Ascend Wellness Holdings, Inc.

Third Quarter 2024 Earnings Call

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PRESENTATION

Operator

Welcome to Ascend Wellness Holdings’ Third Quarter 2024 Earnings Call.

I'd now like to hand the conference over to your first speaker today, Rebecca Koar, Executive Vice President of Investor Relations and Corporate Affairs. Please go ahead.

Rebecca Koar — Executive Vice President, Investor Relations and Corporate Affairs, Ascend Wellness Holdings, Inc.

Good morning, and welcome to AWH's Earnings Call for the third 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.

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 to the presentation and in our earnings release.

On today's call, I'm pleased to introduce Ascend's Management Team, starting with Sam Brill, Director and Chief Executive Officer. Sam will outline our key financial priorities and provide early insights into the next stage of Ascend's journey. Also on the call is Frank Perullo, our Cofounder, Director, and President. Frank will share updates on our operational plans and highlights from the quarter. Lastly, Roman Nemchenko, Chief Financial Officer, will review our financial performance for the quarter and present our outlook for Q4.

With that, I'll hand it over to Sam to talk more about the next chapter in the Ascend journey.

Samuel Brill — Chief Executive Officer and Director, Ascend Wellness Holdings, Inc.

Thank you, Rebecca.

I'd like to take a moment to thank the Board for the confidence they've placed in me. I'm fortunate that Ascend already has a seasoned and highly capable team in place to help me guide the Company through this next chapter.

For those of you who may not know me, I led one of the early lending rounds in Ascend and have remained a steadfast investor and supporter ever since. Prior to joining Ascend, I spent the last seven years running a private equity fund where I focused on enhancing the performance and success of my portfolio companies through strategic planning and driving operational efficiencies. My firm at the time invested hundreds of millions of dollars in the cannabis sector, which has given me a deep understanding of this ecosystem and fully aligns me with our investors' interests.

Since Ascend was founded in 2018, it's been in hyper growth mode. We were building a plane while flying it, so to speak. Our key facilities are now complete, so it's time to take a step back and focus on optimizing those assets for sustainable and meaningful cash generation. Strengthening our foundation and building resiliency is especially important given the current market dynamics. As part of these efforts, we launched a series of cost-saving initiatives and are committed to reducing expenditures by $30 million in 2025. While we anticipate some of these savings will be offset by pricing headwinds and increasing competition, we are pleased with the progress we've already made.

We have three key financial objectives. First, improve margins and profitability. We must bridge the gap between our margins and those of our MSO peers. We have great assets, but we have yet to generate the margins we're capable of. We must now shift our focus to utilizing those assets more efficiently by optimizing our production and product development to meet new minimum margin thresholds while preserving a robust selection of attractive products for our customers.

Second, drive vertical sales through continued densification. We achieve the highest returns on our manufacturing goods by selling them through our retail channel, and we have some of the best brands. Therefore, we must continue our densification strategy to build internal demand for our products and improve verticality. Densifying and achieving scale in our key markets will continue to be a core tenet of our strategy. We must continue to pursue these opportunities to achieve better margins from our production.

We plan to open at least 20 new doors in the midterm. We have six dispensaries in development, including our eighth in Michigan, sixth in Pennsylvania, three additional in Ohio, and our first partnership dispensary in New Jersey. In Illinois, we support two partnership dispensaries, and we plan to expand to support eight more. In New Jersey, we completed our first partnership arrangement, and we plan to add up to six additional partners in the state. This model is mutually beneficial for us and our social equity partners, and we will continue to explore ways to duplicate it in other markets.

Third, deliver sustainable cash flow generation. We have made meaningful progress in cash generation over the past two years, but we must be more agile to create a financially resilient organization. To that end, we’ve already taken significant cost cutting steps, targeting at least $30 million in (inaudible). As we move forward, the team will be hyper focused on driving results in these three categories.

Let us move to Slide 5 to discuss the key highlights from Q3. The end of Q3 was a time for rolling up our sleeves and focusing on our new financial objectives, particularly the cost and transformation initiatives. Some of the work we are doing will not translate into financials for a couple of quarters; specifically, cost incurred at production and cultivation that will help reduce the cost per unit in future sales, and we plan to rationalize inventory levels in certain markets.

Despite the cleanup work, there were several highlights in the quarter. Adult-use sales started in Ohio, and we outperformed the market with retail revenue up over three times. We also opened our fifth dispensary in Pennsylvania. The success in Ohio contributed to modest sequential gross margin improvement in the quarter despite some noise, which Roman will detail. We completed the leadership transition, Management, to a tactical, lean team focused on controlling costs, and we have realigned our workforce throughout the organization.

Lastly, the rulemaking process to formally reschedule cannabis from schedule I in the Controlled Substance Act to schedule III remains underway. Despite frustrating delays, a formal hearing is expected to occur in Q1 of 2025. It's clear what the majority of Americans want, and we continue to be optimistic about the ultimate outcome.

Moving on to the David Boies lawsuit for which we are a supporter, we are very pleased that the First Circuit appellate court took the unusual step in this case to hear oral arguments. The case will be heard on December 5, six months ahead of plan. Regardless of rescheduling, we are looking forward to seeing this case through to the end. A favourable resolution could have meaningful implications, particularly around historical tax obligations.

As I've gotten into the weeds over my first few weeks, I remain a strong believer in the industry, and specifically, Ascend. The industry holds promise. Projected compound annual revenue growth rate for the industry are forecasted at over 10 percent. About 75 percent of Americans are living in states that have legalized medical programs, and cannabis consumption has officially begun to outpace alcohol.

Ascend stands out with several core strengths, including superior footprint. Our industry-leading revenue per dispensary demonstrates our ability to identify great locations in premier markets. Experience. Our strong net promoter score indicates that our customers not only choose our products, but also enjoy their experience with us.

Strong brands. We are proud to be a top three brand house by sales in our three biggest models. Our Ozone brand holds the number one spot by units in New Jersey, Massachusetts, and Illinois combined, and Simply Herb ranks number one in Massachusetts by sales.

Production capabilities. We have over 255,000 square feet of a primarily indoor cultivation and we produce a wide range of quality products. This is exemplified by our Cultivation Team in Illinois, as they delivered a 44 percent THC potency level for our Butterstuff strain last quarter.

Distribution. We have amassed a comprehensive distribution network. Ascend has over 80 percent door share in each of our primary wholesale markets. We believe there's an opportunity to further leverage our impressive distribution capabilities.

Each of these key traits positions Ascend for its success, yet Ascend trades at a noticeable discount to its peers, representing a compelling opportunity which keeps me excited as we refine our focus and prioritize cash generation.

I will now turn it over to Frank Perullo, President and Cofounder. He has remained with the business, leading various functions, and has led many of our successes since day one. Frank leads Ascend's day-to-day operations and has hit the ground running in his new role. He will detail some of our key operational initiatives and the performance of the business beginning on Slide 7.

Frank Perullo — Cofounder, Director and President, Ascend Wellness Holdings, Inc.

Thank you, Sam.

Good morning, all. I am pleased to be here to report on many of the initiatives that we have begun to institute to optimize our operations and strengthen our business.

As Sam highlighted, we're entering a new chapter focused on the fundamentals, caring for the customer first and driving operational excellence while sustaining steady, purposeful growth, albeit at a more moderate pace. To achieve this, we're directing our efforts into three operational categories.

The first is run. We must run our base business, but better. We will achieve this in a variety of ways, much of which we have already begun to implement. To start, we reviewed and right sized our labour force. As an example, at our retail stores, we implemented a dynamic labour model. This dynamic model also automated scheduling to align staffing levels with business demand, ensuring we maximize efficiency by dynamically staffing our stores, avoiding unnecessary costs during slower periods, while ensuring the best experience for our customers.

Next, we ensured we realigned incentive structures to better match our business goals. If you recall, last quarter we had a meaningful gross margin sequential decline partially due to excessive discounting in Massachusetts. Aligning incentives, combined with robust, but necessary, controls are part of the efforts to run our base business, but better.

Another manner (phon) by which we are working to run our base business, but better, prioritizing product supply for sales channels with the highest profitability, ensuring that inventory is congruent with demand and that each product is right reporting (phon) to the highest profitability profile will enable us to run a more efficient and predictable business.

Moving to transform. Our concentration here is on meaningful change to reinvent the ways we serve our customers. By identifying opportunities to modernize and find new efficiencies, we'll be able to elevate the customer experience and meet their needs with agility. We have begun efforts to launch an enhanced e-commerce platform with a new vendor that will cater to the customer experience. In addition to this, we are revamping our loyalty program and focusing on in-store experience to transform the customer journey and further incentivize them to shop with Ascend. We also intend to transform the way we produce products. We are investing in automation, controls, and better equipment to reduce production and yield variability, enhance consistency, and unlock lower cost of goods.

Lastly, we are transforming our product offering, ensuring we rationalize low-margin SKUs and brands to increase production capacity for the highest-margin Ascend-branded supply. We still intend to rely on our brand partners to enhance our offering in many cases, but we don't need to be fully realigning. As Sam mentioned, we need to put our best foot forward and prioritize the highest value propositions.

Lastly, the grow bucket. We continue to set the stage for sustainable growth by leveraging our existing infrastructure and strengths. By carefully balancing growth with our reinvestment in our core capabilities, we're positioning Ascend to capture emerging opportunities and scale effectively. A clear example of this is our densification strategy.

Lastly, we will grow by way of expanding our product offering to where it makes sense. Just last month, we launched Effin', our first edibles-only brand formulated with blends of minor cannabinoids, including THCV, CBN, and CBG, among others, designed to give customers targeted experiences. This three-pronged approach enables us to sharpen our focus, streamline operations, and unlock new avenues for growth, all while keeping our customers at the centre of our mission.

These operational drivers, combined with the Ohio adult-use flip, potential Pennsylvania flip, further densification, and increased verticalization keeps me excited about the path forward and possibilities at Ascend. As we transition to performance of the business in the quarter, it’s important to remember that each state’s business has its own market dynamics at play. As is the case with these markets, they are often supply-constrained at the outset of adult-use and then take a leveling off period once supply catches up to demand as new entrants enter the field. Right now, this is translating into market tailwinds in Ohio, but headwinds in Illinois, New Jersey, and Massachusetts.

We are also focused on building a leaner and more cost-conscious organization to help us weather the storm when market dynamics are not in our favour. Resiliency is key in emerging markets, and we are repositioning ourselves to be a highly resilient and a nimble company.

Let’s move on to Slide 8 to discuss retail updates from the quarter. During the quarter, we maintained flat retail revenue at $94 million, despite facing intensified competition in New Jersey, Illinois, and Massachusetts. We celebrated the opening of our fifth dispensary in Pennsylvania in Whitehall, while also continuing to ramp our operations in recently opened Monaca and Cranberry, Pennsylvania.

A major highlight this quarter was the transition of five Ohio dispensaries to adult-use. Although the broader Ohio market has slightly underperformed expectations, Ascend stores have significantly outpaced with retail sales across Ohio tripling on average post transition, and the Cincinnati location seeing as much as a 12-fold increase.

I wanted to highlight our AWH penetration percentage for the quarter. Increasing asset efficiency and driving a larger share of our revenue from in-house products remained key priorities. We're focused on achieving this growth thoughtfully, ensuring our customers continue to enjoy a range of brand choices. In alignment with our strategy, we are actively refining our purchasing to meet evolving customer demand. This quarter, we've begun to make significant strides in enhancing our vertical integration, reaching 52 percent AWH penetration for the full quarter, with even stronger results in the initial month following the quarter.

Overall, while there's still work ahead, I'm optimistic about our industry-leading retail store performance and the strong pipeline of locations in development. We're aggressively pursuing the partner approach and expect to announce several additional partner stores in the next quarter.

Let's move to Slide 9 to discuss the wholesale business in the quarter. Over the past six quarters, we have achieved consistent growth in wholesale revenue. This quarter, however, we made a deliberate shift to prioritize profitability over growth. While there's still progress to be made, we've begun to reduce the margin pressure in Massachusetts wholesale where we have migrated the portfolio to higher-value products.

Third-party wholesale revenues saw a modest sequential decline, impacted by reduced revenue from New Jersey and Massachusetts. We recognize there's more work ahead, especially as we continue to address margin challenges and work through our inventory of lower-value products.

Even with a more measured growth approach this quarter, we achieved a 73 percent year-over-year increase in third-party wholesale attempts, as increased retail competition drives demand for our products through wholesale channels. Our brand penetration remains robust across our key states, and our next priority is to expand shelf space within these established stores to strengthen our market presence.

Further, despite increased competition, we either held or gained market share. This quarter, we've shifted marketing and production to emphasize products and brands with the strongest margin profiles. As part of this strategy, we're refining our product lineup, trimming some offerings, and launching new, high-potential products. For instance, Effin' Edibles, which launched just after the quarter, as previously mentioned, has seen strong early success, debuting as the number one edible brand in our retail network in Illinois and Massachusetts during its first week.

Alongside these brand adjustments, we're also investing modest capital and improvements to enhance yields and reduce variability, which supports our goal of generating consistent, high-quality product offerings that align with customer demand and margin objectives. To achieve our long-term goals, it is essential to minimize disruptions and address any operational challenges at our production facilities proactively. We are deeply focused on this, implementing safeguards designed to mitigate impact and maintain steady production as issues arise.

I will now turn it over to Roman Nemchenko who was appointed Chief Financial Officer. Roman will discuss our Q3 financial performance and near-term expectations. Roman has been with the Company since the early days as our Chief Accounting Officer, building out the Company's accounting and financial operations from the ground up. Roman played a critical role in leading Ascend through its initial public offering, navigating numerous M&A transactions, and ensuring our compliance with tax regulations and U.S. Securities and Exchange Commission requirements. I am pleased to work with Roman as our Chief Financial Officer.

Roman Nemchenko — Chief Financial Officer, Ascend Wellness Holdings, Inc.

Thank you, Frank, and good morning, everyone.

As mentioned earlier, I've been with Ascend for over four years. During this time, I've had the privilege of supporting the Company through some of its most critical phases and will continue to do so in this extended role as the CFO. With that said, let's dive into our Q3 performance.

Total net revenue for Q3 was $121.6 million. This represents a net 0.3 percent increase year-over-year, 5.7 percent of which is from our wholesale third-party sales, offset by 5.4 percent of (inaudible) retail. On a quarter-over-quarter basis, net revenue increased by 0.1 percent, 0.6 percent of which is from growth in retail, offset by 0.5 percent decline in third-party wholesale.

The net year-over-year increase was driven by third-party wholesale growth in New Jersey and Massachusetts, new and existing stores in Pennsylvania and Ohio, adult-use flip in Ohio, and the addition of three stores in Illinois, two of which are our partner stores. This growth was partially offset by retail declines in New Jersey and Illinois.

The net quarter-over-quarter growth was mainly driven by adult-use flip in Ohio, the ramp-up of the two partner stores in Illinois, and growth in Pennsylvania from new and existing stores. This was largely offset by retail declines in (audio interference) metro markets.

Our Q3 Adjusted EBITDA was $25.1 million. This represents a 50 percent year-over-year and an 11.4 percent quarter-over-quarter decline. Adjusted EBITDA declined year-over-year due to a shift in sales channel mix, with a lower percentage of revenue coming from retail this quarter, as well as an overall increase in operating expenses year-over-year. Adjusted EBITDA declined sequentially as our prior quarter benefited from the reversal of certain compensation-related estimates and additional marketing spend in Q3.

Let’s move on to discuss cash and the balance sheet on Slide 12. We ended the quarter with $65 million of cash, and $221 million of net debt. We generated $2 million cash flows from operations, which represent the seventh consecutive quarter of positive operating cash flows. Included in this total is a $2.5 million portion of the earn-out payment for Ohio acquisition, as well as $2.8 million of refinancing costs required to be presented in operating activities under U.S. debt.

Q3 net cash used in investing activities was $11 million. This includes approximately $5 million of CapEx used to support new dispensary builds and the various improvements at our existing cultivation facilities. The remaining $6 million was used to close certain M&A transactions. Q3 net cash used in financing activities was $9 million. This includes the remaining $5 million portion of the Ohio acquisition earn-out payment and approximately $4 million of debt issuance cost related to the refinancing.

Looking ahead to Q4, we anticipate both revenue and Adjusted EBITDA to be flat or slightly down sequentially. On the top line, we expect to benefit from a full quarter of adult-use sales in Ohio, alongside other key retail initiatives. Some of the cost measurement actions should also begin to positively impact Q4 EBITDA. However, these gains will be partially offset by ongoing competition and pricing pressure in markets like New Jersey and Illinois.

In closing, I would like to reaffirm our commitment to increase financial oversight of our operations as we look to strengthen our balance sheet and deliver on cost savings and revenue-generating initiatives discussed earlier on this call. I'm confident that with our hands-on, (inaudible) Management Team, we are well-positioned to build a sustainable path forward while navigating a more competitive market landscape.

With that, I will turn it over to the Operator for questions.

Q & A

Operator

Thank you. Ladies and gentlemen, we will now begin the question-and-answer session. Should you have a question, please press the star, followed by the number one on your touchtone phone. You will hear a prompt that your hand has been raised. Should you wish to decline from the polling process, please press the star, followed by the number two. If you are using a speakerphone, please lift the handset before pressing any keys. Please be reminded that analysts can only ask one question and one follow-up. One moment, please, for your first question.

Your first question comes from Frederico Gomes from ATB Capital Markets. Please go ahead.

Frederico Gomes — Analyst, ATB Capital Markets

Hi. Good morning. Thanks for taking my questions. First question on the margin gap that I think you mentioned you have some of your peers and you have several initiatives to bridge that gap. Just curious, given your size, your footprint, your sales mix, what's the EBITDA margin level that you think would mean that you have achieved your goal, and you have been successful in optimizing operations?

Samuel Brill — Chief Executive Officer and Director, Ascend Wellness Holdings, Inc.

Good morning, Frederico. Thanks for the question. The margins are a key focus for this group, and we do trail our MSO peers by a pretty significant margin, and that's the primary focus. We believe that we—we're right now in a bottom quartile, I believe, in all the MSOs, and that's just not acceptable. We're never going to be, I think, a top quartile company with the way we're structured and what our business plan is, but there's no reason we can't be in the middle of our peer group with the work that we're doing.

Frederico Gomes — Analyst, ATB Capital Markets

Thank you, and then my second question, on the wholesale side. Obviously, excellent growth year-over-year, but a bit down sequentially, and I think you also mentioned that you want to increase verticality. How do you see growth in wholesale heading into 2025? I guess the second part of that question is which markets are more attractive to you from a wholesale perspective? Where do you think you have the highest upside?

Samuel Brill — Chief Executive Officer and Director, Ascend Wellness Holdings, Inc.

Wholesale is going to be mainly driven, I think, as you see new store growth within each market, so when you see a bigger hockey stick when it comes to additional store additions, we're going to benefit from that. It's more doors to sell into. Like we said, it's—we're 80 percent door share, and in some of our markets, we're significantly higher. We expect to be able to capture a lot of that going forward, so I think that will probably be the biggest driver. Again, the biggest difference is we're going to be focused on the SKUs that generate the highest margins. We're not selling low-margin SKUs anymore. We're really shifting our focus in the wholesale to be more margin-focused with the market demand, so that really is what we're doing different going forward.

Frank Perullo — Cofounder, Director and President, Ascend Wellness Holdings, Inc.

Frederico, if I may add, I think the strongest places that we can continue to grow are our core markets, Illinois and New Jersey, particularly, where we still have some runway. We've increased our yields and efficiencies at our cultivation sites, and as new stores open up, we think that the growth in wholesale will help offset either price compression or retail declines that our peers and we are seeing. Pennsylvania also is a state where we have some runway and some room to grow as well.

Frederico Gomes — Analyst, ATB Capital Markets

Thank you very much.

Operator

Thank you. The next question comes from Luke Hannan from Canaccord Genuity. Please go ahead.

Luke Hannan — Analyst, Canaccord Genuity

Thanks. Good morning, everyone. I wanted to dig into the $30 million cost savings target that you guys have put out there. I guess first question on that is how much of that $30 million has been achieved as a result of the headcount reductions that you've done thus far? Then can you help us frame up, of that $30 million, how much is going to come from those labour efficiencies, how much is going to come from other OpEx? Is that all going to be felt within the gross—or the SG&A line, or is there going to be a split between gross margin and SG&A? Can you just help us think through that from a high level, please?

Samuel Brill — Chief Executive Officer and Director, Ascend Wellness Holdings, Inc.

Sure. Great question. About half of the $30 million will be in SG&A and the other half is going to be in COGS. About a third of the actions that we took were in the first 60 days, so that's what you saw in the headcount reductions, and then we're addressing the rest now. The savings will continue in Q4, and you'll see the real benefit of it over the course of 2025. I would just note again that it takes some time to cycle through into the numbers because we're still working through the legacy COGS that we had in the first half of the year, so you're really not going to see a lot of that in Q4, but hopefully, we'll start to see some green shoots in Q1 and thereafter.

Luke Hannan — Analyst, Canaccord Genuity

Okay, thanks, and just a follow-up and a clarification on that, that $30 million savings, is that—should we be thinking about that—I know—I appreciate that you guys said in your prepared remarks that there is going to be lots of puts and takes. It's not going to be $30 million that drops entirely to the bottom line because there's going to be some pricing headwinds, of course, and other things going on within the business. But should we think—should we be thinking about you guys, if there is a situation, all else equal, and next year looks similar to this year except for that difference in cost savings, is that $30 million captured over the course of the entire year or is it that you expect to hit a $30 million cost savings run rate target at some point throughout 2025?

Roman Nemchenko — Chief Financial Officer, Ascend Wellness Holdings, Inc.

Yes. No, thanks for the follow-up. We do expect to see $30 million over the course of the year. A lot of that is driven by timing. As Sam mentioned already, we took action on a significant portion, and as our cost base is fluctuating (inaudible) and improve, over this quarter and going into next year, we should see benefits both in gross profits and EBITDA.

Luke Hannan — Analyst, Canaccord Genuity

Okay. Thank you very much.

Operator

Thank you. The next question comes from Russell Stanley from Beacon Securities. Please go ahead.

Russell Stanley — Analyst, Beacon Securities

Good morning, and thanks for taking my question. Just around verticality, I think Frank mentioned the importance of being thoughtful and optimizing revenue from your own brands while ensuring you still have third-party product variety. I'm wondering if you can talk to where you think the effective max is for Ascend. I understand it would vary state-by-state, but is there a companywide number or range that you can share where you think you can get to?

Frank Perullo — Cofounder, Director and President, Ascend Wellness Holdings, Inc.

Thank you, Russell, for the question. I think having a balanced approach for us has always been the goal. We're shooting for 50 percent. We've achieved 50 percent, and I think we want to continue to get to a higher number. I would put it generally between 55 percent and 60 percent, but still giving the customer the choices and the retail experience we want to ensure, so I think we have to strike balance between having the right assortment and driving our products through our doors and capturing the margin where we can, so that's the approach we're going to take while trying to drive up incrementally our verticality in our retail stores.

Russell Stanley — Analyst, Beacon Securities

Thanks, and for my follow-up, just on Ohio, congrats on the lift you've seen. Arguably, the highest I've seen, I think, this earnings season, but I'm wondering if you can talk to how much of an additional lift you might expect to see once the actual adult-use rules are finalized and implemented given the hindrance that the current structure imposes? Thank you.

Samuel Brill — Chief Executive Officer and Director, Ascend Wellness Holdings, Inc.

Yes, so, Ohio, we're still excited about Ohio. I don't think we've really seen what Ohio's capable of to date, mainly because you can't advertise, and many of the most popular form factors are not available, specifically pre-rolls. Once we make those changes, I think you'll see a nice lift in Ohio. It's hard to quantify at the moment, but we're pretty excited that Ohio is underperforming because of those factors, and will revert back to what I think you would have expected in the first place as those rules are changed.

Frank Perullo — Cofounder, Director and President, Ascend Wellness Holdings, Inc.

We're also going to see a full quarter. We have not seen a full quarter. We also had a store that opened late or about a month after adult-use launched, so we're hoping that we see a modest ramp from the benefit of a full quarter.

Operator

Thank you. The next question comes from Andrew Semple from Ventum Financial. Please go ahead.

Andrew Semple — Analyst, Ventum Financial

Hi there. Good morning. Thanks for taking my questions. Just want to go back to one of the new strategic pillars. There's comments on minimum margin targets. I'm just wondering how the retail outlet model and those outlet stores, whether that fits into the new strategy. Could you maybe comment on plans for those stores and whether you continue to expect to develop the outlet model?

Samuel Brill — Chief Executive Officer and Director, Ascend Wellness Holdings, Inc.

Sure, and look, just to be clear, the outlet model only makes sense in certain markets, so we enter those markets very carefully and make sure that the key factors that we look at are there before opening an outlet store. But we still believe that it fits within our strategy, because again, while they're lower margin than traditional retail, we're able to capture more vertical margin from our wholesale production, and that's the key thing. We are going to get a significantly higher margin from selling those products directly to the consumer, and, in fact, we kind of look at it as a direct to consumer opportunity for our wholesale channel. The margin difference between selling it to a non-Ascendor versus selling it vertically in the wholesale—in the outlet stores is significantly higher, so we think it fits actually very well with our strategy in those markets where we have the strong wholesale position.

Andrew Semple — Analyst, Ventum Financial

Great. Very glad to hear those outlet stores will be staying. My follow-up would just be on maybe if you could update us on CapEx plans for 2025 as we're getting closer to next year? What are the major projects you're envisioning for next year or are there any major projects on the capital budget side?

Roman Nemchenko — Chief Financial Officer, Ascend Wellness Holdings, Inc.

Thank you, Andrew, for the follow-up. Next year looks a little bit like this year where a majority of our CapEx dollars will go towards new retail builds. We currently have six builds in the pipeline, and that number, I expect to grow. We'll continue with some modest improvements to our cultivation, whether it's automation or incrementally adding some square footage where we can. Can't give you exact guidance right now, but looks—going to look a little bit like this year with retail being heavily weighted for the spend.

Andrew Semple — Analyst, Ventum Financial

Great. Thank you.

Samuel Brill — Chief Executive Officer and Director, Ascend Wellness Holdings, Inc.

Thank you.

Operator

Thank you. There are no further questions at this time. Ladies and gentlemen, this concludes today's conference call. Thank you for your participation. You may now disconnect.