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Ascend Wellness Holdings, Inc.

(AAWH.USD.CA)

Q1 2024 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning and thank you for standing by. Welcome to AWH's First Quarter 2024 Earnings Call. I'd now like to hand over the conference to your first speaker today, Rebecca Koar, Executive Vice President of Investor Relations and Strategy. Please go ahead.

Rebecca Conti Koar
Executive Vice President-Investor Relations & Strategy, Ascend Wellness Holdings, Inc.

Good morning and welcome to AWH's earnings call for the first quarter of 2024. The presentation that accompanies this call can be found on the Investor Relations section of our website.

Before we proceed, I would like to remind you that the following discussion and presentation contains various forward-looking statements or information. These forward-looking statements or information are subject to risks and uncertainties that may cause actual results to differ from historical or anticipated results. For more information on these risks and uncertainties, please refer to slide 2 of this presentation, today's earnings release and our SEC and SEDAR filings, including our most recent report on Form 10-K. We encourage you to review these materials carefully.

During today's call, we will be referring to non-GAAP financial measures such as adjusted EBITDA. Reconciliations to the most directly comparable GAAP measures are in the appendix of the presentation and in our earnings release.

On today's call, you will hear from John Hartmann, Chief Executive Officer; and Mark Cassebaum, Chief Financial Officer.

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With that, I'll turn the call over to John starting on slide 4.

John R. Hartmann

Chief Executive Officer & Director, Ascend Wellness Holdings, Inc.

Thanks, Rebecca. Good morning, everyone, and thank you for joining our first quarter earnings call. I'd like to express my appreciation to all our key stakeholders, our patients and customers, shareholders and lenders, business partners, and especially the Ascend team for their hard work in delivering a solid first quarter to jump-start the year.

I'll begin my prepared remarks by providing an update on the quarter and then discuss our retail and wholesale segment. Next, I'll hand it over to our CFO, Mark Cassebaum, who will give a detailed update on our financials and offer an outlook for the remainder of 2024. Finally, I'll wrap up our comments by highlighting several of the key points of Ascend's investment thesis before opening the floor to questions.

Turning to our performance this quarter, we were very pleased with the results. Our total revenue net of intercompany sales reached $142 million, marking a 25% increase over last year. This growth was driven by the opening of eight new dispensaries, the acquisition of four dispensaries in Maryland, and our robust wholesale business. Additionally, our adjusted EBITDA stood at $32.5 million, up 39% from last year coupled with the significant year-over-year margin expansion of 239 basis points.

Following our first full year of generating positive cash from operations and positive free cash flow, we're happy to report that the quarter again concluded with positive cash flow from operations. Despite expected quarterly fluctuations in free cash flow generation, we continue to plan to produce positive cash from operations and positive free cash flow for the full year.

Moving on to other significant catalysts, we were very pleased to learn that the Drug Enforcement Agency agrees with the Department of Health and Human Services' recommendation to reschedule cannabis from Schedule I to Schedule III. This is a historic milestone in the most progressive move in cannabis reform in decades. This action not only reinforces our position regarding Section 283 of the tax, which should also improve access to capital, remove barriers for patients and customers, and help to further reduce industry stigma. Based on our understanding of the process ahead, we expect the rescheduling will be finalized before the election.

We view this [audio gap] 00:04:22 as the first domino of many to fall towards continued federal reform. From a judicial perspective, we continue to actively be involved in an industry coalition that is challenging the DOJ's enforcement of the Controlled Substances Act against state regulated cannabis businesses. This case is progressing through the lower courts, with oral arguments scheduled to occur at the end of this month. We are committed to pursuing this case, hoping it ultimately reaches the Supreme Court.

While we track and welcome these important in industry building changes, we remain intensely focused on executing our growth plans, which in large part are not reliant on regulatory change. From a business perspective, as I mentioned, we had another solid quarter bolstered by our fifth consecutive quarter of wholesale growth. We continue to aggressively pursue the retail partnership strategy with social equity license deals. This approach, combined with our impressive post-sale growth, is and will offset increased retail competition in New Jersey and Illinois.

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We see a clear path to expanding our footprint by over 50% through our planned growth and partnership strategy. Additionally, at the state level, we are anticipating adult use to begin in Ohio before the start of summer and we have readied all five reference stores to welcome a multiple of customers to what we serve today.

Further to stores we operate today, We believe there's a path to adding three stores to our Ohio footprint and are actively pursuing these locations.

From a financing perspective, we are well-positioned to reduce our debt balance and extend our debt maturities. The $73 million of cash and equivalents that we ended the quarter with, combined with our cash flow generation ability, places in a strong position to repay a portion of our current term loan. In April, we began a Dutch auction process declaring our intent to buy back up to $20 million of our outstanding term loan. The auction process closed on Friday with no lenders tendering their debt for purchase by the company. This is clearly positive feedback in the company's current credit position and bodes well for the coming refinancing.

In regards to refinancing, we've had very constructive conversations on our term loan that is due in Q3 of 2025. Over the past few months, we've actively sought feedback from both existing and potential new members, receiving several indications of interest. We have carefully balanced the need to address this debt promptly with the potential for a more favorable environment in the future. Our working plan is to have the refinancing completed before it becomes current.

Let's move on to slide 5 to discuss the retail business in more detail. As mentioned earlier, since the start of 2023, we have opened eight new dispensaries, two of which were launched in Q1 of 2024. Combined with our acquisition of four dispensaries in Maryland, which transitioned to adult use in July, these new operations have contributed to a 15% increase in retail sales year-over-year. However, as anticipated, retail sales were down 2% sequentially due to increased competition in New Jersey and Illinois. Our retail revenues for Q1 were $95 million, accounting for 67% of the company's consolidated net revenue. Notably, 51% of our retail sales came from products we produced, either under our own brands or for our partner brands. This increase in penetration reflects their strategy of capturing vertical margins, while offering customers extensive product choices.

Our loyalty program continues to thrive, supporting both new customer acquisition and customer retention. We are committed to investing in this program due to the significant returns it delivers. Currently, 89% of our customers and patients join our loyalty program by the time they leave our stores, and we are actively exploring ways to further invest in and target these customers.

Additionally, we have seven new dispensaries in the pipeline across our existing states, which aligns with our strategy to densify and scale in our existing markets. In Pennsylvania, we have three additional owned licenses. We are on schedule to open our dispensary in Cranberry, Pennsylvania in Q3, in Whitehall, Pennsylvania in Q4, with one more license we are in the process of signing. We expect to have six dispensaries in Pennsylvania open by year's end.

In addition to our fully-owned dispensaries, we are expanding our pipeline of partner dispensaries. As discussed on our Q4 call, we are actively seeking opportunities to enhance our market presence and retail shelf space by partnering with social equity license holders. We are in the process of finalizing agreements with two dispensaries in Illinois expected to open this month. A third partner dispensary in Illinois mentioned in our last call is set to open in Q3. Additionally, we have secured a partnership with a dispensary in Little Falls, New Jersey, slated to open just after the start of 2025. This is just the beginning, and we are appropriately enthusiastic about the substantial opportunities ahead for our partners and us as we accelerate this growth approach.

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Let's move to slide 6 to discuss our wholesale business. I'm pleased to report a positive change in the ranking of our brands due to the hard work of our product development, operations, sales and marketing teams. Our house of brands, which includes Common Goods, Simply Herb, Ozone, Ozone Reserve, and Royale has ascended to become the third largest in the three primary markets where we compete from a wholesale perspective. Maintaining and enhancing this position remains one of our key priorities.

In Q1, our gross wholesale revenue grew by 35% year-over-year to $79 million, driven primarily by increases in New Jersey, Massachusetts and Pennsylvania, though partially offset by declines in Illinois and Ohio. Excluding intercompany sales, our net wholesale growth surged by 50% from last year and 10% from the previous quarter to $47 million. This growth in third-party sales was notably supported by a 40% increase in third-party doors, primarily in New Jersey and Massachusetts, but also in Pennsylvania. Sequential growth in third-party sales was particularly strong in Illinois and New Jersey. And in Pennsylvania, we are excited by the introduction of 1906 drops to third-party retailers in the state.

During the quarter, we successfully launched our Ozone [indiscernible] 00:11:42-based gummies in Massachusetts, marking our debut in the state's edibles market. This expansion was enabled by a This expansion was enabled by a recent acquisition of a second cultivation facility in Massachusetts, where we invested in a state-of-the-art kitchen. Additionally, we have planted several flower leaves since the acquisition in Q1, which will help significantly in addressing our supply gap in the state. Furthermore, we have secured long-term cultivation and manufacturing supply in Maryland through two key partnerships.

Our first engagement involves a long-term manufacturing agreement under which our partner will produce Ozone gummies, Simply Herb vapes and soon flower. These products will be available in both Ascend and the partner stores.

The second engagement is a complementary multiyear supply agreement covering the third parties' full portfolio of products, including branded flower, pre-rolls, vapes, gummies, and concentrates. We are excited about these arrangements and look forward to leveraging the supply in the coming quarters.

Now, I will turn the call over to Mark to provide some details on the consolidated financials for the quarter.

Mark Cassebaum

Chief Financial Officer, Ascend Wellness Holdings, Inc.

Thanks, John. Good morning, everyone. Q1 was a solid quarter for Ascend with continued improvements in consolidated revenue and adjusted EBITDA generation. Total system revenue increased by 15% year-over-year and 1% sequentially to $174 million while net revenue, which excludes intercompany sale of wholesale products, increased 25% year-over-year and 2% quarter-over-quarter to $142.4 million. The year-over-year growth was driven by improvements in wholesale and retail while the quarter-over-quarter revenue growth was primarily driven by the wholesale business being partially offset by modest sequential declines in retail.

Adjusted gross profit increased 4% sequentially to $62.4 million, and adjusted gross profit margins increased 94 basis points to 43.8%. Our Q1 adjusted EBITDA was $32.5 million, which represents a 39% year-over-year increase and is flat sequentially. Adjusted EBITDA margin for Q1 was also largely in line sequentially at 22.8%, primarily driven by contributions from New Jersey and Illinois cultivation and Massachusetts retail.

Let's move on to discuss the balance sheet on slide 9. We ended the quarter with $73 million of cash and equivalents and $238 million of net debt. Of note, we've completed our fifth consecutive quarter of generating positive cash from operations, producing nearly $4 million in operating cash driven by profits being partially offset

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by working capital use. During the quarter, we used a net $2 million of cash for investing, largely driven by $7 million in capital expenditures to support dispensary builds, cultivation improvements and the build out of our new cultivation and production facility in Massachusetts and additional investments made for the purchase of this facility. These investments were offset by $8 million received for the sale of debt related to a Maryland cultivation asset. $1.5 million of cash was used for financing in the quarter, primarily to support the debt service and cash taxes related to equity-based compensation plans.

Let's move to slide 10 to discuss our outlook for the remainder of the year. As we look ahead for the full year, we are optimistic about achieving double-digit growth in both top and bottom lines, lines alongside a second full year of cash flow generation. Thanks to strong execution across many of our markets, we are projecting revenue growth between approximately 12% and 15%, with adjusted EBITDA growth between approximately 17% and 22%.

In 2023, we finished the year with roughly $75 million in cash generated from operations, which included two significant onetime items totaling nearly $30 million. Absent these items, we finished 2023 with approximately $44 million in cash from operations. For the full year 2024, we are targeting cash from operations generation to be between $55 million and $65 million. This cash will further strengthen our balance sheet and enhance our position as we solidify our refinancing options.

Including the agreements already signed for our current pipeline of assets and partner stores, we anticipate capital expenditures of $35 million to $40 million for the full year. While we expected to achieve positive cash from operations and free cash flow for the full year, there may be quarterly fluctuations due to the timing of certain working capital uses and capital expenditures. Further to our planned growth, we plan to continue to make meaningful investments in our partnership strategy, which will draw our ending cash in the second quarter.

Overall, we are excited about what lies ahead for Ascend in the remainder of the year. And we'll now turn it back to John to conclude.

John R. Hartmann

Chief Executive Officer & Director, Ascend Wellness Holdings, Inc.

Thank you all for joining us today. Before we open the floor to questions, I'd like to summarize the call by highlighting the reasons we are optimistic about Ascend's investment thesis and future prospects. First, our balance sheet position. As previously mentioned, we generated positive cash flow for the full year in 2023 and expect to do so again this year. We believe we are well-positioned to refinance our debt in the near term.

Second, our growth potential in core markets. I'm extremely optimistic about the upside potential that exists in our business as it stands today. Two of our seven states, Ohio and Pennsylvania, have the incremental flip to adult-use in the near term, with significant multiplier effect we have seen in other states. We have additional Ascend stores in our pipeline that will come online in the coming quarters. And as discussed, we plan to further expand in our established markets by forming partnerships with social equity retailers. And we will continue to grow our wholesale business and explore the expansion of our brands in current markets and in new markets.

Third, our disciplined capital allocation. We have a proven track record of systematic capital investment and successful execution of accretive M&A. As we go forward, we will continue to be judicious with how we deploy capital. The partnership deals are one critical way we are deploying capital into low-risk, high ROI opportunities. In parallel, we will continue to assess new markets.

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Next, regulatory catalyst. We are optimistic about the impact of various regulatory catalysts discussed at the start of the call, and we look forward to additional regulatory catalysts we expect in the future. And finally, valuation opportunity. We currently trade at a meaningful discount compared to our peer group, which we believe presents a significant investment opportunity as our refinancing crystallizes and our growth accelerates.

As I reflect on my first full year at Ascend, I'm filled with pride, supporting a highly dedicated team of over 2400 employees, engaging with our customers and patients, expanding our network to 36 stores and 7 cultivation and production facilities, and working closely with a variety of our stakeholders, has been extremely rewarding.

Thank you once again, and I look forward to reporting on our continued success in the coming quarters. We will now turn it over to the operator and open it up to questions.

QUESTION AND ANSWER SECTION

Operator: Thank you. Ladies and gentlemen, we will now begin the question-and-answer session. [Operator Instructions] Your first question comes from Russell Stanley of Beacon Securities. Your line is already open.

Russell Stanley
Analyst, Beacon Securities Ltd.

Q

Good morning, and congrats on the quarter. I guess, first question with respect to the debt refinancing, I know it's only been a week since the since the DEA news, but I'm just wondering if you can talk to how you expect it to help in conversations with potential and existing lenders pending implementation. I think you mentioned you still expect it to be finalized before the election, but just wondering how much credit or how willing lenders may be to treat you as a normal tax filer from a cash flow perspective, pending implementation. Thanks.

A

Good morning, Russell, and thank you for your question. I just – I think, at the top of this highlight the strength of the business right now and I think that's a meaningful setup for us as our board considers the next steps in our refinancing.

Directly to your question, we were very fortunate to have an excellent relationship with our current lending consortium and we've been – we're also fortunate that there's renewed and I think fresh interest from others in the space in Ascend. So we look forward to moving into the refinancing phase as we said and as you heard in my prepared remarks, the direction of our board is to have this refinancing completed before it becomes current in April (sic) [August] (22:13) of this year. And those are really the next steps for us.

The second part of your question, in terms of the context of the rescheduling. Look, I don't think a lot has changed specifically for Ascend as it relates to our refinancing. I think the one critical point that I would look to is the likelihood of upon formal rescheduling to [indiscernible] 00:22:42 going away. And that would certainly – that is certainly in line with the strategy we've taken on to date, so I think from a refinancing perspective, it gives our investors and our lending consortium the confidence that the benefit of that opportunity is great.

Q

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That's great. Thanks for that, John. And maybe a question on the guidance. Appreciate the greater specificity presented this quarter. And looking at the cash flow guide, $55 million to $65 million. Understanding your comments around quarter to quarter fluctuations, but on a full year basis, how much of that cash flow do you expect to come from working capital release, if any?

A

Yeah. I think the guidance

A

Yeah. I think the guidance is the guidance for us. So I think for now we're prepared to say that we're very confident in that $55 million to $65 million of cash from operations. We have had some fluctuations in the quarter and we anticipate some additional fluctuations as it relates to our working capital, as we invest in inventory for new markets, as we invest in wholesale relationships with new customers instead – importing wholesale markets for us like Illinois, New Jersey, and Massachusetts. And we had the election timing issues as it relates to [ph] AP 00:24:18 and some onetime events in the quarter. So we are confident in our full year commitment to those numbers from cash from operations, as well as being a free cash flow positive for the year.

Russell Stanley
Analyst, Beacon Securities Ltd.

Q

That's all for me for now. I'll get back in the queue. Thanks again.

A

Thank you, Russell.

Operator: Your next question comes from Frederico Gomes of ATB Capital Markets. Your line is already open.

Frederico Gomes
Analyst, ATB Capital Markets, Inc.

Q

Good morning. Thank you for taking my question. Congrats on the great quarter. First question just on the guidance, could you comment on what's implied in your guidance in terms of the mix between wholesale and retail and your expectations for the year and also how would that impact your margins as well? Thank you.

A

Yes. So our wholesale and retail mix is not forecast to change substantially throughout the balance of the fiscal year. We are, as you heard in our prepared remarks, continuing to open in dispensaries as well as grow our wholesale business. So the mix between the two, we feel, is – will stay similar throughout the year.

A

Yeah.

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A

Frederico, what else on that subject?

Q

Yeah. Perfect. Thank you. Just a second question here. You mentioned the evaluation opportunity here and your stock present and how we can unlock that value. So obviously trade at substantial discount to peers. I'm just curious how you view that discount in terms of why do you think that is and what was in your consult to help you close that this year? Thank you.

A

Yeah. I think that some of the reasons why this originally – I think we are where we are originally is that when the cannabis industry in the US has a big run up in 2020 – in – like in 2020, we were not yet a publicly traded company. In fact, Ascend was just getting its foundation as a company. And we went public in late 2020, right around 2021 and – with our IPO. And unfortunately, the market was already in a pretty steep decline in US cannabis publicly traded company. So we kind of missed – we missed that initial opportunity. And then we had the lock up of the original shares but didn't release until later in 2021, almost 2022. And so there's just not been a great deal of trading in our stock. And I think the question behind your question is like what changes that. We think that disciplined quarter-over-quarter performance hitting our growth in both our retail and wholesale business, making the business more efficient from a margin and an overall profitability perspective, driving cash generation quarter-over-quarter, and continuing to deploy the strategy that our founders led with, which is focusing on late stage medical markets, early stage adult use markets. And continuing to very judiciously manage and deploy capital. That's what we think will ultimately be an unlock for our business, that we have a strong balance sheet. We fully intend to be refinanced, as I mentioned before, before our debt becomes current later this year.

We'll continue to obviously track and be mindful and take advantage of any regulatory catalyst. But our overall growth and profitability opportunities really don't rely on any further regulatory fees. Of course we want them to happen. But in the seven states we're operating in, we see a great opportunity to continue to identify those markets. You've heard us talk about not only our own stores, but now, you know, being more, you know, to be more clear and provide more guidance around our partnership strategy. And we think these opportunities over those four imminent terms will, you know, will drive and have the opportunity to drive further valuation on the revenue side.

Q

That makes perfect sense. Thank you.

Operator: Your next question comes from Neal Gilmer of Haywood Securities. Your line is already open.

Neal Gilmer
Analyst, Haywood Securities, Inc.

Q

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Yeah. Thanks very much and good morning. Maybe wanted to see if we can talk a little bit more on the gross profit side of things. Have a nice increase in margin quarter-over-quarter in Q1. Obviously with your guidance plus EBITDA expanding more than revenue, potentially there's a little bit more there. Just sort of a little bit more detail on how you're able to achieve that increase and what we should expect going forward?

A

Neal, thanks for the question. Yes, we are very pleased with the gross margin, what we're seeing. Again, our operations are continuing to get more. They're essentially getting better leverage to perform well, performing better in the cultivation sites. From an EBITDA standpoint, again, we're optimizing our existing infrastructure and more and more of that you'll see. So just like as an example, if we look at Maryland, we'll annualize Maryland this year, but we're leveraging the same corporate overhead structure. So all we're doing is we're continuing to leverage and ramp up of a lot of the investments we made in prior quarters.

Neal Gilmer
Analyst, Haywood Securities, Inc.

Q

Great. Thank you for that. And maybe just on the retail side of things, you commented about 51% coming from AWH produced product. What sort of – do you have a target that you're sort of trying to achieve across your portfolio there? Where do you sort of think that that can go to?

A

We think that's about right. We think we've been targeting approximately 50% from a retail presence on our shelves of our own brands and the partner brands that we manufacture on their behalf. Couple things are really important in that they're on balance with one another. The first is we wanted to have that vertically integrated margin that we – that opportunity we have to manufacture, produce and then sell vertically our own products and those of the partner brands that we manufacture. But on balance, we also know that our customer is – desires a very robust menu. And so to achieve that, we're constantly looking at the balance between our own brands, which would probably say, from a wholesale perspective, in our three key wholesale markets, they have moved up to the number three place. And so we'll continue to focus on delivering great brands, but we'll do that on balance with meeting the needs of our customers who want a nice variety of the menu.

Q

Great. Thank you very much.

Operator: Your next question comes from Andrew Semple of Echelon Capital Markets. Your line is already open.

Andrew Semple
Analyst, Echelon Wealth Partners, Inc.

Q

Thank you. Good morning. Congrats on the solid Q1 results. First question would just be on Ohio. The team mentioned that they're expecting potentially the launch of adult use sales early this summer. How do you feel about the supply situation in that state for operators being able to handle the early days of the adult use market

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there? Do you think you'd be able to keep your retail doors well-supplied in the early days of the market or do you think it's going to be tight initially as groups continue to ramp supply?

A

Good morning, Andrew. Thanks for your question. I think that – we look back with the experience that we've had in other adult use flips, most recently in Maryland. And of course, every state is different. But we – our company has the history, as others do, of the build up to adult use and then the transition and the concern around having in a supply. So we have a modest size grow in Ohio that produces products for our dispensaries. But in addition to that, we have established third-party relationships that we're very comfortable with. These are long-term partners and partners in most cases we've been doing business with in other states on the supply side. And our team has done a terrific job of ensuring that we have both a nice done a terrific job of ensuring that we have both a nice blend of our own manufactured products for our dispensaries in Ohio, but also ensuring that we have supply for our current five and soon to be eight stores in the state as soon – as the market turns to adult use, we believe in July – late June, early July. And we see the multiple that we expect at – with adult use.

Andrew Semple
Analyst, Echelon Wealth Partners, Inc.

Q

Great. That's helpful. And then maybe just returning to the outlook, crunching some of the numbers around that, the outlook seems to imply ongoing revenue growth from Q1 levels, but EBITDA remaining relatively consistent with Q1 levels, EBITDA up on a year-over-year basis, but quite consistent with the Q1 period. So with revenues implied to be growing and EBITDA remaining relatively constant, it would seem to suggest that there is some margin pressure accounting – accounted for in the outlook. Are you just being conservative with this or are you anticipating some ongoing pricing pressure in some of your markets? And maybe as add-on, if you could address whether Ohio adult use is specifically embedded in the outlook for this year. Thanks.

A

Sure, Andrew. So that's a three-pronged follow-up. Let me take the easiest one first, which is Ohio is not in our – is not currently in our forecast. The second part of your question is just the outlook and the guidance [ph] that we gave 00:34:58. So this is the first quarter this year we're providing guidance. We have provided a range for each of the metrics, revenue, adjusted EBITDA, cash from operations, and our capital expenses. And that's purposeful. As we – as the months tick by and when we're back together again next quarter with our views of the balance of the year will further crystallize and we'll be able to be more specific. But right now, I think those are the – those are the ranges that we're comfortable with. And as I mentioned, Ohio is not currently in our projection because we didn't actually know when we built the budget this year when if and when into exactly Ohio was going to go live. So we will continue to update you from a guidance perspective as we get deeper into the year.

Very fair question. Part of your question is this, the price pressure. There is, I would say, competition and end price, in some form or another, in many of our markets. In Illinois, for example, we are grateful to be in about 90% of all the doors in the state, and competition continues to increase. We think that there will be a total of about 200 dispensaries in the State of Illinois by the end of the year. In New Jersey, another critical state for us in our portfolio, there are about 120 dispensaries today. We have approximately – we're in – we have shelf space in about 90% of those 120 stores today, and New Jersey is certainly accelerating in the number of dispensaries that are coming online, in our view.

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The good news is that to-date we've been – we've been largely, not wiser, but we've been somewhat immune from some of the additional dispensaries, not completely, I mean, but to a lesser extent impacted because of the geographic location and the more limited number of dispensaries immediately in the vicinity of our current portfolio in New Jersey. And we're relocating one of our stores in New Jersey to a more – to more about what we would call a Cannabis Island currently.

So look, there is increased competition. It's market normalization as states put states put more licenses to work for through the dispensaries. And in some cases, there is, you know, they will continue to be the price competitiveness that goes along with the increased competition.

Q

Appreciate the detailed response. I'll get back to queue. Thank you.

Operator: Your next question comes from Sonny Randhawa of Seaport. Your line is already open.

Sonny Randhawa
Analyst, Seaport Global Securities LLC

Q

Thanks for taking my question, congrats on a great quarter. I just want to get some clarity on the Illinois partnerships. In terms of economics, would that be similar to what you're seeing in New Jersey at 35%? And then when we think about, you know, you've got three already in the pipeline. How many additional – is there a cap in terms of Illinois partnerships that you guys can get into?

A

Sonny, thanks for your question. There's a distinct difference between New Jersey in Illinois. By regulation in New Jersey, were permitted to take a 35% direct ownership in the partnership business. In the state of Illinois, we are not owners of the business and we don't have an equity position. We are in a supporting role of independent social equity licensees. So it's a – it's purely a contractual relationship. It's not a direct ownership interest.

And having said that, we, you know, through the relationships in both New Jersey and Illinois, because of the supply agreement that goes along with that, along with the financial investments that we're making, both from an equity perspective in New Jersey and just an arm's length business transaction in the state of Illinois.

We will be able to consolidate the large portion of economics from those stores as if they were part of our own portfolio. So that's how we're looking at that.

I mentioned in my prepared remarks that we have a clear path to increasing our retail portfolio by over 50% in the near term. And as the relationships solidify, as the agreements solidify and as we take the real estate under control, we'll be more clear that we could share with you in the prepared materials what the next few dispensaries look like that are coming online. And you can refer to that with more to come in the subsequent quarter.

Sonny Randhawa
Analyst, Seaport Global Securities LLC

Q

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That's great. In terms of the CapEx guidance of 35%, 40%, you've got seven retail locations. I guess four of those are partnerships. I'm assuming the rest of that's going to be on improving the cultivations, your existing cultivation and expanding Massachusetts?

A

Yes, Sonny. This is Mark. That is true. We do have – again, we do have the capital for the retail that you mentioned, but also we are investing in our cultivation, we're investing in automation and we're just continuing to leverage. And that's why you're seeing and you will see further with some of that gross margin that's coming out of cultivation. But again, we are giving capital investment to our cultivations as well as the retail.

Sonny Randhawa
Analyst, Seaport Global Securities LLC

Q

Great. I'll turn it back.

Operator: Your next question comes from next question comes from Bobby Burleson of Canaccord. Your line is already open.

Bobby Burleson
Analyst, Canaccord Genuity LLC

Q

Yeah. Good morning. Thanks for taking my question. So, a lot of questions have been asked. I'll just kind of focus maybe on the wholesale partnership contribution to you guys for third party wholesale, I guess grew 50%. And I'm wondering how significant, how meaningful is the partner brands component of that?

A

I mean, no, we don't break that down explicitly for public dissemination. But the third – I believe your question is around with third party products that we manufacture. Or is it the third party products that we sell in our stores or both?

Bobby Burleson
Analyst, Canaccord Genuity LLC

Q

It's – I mean, you guys, you tell me. And there was a 50% growth number that you talked about with wholesale that – and you referenced that with the – excluding the intercompany wholesale.

A

Yeah. So I think that our third party growth is in two forms. The first is the sale of our products into – from a wholesale perspective into third party dispensaries. And this is a substantial part of our wholesale growth. So in the states of, as I mentioned, the state of Illinois, we are in both of our [indiscernible] 00:42:47 we're in approximately 90% of the dispensaries in the state. And as that continues to grow, our wholesale team is doing a terrific job of building those early relationships and gaining shelf space in each of those markets, that Massachusetts included. And

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then from a third party manufacturing perspective, we do we do manufacture and distribute a number of products for third-party partners. And that – that's included – that's included in our wholesale number. It's a smaller percentage of our overall wholesale business.

Bobby Burleson
Analyst, Canaccord Genuity LLC

Q

Okay. So it's a small percentage of that success...

[indiscernible] (00:43:39)

Bobby Burleson
Analyst, Canaccord Genuity LLC

Q

...in terms of the – okay. And then it seems like around the edges, obviously, with retails partnerships and then wholesale, third-party brand partnerships, you're adding some incremental growth to the overall growth profile, but do you expect it to remain kind of around the edges, a small component of growth and the majority of this acceleration that we're seeing is happening in the core business, essentially?

A

Bobby, I'm sorry. I didn't follow the question.

Bobby Burleson
Analyst, Canaccord Genuity LLC

Q

So just looking more generally, it's a partnership approach...

[indiscernible] (00:44:24)

Bobby Burleson
Analyst, Canaccord Genuity LLC

Q

...across wholesale and retail. Philosophically, do you think that the growth accelerate – the growth acceleration that you guys were referring to or planning for is still on the core business, it's not really requiring a robust partnership amount of activity or is that incorrect?

A

No, I think you're exactly right. The partnerships, take New Jersey, for example, we're doing the things that we do today, just doing them for our partners. So in our first store that's in New Jersey, which was due to come online early in the New Year, we have signed an agreement where we are taking 35% ownership in the overall business, but we're funding the store, providing design guidance we provide a supply agreement to put our products on the shelves and provide operational support to our partner owner. And so in many ways, we're just replicating exactly what we do in our own stores but we're doing it for either a partner who we have a 35% equity stake in or a partner who we have contractual relationships with to help support their business.

Q

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Fantastic. And just quickly, if I could sneak one in Ohio kind of multiplier effect as we've flipped to adult use. I know there's been a lot of precedent there in other markets, but there's a range of what happens typically. And just from what you understand on the ground in Ohio, what kind of multiplier range should we be expecting? And that excludes any kind of the potential supply constraints, just in terms of where you think the demands could go.

A

Yeah. We tend to want to be conservative in our thinking around this and we plan for the upside, but we, financially, we plan conservatively. We saw in Maryland, which is the most recent example in our business of kind of right down the middle of the fairway, 2.25 to 2.5 times lift over medical. And we continue to see that in our Maryland stores in that building. And so we expect Ohio to be similar to Maryland, probably about 2 to 3 times range. You know, one of our principal Ohio stores is right on a – right on a non-cannabis border with a location in downtown Cincinnati. So, there's opportunity but we do look at – we do tend to look at these things conservatively. We pick locations for – to be as productive as possible and we continue to enjoy a sizable lead in per dispensary revenue. And that's because of the hard work of our team citing great locations and we think that's also the case in Ohio. So more to comment as we get into it, we'll be able to provide more clarity around what we're seeing.

Q

Fantastic. And thanks, thanks again for taking my questions. Sorry about the lack of clarity in my first one.

A

[indiscernible] 00:47:29

Operator: There are no further questions at this time. I would hand over the call to Rebecca Koar for closing comments. Please go ahead.

Rebecca Conti Koar

Executive Vice President-Investor Relations & Strategy, Ascend Wellness Holdings, Inc.

Thank you all for joining today's call. We hope we answered all of your questions. For more information, please visit our website at awholdings.com/investors or feel free to e-mail ir@awholdings.com. Have a great day. Thanks.

Operator: Ladies and gentlemen, this concludes today's conference call. Thank you for your participation, and you may now disconnect.

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