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Jushi Holdings Inc.

Third Quarter 2020 Earnings Conference Call

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CORPORATE PARTICIPANTS

Michael Perlman, *Executive Vice President of Investor Relations and Treasury*

Jim Cacioppo, *Founder, Chief Executive Officer, and Chairman of the Board*

Kimberly Bambach, *Executive Vice President and Chief Financial Officer*

CONFERENCE CALL PARTICIPANTS

Graeme Kreindler, *Eight Capital*

Russell Stanley, *Beacon Securities*

Jason Zandberg, *PI Financial*

Bobby Burleson, *Canaccord Genuity*

Tom Carroll, *Stansberry Research*

PRESENTATION

Operator

Good morning. My name is Sherry and I will be your conference Operator today. At this time, I would like to welcome everyone to Jushi Holdings' Third Quarter 2020 Earnings Conference Call. Today's call is being recorded.

I will now turn the call over to Michael Perlman, Executive Vice President of Investor Relations and Treasury. Thank you. You may begin.

Michael Perlman

Good morning. Thank you for joining us today for Jushi Holdings Inc. Third Quarter 2020 Earnings Conference Call.

Joining me on today's call are Jim Cacioppo, Chief Executive Officer, Chairman and Founder, and Kimberly Bambach, Executive Vice President and Chief Financial Officer.

This morning we issued a press release announcing our financial results for the third quarter ended September 30, 2020. The press release, along with unaudited financial statements, are available on our website under the Investor Relations Section and filed on SEDAR.

Before we begin, I'd like to remind listeners that certain matters discussed in today's call, or answers that may give to questions asked, could constitute forward-looking statements within the meaning of Canadian and United States securities laws. Such statements, by their nature, involve estimates, projections, plans, goals, forecasts and assumptions that may prove to be inaccurate. As a result, actual results could differ materially from those expressed by such forward-looking statements, and such statements should not be relied upon.

Key expectations and assumptions made by Jushi include, but are not limited to, the continued performance of existing operations in Pennsylvania, Illinois and Nevada; the anticipated opening of additional dispensaries in 2020 and 2021; the expansion and optimization of the grower processor in Pennsylvania and the facility in Nevada; and the opening of new facilities in Ohio, Virginia and California, which are subject to licensing approval.

Risk factors that may affect actual results are detailed in Jushi's Annual Information Form and other periodic filings. These documents may be accessed via SEDAR database.

The forward-looking statements discussed in today's presentation represent Jushi's expectations as of the date of this call and are subject to change after this date. Jushi assumes no obligation to update and revise any forward-looking statements, whether as a result of new information, future events, or otherwise, except for as required by applicable law.

Please also keep in mind that all dollar amounts presented on this call are in U.S. dollars, unless otherwise specified.

With that, I'd like to turn the call over to Jim Cacioppo, Chief Executive Officer, Chairman and Founder.

Jim Cacioppo

Thank you, Michael, and thank you everyone for joining our call today. I hope everyone is doing well and staying healthy during this time.

This morning, I would like to take a few minutes to review the progress we have made since our last call and provide a broader update on our operational footprint and outlook. I'll then turn it over to Kim to review our financials. Then, we'll open it up to questions.

Today, I'm very pleased to report we achieved sequential revenue growth of 67% to $24.9 million for the third quarter of 2020. Our revenue growth was primarily driven by a strong performance from our BEYOND/HELLO stores in Illinois and Pennsylvania, revenue contributions from our recently acquired Pennsylvania grower-processor permit holder, and improved market conditions in Nevada. Importantly, during the quarter, we also accomplished a significant milestone, as I am proud to report that we generated positive Adjusted EBITDA for the first time in our Company history. Our results indicate that our strategy is working. By focusing on a select few high-growth, limited license markets, Jushi remains well positioned to continue to deliver strong results.

We also continued to upgrade our talent by adding several new hires in the third and fourth quarters with expertise in retail, cultivation and security. These individuals are experts in their respective fields and come from both inside and outside of the industry. Their focus will be on optimizing our current operations, along with further developing our retail and cultivation expansion initiatives.

Before I discuss our operations by state, I'd like to take a moment to review our recent developments since completing the third quarter. We've had a busy couple of months.

First, we plan to nearly double the square footage of our Pennsylvania grower-processor facility in Scranton, Pennsylvania to over 160,000 square feet in a phased expansion, which will nearly triple our canopy space to 98,000 square feet. The first phase of the expansion is expected to come online in mid-2021, and the final phase will be completed by the second quarter of 2022.

Second, we increased our equity ownership interest in Dalitso LLC, Jushi's majority-owned Virginia-based Pharmaceutical Processor License Holder, from approximately 62% to 79%, and plan to begin retail sales on December 1.

Third, we opened our eleventh BEYOND/HELLO retail location in Santa Barbara, California, we are opening our first Virginia retail location on December 1, 2020, and we expect to open two new locations in Illinois by the end of January 2021.

Fourth, we closed on an approximate $29 million in net proceeds for our overnight marketed equity financing. With this recent raise, as well as the debt financing that we completed in July, we have further strengthened our balance sheet and have the liquidity to support further opportunistic M&A activity.

Fifth, we announced the award of a provisional license for a medical cannabis cultivation in Portugal to its majority owned subsidiary, Jushi Europe. Jushi is contemplating a spin-off to shareholders of Jushi Holdings' 51% ownership in Jushi Europe.

Now, let's take a closer look at our state-by-state operations.

In Pennsylvania, in August, we further solidified our position as a leader through the completion of our acquisition of a Pennsylvania-based grower-processor permit holder, which added a 90,000 square foot cultivation and processing facility to our in-state footprint. The facility is ideally located, as it resides within minutes of Interstate 81, Interstate 84 and the Pennsylvania Turnpike, facilitating efficient wholesale distribution to the 98 open dispensaries in the state, including our eight BEYOND/HELLO dispensaries in Pennsylvania.

Since closing the acquisition, the Company's focus has shifted to optimizing the facility to ensure long-term growth and market share expansion in the Pennsylvania market. Jushi has begun implementing a series of operational and facility improvements, including introducing new extraction technologies and equipment, implementing complete facility automation, and improving room utilization to double overall yield while increasing product quality. These upgrades, which will be implemented over the next 12 months, are expected to significantly increase the production of both pre-packaged flower and extracted products. Furthermore, as mentioned earlier, we plan to significantly expand the building footprint, as well as the cultivation space.

We continue to expand our retail reach with the opening of a dispensary in Reading, Pennsylvania back in July and continue to consolidate our retail footprint in the state. We anticipate opening an additional seven locations in Pennsylvania by the end of 2021, with the first location opening in April and opening one location per month thereafter.

In Illinois, we currently operate two BEYOND/HELLO retail operations servicing both medical and adult-use customers in Sauget and the Bloomington-Normal metro areas. These locations have both been performing strongly and, as a result of increased customer demand, we have extended operating hours and added additional point-of-sale stations at both locations to accommodate the increase in customer traffic, while ensuring that we allow for sufficient space for proper distancing for both customers and staff.

Both stores have the option to open a second adult-use retail location, and we intend to exercise both options, doubling our store presence in Illinois to four stores. The additional locations have been chosen, with design and construction currently in process. We are targeting the opening of the second Sauget location in December and the second Bloomington-Normal location in January 2021. Both locations will emphasize speed and flow of foot traffic over browsing and will support customer shopping behaviors identified through months of research.

In Virginia, we received approval from the Virginia Board of Pharmacy to commence vertically integrated operations. Our Dalitso operation is one of only five applications to have received this conditional approval and one of only four to have received final approval and permit issuance.

We recently announced that operations have successfully commenced at Dalitso's facility near Manassas, and that we will be opening our first BEYOND/HELLO medical dispensary in Virginia on December 1, 2020. This is our first location in Virginia, and we anticipate adding an additional five BEYOND/HELLO branded medical dispensaries in the commonwealth. We are targeting new store openings in prime areas, including Fairfax, Leesburg, Falls Church, Woodbridge, Arlington and Tysons Corner. This will significantly increase our reach in Virginia, allowing us to introduce our high level of customer service and premium products to another key market.

Moving to the West Coast, in October we opened our eleventh national retail location and our first retail store in California with BEYOND/HELLO Santa Barbara. We are one of only three dispensaries permitted to operate in Santa Barbara, as it is a limited license market. As previously disclosed, we continue to develop our plans related to moving forward in the merit-based application process as one of only three selected applicants for a storefront retail and ancillary delivery permit in Culver City, California.

In Ohio, the construction of our extraction and processing facility remains on track and we anticipate opening in early 2021.

Finally, in Nevada, improved market conditions have resulted in increased demand and improved performance on a sequential quarterly basis; however, the market continues to suffer from the lack of tourism. In the interim, we plan on expanding our operations into a second owned facility increasing our cultivation and scaling our processing and manufacturing.

Before we further discuss our outlook, I will now ask Kim to review our third quarter performance. Kim?

Kim Bambach

Thanks, Jim, and good morning everyone.

Before starting, as a reminder, the results I will be going over today can be found in our financial statements and MD&A , and are all in U.S. dollars, unless where noted.

Third quarter revenue was $24.9 million, a 67% increase, compared to $14.9 million in the second quarter of 2020. As Jim mentioned, the growth in our revenue was largely due to strong organic growth at our BEYOND/HELLO stores in Illinois and Pennsylvania, a partial contribution from the recently acquired Pennsylvania grower-processor and improved market conditions in the third quarter for Nevada. On a same-store sales basis, our retail revenue increased by approximately 45%, as compared to the second quarter of 2020, excluding two stores that were temporarily closed in Philadelphia.

Gross profit was $12.3 million for the third quarter, compared to $7.5 million in the second quarter of 2020. The 64% percent increase in gross profit over the prior quarter was primarily due to the aforementioned increases in revenue. Gross profit was 49% for the third quarter and 50% in the second quarter of 2020.

Our Adjusted EBITDA improved to a positive $1.9 million in the third quarter, compared to an Adjusted EBITDA loss of $1.2 million in the second quarter of 2020.

As in prior quarters, we define Adjusted EBITDA, a non-IFRS measure, as EBITDA before fair value changes on biological assets and fair value changes on sale of inventory, share-based compensation expense, fair value changes in derivative warrants, net gain on business combination, gains and losses on investments and financial assets, as well as gains and losses on legal settlement.

Net loss for the third quarter was $30 million, or $0.31 per diluted share, compared to a net loss of $9.3 million, or $0.10 per diluted share in the second quarter. The increase in net loss for the third quarter was driven primarily by the increase in the derivative warrant liability caused by the rise of the Company's share price from $1.31 at June 30 to $2.44 at September 30, partially offset by a net gain on a business combination, higher revenue and gross profit.

Turning to the balance sheet, as of the end of the third quarter, we had $35.8 million in cash and $7.4 million in short-term investments, total current assets of $62.6 million and current liabilities of $41.2 million as of September 30. Additionally, the Company had $99 million principal amount of total debt, excluding leases and property, plant and equipment financing obligations

In October, the Company received approximately $29 million in net proceeds from its latest overnight marketed equity financing round. Including this raise, and as of October 31, the Company had approximately $73 million in cash and short-term investments and is fully funded for the build-out of the current portfolio, as well as having excess liquidity to pursue opportunistic acquisitions.

I would like to turn the call back over to Jim to discuss our outlook.

Jim Cacioppo

Thank you, Kim.

This was a strong quarter for us and I'm very proud of the hard work and dedication to execution by our team that has enabled us to achieve record results for our Company. We expect to maintain this trajectory of robust operating results for the remainder of the year and, as a result, we have increased our fourth quarter 2020 revenue guidance from $25 million to $30 million to a range of $28 million to $30 million, and we expect fourth quarter Adjusted EBITDA to be between $2.5 million and $3 million.

For the first quarter of 2021, we expect revenues to be between $37 million and $40 million and Adjusted EBITDA to be between $4 million and $5 million. We are also maintaining our 2021 revenue guidance of $205 million to $255 million and our 2021 Adjusted EBITDA guidance of approximately $40 million to $50 million.

We are incredibly pleased with our year-to-date financial and operational results. We achieved our first quarter of positive Adjusted EBITDA, have grown our retail footprint in our key markets and have further developed our best-in-class cultivation and processing assets, all of which are supported by Management's strong operational experience, deep consumer insights, award winning genetics and comprehensive suite of innovative brands.

As we look forward, our strategy remains focused on building out our footprint organically, while also pursuing attractive acquisition opportunities in both new and existing markets. With our corporate platform well built out, we can add further pursue acquisitions and organic growth without incurring significant additional overhead expense. This gives us the foundation we need to act on opportunities, while improving profitability. With our enhanced financial flexibility following our latest raise and our disciplined approach to capital deployment, we are very excited to enter our next phase of growth.

Thank you again for your time.

Operator, please open the call for questions.

Operator

Thank you. If you would like to ask a question, please press star, one on your telephone keypad. A confirmation tone will indicate your line is in the question queue. You may press star, two if you would like to remove your question from the queue, and for participants using speaker equipment, it may be necessary to pick up your handset before pressing the star keys.

Our first question is from Graeme Kreindler with Eight Capital. Please proceed.

Graeme Kreindler

Hello, good morning, and thank you for taking my questions. I wanted to start off with a question regarding the Virginia market and with that expected start-up operations on December 1. Jim, you've discussed in the past about Virginia, really, in the early days, that patient uptake being very, very important in terms of that market getting up off the ground, so I was wondering if you could provide a bit of an update or some more detail in terms of what you're seeing right now in terms of patient signups, patient uptake, and what sort of efforts are being made to ensure that that remains robust not only on December 1, but through the first couple of months or first year of operations there. Thank you very much.

Jim Cacioppo

Good morning, Graeme, and thank you for the questions. In terms of the patient uptake, I don't have the numbers handy, but we do have numbers. Internally, we track this. Again, we're not sure exactly how accurate it is, but we do have numbers. It's been a very good outcome for us. Patients are coming to us. We have tons of emails. There's a lot of patients out there that want to get into the program. That's been going on, by the way, for the year, really, the whole year. So, it's really good right now, and we're understanding, from talking to some of the others in the market, that similar things are going on. Again, the data is not necessarily robust for me to share and quote on a public conference call, but we have some numbers that we look at and track.

In terms of—I think the market will be constrained more by supply and not by patient uptake for months to come, and when that sort of tips over, I don't know, but it wouldn't surprise me if the market is more constrained by supply for a good 12 months.

Then, in terms of our efforts to keep the patients educated about how to sign up for a card, we have particular people assigned to this task. There's some very important regulatory requirements of what we, as a licensed producer, can do and cannot do, and, obviously, we're very careful with that, but a lot of what we do is through doctors and pharmacists. We have the regulatory constraint, but we have people in the organization specifically assigned to this task, and the online segment, of course is very important, in the way society works now, so we do as much as we can.

Graeme Kreindler

Okay, understood. I appreciate the color there, Jim. Moving on, I had a question regarding the gross margin, and looking at it on an adjusted basis before any impacts from biological assets, this quarter seeing a bit of a sequential denigration from the Q2 period, so I was wondering if that was we're seeing an impact of the acquisition in this quarter, and potentially what to expect in Q4 and beyond. Can we expect to see things revert back to where they were in Q2, and potentially higher, as you continue to work on expanding that cultivation facility and improving the various processes within that? Thank you very much.

Jim Cacioppo

Kim will answer your question.

Kimberly Bambach

Yes, Graeme, you're exactly right. We did ingest PAMS in the middle of August, and part of that was purchasing accounting, fair valuing the inventory in progress, in growth stages. The margin was lower because we did take in Vireo's initial business economics at acquisition, but we've made a significant amount of changes in a very short amount of time and you're going to see that margin coming back up in all of our future quarters.

Jim Cacioppo

From a business standpoint, not looking at the specific trends or the margin, I mean, the operation that we took on had a very big plant that was underutilized and not run particularly well, in our view, so we have to make investment, which gets expensed, into that facility to get it to where we need to be. There's a curve of investment and then returns after it. I'm very confident that over the coming months—I don't know if it's two months or four, six months, but we're going to drive significant growth in terms of what we can sell in a market that's short—a least to flower products—significantly short to flower product. We're going to grow what we can sell, and we'll do better on the margin front as a result of the expenses being more front loaded.

Graeme Kreindler

Okay, understood, thank you for that. Then, my last question is, I just wanted to follow up regarding the comments made in the prepared remarks with respect to M&A. Can you give us any sort of color in terms of what the market looks right now, sort of how close or far apart buyers and sellers might be in terms of valuation expectations, and then if there's any particular targeted geographies or points in the value chain looking particularly compelling to Jushi right now, that would be much appreciated. Thank you.

Jim Cacioppo

I'm just writing this down, so I can remember. In terms of the sort of deal flow and the negotiation process, I think was your first question, the—I like to look at it as there's been a long hibernation. You've had a cannabis bear market—I like the history associated with that—you've had a cannabis bear market since—sort of we went public in May of last year, it sort of started. It may have been the peak, and then, you know, June. So, I think what we saw develop was a wide disparity between the ask, which is based upon historical valuations and access to capital, that didn't exist anymore, and some poor Management Teams acquiring companies at such a rapid pace in a vector virtually close to zero. I think our deal to acquire the assets of Vireo and the PAMS assets was one of the first deals that was done, and I think the market started to wake up. It's still in that wake-up phase, where people are kind of trying to figure out what's what. When I say "people," I sort of mean more the sellers. The buyers kind of know what they're willing to do and can do.

I recently looked at—we had our Board meeting yesterday and I looked at the deal flow, of what's been announced and what's closed. It's very, very minor. If you look back, compared to 2019, the first half of '19, and 2018, very, very minor deal flow. If you're sellers, you don't have a lot of choices. If you're a seller and want cash, you have even fewer choices. Sellers remain numerous. There's many, many distressed companies, as I keep saying, large ones and small ones that are public, in particular, that don't have robust access to capital, even though the capital markets have recovered. A lot of it has to do with their capital structures, they have too much debt, and also the track record of Management Teams. So, you have a robust group of sellers that really are out there, and they're on the sidelines, buying for sure.

So, what we see, is we see markets where the sellers are seeing no bid activity, by and large, very, very few transactions. The sellers, I think, remain somewhat confused and require handholding and education to understand how we would value them and what their possibilities are. For us, that means that we can offer them cash. Obviously, we have a very strong balance sheet, especially with this recent announcement we've made regarding the warrants. If they want some cash, there's very few people to do it, and then they have to understand the Jushi stock, as well, if they want to take part in that upside. So, it's just an education process. I think that it's hard work. We're very well positioned to do that, with our Business Development Group, that now has been active for three-and-a-half years, before we even started the Company, so we're very, very good at this, and we like the fact that people are confused and require a lot of handholding.

In terms of the value chain, which part of the value chain that we're focused on, we're focused on all aspects of the value chain, and vertical licenses, retail only. For example, Nevada, we have a grower-processor, we'd love to have retail. In Ohio, we have the middle of the chain, the processing, we'd love to have some cultivation or more retail. Then, California, we have a retail-only strategy at the moment. Then, in other markets, newer markets that are more developed, we look to get into—with the core of our growth, we look to get into the grower-processors.

I would say that the one note on value chain, if you're looking to get into a state that's very, very robust and very popular, like Pennsylvania, and you're looking for retail, you go back, that virtually doesn't exist. So, I think, in the robust states, there's a very big bid for retail and there's not a lot of it.

So, we feel, given how we small we are, that there's tons of opportunities, and we plan one another, whether—you know, for us, we're kind of agnostic. When we enter a new state, we're looking for the state plus the value, plus the growth, plus the management it comes with, and we can only do it one or two decent sized deals, so people have to be realistic, and there's lots of things we like.

Our target markets, listen, we would love to build out further in every one of our markets. Pennsylvania, obviously, we're very fully built out, we're building our own assets. Virginia, we're built out, we're building our own assets. Illinois, yes, we'd love to get a grower-processor, they're out there, and we could also buy more retail there, and they're out there. Maybe Illinois has looked too expensive, but people may be getting more realistic. Then, I mentioned how we'd like to build out the markets, you know, Ohio, California and Nevada already.

Then, in new markets, there's some good ones out there, I think we all know what they are. We have an advantage. In Massachusetts, we're one of the only public companies that can buy in Massachusetts. Why is that? We're not in it. There's a very limited number of buyers in Massachusetts. There's a half-a-dozen people who'd like to sell to us. Another half-dozen who wish we would talk to them, but we don't particularly love their assets relative to the first half-dozen. So, we like that supply/demand imbalance in a state like that, and that's giving you some examples. Thank you, Graeme.

Operator

Our next question is from Russell Stanley with Beacon Securities. Please proceed.

Russell Stanley

Good morning, and congrats on the EBITDA-positive quarter. I'm just wondering, with—I guess my first question, with respect to the same-store sales growth quarter-over-quarter, I guess that was both increased traffic and basket size, but are you able to break that down into those two components and comment as to the extent to which those trends have continued so far in Q4?

Jim Cacioppo

Yes, in terms of the same-store sales, I don't have those numbers in front of me, but Michael can get to you with the specifics, but from my view, I don't think the basket's changed all that much. I think it has more to do with more patients coming in, particularly in Pennsylvania, you know, sort of new patients coming in.

Opening new stores, when you open—I'm not saying same-store sales, obviously, but when you open a new store, there's a period of time where it becomes ripe. We have't been opening—we've opened—we had some popular stores that weren't ripe, for example, in Ardmore and in Reading, Pennsylvania, that were doing great. We also have some stores, like Scranton, Pennsylvania, there was construction going on in the main paths. We repainted the store. You didn't even know it was there. It's a fantastic, tremendous location. There's stores like that, that we turned around the store from acquisition. It was open before we acquired it, or shortly after we acquired it. They did the work before we really—the seller really opened it. So, we've had these ripening of stores. I think Scranton is probably the best example, where we're sort of turning around, I would say, a poorly positioned asset, and then newer stores, like Reading and Ardmore are getting ripe.

The silly thing is they come and go, because we shut them down. We had to shut them down during the protests in the second quarter, and then the third quarter, we've had some issues with what was going on in the city, we had to take some precautions around the election. We reduced hours, to make sure the staff got home safely, in case anything happened. So, there's always some oddities going on. There's some COVID issues going on, where you need to close stores once in a while to clean them up if somebody's caught COVID. Luckily, we've had everything very well under control. We have very good controls in place, to make sure that happens.

But, I would say it has a lot to do with the ripening of the newer stores and the patient count.

Russell Stanley

Great, that's great color. If I can move on to …

Jim Cacioppo

Kim just pointed out to me that the same-store sales count could be helped or hindered by the supply. Pennsylvania's been short flower. As we build our internal supply coming out of Scranton, Pennsylvania, and our PAMS facility, that will help us, I would think, gain market share. In a supply constrained market like Pennsylvania, supply is very important to driving sales.

Russell Stanley

Great, thanks for that addition, that's helpful. Just moving on to Virginia, given the Governor's recent statement of support for adult-use legalization, I'm just wondering if you can provide your latest thoughts. I'm getting greedy here. Because your first dispensary is due to open in a little more than a week, I'm just wondering if you have any thoughts around timelines for the additional five dispensaries that you can open in that market.

Jim Cacioppo

Yes, we have a call this afternoon. We have two that we have our eyes on, and they're in pretty good shape. The timeline for opening a dispensary in those markets—again, we're not really familiar with the Virginia market, opening a freestanding dispensary, because the one that's open is in our cultivation facility. It's a great spot, but it's in our cultivation facility. We've learned a lot about the local regulatory requirements and what the state requires.

But, the timeline from when you sign and when you say go, you know, the earliest you could do it is six or seven months, and shouldn't drag on more than 12 months, certainly, so that's a pretty wide range. But, we try to—in Virginia, for supply constraint, we'll make those decisions. We have things under our control that push it to six or seven months by—you know, by, frankly, spending more money and throwing more resources at it, and if we're in a supply constrained market, we'll make that judgment whether we want to spend excess capital on accelerating store openings.

We have a couple of great spots. I mean, tremendous spots are picked out. Obviously, with what's going on with COVID, the unfortunate circumstance, there's a lot of vacant retail, and so, fortunately, it does work in our favor, but I think the Virginia market will be supply constrained, not retail constrained. Remember, we can deliver to Manassas, so that's a tremendous advantage in a new market.

Russell Stanley

Great. If I could sneak one last question in there with respect to yesterday's expansion news for Pennsylvania. Understanding there's a first and final phase, I guess, can you elaborate as to how many phases there are and what the approximate scale would be of each?

Jim Cacioppo

Yes, we have those numbers. I don't want to publicly disclose them yet, because it's too early. We still require some permits and we haven't—we think we know the order of go. We know the first phase, of course, where it's already underway, but in terms of Phase 2, Phase 3, which there's two extra phases which are very expansionary only to our cultivation, we think we're doing—we're in Phase 2 right now, but that could change. Then, there is a Phase 4, which has to do with some excess properties that we're bringing into our property line, and those are further out there. So, it's a multi-phase project and they're not—Phase 2 and 3 are not too distant or in size, let's put it that way, and Phase 1 is smaller, but it's going to be much more immediate, because it's working within the existing facility.

Russell Stanley

Excellent, that's great color. Thanks, and congrats again.

Jim Cacioppo

Thank you.

Operator

Our next question is from Jason Zandberg with PI Financial. Please proceed.

Jason Zandberg

Thanks for taking my questions here. I just wanted to ask about your outlook on operating expenses. You've been in that range of $10 million to $12 million for the last six quarters. I was surprised this quarter, given your surge in revenue, that your Opex costs were still in much of a similar range, so great cost control on your part. I just wanted to know, in terms of modeling going forward, when—I would imagine that that isn't—that you would need to increase that to support $200 million to $250 million in sales next year. I'm just kind of wondering what the outlook is in terms of when we should expect to see Opex costs increase going forward.

Kimberly Bambach

Well, as we mentioned previously, we've fully built out our corporate structure to be able to ingest a number of acquisitions without having to increase our corporate overhead. The incremental increases in operating expense that you're seeing is really as we stand up new stores and new facilities or expand facilities, and we're hiring operating teams to manage those each individual facility. So, in general, you're going to see a much lower percentage increase in Opex versus our revenue growth.

Jim Cacioppo

The important component there is the corporate G&A. We have two large corporate offices, one in Boca Raton, Florida and the other in Denver, Colorado. Denver is where our cultivation, long history of cultivation and processing and manufacturing comes out of, and then we have smaller pods, very much small pods in Southern California and in New York. But, a substantial portion of our general and administrative expense is built out.

As we grow the Company, the hires tend to be—right now, the vast majority over the last three to six months, which haven't been that big, have been in accounting, you know, we have to account for this, and finance controls. So, that's one. Compliance would be much smaller. Human Resources is one that we're going to sort of gear up, but, again, it's not the senior people, it's down below the most senior person, but Human Resources may be the one area that we focus on a little bit more on the corporate G&A side. So, it's very incremental and we're substantially built out, and I've always said that in the last six months, that when we do acquisitions and grow, it's going to be very, very accretive, because we don't have to add much corporate G&A.

What Kim is talking about is state level expenses. Some of those, especially in the grower-processers, fall into the gross line, they fall into COGS, and so you don't see that in the operating expense, but state level, it's very much related to opening facilities, so the revenues far exceeds what you're putting into the state level.

Jason Zandberg

Okay. No, that's fantastic. I just wanted to—I don't know if you have any early read on the Santa Barbara retail location that was opened, I guess, probably just under a month ago. This would be the third store that exists in Santa Barbara. I just wanted to kind of get an idea, whether you have this sort of early read on either the run rate of that or just how it's been embraced by the community.

Jim Cacioppo

Yes, the Santa Barbara store, as you said, just opened up and it's too early for us to really talk about it much, and I will say that we anticipate—before we opened that store—you go into a market like California, where there's a robust existing market for cannabis, whether it's just those two stores or (inaudible) market or stores, people pick up their cannabis when they're in L.A. or wherever else they might be. There's robust supply in California relative to, say, like Illinois or Pennsylvania, of course. So, there tends to be a curve that you get on for six to nine months. It's not like—you know, hopefully, when we open up Sauget 2 in Illinois, which should happen in December, as long as we have it stocked with inventory, we think there'll be this very large sort of uptick.

But, I would say California is a very—most of the markets in these limited licensed markets, like Illinois and Pennsylvania, that we operate in, the product tends to go short and demand is increased, because people are using it more for medicinal purposes than adult-use purposes in Illinois, and so demand has been robust, and Illinois, until quite recently, more supply constrained, and Pennsylvania, it is supply constrained still. So, that tends to be the governor in those states, because there's such a massive unmet demand, that's a new market. Now, in California—so, with COVID it's exacerbated that because people are at home. We suspect—we don't know, but we suspect that they're using it more.

Now, in terms of California and in a market with robust supply, and it's also a state that's been shut down much, much more, and COVID-related, than at—look at some states, like Florida, for example, there are fewer tourists. Santa Barbara is a tourist market. You have 9 million tourists per annum that typically go in, and that's probably closer to zero. You also have a large university, the University of California Santa Barbara, they're not in session. So, it's a very COVID-affected market. The early returns in that market are COVID-related, I think, to some degree, but there is also on top of that a natural curve, and we'll get more (inaudible) on California as we go up that curve, as we get more comfortable with what's going on there.

Jason Zandberg

Okay, great, that's great color. Thanks very much.

Operator

Our next question is from Bobby Burleson with Canaccord. Please proceed.

Bobby Burleson

Hey, guys. Thanks for taking my questions. Nicely narrowing to the top end of the range for Q4, so you guys are seeing some healthy momentum. I'm curious if you could kind of touch on some of the elements of what's driving that upside.

Jim Cacioppo

Yes, I mean, I will say—thank you, Bobby—I will say the disappointing aspect is the store openings, which seem to take longer than you would like to, and I think that is COVID-affected, because you're relying on people who are outside your control. The general contracting crew could—somebody could come in and get COVID and they kind of have to shut it down. You can't get something that you used to. You require municipal or state approval and they're working from home and they're backlogged with other health-related things. So, the process moves slower than we would like. When we did that first, we hit that range of $25 million to $30 million, we took into account at the low end of the range some of the things that were out of our control.

I would say we—we've been disappointed by, particularly Sauget 2, that we thought we'd open that store maybe a month ago. If we could open that, that should be a very, very strong store for us, and that'll open, it looks like, mid-December, maybe even delayed a week from mid-December. That would be a negative, but that's offset by the organic growth, and the organic growth has been surprising up to the upside, which has allowed us to make the top end of the range. So, there's two offsetting factors there.

I view that as very positive, because I know the store openings are coming. We have two coming in Illinois, one in December and one in January. We have the Virginia store in December. We have some supply for the Virginia store, which is fantastic. Then, we have a tremendous number of stores being opened up in Pennsylvania starting in April. So, there'll be almost like one a month—not one a month, don't quote me for that, please, but almost like one a month for the rest of the year in Pennsylvania. So, there's a tremendous—that's why we feel confident about a great curve of growth going forward in 2021.

Bobby Burleson

Great, and then just touching on 2021, you've got about a 20% range in your guidance, from $205 million to $255 million top line. What are some of the key things we should be watching for as the year commences and progresses to get a sense for whether or not you guys are towards the middle or the high or low of that range? Are there some key specific projects, regions where there are store openings? What are probably some of the bigger factors in determining that outcome?

Jim Cacioppo

Sure. On organic growth, that may be in some ways the toughest thing to project, because it just kind of happens or doesn't happen. We have a lot of things under control. We're increasing the hours of operation, for example, we've done that in this quarter, and we're in the phase of increasing and analyzing whether it's cost effective, meaning we're making good margins in the off hours, meaning the worst hours when we were closed, but we're increasing—we're going through a max hours policy, basically. Very rarely will we not open max hours, as allowed by the regulatory authorities. So, we have things like that under control. We have beyondhello.com, which is driving traffic. I think 80% of our customers come in knowing what they're going to buy. We have things that sell day one. Our first store in Sauget, where we've had lines and lines and lines, and where we've added POSs, we've put in the plastic shields so we can service more, and we're changing the way the store goes. So, we have these things that we've done in our own stores that help to drive organic growth. So, that's one thing that's maybe the hardest to predict.

Number two is opening stores. I just mentioned the Sauget store. I'll take a look at how the new one does, or new Bloomington-Normal stores, we're very bullish on those stores.

Then, number three would be the stores in Pennsylvania. April, we expect to open another store in Irwin, which is a suburb of Pittsburgh. That's a very, very constrained market. Obviously, the Pittsburgh area is a very, very big market in Pennsylvania, the second biggest metropolis outside of the Philadelphia area. So, we have Irwin, and then we hope to open the one in downtown Pittsburgh, and then we expect to open one that's in University City in Philadelphia by June/July time. That one is right in the middle of—next to the University of Pennsylvania, Drexel University, you know, very robust traffic there. So, we have a tremendous number of great stores. We have one in Easton, which I really love. It's right by this A-grade mall, where everybody goes to shop, next to a Wawa. So, we have these great locations and we are opening one after another. So, keep track of that. I mean, that's kind of like you're supply constrained. These people tend to want to go. They want to go to (inaudible) dispensary if you have competitive product with a robust menu, which we believe we'll have.

The third factor would be growth of PAMS, which is our grower-processor. We have these expansions, and then we have the turnaround. So, two different things. The turnaround is taking something that would require a lot more management than they—and Capex dollars and operating expense dollars, meaning different layers of management, that would require a lot more than it was given. So, that's the kind of process where we're underway doing that. Again, not to go back to organic same-store sales growth, but it's a little harder to predict when that love and care and a little more attention and Capex and dollars spent on the operating expense side, when does that kick in. It will kick in, but that's something to follow, and then you have the first phase of expansion.

I think those are the big things on the upside. The only thing you have to watch for is new store openings, they've got new licenses. It seems to be—those things seem to be going slow because of COVID, and some regulatory stuff that's going on, that causes it slow down beyond COVID, so that may be a positive, that new stores could cause us to slow the growth rate in Illinois, if that happens sooner than we thought, and then—you know, listen, Virginia, it's supply constrained, a little bit of a wild card. It could really surprise us either way relative to our projections, and whether or not we're super aggressive with Virginia.

So, that's the stuff that's under our control.

The third factor is we have acquisitions. We're sitting here with—we raised $30 million in the equity offering that we recently—just under $30 million of net proceeds in the equity offering we did in October, and then we have this warrant acceleration that we just announced this morning, which should raise over $30 million, we think. It won't be determined for 30 more days, but we think $30 million more. So, that's $60 million. If I take $10 million aside of that, and put it to the side for a rainy day fund, I have a lot of buying power. We're not doing 100% cash deals with virtually anybody. So, we have a lot of buying power.

Now, do we get it in 2021? We have to sign a deal, we have to close the deal, and we have to get it into the year, and that's the tough part. I think if we do acquisitions, (inaudible), "Hey, when do you think that's going to hit your numbers? Is it the third quarter, is it the fourth quarter?" Unlikely the second quarter at this point, although that could happen, we have a small one where that could happen. So, there's things like that going on.

So, I think that's the rub between that wide range. I hope that helps you out, Bobby.

Bobby Burleson

Yes, it does help, and I appreciate the mention of the Wawa. I haven't heard anybody talk about a Wawa in a while. Yes, Virginia sounds …

Jim Cacioppo

Yes, they know how (inaudible) retail at Wawa. It's my favorite (cross-talking).

Bobby Burleson

Yes, they know what they're doing.

Jim Cacioppo

(Inaudible).

Bobby Burleson

And they sell scrapple. Okay, thanks a lot, guys, really appreciate that feedback, and I'm pretty excited about Northern Virginia. That's a really good metro area where you guys are, so maybe that will actually end up being something material to the upside. Thanks very much.

Jim Cacioppo

Yes, yes. Thank you.

Operator

As a reminder, it is star, one on your telephone keypad if you would like to ask a question.

Our next question is from Tom Carroll with Stansberry Research. Please proceed.

Tom Carroll

Hey, good morning. I would like to echo the enthusiasm that I'm hearing on the call here. You guys have done a great job establishing yourself and driving strong revenue growth, so congrats on that. My question is, as—really, I think it's important over the next 12 to 18 months— as the Company continues to grow again over the next 12 months or so, how will you build and test financial controls between kind of both the state operations and the corporate, and is this an active exercise within the Company at this point?

Jim Cacioppo

I'll start and I'll turn it over to Kim. Yes, it's an extremely active exercise at our Company. Kim is a very experienced CFO, she's done this many, many times. I have the distinction of having been an auditor before I went to business school. It's not something I've particularly bragged about, but that was the truth, though. So, I'm totally into total controls, I don't like surprises, and we sort of have that top-down, so the CEO pushes people and doesn't like surprises. So, we have a robust program.

So, to think (inaudible), before I turn it over to Kim, is I want, like, secret shoppers going around in Pennsylvania, our own people. I want people going to stores to see if they're doing what they're supposed to be doing. I want to build up an auditing staff for both compliance and financial control. We have a very large Accounting Department, Kim will give you the numbers, but we have a ton of checks and balances in the Accounting Department that would prevent any kind of fraud, or anything else. We have a lot of cash on the balance sheet, close to $100 million, I think, so we have to worry about—no, it's not close to $100 million, but I'm assuming the warrant proceeds go successfully. Sorry, that's (inaudible). But, we have a ton of controls around that, and if somebody lies to us—we recently fired an employee where there was some dishonesty. So, there's a culture of, you know, if you have a mistake, you bring it to us very, very quickly. If it's a significant mistake and you don't, you'll get fired, and that's an important thing.

Kim, why don't you talk more details.

Kimberly Bambach

Sure. Tom, my background is actually in high-growth startups, and I worked in a number of different industries, and I've also have a public company background in the U.S. I did go through (inaudible) in the early 2000s, as well. So, a lot of my background and history put into place, but it was really important to me to put in place financial control systems, process, documentation very early, from day one, from the first acquisition that we acquired.

We did actually stand up a financial service center very early, knowing that we were going to be highly acquisitive, which results in us ingesting acquisitions within the first 60 days into a centralized financial system, financial service center, the same financial system, POS systems, tracking of KPIs. We work really closely with the Senior Management Team to monitor very closely all of our acquisitions and our operating businesses.

In addition, we stood up very early a Compliance Team, as well, working with our Legal Department and Regulatory, in order to ensure that we are compliant with all local and state rules in regards to our operation of cannabis facilities in those states.

We actually work really closely, as well, with our auditors MNP, who work with us to do quarterly and annual inventory counts and assessment of our fair value of inventory, as we are both cultivating and manufacturing. We will continue to evolve that, and right now, as a venture company on the CSE, we don't certify the controls, but we absolutely have them. We're in one of the most highly regulated industries there is and there's no question that our procedures and our policies exceed anything that normal U.S. SEC companies are required. But, it's important to us, we wouldn't do it any other way.

Jim Cacioppo

Yes, and I'll just end it by saying, you know, listen, I've operated in a highly regulated industry, in financial services, running, starting and building multi-billion-dollar hedge funds, so I was at the top of the chain, and there was always lots of regulators who would love to take down hedge fund people. We were always big into culture. We fired a bunch of people already at Jushi who have done the wrong thing. So, it's something that we do.

Tom Carroll

Wow! A lot of laughing when you talk about firing people. That's excellent.

Kimberly Bambach

There's nothing serious that has occurred.

Jim Cacioppo

No, but, I mean, seriously, if you don't do your job, and it could be something like a COVID thing, where you didn't alert us to a COVID thing, it could be little things, you need to alert us when there's a problem. That's the culture. Things happen every day in a retail environment—not every day, but certainly most months there is something that's going to happen. What you're supposed to do is give it up to the food chain and then our legal people, compliance people figure out if we need to alert the regulators, or whatever. Those little things happen. You've got to—we've got too many employees, we have almost 500 employees. You have to have a culture of zero tolerance for dishonesty and not putting up the chain of command. If you're running a business this large and have a regulated business, you have no other choice.

Tom Carroll

Yes, that's great, that's a very good answer, very positive. I just worry that as this industry reaches a tipping point, you know, from a political and regulatory and just acceptance standpoint, that some of these companies, including yourself, that continue to get bigger and bigger and bigger, maybe lose sight of some of the financial controls. So, any update you can give us on that in future quarters is appreciated. Thank you very much.

Jim Cacioppo

Great, thank you, Tom.

Operator

We have reached the end of our question and answer session. I would like to turn the conference back over to Jim for closing remarks.

Jim Cacioppo

Thank you for participating on today's conference call. We would like to invite those of you listening to join us at our upcoming conferences and events, including Cowen's Third Annual Boston Cannabis Conference on December 1, and Cantor Fitzgerald's Virtual MSO Cannabis Summit on December 16. Have a great day and look forward to speaking with you again soon.

Operator

Thank you. This conclude today's conference, you may disconnect your lines at this time, and thank you for your participation.