FINAL TRANSCRIPT

MariMed Inc.

Fourth Quarter 2022 Financial Results Conference Call

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PRESENTATION

Operator

Good morning. My name is Michelle, and I will be your conference Operator today. At this time, I would like to welcome everyone to the MariMed Inc. Fourth Quarter 2022 Financial Results Conference Call. All lines have been placed on mute to prevent any background noise.

After the speakers' remarks, there will be a question-and-answer session. If you would like to ask a question during this time, simply press *, then the number 1 on your telephone keypad. If you would like to withdraw your question, please press the *, and then the number 2. Thank you.

I will now turn the line over to Steve West, Vice President of Investor Relations, to begin the conference.

Steve West — Vice President, Investor Relations, MariMed Inc.

Morning, everyone, and welcome to MariMed's fourth quarter and full year 2022 Earnings Call. Joining me on the call today are Jon Levine, our Chief Executive Officer; Tim Shaw, our Chief Operating Officer; and Susan Villare, our Chief Financial Officer.

This call is being recorded and will be archived on our Investor Relations website.

Today's call contains forward-looking statements. Actual events or results may differ materially from these forward-looking statements and are subject to various risks and unknowns. A discussion of these risks and other factors is contained in our SEC filings and our earnings release, which are available on our website. Any forward-looking statements reflect management's expectations as of today, and we assume no obligation to update them unless required by law.

Additionally, we will refer to certain non-GAAP financial information. A reconciliation of these non-GAAP financial measures is included in our earnings release and our supplemental slides.

Finally, our first quarter 2023 earnings release is tentatively scheduled to be issued after the market closes on May 8, 2023, and our subsequent analyst call will be held the morning of May 9, 2023.

I will now turn the call over to Jon.

Jon Levine — Chief Executive Officer & President, MariMed Inc.

Thank you, Steve, and good morning, everyone.

I'm pleased to report that MariMed had another solid quarter of financial and operational results. Our revenue continues to grow year over year and quarter over quarter. We invested in our core foundation throughout 2022, positioning us for long-term growth. We reported our 12th consecutive quarter of positive adjusted EBITDA. And we are very proud to share that for the third consecutive year, we generated positive cash flow from operations. Quite simply, MariMed has set itself apart as one of the most financially sound companies in the cannabis industry.

From an organic perspective, MariMed constantly outperformed competition throughout 2022 in terms of sales growth in the markets where we operate. In addition to our strong organic growth, we were very active in M&A with the acquisition and consolidation of our Maryland vertical operation, which allowed us to open our dispensary in Annapolis in the fourth quarter; the acquisition of an Illinois craft grow licence and dispensary licence; and the acquisition of a Missouri processing and distribution licence. We also completed the construction of an adult-use dispensary in Beverly, Mass. And finally, we applied for and we were awarded a new medical dispensary licence in Ohio. We are very excited for Ohio and Missouri, two newest high-growth markets.

MariMed was also very active in marketing in new product development in 2022. We launched in-house a full suite of high-quality products at affordable pricing, which has already grown into one of the largest brands in our portfolio. We also launched Vibations, a high-energy drink mix which gives customers a convenient and affordable way to enjoy cannabis as a beverage. And we continue appealing to our core high-end customers by innovating our award-winning premium brands with new products such as Betty’s Eddies ice cream and Nature’s Heritage Live Flower.

Looking forward, in 2023, MariMed will continue to focus on going deeper in our core footprint by expanding our existing facilities and into new ones. Our $35 million credit facility provides us with capital necessary to accelerate our growth. Susan and Tim will give more detail, but we expect meaningful acceleration of growth in the back half of 2023, which should continue to build throughout 2024.

We continue to have one of the strongest balance sheets in the industry. In addition to growing our existing footprint, we are well positioned to grow through transformational acquisitions if we choose to. Our philosophy and approach have always been that any transaction must be accretive and improve long-term shareholder value. I am very excited for the next couple of years as MariMed strengthens its position as a leading cannabis company.

With that, I will turn the call over to Tim for his operational update.

Tim Shaw — Chief Operating Officer, MariMed Inc.

Thank you, Jon, and good morning, everyone.

Let me start my operations review with our retail business, where we increased revenue 5 percent sequentially compared to the third quarter. Throughout the year, we increased advertising, launched a new customer loyalty program, shifted our operating hours, and invested in technologies to improve the customer experience across our entire retail base.

According to BDSA data, our key states experienced declining or slowing revenue growth in 2022. However, I am pleased to report that we outperformed the industry in every quarter this past year. We took the bull by the horns, and all of our proactive traffic-driving initiatives clearly paid off.

Now let's talk about our wholesale business. Wholesale sales increased 9 percent sequentially in the fourth quarter, driven by our strong performance in Massachusetts, which grew sequentially for the fourth consecutive quarter. Maryland also had a strong quarter and grew 31 percent sequentially. We continue to see strong demand for our branded products in both Massachusetts and Maryland, and we are investing accordingly to keep our outsized growth in these states on track.

According to BDSA data, Nature's Heritage finished the year as the number one flower brand in the state of Massachusetts. We literally do not have enough capacity to meet the demand for our very special premium flower.

Looking ahead, I'd like to talk about some of our plans for '23. We have eight, yes, eight construction projects planned across five states, making this the most active year of construction in our company's history.

In Maryland, now that adult-use sales have been approved, we will continue the expansion of our cultivation facility, and prepare our Annapolis medical dispensary for recreational sales.

We recently received GMP certification for our Hagerstown kitchen, and are waiting a regulatory approval to reintroduce high-dose Betty's Eddies, which were our top seller prior to the law change in '21.

We are continuing to build our craft cultivation and processing facility in Mount Vernon, Illinois, which will allow us to begin selling our branded edible products at our retail stores and through wholesale channels.

In addition, we are constructing an adult-use dispensary in Casey, Illinois, which is located in the state's Eastern Central region and will be our fifth dispensary in the state.

We believe '23 will be a big year for us in Massachusetts. We are waiting for final approval to open our adult-use dispensary in Beverly. We are also awaiting final approval to close on our recently announced acquisition of a medical cannabis operation in Quincy, the seventh largest city in the state. We are applying for an adult-use licence for the Quincy dispensary, and plan to immediately expand the site to accommodate the anticipated increased customer traffic. We plan to offer delivery service out of this new dispensary to the city, as well as surrounding areas, including Boston.

We will also plan to repurpose the Quincy cultivation facility for our pheno-hunting processes, which is currently done in New Bedford, Massachusetts. This will provide us with much needed increased capacity to expand the grow for our Nature's Heritage flower.

Moving on to Missouri, which just began adult-use sales in February, we have started construction of a new processing kitchen, which will allow us to manufacture and wholesale our entire portfolio of branded edibles, vapes, and pre-rolls.

Finally, in Ohio, we are building a medical dispensary in Tiffin, which will be our first foray into this rapidly expanding medical program.

We believe our wholesale and retail operations are well equipped with the necessary processes and personnel. We intend to continue increasing our sales and marketing efforts to support our operations. For example, we are exploring recent developments such as Twitter's announcement to allow cannabis advertising.

Before turning the call over to Susan, I'd like to extend my congratulations to Jon for his well-deserved appointment as CEO. Jon took on the role on an interim basis when my dear friend Bob passed away. And I can tell you he did it flawlessly, keeping our team's spirits high and making sure we stayed laser focused on our growth plan. I know I speak for the other members of our leadership team when I say we know Jon will continue to do an unbelievable job.

I now turn over to Susan.

Susan Villare — Chief Financial Officer, MariMed Inc.

Thank you, Tim, and good morning, everyone. I'd like to start with a brief recap of our fourth quarter and full year 2022 financial results.

Total revenue was $35.8 million in the fourth quarter, which increased 15 percent year over year and increased 6 percent sequentially. For the full year 2022, we reported revenue of $134 million, which was up 10 percent versus the full year 2021. To give some context, fiscal 2022 marked the fifth consecutive year of double-digit revenue growth. Our year-over-year growth both in the fourth quarter and in the full year was driven by our retail and wholesale operations, partially offset by lower revenue from other sources such as rental income and management fees from the consolidation of our Maryland operations.

Moving to gross margin. Our non-GAAP gross margin for the fourth quarter was 44 percent compared to 50 percent in the comparable period in 2021. Non-GAAP gross margin for the full year was 48 percent compared to 55 percent in fiscal 2021.

Fourth quarter and full year gross margins declined due to inflation in our input cost, increased headcount, and a shift away from higher-margin management fees after we consolidated our Maryland operations in April 2022. We are focused on driving margins back up to 50 percent once our in-play assets are fully operational.

Moving now to non-GAAP operating expenses. Our non-GAAP operating expenses for the fourth quarter was $12.5 million compared to $7.8 million in the comparable period in 2021. Non-GAAP operating expenses for the full year 2022 was $35.5 million compared to $25.6 million last year. The increase in non-GAAP operating expenses for both the fourth quarter and the full year were due to planned increases in both personnel expenses and marketing programs to support our strategic growth initiatives.

Our adjusted EBITDA for the fourth quarter was $4.5 million compared to $8.3 million in the comparable period in 2021. For the full year 2022, our adjusted EBITDA was $32.4 million compared to $42.8 million in 2021. Our adjusted EBITDA in the fourth quarter and full year declined versus the previous periods due primarily to a one-time non-cash bad debt reserve of $3.7 million, as well as planned increases in operating expenses to support our growth plan.

Now turning to our balance sheet, we ended the year with $9.7 million of cash and equivalents. After closing our recently announced credit facility, our cash balance was approximately $30 million, which included paying off our Kind seller note and our cash taxes for 2022. Our networking capital increased to $17.6 million at the end of the fourth quarter compared to $13.6 million at the end of the third quarter.

I would like to now turn to our 2023 financial outlook. As you know, new cannabis operations are 100 percent dependent on obtaining regulatory approvals, and we have tried to incorporate a high degree of conservatism in our assumptions.

Our full year 2023 financial outlook has the following embedded assumptions. We assume competition in Illinois will increase due to numerous social equity dispensaries and Missouri adult-use sales coming online. We assume stable pricing conditions in Massachusetts and stabilizing pricing conditions in Maryland. We projected no revenue from adult-use sales in Maryland, which could commence in the back half of the year and would be upside to our guidance. Additionally, we assume no acquisitions other than what we have already communicated.

As it relates to our 2023 operating expenses, we are pushing very fast this year to open several new revenue-generating assets, which means initial spending will increase at a faster pace than our revenue growth.

Our full-time headcount will increase from approximately 600 employees to 800 at the end of 2023. This is needed to staff all these new and expanded facilities months ahead of their official opening.

We plan to expand our product manufacturing capacity in both Massachusetts and in Maryland. We also plan to ramp up new wholesale businesses in Illinois and Missouri. Accordingly, we plan to increase our sales and marketing expenditures at a faster rate than our revenue growth.

So considering all these factors, our 2023 outlook is as follows: Revenue of at least $150 million; non-GAAP gross margin consistent with full year 2022, which was 48 percent; non-GAAP adjusted EBITDA of at least $35 million; $30 million of CapEx spend; and within our outlook, I also want to point out some specific line items for your modelling purposes. We currently expect to pay $10 million to $12 million in taxes and approximately $7 million in interest expense for the full year 2023. We do expect modest revenue growth in the first half of the year and more meaningful growth in the back half of the year as these investments in new and expanded facilities come online.

That concludes my review of our financial results and outlook. So at this time, I'd like to turn the call back to Jon for his concluding remarks.

Jon Levine

Before I close, I want to take a few moments to recognize my brother and dearest friend Bob Fireman, the co-founder of MariMed and our former CEO and Chairman. Bob was a pioneer in the industry, always giving of his time to help anyone. It didn't matter if they were a competitor; he just wanted to help people.

His passing was hard on everyone at MariMed, but especially me. I loved and respected Bob very much. Bob's lasting legacy at MariMed is that we created one of the most financially sound companies in the industry with a family-like culture that fosters respect and passion from the top to bottom.

Together, we assembled a robust executive team and developed a proven strategic growth plan and roadmap for us to follow and achieve continued success. We will miss him terribly, but we are all fully committed to carrying on his legacy to grow MariMed into the leading cannabis operator we always envisioned. I am incredibly proud of our company working together from top to bottom to deliver the highest-quality products to our patients and customers.

While we expect 2023 to continue to be a challenge for consumers, we believe there is a light at the end of the tunnel with respect to rising inflation and interest rates. Good and bad economies come and go. They are never consistent. What will remain consistent is MariMed's focus on what we do best. Our operational and financial discipline has provided us with some of the best fundamentals in the industry.

I am a diehard sports fan, and I can't wait for the NCAA tournament to begin. Forgive the comparison, but if cannabis had its own version of March Madness, I think MariMed would be the Cinderella story. We earned our way into the tournament, but no one gave us a shot to win. I watch our team every day, and I know that we have what it takes to win the championship.

In all seriousness, assuming no delays, 2023 should be another year of accelerating revenue growth, with 2024 reflecting the full impact of all investments we made over the past two years. As Bob always said, I would encourage you to continue watching the MariMed story.

We'd like to thank all the MariMed employees for their hard work and dedication. It's your efforts that keep us as the top player in the industry.

Operator, open the line for questions.

Q&A

Operator

Thank you. Ladies and gentlemen, we will now begin the question-and-answer session. Should you have a question, please press the *, followed by the 1 on your touch-tone phone. You will hear a three-tone prompt acknowledging your request. Should you wish to decline from the polling process, please press the *, followed by the 2. If you're using a speakerphone, please lift the handset before pressing any keys. One moment, please, for your first question.

The first question comes from Andrew Semple of Echelon Capital Markets. Please go ahead.

Andrew Semple — Echelon Capital Markets

Hi there. Good morning, and thanks for taking my questions. First of all, congrats on the quarter. Also, I just want to echo my respect for Bob. I know that's a sentiment felt across the industry and the investor base.

So moving ahead to my questions. I just want to start with gross margins in the quarter. Could you maybe spend a little bit more time breaking down the largest drivers behind the impacts there? I noted in the prepared remarks you mentioned higher costs and a decline in high-margin management service revenue in the quarter. Could you maybe speak to the proportional impact of those items and whether any other factors may have been at play?

Susan Villare

Sure. Thank you. This is Susan. And yeah. I mean, there was really nothing other than we are ramping a lot of the facilities that we've talked about. And so as we're kind of pushing in automation and also getting ahead of that, we did have a little bit more overhead than we will once the volumes ramp up.

Additionally, when we were going through that, we did have some reviews of different reserves, and we do standard stuff that you do at year-end. But we are on track to be driving to 48 percent and better for the full year next year. So we are focused on that. And it was a great quarter for revenue. And with lower margin on the wholesale/retail compared to the higher margins on the management fees, it was just really a shift. That was it.

Andrew Semple

Great. And it’s good to hear your confidence for the gross margin levels improving from Q4 in the year ahead. I’d be curious to hear where you’re expecting the largest drivers of margin expansion relative to Q4 to come from in 2023 and how timing-wise those drivers might play out throughout the year.

Susan Villare

Yeah. I mean, a lot does depend on the opening of some of these dispensaries we announced. So we’re hopeful that we will have Beverly and Quincy online. So that will be a big driver there. So we will have the full footprint of dispensaries.

And then additionally, as we’re ramping the wholesale operations, once they get live, Illinois is a big push for us, but we will be hiring people probably two months before we’re actually selling product. So I would say you’d see really healthy margins in the back half of the year. But I think we’re at a low watermark for Q4 that they will be improving in Q1 and Q2.

Andrew Semple

Great. And it’d be interesting to hear some colour on what’s happening with Delaware. The higher-margin management service revenues were down a bit quarter over quarter, and I think that mostly pertains to that state. Could you elaborate on market dynamics in that state? And how should we be thinking about Delaware and management service revenues into 2023?

Jon Levine

Yeah. Thank you, Andrew. This is Jon Levine. Thank you for your opening comments about Bob also.

Delaware is a strong market still. We’ve just been working with the group in Delaware to improve some of their margins, again, because the market throughout the US has had price reduction. So we’ve been working with them on their margins. So we have had to work with them to reduce some of our fees on a short-term basis to help them rebuild and revamp some of their services. We expanded in 2022 into the kitchen where we brought in all of our product lines. And they’re doing very good, it’s just that the ramp-up and the cost to start that did affect them. So we’ve been working with them.

Andrew Semple

Understood, and that’s helpful. Well, thank you very much for taking my questions, and I’ll get back into queue.

Operator

Thank you. The next question comes from Aaron Grey, Alliance Global Partners. Please go ahead.

Aaron Grey — Alliance Global Partners

All right. Thank you. First and foremost, I am very sad to hear of Bob’s passing. I had nothing but great interactions with him over the years, and he’ll certainly be missed within the industry.

So one of my questions would kind of go back a little bit to the gross margin. But just want to dig a little bit into Massachusetts specifically, where I think you guys talked about stable pricing conditions in that state, obviously, one that’s seen a little bit more pricing pressure in 2022. So just wanted to know in terms of what’s kind of driving expectations for stabilization, especially with some of the neighboring states of Connecticut and Rhode Island beginning adult-use sales. Thank you.

Jon Levine

Thanks, Aaron. I'll let Susan speak more to the margins on the individual states. Yes. There was pricing pressure within Massachusetts, but that pressure, really, we didn't follow the market down. We've been able to stabilize our prices still at a very high level, as our quality of products demands the upper pricing. So we're considered a top shelf. Nature's Heritage was the number one selling flower in Massachusetts. So our product has been able to maintain the higher prices on the market. And I'll let Susan speak to the margins.

Susan Villare

Yeah. And then just to add on that, I'm looking at the Massachusetts, and we kind of track, obviously, each of the states in the industry. And we saw Mass for our competitors drop this quarter by 3 percent their revenue, and year over year by 1 percent. And we were, in the quarter, up 2 percent, and year over year 6 percent. So as Jon said, and Tim, we are selling out of Nature's, we are holding the prices, and we think we have a premium product portfolio to offer.

Jon Levine

Your question about Rhode Island and Connecticut and what kind of an effect it's having. We, as you know, have a partner in the Slater Center in Rhode Island, and their adult use has started down there. And they're seeing sales, but there's not a big increase in sales of people coming across. They still do a lot more medical program down there.

So we're not seeing a huge effect. I think that is a very competitive market. Our stores are not near the Rhode Island border, but we have customers that are on the Rhode Island and Connecticut border, and some that are in the New York border. And you will see some start of the reduction of sales in those areas, but I don't see it being a big effect 'cause they're very competitive here in Massachusetts to those states.

Aaron Grey

Okay. Great. Thanks for that colour. That's really helpful.

And the second question from me. I know you guys mentioned potentially utilizing Twitter now, and branding has been big for you guys. So just wanted to get some further colour maybe, just with the rule change from Twitter, how exactly you'll be able to utilize that to further advertise for the Company or your brands, just incremental colour, exactly how you (unintelligible) and plan to do that on state-by-state basis. Thank you.

Jon Levine

Yeah, Aaron. I believe we made it in the statement that we're putting more money into our marketing group to really push our brands. Our marketing department has done a lot of great work and are prepared now to actually be able to put real commercials on a Twitter-type basis with some fun type of videos and other things. We just find it as a better means of communication to the consumer, and we're excited about the fact that that market's starting to open.

Aaron Grey

All right. Great. Thank you very much for the colour, and I'll jump back to the queue.

Operator

Thank you. Once again, ladies and gentlemen, if you do have a question, please press *, 1 at this time.

The next question comes from Jon Decourcey of BTIG. Please go ahead.

Jon Decourcey — BTIG

Hey, guys. Good morning. Congratulations on the continued execution here. Just to follow up on the Massachusetts pricing environment, kind of two questions there is, number one, how will the mix shift with the opening of the Beverly store—knock on wood—as well as the Quincy store in the near term, how is that mix shift—what's that going to look like from wholesale to retail? And how's that going to impact your margin since you guys seemingly wouldn't get the same boost from vertical integration that others get just because you're doing so well with the wholesale side of things?

Jon Levine

Thank you, Jon, and good morning. I'm going to let Tim Shaw speak about the mix, and Susan can add in anything on the margin. Tim, do you want to take away that answer?

Tim Shaw

Sure. Thanks, Jon. Appreciate your call.

The mix going between our retail and our wholesale is the exact reason why we are expanding in our cultivation and production areas in Massachusetts. The Quincy acquisition, which we announced recently, allows us to take all of our R&D out of our production floor. So pheno-hunting takes up space during production. Our R&D in the kitchen and in the lab takes up space, time, and effort that we're going to now be able to move to our Quincy location, allowing us to produce more out of our New Bedford facility. That's going to partially allow us to sustain a wholesale revenue while fulfilling the needs of our new dispensaries.

Jon Decourcey

Okay. Great.

Susan Villare

Yeah. And I think, just to add to that on the margin basis, I think we did announce the Quincy where Tim's going to be moving the pheno-hunting. So we will have a few rooms that we'll be able to add grow that I think both the revenue and the margins will increase. So we do have a very strong following.

We sell to over 200 dispensaries in Massachusetts. And we're delighted that Quincy, where we are, they haven't really held their product, but for the last few months, and it's been really well received. And folks on the North Shore are really excited to get our award-winning products. So we are ramping production that we'll continue to have plenty to supply the three new dispensaries, or two and one existing. And so, yeah. It's a good time to be in Mass for MariMed.

Jon Decourcey

Okay. Great. And then you guys talk about the Heritage flower share gains and continued strength there. Just about every one of your peers is talking about a trade-down effect to more value-oriented purchasing. How is it that that, you know, it seems like this premium product is kind of negating that trend in this inflationary environment. How sustainable is that? And how are you guys achieving that?

Tim Shaw

Great question, Jon.

Jon Levine

We opened up in the statement that we launched our in-house brand, which is our entry-point product, which has taken off like a bullet, and it's one of the top products that we have. Then we have Nature's Heritage, which is the top-shelf line, which helps us maintain the higher pricing. So we are able to compete at both levels. We are working on maybe a mid-level so that we can have the whole market covered. But our success in being able to keep up our revenue and our wholesale businesses has been the success of adding in-house to our Nature's line without giving up the quality.

Jon Decourcey

Okay. And is it performing similarly in other states? Or just Massachusetts where it's really outperforming?

Jon Levine

No. We are doing that in every market that we're going into. Tim can talk to each of the markets if he'd like.

Tim Shaw

Yes. So Massachusetts is definitely—Nature's is held in the highest regard in that state. Maryland, as you know, we just took over ownership of Kind Therapeutics. There was a few years that we didn't have the controls in that market, and we lost some market share. However, the brand is clawing its way back to top tier in the state, and we look forward to adult use coming on board. And we are very confident we'll be back in the top tier this year.

Jon Decourcey

Okay. Great. And I'll hop back in the queue.

Operator

Thank you. Once again, ladies and gentlemen, if you do have a question, please press *, 1 at this time.

There are no further questions at this time.

Operator

Ladies and gentlemen, this does conclude your conference call for today. We thank you for your participation and ask that you please disconnect your lines.

Jon Levine

Thank you.