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Ascend Wellness Holdings, Inc.

(AAWH.USD.CA) Q4 2022 Earnings Call



CORPORATE PARTICIPANTS

Rebecca Koar

Senior Vice President-Investor Relations, Ascend Wellness Holdings, Inc.

Abner B. Kurtin

Chairman, Co-Founder & Chief Executive Officer, Ascend Wellness Holdings, Inc.

Frank Perullo

Interim Co-Chief Executive Officer, President, & Co-Founder & Director, Ascend Wellness Holdings, Inc.

Daniel Joseph Neville

Interim Co-Chief Executive Officer & Chief Financial Officer, Ascend Wellness Holdings, Inc.

OTHER PARTICIPANTS

Russell Stanley

Analyst, Beacon Securities Ltd.

Matthew Robert McGinley

Analyst, Needham & Co. LLC

Kenric Tyghe

Analyst, ATB Capital Markets, Inc.

Ty Collin

Analyst, Eight Capital

Andrew Semple

Analyst, Echelon Wealth Partners, Inc.

MANAGEMENT DISCUSSION SECTION

Operator: Good evening and thank you for standing by. Welcome to AWH Fourth Quarter and Full-Year 2022 Earnings Call.

I'd like to hand over the conference to your first speaker today, Rebecca Koar, Head of Investor Relations. Please go ahead.

Rebecca Koar

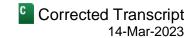
Senior Vice President-Investor Relations, Ascend Wellness Holdings, Inc.

Good evening and welcome to AWH's earnings call for the fourth quarter and full year 2022. The presentation that accompanies this call can be found on our website, www.awholdings.com/investors.

Before we proceed, I would like to remind you that there are several risk factors and other cautionary statements contained in our SEC and SEDAR filings, including our Annual Report on Form 10-K for the year ending December 31, 2022, which we plan to file in the coming day. We will not review those risk factors and other cautionary statements on this call. However, we encourage you to read them carefully.

Various remarks on this call concerning expectations, predictions, plans, and prospects constitute forward-looking statements or information. These forward-looking statements are information are subject to risks and uncertainties that may cause actual results to differ from historical or anticipated results. Any forward-looking statements or information reflect management's current view only. We undertake no obligation to revise or update such statements or make additional forward-looking statements in the future, except as required by applicable law.

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References may be made during this call to future-oriented financial information and financial outlooks, all of which are subject to the same assumptions, risk factors, limitations, and qualifications as forward-looking statements or information. While we believe that such estimates have been prepared on a reasonable basis, reflecting best estimates and judgment, the actual financial results of the company may vary from the amounts discussed herein.

During today's call, we will be referring to non-GAAP measures such as adjusted gross profit, adjusted gross profit margin, adjusted EBITDA and adjusted EBITDA margin as defined and reconciled in our earnings materials in the appendix of the presentation. These non-GAAP measures as defined by AWH may not be comparable to measures with similar titles used by other companies. Certain information that may be mentioned during this call, including industry information and estimates is obtained from third-party resources, including public sources, and there can be no assurance as to the accuracy or completeness of such information. Although believed to be reliable, management has not independently verified the data from third-party sources.

On today's call, we have Abner Kurtin, Executive Chairman; Frank Perullo, President and Interim Co-CEO; and Daniel Neville, Chief Financial Officer and Interim Co-CEO.

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

Abner B. Kurtin

Chairman, Co-Founder & Chief Executive Officer, Ascend Wellness Holdings, Inc.

Thanks, Rebecca. Good evening, everyone, and thank you for joining our fourth quarter and full year 2022 earnings call. 2022 was a challenging year in the cannabis space. The legal cannabis market topped \$25 billion and is expected to grow at a 15% compounded growth rate through 2025. Furthermore, nearly 70% of American voters support federal legalization. But while the economy faced rising interest rates and inflationary pressure, many cannabis markets faced an oversupply of products, resulting in significant pricing headwinds compared to previous peaks.

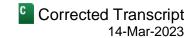
Massachusetts wholesale spot prices decreased by 56% year-over-year. Meanwhile, the average retail item in the United States was down 13% year-over-year. These adverse conditions, combined with the left-out of expectations from SAFE Banking not passing, has deterred investment in the cannabis sector. That said, this is a growth CPG business in a market with the potential for \$100 billion in sales, as consumers and states convert from the illicit to the legal. These businesses have significant first-mover advantage and the industry has the potential to become one of the important adult-use goods of our lifetime.

2022 was the first full year as a publicly traded company, and we continued the growth trajectory we established in prior years. We continue to successfully navigate this difficult industry, and our numbers speak to the unwavering dedication and tenacity of our team. We started later in the game compared to several of the US multi-state operators, but we have leapfrogged the competition.

We now ranked sixth in overall adjusted EBITDA for US operators and in 2022, we began to stand out from the pack. We grew EBITDA faster than any of our peers' year-over-year, earning the highest average revenue per dispensary, solidified our position as a top brand, and had among the most stable wholesale performance of the entire MSO landscape despite a challenging environment. We are continuing to grow and move closer to positive cash from operations when many competitors are retrenching.

We've achieved record revenue of approximately \$406 million for the full year, representing 22% year-over-year revenue growth. Our adjusted EBITDA increased by 17% to \$93 million, representing a 23% margin. Most

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importantly, we are near generating positive cash flow from operations for the full year of 2023. These are tremendous financial milestones and I'm extremely proud of the teams we're delivering in a tough environment.

Despite some of the aforementioned headwinds, we are still able to make significant progress during the year. We had access to capital through the debt markets, which allowed us to fund our growth and maintain liquidity. These funds enabled us to execute our growth strategy in 2022, where we expanded our geographical footprint and cultivation capabilities, and they will continue to support our 2023 initiatives. We maintained a strong balance sheet with no near-term maturities and ended the year with \$74 million of cash on the balance sheet.

We continue to believe in the tremendous value that comes from achieving scale and existing markets. Furthering this will require continued discipline and opportunistic M&A. While other companies are shying away, we think building scale is even more important than ever. In New Jersey, we were able to become a top operator in the state right from the outset of adult-use. We grew our cultivation from nothing to 42,000 feet and opened in one of the most successful stores in the state in Rochelle Park.

This illustrates our execution of our playbook to enter late-stage medical markets before adult-use, and we were able to generate similar success to our initial victories in Illinois in 2020. This type of medical to adult-use conversion gets us excited at our future opportunities our – in our existing medical states such as Ohio, Pennsylvania and Maryland where we have a pending transaction.

Ascend is well positioned for the future with a considerable amount of our portfolio that we expect to benefit from near to mid-term adult-use flips. As we continue to try to increase penetration in our core markets, we are looking at a variety of partnerships and distribution agreements to maximize wholesale and retail market share as new stores come online. These opportunities, combined with disciplined M&A will drive our growth throughout the year.

In 2023, we will shift from a period of hypergrowth to focus on self-financing and being free cash flow generative. Given the realities of the market today, all of our attention is focused on raising the bar for capital allocation and CapEx, improving our rates of conversion from EBITDA to cash from operations, and achieving positive cash from operations. In light of this, we are changing our targets to 15% revenue and EBITDA growth for the full year and are expecting to generate positive cash flow from operations for the year 2023. This will be a major milestone for the company to achieve within five years since our founding in 2018.

In 2023, we plan to fill our open CEO position. We continue to work with the search firm Russell Reynolds to find a CEO with experience scaling organizations. It is time for the industry to move from founder-led organization to professional operational management teams. We continue to review candidates and hope to have an update for you again during the next call. Meanwhile, we have been in good hands and are happy with the co-CEO roles that Frank and Dan have been filling. Their work has been critical to getting these assets open and will be critical to getting the company to cash flow positive this year.

In addition to developments with the CEO search, we are making progress garnering support for challenging the legality of the Controlled Substances Act through the federal court system. We, at Ascend, believe the use of the CSA and is applied to the state legal business is unconstitutional. Many industries, most notably online gambling, have achieved legality and access to capital markets and exchanges through challenging the constitutionality of certain federal legislation. We think it is quite possible that cannabis follows in their footsteps.

In fact, Justice Clarence Thomas had made comments supporting this viewpoint. He explicitly called the federal government's current approach of cannabis legalization as half-in, half-out regime that simultaneously tolerates

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and forbids local use of marijuana where the contradictory and unstable state of affairs strains basic principles of federalism and conceals traps for the unwary. Ascend is working with a number of industry participants to advance legalization from a federal perspective. We expect to have more to announce in the coming months, and we'll update you throughout the year on progress. We will not sit idle on the sidelines of this critical issue that could meaningfully lower the cost of capital and eliminate 280E taxation for the cannabis business.

With that, I'll turn it over to Frank to review operational highlights from the quarter and then to Dan to discuss the quarterly financial results.

Frank Perullo

Interim Co-Chief Executive Officer, President, & Co-Founder & Director, Ascend Wellness Holdings, Inc.

Thank you, Abner. Good evening, everyone. As Abner mentioned, I'm pleased to report that we delivered strong results in the fourth quarter and for the full year of 2022, driven by the hard work and dedication of the entire Ascend team.

Over the course of the year, we made significant progress in scaling our business. We expanded to Pennsylvania, our sixth state; successfully launched adult-use in New Jersey; signed four acquisitions; grew cultivation capacity by 40%; and increased the number of open and operating dispensaries by almost 20% during the year.

Last year, we began to see the evolution of our business, as New Jersey flipped to adult-use and several of our other markets began to get their sea legs. As the business has evolved, we're beginning to see a notable diversification of contribution to our overall EBITDA. This reflects our ongoing efforts to go deep within the states we operate, and build businesses at scale as we expand into new markets such as New Jersey, Ohio, and Pennsylvania.

On the retail side, we are thrilled to have achieved over 1 million transactions in the fourth quarter and continue to focus on providing the best shopping experience in the industry. Our efforts on menu optimization, associate training, in-store experience, and product diversification are paying off as we continue to achieve industry-leading revenue per dispensary.

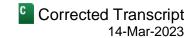
Furthermore, last year, we set a goal to have 50% of our retail sales come from in-house or partner brands, and we are approaching this goal with a penetration rate of 47% in Q4 of 2022, compared to a 33% penetration rate in the same period last year. This 14-point increase allows us to capture higher vertical margins, while still providing a diverse product offering for our customers.

In Q4 2022, we launched the outlet model to the right customers looking for value with everyday low prices and now have four successful outlet stores across our portfolio. We recognized the importance of maintaining and growing our market share in some of the more competitive markets and are proud to be the first company in the US to implement the everyday low price outlet strategy at select stores.

On the wholesale front, 2022 was a challenging year in many markets. States such as Massachusetts and Illinois faced increased pricing pressure as the supply exceeded demand. Despite this, we were pleased to maintain our third-party wholesale revenue and meaningfully grow our gross wholesale sales.

In response to these market trends, we launched our Simply Herb value cannabis brand in Illinois, Massachusetts and New Jersey, as well as Michigan, offering high-quality products as an – at an attractive price point. We have successfully broadened our product offerings by introducing edibles and vapes in New Jersey and Ohio and establishing strategic partnerships with brands such as Lowell in Illinois and Massachusetts and Miss Grass in

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Massachusetts, Illinois and New Jersey. Our strategy for 2023 is to continue expanding our product portfolio to meet the evolving needs of our customers.

Our focus on revenue is just one piece of the puzzle. We continue to focus on several cost savings initiatives to mitigate some of the pricing headwinds affecting our business. We are working to ensure our facilities are running as efficiently as they can through optimized production planning, labor strategies and leveraging automation and technology. These programs have already begun to result in measurable improvements in efficiency, consistency and quality. We are proud of the progress we have made over the past year and look forward to building on this momentum.

Let's move on to slide 6 to discuss update that occurred in Q4 on the East Coast in more detail. We look forward to significant upside in 2023 from the full year benefit of adult-use sales in New Jersey. In November, we commenced adult-use sales at our third dispensary in Fort Lee. The store had a slower ramp than our Rochelle Park flagship store, but is still performing well compared to the rest of the state in AWH's portfolio.

Also, in the quarter, we doubled our production capacity in New Jersey by bringing online an additional 20,000 square feet of canopy for a total of 42,000 square feet. We expanded production to include edibles from our Franklin cultivation facility, providing us the full assortment of products and form factors throughout the state.

We launched two brand partnerships in the state. In December, we brought Miss Grass, a female-focused brand offering half brand pre-roll packs to the market. This product has already jumped to the number two selling pre-roll in the state in its second month since launch. Between Miss Grass and Ozone pre-rolls, we have the number one selling pre-roll portfolio in New Jersey. And in February of this year, we launched our 1906 fast-acting drops, which have already proven to be a hit in other markets and are expected to be in demand in New Jersey as well.

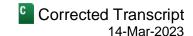
We made tremendous strides in Pennsylvania during the quarter. We completed our Phase 1 cultivation build and planted 6,000 square feet of canopy, enabling us to produce supply for our current stores. In addition to our cultivation efforts, we also opened two highly successful outlet dispensaries in Scranton and Wayne. These two locations have served as proof of concept for our outlet model and have exceeded our expectations in terms of performance and customer satisfaction. As we look to expand our retail presence, we carefully consider each market and its unique characteristics, understanding that not all markets are suited for an outlet model. Cities like Scranton and Wayne present a more competitive landscape, and therefore, prime locations for this type of retail approach.

Last to discuss on the East Coast is the definitive agreement where we recently signed to purchase four dispensaries in Maryland. As Abner mentioned, this transaction reflects our hallmark strategy to enter a late-stage populous medical market on the verge of going recreational. We are hoping to close the transaction pending regulatory review later in 2023 and are excited about the prospect for adult-use sales in a new state.

Let's move on to slide 7 to discuss our business in the Midwest. Beginning with Illinois, from the wholesale perspective, in Q4, we continue to face pricing headwinds in Illinois, as cultivators prioritize verticalization and bulk supply in anticipation of the social equity licenses coming online. We are maintaining our 99% store penetration in the state and are beginning to see some of those 185 licenses open. We are expecting 20 to be operational by the end of Q1. The company is working on selling into these new doors, as well as partnering with new license holders to put our products on their shelves.

Furthermore, we are monitoring the exposure to our retail assets as we have faced increased competition from social equity licenses and the start of adult-use sales in Missouri. 7% of our revenue is exposed to this increased

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competition from Missouri. We plan to offset this erosion with two new stores we're opening and by increasing wholesale sale into social equity partners. We caution our offsets won't kick in until the back half of the year, so we are preparing for cannibalization in the first half of this year in Illinois. On our last call, we mentioned that we commenced construction at our ninth retail location in the fast-growing Chicago, Illinois suburb of Tinley Park, which we'll plan to open by the end of Q2. We are still in the process of starting our 10th retail location, but hope to have this final store online by year's end.

In Michigan, we completed the reset of our cultivation operations and are seeing strong quality and yield improvements. Today, we soft opened our eighth dispensary in the state in Grand Rapids, and we plan to celebrate the grand opening in the coming weeks. And finally, Ohio, we introduced Ozone vapes and edibles in the market in Q4 and saw an increase, although small relative to other drivers in price per pound equivalent sold by adding a higher value SKU offering.

Finally, we are pleased to announce that we plan to complete construction of the three Ohio dispensaries in our pipeline in Cincinnati, Piqua and Sandusky toward the end of Q3. Once again, I would like to thank our employees that contributed to the success this quarter.

And with that, I will turn it over to Dan to review the detailed Q4 financials starting on slide 9.

Daniel Joseph Neville

Interim Co-Chief Executive Officer & Chief Financial Officer, Ascend Wellness Holdings, Inc.

Thanks, Frank. Good evening, everyone. As Abner mentioned, we are pleased with the company's record performance for the full year. Total revenue for the year amounted to \$488 million, representing 28% year-over-year growth, while revenue net of intercompany sales increased by over 22% year-over-year to \$406 million. This growth was driven by increase in retail sales, particularly in New Jersey, and an increase in third-party wholesale sales in New Jersey and Massachusetts.

The retail business, which comprise 75% of revenue, contributed meaningfully to this growth. Retail revenue increased by 32% to \$306 million for the full year. This growth was driven by the opening of four new dispensaries in East Lansing, Michigan; Fort Lee, New Jersey; Scranton, Pennsylvania; and Wayne, Pennsylvania; the conversion of three New Jersey dispensaries to adult-use; and the full year benefit of consolidating two dispensaries we acquired in Ohio late last year.

Gross wholesale revenue increased 22% year-over-year to \$182 million as intercompany wholesale revenue was up across the board in New Jersey, Massachusetts, Illinois, Michigan and Ohio. Net wholesale revenue, which excludes intercompany sales, remained largely flat with revenue of \$100 million for the full year. This was driven by decreases in third-party sales in Illinois, as we faced pricing headwinds and allocated more of our product to support vertical sales being partially offset by increases in third party sales in New Jersey, Massachusetts and Michigan.

Adjusted EBITDA for the full year increased 17% to \$93.2 million, while adjusted EBITDA margin decreased 93 basis points compared to the prior year at 23%. The majority of the decrease was driven by gross profit declines in Illinois, which were partially offset by increased margins in Massachusetts, Michigan and New Jersey. We also saw increased rent and compensation expense to support our expansion of operations. All in, we are pleased with our full year results, which were a testament to the hard work and dedication of the Ascend team.

Let's move on to slide 10 to discuss the Q4 results in detail. We had another strong quarter fueled by the onset of adult-use sales in Fort Lee, New Jersey, the opening of two new dispensaries in Pennsylvania, and increased

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productivity in Massachusetts and New Jersey wholesale. As a result, our net revenue increased 1% quarterover-quarter to \$112 million. This was primarily driven by growth in retail sales in New Jersey and Pennsylvania, partially offset by lower wholesale sales in Illinois.

In comparison to the prior year, net revenue grew by 27%, due to the opening of new retail dispensaries, conversion of three dispensaries in New Jersey to adult-use, and an increase in intercompany and third-party sales compared to the prior year. Our total retail revenue increased to \$84.3 million for the fourth quarter, showing a 2% sequential increase driven by the two retail openings. Notably, retail revenue increased by 30% compared to the prior year.

Q4 net wholesale revenue decreased 2% sequentially to \$27.8 million, primarily driven by third-party sales declines in Illinois, which were partially offset by increases in New Jersey and Massachusetts. Despite sequential pressure, net wholesale revenue increased 18% compared to Q4 of last year, as there was a significant increase in units sold in New Jersey, Mass, Michigan, that was partially offset by lower average pricing.

In Q4, adjusted gross profit increased 6% to \$53.5 million, with margins expanding 216 basis points to 47.7%. This expansion was driven by improvements in utilization and productivity in New Jersey, as the Phase 2 cultivation became operational and AU sales commenced in Fort Lee, New Jersey.

Our adjusted EBITDA improved 2% to \$28.2 million in Q4, while margins improved 18 basis points to 25.1%. This increase was driven by gross margin improvements being partially offset by increased transaction and compensation expenses compared to the prior quarter. Overall, our strong Q4 performance was a testament to our relentless focus on execution and delivering value to our customers and shareholders.

Let's move on to slide 11 to review cash flows, the balance sheet, and our expectations for 2023. We ended the quarter with \$74 million of cash and equivalents, \$331 million in total debt less deferred financing costs, and net debt of \$257 million. We have 195 million fully diluted shares outstanding.

In Q4, we used approximately \$16 million of cash for operations, which included a \$33 million cash tax payment for our 2021 tax obligations. Absent this payment, we would have generated nearly \$17 million in cash from operations within the quarter. For the full year of 2023, we are anticipating generating cash flow from operations inclusive of all tax payments and are laser focused on managing working capital and improving profits to drive towards this goal.

During Q4, we invested approximately \$20 million to support cultivation builds in New Jersey and Pennsylvania, as well as the Scranton and Wayne store openings. Subsequent to the quarter, we amended our – the lease associated with our New Jersey cultivation to increase the tenant improvement allowance by \$15 million. We expect to receive this cash by the end of Q1.

In 2023, we expect to spend roughly \$25 million of net CapEx as we build out our dispensary pipeline and finish our build-out of our New Jersey cultivation. Cash for finance – from financing was \$19 million – was a \$19 million inflow led into a tax credit that we received during the quarter. We submitted for the credit in November and subsequently factored that receivable and received \$19 million of cash in December.

Looking ahead to 2023, we anticipate building on a robust dispensary pipeline and furthering our scale in our existing footprint, capitalizing on the full year of AU sales in New Jersey, deepening our relationships with social equity holders, particularly in Illinois and New Jersey, and entering our seven state pending the close of our transaction in Maryland, which is subject to regulatory approval.

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In 2023, we are focused on achieving 15% revenue in adjusted EBITDA growth, excluding the pending Maryland transaction and expect to generate cash flow from operations. We are proud of our industry-leading growth in 2022 and strive to continue our upward trajectory in the years to come.

I would like to extend gratitude to our investors, lenders, dedicated employees and valued stakeholders. Your support and commitment has been instrumental in driving our success.

With that, I'd like to turn it over to the operator for questions.

QUESTION AND ANSWER SECTION

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

Russell Stanley

Analyst, Beacon Securities Ltd.

...my guestion. Maybe first just around Illinois and your expectations, I think, for 20 new doors by Q2. Just wondering what your thoughts are on total new doors in 2023 and, obviously, the growth in the addressable wholesale market?

Frank Perullo

Interim Co-Chief Executive Officer, President, & Co-Founder & Director, Ascend Wellness Holdings, Inc.

So they're going slower than we expected. 20 new doors, the licenses were released last - late last year in the summer fall. There is a deadline that the state has given as of August, I would suspect, due to the long timeline that these licenses were issued. I don't think, but I can't speak for the regulators to say that they're going to enforce that time line. So I do see some extensions in that in the future.

But figuring that we got 20 by the end of Q1, I don't see it picking up pace, so under 100, maybe over 50. But generally speaking, we're seeing, access to capital, having a very big limiting factor in how many people can actually get their sites open, as well as the fact it took so long to get their licenses. A lot of them lost real estate and had to start the process over again. So, we're seeing these trickle into the market, not necessarily as quickly as one suspected.

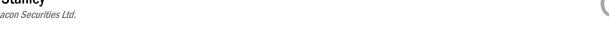
Abner B. Kurtin

Chairman, Co-Founder & Chief Executive Officer, Ascend Wellness Holdings, Inc.

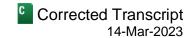
I would – with that, I would also say that I think the delays in Illinois, combined with the difficult capital markets, are just making this really hard, as Frank kind of alluded to. We've decided to get more proactive. We're going to work closer with existing licensees, look to provide financing, look to provide agreements and help them get open. We feel there's a lot of opportunity in the state and it's imperative on the existing operators to kind of step up and provide support to the new licensees.

Russell Stanley

Analyst, Beacon Securities Ltd.



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Got it. And thanks for the color. That's really helpful. And then for my follow-up, just around the sale of your [ph] house brands of (00:29:49) retail. Congrats on getting to 47%. Wondering what you think the upper limit is now. At what point do you risk or do you think you might be risking customer traffic through lack of variety over the margins?

Frank Perullo

Interim Co-Chief Executive Officer, President, & Co-Founder & Director, Ascend Wellness Holdings, Inc.

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The goal is 50%. I think, as we get there, we'll reassess, and each market is different based on the products we offer. But the goal is 50% and that's where we're aiming for. So, I expect to see that by the end of Q1.

Abner B. Kurtin

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Chairman, Co-Founder & Chief Executive Officer, Ascend Wellness Holdings, Inc.

I mean, the customer really wants good product quality and diversification. They're much less concerned about the grower of the flower. So, as we were planting more strains, we have more capacity, as we can provide more diversity in our stores, we can grab a higher percentage. It's a little different in cases like edibles and certain categories. Certainly, wholesale leaders like in Illinois, like Cresco, GTI with Incredibles and Mindy's and FloraCal, like you've got to have those on the shelf. But we can do that and still capture a large percentage of the business through our own brands.

Russell Stanley

Analyst, Beacon Securities Ltd.

Got it. That's great color. I will get back in the queue. Thank you.

Operator: Your next question comes from the line of Matt McGinley from Needham. Your line is now open.

Matthew Robert McGinley

Analyst, Needham & Co. LLC



Thanks. How much of a revenue impact did you see in your Collinsville and Fairview stores when adult-use opened in Missouri in February? I think you said in the prepared remarks that that was like 7% exposure to stores that were closed in Missouri. But I think Collinsville had been doing and it's probably a little bit dated, but it was close to [ph] \$15 million (00:31:42) in revenue. I mean, I'm curious how that looks now? And am I correct in that, that 7% seems low in terms of the overall exposure to the stores in Western Illinois?

Daniel Joseph Neville



Interim Co-Chief Executive Officer & Chief Financial Officer, Ascend Wellness Holdings, Inc.

Yeah. Great question, Matt. Thank you. As I mentioned, 7% of the business is exposed. Our Southern Illinois business was around 40% coming from Missouri and we're down around 37% in the Southern Illinois stores. It's still early. We'll see if we can earn some of those customers back. But again, we're looking to open our 9th and 10th stores to mitigate that impact, as well as put products on shelves with healthy shelf space agreements for all of the license holders that are also opening up throughout the state.

Abner B. Kurtin



Chairman, Co-Founder & Chief Executive Officer, Ascend Wellness Holdings, Inc.

Yeah. I would say, if we had opened our 9th and 10th store now right as this happened, the effect would have been de minimis. But we have two great locations. We're excited about they're coming on later this year. And so,

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there's a bit of a gap where we're facing that slight decline. We have another – a number of other stores in other states, which are opening and doing great, like New Bedford in Mass.

But even in Illinois, we would be pretty flat if we'd had the 9th and 10th store open. But we got – we have great stores and they're coming. So it's not a huge delay. Also, I think there's a little bit of a misunderstanding about Missouri, I think, because the belief that pricing in Illinois is not competitive with Missouri is not true.

First of all, Missouri is pretty inexpensive, but Illinois does have a lot of options. In particular, the tax on the flowers is only 10% in Illinois and there's a number of higher quality, lower priced flower than Missouri. On the vape and the edibles side, yes, the tax is higher, but the price pre-tax is lower still in Illinois.

So, we're somewhat – we're price competitive. It's just as we expected, people want to shop close of them. And for the Missouri customer, who is 40% of our customer, they have a store that's close to them now. So, they're going to shop there. So, that's – it's entirely in line with our thinking.

Matthew Robert McGinley

Analyst, Needham & Co. LLC

And on the EBITDA growth, you dropped the assumption from 30% growth in 2023 last quarter to, I think, 15% this quarter. What was the big driver of the revision of that assumption? And given you're saying revenues up 15%, margins to be relatively flat, do you expect gross margin or G&A to be flat on a rate basis or do you expect to get some gains in one and losses in the other?

Daniel Joseph Neville

Interim Co-Chief Executive Officer & Chief Financial Officer, Ascend Wellness Holdings, Inc.

Yeah. So, Matt, the primary driver of that revision was related to Southern Illinois relative to our original expectations. The earliest possible day that it could come on was February 6, it came on February 6. I think that was outside of the expectations. Most people were expecting April, May, somewhere around there. As you've seen in states like New Jersey with the rollout, this tend to get delayed, not open on day one. So, that was definitely a negative variance relative to expectations and caused us to bring numbers down a bit.

Some of that has been offset by better performance than expected out of the New Bedford location that we opened. So, that's been a nice offset and I think a healthy addition to our Mass portfolio, but that is really – that has really been the driver. I think, on the margin side of things, we do expect, I think, gross margin to take a bit of a step back relative to the robust performance we saw in Q4 in the first half of the year.

We do have – we still are seeing some pressure on the pricing side of things as we ramp up in New Jersey and Massachusetts on the capacity as well as the Illinois greenhouse. But that should kind of take a step back in the first half and then improve in the back half of the year. And then, offsetting that, we do expect to see some leverage on the SG&A side of things as we grow throughout the year. So, those are kind of the puts and takes on the margin side.

Matthew Robert McGinley

Analyst, Needham & Co. LLC

Okay. Thank you.

Operator: Your next question comes from the line of Kenric Tyghe from ATB Capital Markets. Your line is now open.

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Kenric Tyghe

Analyst, ATB Capital Markets, Inc.

Thank you and good evening. I wonder if you could possibly just walk us through how much of the - we've spoken to Illinois at length, but how much of the performance in Illinois reflected some of the sort of increased own brand penetration of your competitors? I recognize you called out your brand maintained its sort of third positional ranking there in Ozone. But how much of this is just the function of everybody looking to the drive margins, increase own brand versus just broader weakness in the wholesale market in Illinois ahead of these new licenses coming on?

Daniel Joseph Neville

Interim Co-Chief Executive Officer & Chief Financial Officer, Ascend Wellness Holdings, Inc.

Sorry. Can you repeat the question? How much of the margin is related?

Kenric Tyghe

Analyst, ATB Capital Markets, Inc.

Yeah. Yes. Sorry about that. The line just went dead for a second. No, just with respect to Illinois, that's – the performance in wholesale, how much of that is competitors' increased focus on own brand penetration versus just the broader weakness in wholesale given current market dynamics and the delay in getting those new licenses, the new social equity licenses up and running?

Daniel Joseph Neville

Interim Co-Chief Executive Officer & Chief Financial Officer, Ascend Wellness Holdings, Inc.

Look, I mean, I think, there is an upper limit on increased verticalization in Illinois. So, there is – you can only have 40% of your own product on a SKU basis on the shelves. And I think most of the operators in the state are operating at that limit or pretty close to the limit. So, I think it's less about the increased verticalization in Illinois, although there could have been a little bit of that on the margin and more so related to just the market getting a little more competitive.

Now, there's not huge capacity additions that we're tracking in the market generally. And we do have the additional 185 doors that are coming online over time. But as Frank mentioned, I think us and others were prepared to sell into these social equity doors starting in Q4 and Q1. And the ramp has been slower on that side of things. And I'd say generally speaking, the doors on the social equity side of things, location dependent, are probably performing a little bit under expectations for those operators.

Kenric Tyghe

Analyst, ATB Capital Markets, Inc.

That's great color. Thanks, Dan.

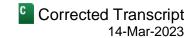
Abner B. Kurtin

Chairman, Co-Founder & Chief Executive Officer, Ascend Wellness Holdings, Inc.

Yeah. I think, we saw a drop relative to other MSOs doing their own brand probably last – mid last year, second or third quarter. Since then, we've been fighting just to maintain. And we have shelf space, too. So it goes both ways. They're looking to be in our stores. We're looking to be in their stores. We're trying to work to put the best product portfolio for our customers. It's been disappointing that we haven't gotten more stores open. I think that when more stores open, there's going to be some cannibalization of existing stores as well. So, it's not just a one



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way positive, but we'll see what happens. For us, we have this what we think will be a very nice pop of two very strong stores, which will be a 25% increase in our Illinois sales once they get over.

Kenric Tyghe

Analyst, ATB Capital Markets, Inc.

Thanks, Abner. Makes sense. And then just with respect to Maryland and the potential timing on the start of adultuse, your acquisition there expected to close in the second quarter here. Adult-use sort of now expected July 1. Is that not positive relative to your expectations or sort of certainly a sooner start [ph] and most of it expected (00:41:14) to adult-use? How should we think about the impact of July 1 start of adult-use on the assumed close of your acquisition in Maryland?

Abner B. Kurtin

Chairman, Co-Founder & Chief Executive Officer, Ascend Wellness Holdings, Inc.

Well – go ahead.

Daniel Joseph Neville

Interim Co-Chief Executive Officer & Chief Financial Officer, Ascend Wellness Holdings, Inc.

Yes. So we – when we gave the guidance, that is excluding Maryland. We did have kind of in our internal models, we do have a de minimis contribution from Maryland in the model. I think, unfortunately, our experience with MedMen New York and that entire saga where – we got things in the model that didn't end up actually closing. And so, we expect this to close in Q2.

We expect adult-use sales and all indications are pointing to a quick start to adult-use on July 1. I think that is potential upside for us here. But we also didn't want to get too ahead of ourselves from a modeling or a guidance perspective, because of the timing of AU was uncertain and the timing of the close of this transaction is uncertain. And we've had some experience with acquisitions not closing in the past.

Kenric Tyghe

Analyst, ATB Capital Markets, Inc.

Thanks. I appreciate it. I'll get back in queue.

Operator: Your next question comes from the line of Ty Collin from Eight Capital. Your line is now open.

Ty Collin

Analyst, Eight Capital

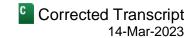
Hi. Thanks for the question. I wanted to follow up with another question on Maryland. Can you maybe speak to how much capital you expect you'll need to invest in that state once the acquisition closes in terms of the potentially refitting those stores and building out to grow? I think based on my read of the press release, there are four stores under two different banners right now and there is no associated cultivation asset. So just curious what the plans are there and what you'd expect to invest?

Abner B. Kurtin

Chairman, Co-Founder & Chief Executive Officer, Ascend Wellness Holdings, Inc.

Yeah. So, right now, we don't expect to spend much on the stores. I mean, obviously, we've got to get them up to snuff for adult-use, but it's a small interior renovation. We don't have plans for a grow right now. We are — we'll always be opportunistic. We think Maryland is pretty well served on the biomass side. We're considering looking

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at a processing license or some kind of partnership so we can get our brands into the state. Unclear if we'll do a grow at this point. So, we don't really have much in the CapEx budget. That's part of the capital discipline. We've got to run things pretty tight. We don't have the funds to do that in 2023. As we move forward and we see what's out there, that could change.

Daniel Joseph Neville

Interim Co-Chief Executive Officer & Chief Financial Officer, Ascend Wellness Holdings, Inc.

Yeah. I think order of magnitude, we're talking about like somewhere around \$3 million for the retrofit of these stores to prepare for adult-use. We flagged down increased vault sizes, but the existing stores are in pretty good shape. Two stand-alone buildings that are in pretty good shape, good sales floor. It's a lot of millwork expanding the vault size, reflagging the stores themselves. One other consideration is we're fully expecting a 7/1 start to adult-use sales. So we got to figure out the Gordian knot in the puzzle of getting this work done for a refresh in time for the start of adult-use sales on 7/1.

Ty Collin

Analyst, Eight Capital

Okay. Great. Appreciate that color. And then switching gears, I wanted to ask a question on the inventory. So, looks like it ticked up another \$5 million this quarter maybe, maybe closer to \$9 million if you account for the writedown that took place and obviously kind of contributed to the cash outflow in the quarter. I sort of would have expected to see that trail off a little bit with New Jersey scaling up. So I'm just wondering if you could comment on what was driving the build in Q4 and whether and to what extent we could expect to see part of that inventory balance monetized in 2023?

Daniel Joseph Neville

Interim Co-Chief Executive Officer & Chief Financial Officer, Ascend Wellness Holdings, Inc.

Yeah. So, a lot of that growth is related to New Jersey. Remember, we turned on our – we doubled the size of our cultivation in early Q4. So, New Jersey is driving a lot of that growth as well as a little bit of a build in Illinois. But the vast majority of it was doubling the size of the canopy in New Jersey, and the increased inventory associated with that.

We also had some additional store openings that we had during the quarter. So, carrying a little bit more inventory on the retail side of things as boxes grow. We still managed that pretty tight at two to three weeks of inventory, the retail boxes. But as you open four additional stores in the quarter, that does add up.

On the inventory side of things, you mentioned the cash impact, but that write-down in Michigan was a non-cash write-down. It was related to a fair value adjustment related to the recoverable value of the inventory. Michigan – pricing in Michigan took down another – another step down late in the year, early in 2023. And so, we wrote down the existing inventory to recoverable value. But that is a non-cash impact.

Abner B. Kurtin

Chairman, Co-Founder & Chief Executive Officer, Ascend Wellness Holdings, Inc.

We still have canopy covering online in the first half of the year, right? We've got Mass with some additional rooms in harvest. We have Michigan with some additional rooms in harvest, and New Jersey with some additional rooms in harvest. So, there probably is a little bit more to our working capital build and inventory build through the first half, but that we expect it to flatten out.



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Ty Collin

Analyst, Eight Capital

Okay. Thanks for that.

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

Andrew Semple

Analyst, Echelon Wealth Partners, Inc.

Great. Good evening, everyone. Glad to hear the positive reception the patients had to the outlet model in Pennsylvania. I'm just wondering if you could kind of quantify maybe how the stores would have ramped relative to your experience with medical stores in other states where you might not have been a first mover, if you can quantify some of that momentum in any way? And whether the pricing and the margins you're giving up is producing net benefits or earnings in that state relative to where you think you might have been had you just followed the normal course strategy.

Frank Perullo

Interim Co-Chief Executive Officer, President, & Co-Founder & Director, Ascend Wellness Holdings, Inc.

Sure. Thank you for the question. We're entering a pretty mature medical market. We're entering locations with two, three, four other dispensaries within a few miles. So for us to grab share and get the customers excited about coming to our store and experiencing it, we've got to give them the best possible experience and the cheapest possible prices every day.

Pennsylvania is a vey promotional state. It's got a lot of menus, a lot of SKUs. So what we're doing is curating an experience for our customers to get large quantities every day at low pricing. We're not necessarily as promotional as others and that we're giving the customers what they want every day and trying to curate a menu of folks that want to be in our stores. They want to showcase their products and get them to customers at an everyday low price.

And I think when we open [ph] sports brand (00:49:46) in Wayne, doesn't take as long to ramp up to where we're trying to get to based on the fact that margins are lower than you would see when you're doing a normal keystoning. But we're grabbing more share and we're getting customers the experience they want. And we're getting those repeat customers who are loyal to the brand coming to our stores every day.

Daniel Joseph Neville

Interim Co-Chief Executive Officer & Chief Financial Officer, Ascend Wellness Holdings, Inc.

Yeah. I was going to say one...

Frank Perullo

Interim Co-Chief Executive Officer, President, & Co-Founder & Director, Ascend Wellness Holdings, Inc.

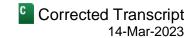
There's a lot to talk about there.

Daniel Joseph Neville

Interim Co-Chief Executive Officer & Chief Financial Officer, Ascend Wellness Holdings, Inc.

Yeah. Andrew, we don't want to give away the secret sauce here. But I think in terms of the economics of the store relative to our original expectations, if you were to run it as a non-outlet model, we're seeing probably a 25%

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to 30% uplift in gross profit dollars from running this model relative to just running this as a traditional regular store in a competitive medical market. So we're seeing good success in that. That margin that we're giving away is being more than paid for by the additional market share that we're seeing in these stores.

Abner B. Kurtin

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Chairman, Co-Founder & Chief Executive Officer, Ascend Wellness Holdings, Inc.

Yeah. I was going to reiterate that. I mean, we're very confident that the gross margin dollars in the outlet store is significantly higher than what it would be if we hadn't done that. And the customers love the cheap weed. It's a differentiated product mix, we're not going to have. There are going to be a number of competitors that don't want to put their products on our shelves at a lower price and that's fine.

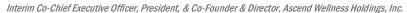
We – a lot of our customers are Walmart customers. Walmart had taught us all how to do everyday low pricing and giving the customer low prices. And we're trying to do that. We think – we don't have the data. We think we've gone from nowhere to become the number one store in Scranton. That's really, really unusual to do in a mature medical market. That is a highly, highly successful outcome.

Andrew Semple

Analyst, Echelon Wealth Partners, Inc.

Great to hear that and not dissimilar from the experience we've seen in Canada. So, great to see that momentum. Just want to switch gears and maybe talk about a kind of flagship store, which would be Fort Lee. I just want to clarify the comments around that. I know you guys admitted that it was a little bit under expectations the initial weeks. Could you clarify whether you're continuing to see revenues build there? Is it just growing more slowly than anticipated, but you continue to expect you'll hit a reasonable run rate? Could you maybe spend a little bit more time elaborating on the dynamics at that store?

Frank Perullo



Δ

Yeah. Sure. Yes, we are seeing growth. We're seeing week-over-week and month-over-month growth and the store's performing very well. I think we had very high hopes for the store. I've not been let down where I think the store is and where it's headed. Since we opened for adult-use sales, we've seen customers making that store their every day, every week store. And the way New Jersey is, is that [ph] those trade areas are. (00:53:20) You could be within miles of each other, but you're going to shop where it's convenient for you. And Fort Lee is a particularly dense busy spot. So, we're seeing users who – customers who are – were traveling to other stores making that their store. And as much as we talk about over the bridge coming over, this is a New Jersey store for the folks at Fort Lee and folks who are coming over to New Jersey to work as well.

Abner B. Kurtin

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Chairman, Co-Founder & Chief Executive Officer, Ascend Wellness Holdings, Inc.

I mean I think that, look, with Rochelle Park being so successful in doing close to \$1 million a week, there was maybe a little bit of over-optimism that Fort Lee would do those kinds of numbers, which is not, but it's still an excellent, excellent store in the top quartile of our...

Frank Perullo

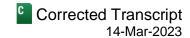


Interim Co-Chief Executive Officer, President, & Co-Founder & Director, Ascend Wellness Holdings, Inc.

Portfolio.



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Abner B. Kurtin Chairman, Co-Founder & Chief Executive Officer, Ascend Wellness Holdings, Inc.	Δ
portfolio.	
Andrew Semple Analyst, Echelon Wealth Partners, Inc.	C
Great, That's helpful. Appreciate the additional color, Thank you.	

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

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