what we are as a Company. I think once it's all said and done, everybody will be pleased, but you can see why I'd want to keep that to ourselves as we build out the business.

I would note that two of the ones that we've already signed definitive agreements are we're operating two dispensaries already under MSAs. We will consolidate those in the fourth quarter because it was signed in the fourth quarter. We'll consolidate that as a partial quarter. It's already been signed, it's a partial quarter for those two.

We planned with the—we're opening the Illinois dispensary this week. I know you'd ask about Ohio, but we're opening another one in Pennsylvania in the first quarter. Then we're opening some more Ohio. We're getting seven by the middle of the next year. Most of those are in Ohio. Some of the ones we're buying are not revenue producing. It's where we buy the license and have a significant impact on building the business. That tends to be more value driven than buy an existing business. Let's just put it that way.

When you buy an existing business with existing cash flows, I saw what the other operator did. It tends to be more expensive. Jushi, you haven't really been—you're newer to taking us over, but Jushi historically has bought licenses primarily. If you look at Virginia, we had—there were no retail stores when we bought it. Pennsylvania, virtually none. We've opened virtually all 18. I think there was one open when we did Jushi in Pennsylvania. This is kind of what we do well, and we feel great about what we're doing.

Luke Hannan

Okay, thanks. Last one for me, and then I'll pass the line. You brought up the topic of non-core asset sales. Correct me if I'm wrong, but I think it's $3 million that you're expecting in proceeds to get early next year. But I think more broadly, when you look at your portfolio, do you think there's any other areas that you'd consider non-core or other markets that you'd want to go a little bit deeper in rather than in your existing portfolio going forward?

Jim Cacioppo

We're always re-examining what we can do on an asset sale. It's not just non-core in this case. It's non-core, and it's not going to take away from our cash flows, let's put it that way. It's more than just non-core. It's not producing a margin for us. Those were the first ones that we've done, if things are producing the right margin. I have a history in the investment business, head fund business. I tend to be not overly emotional and kind of think creatively about our asset base. We're willing to buy and sell. We've sold a lot.

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We've paid down $30 million of debt since last July. We've done a lot of asset sales. Over the years, we sold New York way back when. We bought it early. This was 2020, I believe, is when we sold it. I guess my point is we've always traded around our asset base.

Luke Hannan

Got it. Okay, thanks.

Operator

Our next question will come from Pablo Zuanic with Zuanic & Associates. You may now go ahead.

Pablo Zuanic

Yes, thank you. Jim, look, just a couple of questions. I know you brought up the topic of hemp—pressure from the hemp derivative companies. Where is it worse if you think about Pennsylvania, Illinois, Virginia, Massachusetts, your top four states? Is it the same everywhere or more or less it varies? Can you expand on that, please?

Jim Cacioppo

Yes, I mean, I would expand on it this way. It's rather illicit, what they're doing, as far as I'm concerned. They don't advertise. There's no statistics. There's no data. If you're running an illicit business, there's no data collection sources. It's difficult to say with any certainty, but it's everywhere. I mean, it's on the internet. If you get on Instagram, and you look for gummies and search a little bit or whatever, you'll start getting ads, and they get taken down, but you'll get ads for cannabis on Instagram.

It's very, very widespread. I think it's a real big gap in the federal government's regulatory process, and we're trying to shed light on that, basically. We think it's rather shameful that they put the legal business through such a hassle, and they're allowing this to happen, and they just don't seem to care.

Pablo Zuanic

Right. Again, just moving on, I mean, you talked about Pennsylvania, potential legislation for rec sometime in the first half of 25. How are you thinking about Virginia on the same topic?

Jim Cacioppo

Well, we're hoping Glenn Young can get the job. I think he'd make a great Commerce Secretary for President Donald Trump. I've talked to some of my Republican friends, and we put his name in the hat. I'm being tongue-in-cheek here, Pablo. But that would be a nice thing if he got a position in the Trump administration. It might help things move along. He was a one man veto. Maybe the new Republican governor, who, by the way, would have a year in office, would maybe do the same, but it's widely popular. Polling is widely popular.

There's not many governors. There's a couple that I can think of, one in Florida, and I can think of one in Virginia, but there's not many governors willing to go against a clear majority in their state. I mean, Florida did get a 56%, almost 57% vote for both abortion and cannabis. That's a pretty big majority. That's bigger majority than the President-Elect just got. Virginia is widely popular. I don't want to predict the movement in Virginia, but I'll just say that if he gets a job, I'll be very pleased.

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He's a one-term governor, by the way, so there's an election next year in Virginia. A Republican has to have been elected consecutively for decades. It's gone to Democrats after one term. They've had two terms after. That's been the history in Virginia. Pennsylvania, we commented on that. There's an active legislative process. There's active legislation on both sides, the House and the Senate, and there's a Governor who wants it. There's been a lot of back and forth. It's been slow. They're losing revenue.

There's really no reason not to do it, but there's a political process, but from a Jushi standpoint, from a Jushi Investor standpoint, from a Jushi employee standpoint, that's a real game changer. I mean, we are super exposed to Pennsylvania as a percent of our revenue.

Pablo Zuanic

One last one. If I look at what Verano reported today, and they disclosed the numbers for Virginia. Of course, they closed on the deal July 29, so it's only about two months, but if you extrapolate on a full quarter basis, their franchise in Virginia is doing about $8 million in sales for the full quarter performance.

Jim Cacioppo

Sorry, I didn't look. How much?

Pablo Zuanic

Well, I mean, they reported like $4.7 million for retail.

Jim Cacioppo

Okay, got it, got it. Okay.

Pablo Zuanic

Wholesale, but that's two months, right? Because they closed July 29, but my point in total, that franchise, if you extrapolate for the three months, it's about $8 million in revenue. I know you don't break down sales by state, but I suppose your territory, your HSA is much stronger. I don't know if you want to make any comments or some reference, because it looked very low to me, $8 million, even if I count three months.

Jim Cacioppo

I mean, what I did say in my prepared remarks, it's our best growth and most profitable market. We do well in Virginia. We do have a very good HSA. I think they're all pretty good, to be quite honest, but I think we have a very good one, and it's a great business there. I don't want to get into it because we would then have to keep commenting on that, and if you choose to go in that direction or you don't go in that direction, and life's simpler for us by not going in that direction.

Pablo Zuanic

Right. But can you, I mean, the last one, just to follow up, can you give any metrics? I don't know, patient counts, transactions. I mean, you talked about Virginia still growing for you very well. I think it's still smaller than Pennsylvania in absolute numbers, but just any metrics you can share about the size of the business in Virginia. Yes.

Jim Cacioppo

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We used to share unique patients, but the problem in Virginia is there's no central depository of data. That's why you're asking, right? It's not like—there's no cards. Even when there were cards, they didn't keep a central number of it. It's all data, we create a data series that we follow. I'll give you—we already in our HAS. Effectively, it's our most profitable, and I think it's a very profitable business for us. We already compete with neighboring states that are legal, like Maryland, and we already compete with DC, which is a highly available market, kind of like any big city like that, with delivery and the whole thing. That's been since the beginning.

It's a business that it survives and does well in the market that doesn't have this huge pricing umbrella that you're operating under because of the limited license, if you follow what I'm saying. I think it's a very strong business, and I think our patients get good value, and they stay in the market. We're producing good product and giving them good value. We saw Maryland go, and we have a very good business that's subject to that competitive pressure in neighboring areas, and always has been, always has been, with DC being there.

We feel really good about that business, and we think it's a great business. We think there's more things we can do to make it a better business. We're growing outside the HSA. I made that comment. We've picked up a lot of patients outside the HSA. That was uncharted territory for us where we deliver to them. HSA is wide open. There's another growth pact for us. We commented on the call is, we believe AYR is going to open up dispensaries prior to open up their GP. It's common sense. It takes a long time to open up a GP. The patients need to be served.

We think the state's going to want them to do that, and we'll have available supply. We're bringing on some grow rooms. We expect to bring on a grow room at year-end, and we expect to be able to sell that grow room. But we have five up now. Is that right? That'll be our sixth. Just to give you a scale of what we're bringing on. Then we're bringing on a seventh, we hope in April, if it doesn't get delayed. We're scaling the business, right, to grow. That's the important thing.

Pablo Zuanic

Thank you.

Operator

Our next question will come from Federico Gomes with ATB Capital Markets. You may now go ahead.

Federico Gomes

Hi, good evening. Thanks for taking my questions. First question on Ohio. Obviously, big investment there and increasing your footprint. Can you help us understand, I mean, what do you see in the Ohio market in terms of how that could be transformational for your business? It seems like it could be very substantial in terms of sales growth and the operating leverage that you can get from growing the footprint from one store to seven and increasing the grow processor as well. Just, broad comment in terms of what you expect to get from Ohio next year.

Jim Cacioppo

Yes, we said one store to eight, right? We had a partial quarter obviously in Q3, it opened August, it flipped August 6. One store to eight stores. We're adding seven and we get a bit more sales out of that store for a full quarter. What we said in the prepared remarks, we thought about what we said is we think it's higher than our average per store revenue. You can sort of do the math there.

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We think they're going to be solid stores. You can do seven times whatever number you think that is, or eight times, whatever you think that number is, and you can figure out Ohio. In terms of the margin, I would say that we believe—obviously, we lost money. I said that in the third quarter, but we had been fairly breakeven before then. It might have been—it hovered around zero, because it's an under scaled business. We're increasing the grow processor as well.

The profitability in that state of new rec market should be one of our more profitable states in 2025, sort of the run rate is at all scales toward the end of the year, and certainly in 2026, if one of them were profitable on a gross margin and certainly an EBITDA margin. We said we're growing our grower by a factor of 2.4x. We're increasing the grow capacity by 2.4 times. That'll be in place by the—at sometime this month, and it'll be fully in place. Then you plant it and it takes—it's the growth cycle.

It's going to be a really nice growth profile for us in Ohio, over the next, 12 to 18 months. Then additionally, on that, we could expand that grow and more verticalize in the future. That's a bigger project that will take more time and capital, and we're not prepared to do that at the moment. But we are doing the architectural work, and we're going to put in for approvals. If we think the market needs it, and the capital or cost of capital permits it, we may look to do an additional expansion to more verticalize the business at that point.

Look at it as we have '25 and '26 growth coming out of Ohio that's fairly significant, versus a company that that might have had five dispensaries operating, and the grow processor operating, and the third quarter, they got a pretty full effect from that segment of their business, minus one month, more or less, right?

That's a big difference for Jushi. That's so much more ahead of us, where when I look at some of the numbers this quarter, people were hitting the tough economy, the competition price compression that we've seen, but their numbers didn't suffer as much. But they also had, a boom on five dispensaries in some of their cases. We didn't have that, we had one dispensary. We have this growth coming. Then on top of that, I laid out another seven stores we're putting in place outside of our markets, which we're working on. We have a couple in New Jersey, we're working on. We're working in Illinois. We're opening one in Illinois this week. We have the PA one we're opening. That's 40% retail store unit growth. To me that's a fantastic, couple year growth plan, basically. I'm super excited about that.

Federico Gomes

Thanks for that color. Second question, you mentioned some promotional activity in Pennsylvania, sort of impacting results. Is that something that you continue to see in that market?

Jim Cacioppo

I think what I'd mentioned, maybe others mentioned that. But I'll get back to Pennsylvania in a second. What I mentioned specifically, when you look at our numbers, we had some one time-ish things happen. There was $700,000 inventory write-off that hit our numbers in Ohio. That brought us to a loss for a business that grew 73%. Plus, we really front ended a lot of costs to do the M&A, in Ohio, that go into operating expenses in some cases. In Northern Virginia, we lost $1.4 million due to discounting, because the state did a good thing and made it so products now expire 12 months instead of 6 months.

But the customer, we had the 6 month product in inventory. The customer just sees a 6 month and all of a sudden, the 12 month product comes, it looks very old, even though it's not, because it was recently packaged. The whole industry decided, let's just move that product through our system. We all just discounted that product heavily to move it out, since the customer would view it as more aged than it actually was. We washed it out, and we were able to quantify what the top line impact of that discounting was in Virginia, which is not normal for us, which was $1.4 million.

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In Pennsylvania, it's been a promotional market. There's been I think some other operators commented on that so far this week. It needs to go rec, it needs to go rec. There's recreational markets opening all around it. It's not like oh my God the horses all left the barn, and oh my God. But it's kind of like the Chinese water torture, so to speak, The government's got to move.

They're hurting the industry, which employs a lot of people, and they're hurting themselves from a tax revenue standpoint, and there's no reason not to do it. We're going to have a huge beneficiary when that goes rec.

Federico Gomes

Thank you very much.

Operator

Again, if you have a question, please press star, then one. It appears there are no further questions. This concludes our question-and-answer session. I'd like to turn the conference back over to Jim Cascioppo for any closing remarks.

Jim Cacioppo

Great. Thank you for joining our call. We appreciate it, and we'll talk to you next time. Bye-bye.

Operator

The conference is now concluded. Thank you for attending today's presentation. You may now disconnect.

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