

Ascend Wellness Holdings, Inc.

Third Quarter 2025 Earnings Call

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PRESENTATION

Operator

Good afternoon and thank you for standing by. Welcome to the Ascend Wellness Holdings Third Quarter 2025 Earnings Call.

Before proceeding, AWH 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 the risks and uncertainties, please refer to today's earnings release and AWH's SEC and SEDAR filings, including their most recent report on Form 10-K.

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

I am pleased to introduce the Ascend management team joining us on today's call.

We will begin with Sam Brill, Chief Executive Officer and Director, who will discuss the Company's strategic priorities and provide an overview of key operational developments from the quarter. After that, Roman Nemchenko, Chief Financial Officer, will review the Company's financial results for the period.

With that, I'd like to turn the call over to our first speaker, Sam Brill.

Sam, please go ahead.

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

Thank you, Operator. Good afternoon, everyone, and thank you for joining our third quarter 2025 earnings call.

As we approach year-end, the industry landscape remains consistent with last quarter. Federal regulatory reform continues to attract attention and speculation, though material progress has been limited.

Meanwhile, intensified competition and ongoing sector-wide price compression continue to create challenging market conditions for established operators.

However, as we continue to navigate the challenges inherent in our nascent industry, a monumental shift in consumer preferences towards cannabis is reshaping the sector's long-term outlook. Recent research from the 2025 National Cannabis Study by MRI-Simmons found that 61 percent of US adults consider cannabis a healthier choice than alcohol, with this number rising to 87 percent among recent users.

Similarly, the 2024 National Survey on Drug Use and Health revealed a decade-long decline in rates of recent adult alcohol consumption, alongside steady growth in cannabis use within the same period, particularly among 21-to-25-year-olds. These trends signal that cannabis is moving into the mainstream and is being embraced as a preferred consumer product.

The gap between the pace of regulatory reform and the strength of consumer demand underscores cannabis' position as one of the fastest-growing categories in the CPG sector, steadily catching up to alcohol, an established consumer staple. These evolving consumer trends highlight the industry's resilience, even amid ongoing regulatory uncertainty.

While we are cautiously optimistic about the prospect of federal reform, we remain focused on the factors within our control, such as delivering high-quality products through our leading brands and offering the best possible experiences for our customers.

Our strategic priorities continue to guide our decisions and drive meaningful progress in a complex operating environment.

As a reminder, our approach is grounded in three core pillars, profitability, sustainability, and densification.

Our ongoing sustainability initiative has strengthened our balance sheet and delivered measurable cost savings, with well over \$30 million in annual expenses eliminated ahead of schedule. These savings support margin expansion and improved profitability, contributing to our long-term resilience and operational efficiency, which lay the foundation for sustainable growth.

Simultaneously, targeted market densification should help reignite our top line as we strategically expand our footprint in high-profile states and deepen our presence in key markets.

These priorities provide the structure and discipline needed to maintain stability and thrive amid evolving macroeconomic and industry-specific headwinds.

Turning to our performance, net revenue for the third quarter was \$124.7 million, representing a modest 2 percent decline from the prior quarter.

Ongoing pricing pressures in several states, coupled with heightened discounting and promotional activities from new and existing competitors through the end of the summer, weighed on same-store sales.

These trends are consistent with broader industry performance, as total US cannabis sales remained relatively flat in Q3 despite numerous new store openings, according to Hoodie Analytics.

Notably, Ohio continues to outperform, maintaining its position as the strongest retail market in our portfolio. This strength underscores Ohio's importance as a key growth driver for our business, particularly as other markets face headwinds.

We continue to add new stores, although recent regulatory delays have slowed the anticipated pace of openings and expected revenue contribution from new locations.

That said, we remain confident in the depth and quality of our store pipeline, which will drive our strategy of premium consumer experiences in prime, high-value retail locations. We believe this will position us for future top-line growth while driving higher-margin vertical sales of our leading brand.

Although revenue was softer this quarter, we delivered profitability improvements through effective operational enhancements.

Our focused approach mitigated the impact of negative operating leverage, supported by ongoing optimization in third-party retail buying and stronger retail margins and disciplined wholesale execution.

We remain committed to building high-quality, sustainable revenue streams and expanding margin performance, driven by a strengthened product mix in step with consumer demand.

As part of our strategic focus to strengthen our position as a leading brand house, we are intentionally reallocating resources towards higher-value branded products. By channeling wholesale biomass into finished goods with greater margin potential, we are enhancing our overall profitability across our product mix.

This purposeful shift positions us to deliver products that resonate with consumers through our expanding portfolio of differentiated brands. In turn, this should enable us to broaden retail distribution through our wholesale channel with higher-margin branded products.

These strategic initiatives are already driving results, with adjusted gross profit for Q3 reaching \$57.8 million, reflecting a 4.6 percent increase quarter over quarter, and adjusted gross margin improved by 300 basis points to 46.4 percent.

I'm also pleased to report that adjusted EBITDA grew 8.9 percent to \$31.1 million, and adjusted EBITDA margin expanded to 24.9 percent, reflecting a 250-basis-point improvement quarter over quarter.

These improvements are a direct result of our disciplined cost management and our commitment to operational excellence, both of which remain core to the business.

Turning to liquidity, operating cash flow was slightly negative this quarter, due to the transition to biannual interest payments of \$19.1 million. As a result, we anticipate operating cash flow to be lumpy, with larger outflows in quarters with interest payments on the indenture, followed by notably positive operating cash flow in the interim quarters.

We ended the third quarter with cash of \$87.3 million and strengthened our financial foundation by securing a \$9.3 million mortgage on our Ohio real estate at a very competitive 8.5 percent interest rate.

It is important to note that we have no major debt maturing until 2029, and we feel good about our financial position and flexibility. This strong foundation enables us to confidently advance our strategic priorities, enhance our operating platform, and take advantage of potential acquisition opportunities.

Year to date, we advanced our densification strategy by adding seven new stores across our footprint, which will help drive vertical sales and increase fixed asset utilization.

Through our hub-and-spoke model, each new location strengthens our operational efficiency and margin profile.

Most recently, we received approval from the New Jersey Cannabis Regulatory Commission for our partner store in Little Falls, New Jersey. This location is expected to open by the end of November and marks our inaugural partnership under the state's Social Equity program. We are one of only six operators that are eligible for this program, and we look forward to building on this momentum in New Jersey, where we have five more social equity partnerships under development.

Our national footprint now encompasses 46 locations, including partner stores. We remain on track to reach our goal of 60 total Ascend and partner locations, which was announced at the end of 2024. With 13 additional stores currently active in our pipeline, we expect to achieve this target within the next 12 months.

While regulatory approvals and timing remain important variables, our disciplined expansion strategy is centred on strengthening our market presence, with New Jersey as a core pillar of our growth plans.

By aligning our retail network and CPG platforms under a unified customer-first approach, we are delivering a more consistent brand experience, better meeting evolving consumer expectations, and creating long-term value.

As announced last quarter, we officially launched our fully integrated digital eCommerce platform in Q3, a major milestone in our CPG and retail optimization efforts.

Since launching, customers have embraced the redesigned mobile app and Ascend Pay, our secure, cashless payment solution that allows one-click checkout after a single setup.

Since Ascend Pay's July launch, transactions through the feature have increased from 2.7 percent to 6.7 percent of total sales as of the end of October.

The platform delivers a seamless shopping experience, powered by AI-driven personalization, deepening engagement and driving both retention and overall spending.

Our stores are achieving strong transactional throughput relative to labour hours, a key indicator of operating efficiency. These improvements reinforce our store-level productivity and the effectiveness of our digital shopping platform.

Central to this rollout, our reimagined Ascenders Club loyalty program now features four tiers that each offer compelling value. As consumers move up tiers, they can earn exclusive perks such as gifts, launch discounts, and early access to new products. The invite-only Legends Club recognizes high-value customers with highly personalized experiences and elevated benefits, further strengthening loyalty within our growing customer base.

To date, over 64,000 new Ascenders Club accounts have been created by customers.

Looking ahead, we are exploring tier-exclusive menus and continuing to align pricing and assortment strategies with evolving customer behaviour to deliver a more relevant and differentiated consumer experience.

Our customer-focused digital ecosystem remains at the heart of how we scale. It is designed to deliver seamless and repeatable experiences that feel uniquely personal.

As we continue to enhance the platform, we are creating premium interactions at every customer touchpoint, deepening brand loyalty and driving lasting value across the markets we serve.

Our CPG initiatives delivered strong momentum in the third quarter. Our flagship brands maintained category leadership, and we continue to grow our emerging portfolio.

We extended our Effin' brand across multiple categories in the third quarter. The brand entered the vape category with effects-based 1-gram cartridges now available in Illinois, Massachusetts, and New Jersey. This line features five SKUs with curated blends of THC and minor cannabinoids designed to address distinct consumer needs.

Effin's popular gummy line also grew, with five new effects-based SKUs formulated to support creativity, relaxation, social energy, relief, and deep sleep. These new edibles are now available in select markets and have been well received for their innovative formulas.

Meanwhile, our High Wired infused flower brand is gaining strong traction across multiple categories. Following its successful Q2 debut in Illinois and Massachusetts, the brand expanded in New Jersey in Q3.

In the quarter, High Wired drove an 82 percent market share increase in infused products and was a key contributor to our roughly 4 percent market share gain in the pre-roll category across all three states, according to BDSA.

In Illinois, infused flower remains a fast-growing segment. High Wired is helping lead that growth with market-leading potencies reaching up to 50 percent THC. As of the end of Q3, High Wired is the number-two infused brand by sales and units across Illinois, Massachusetts, and New Jersey combined. It ranked number three in Illinois and jumped to number two in New Jersey despite just launching in September.

We recently introduced infused pre-roll five-pack clips in Illinois, Massachusetts, and New Jersey, and a bigger 10-pack format is now available in Massachusetts and will roll out in Illinois and New Jersey in the coming weeks.

Simply Herb continues to hold the position of the number-one flower brand by both sales and units in Massachusetts, supported by strong customer loyalty and accessible pricing.

Additionally, the brand achieved an 8.4 percent increase in market share in New Jersey, driven by continued demand for its flower and vape cartridge offerings.

Building on the success of its existing offerings, we introduced a new 1-gram all-in-one disposable in early Q4 across Illinois, Massachusetts, and New Jersey. The all-in-ones feature distinctive flavours such as Mango Sticky Rice and Fruit Lagoon, generating a strong reception and leveraging the brand equity of Simply Herb.

Ozone remains the number-one overall brand in units sold across Illinois, Massachusetts, and New Jersey combined. In New Jersey specifically, Ozone leads in both flower and pre-roll unit sales. In Q3, we launched new flavour extensions across cartridges, PIXI disposables, and edibles.

Ozone Reserve is fuelling growth in the concentrates category, gaining over 4 percent market share during the quarter. Reinforcing its high-quality positioning, Ozone Reserve will soon debut an exclusive King of Queen Cola SKU.

Additionally, as mentioned on our last call, Ozone is undergoing a comprehensive brand evolution to sharpen its identity and enhance shelf presence, aligning with a visual experience to match the superb quality of the product. In total, we've launched over 420 SKUs year to date and are on pace to reach nearly 550 by year-end, a record for our portfolio.

In Ohio, we reached a major milestone with the long-awaited introduction of pre-rolls. Early results from the launch of Ozone Reserve and Simply Herb pre-rolls indicate strong demand.

With a proven track record in this category, we are preparing to bring more brands and differentiated formats to market as regulations permit.

These results highlight the strength of our multi-brand portfolio and our agility in responding to shifting consumer preferences and regulatory developments with speed and precision.

Lastly, we are looking forward to debuting our newest brand, Honor Roll, a premium pre-roll collection using proprietary flower blends designed for discerning consumers seeking elevated quality and experience. The brand will launch in Illinois in December, followed by Massachusetts and New Jersey early next year.

As competitive pressures continue across the industry, we are actively addressing them through refined pricing strategies, product differentiation, and category expansion, which are all designed to protect and grow our leadership position.

On the operations side, we continue to invest in targeted technologies that support both product innovation and operational performance to maximize yields and quality.

Our network-wide automation rollout remains on track for completion by year-end. This includes automation across flower packing, big filling, edibles, and pre-roll production.

This initiative is already delivering measurable results, optimizing labour, boosting throughput, and improving efficiency across our production facilities.

Our ongoing automation and technology investments are foundational to our profitability and sustainability strategies. They enable us to scale production of our leading high-demand branded products and reduce the cost of goods sold.

Together, these improvements support brand innovation and long-term value.

With that, I'd like to hand the call over to Roman to discuss our financial performance for the quarter.

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

Thank you, Sam, and good afternoon, everyone.

We're pleased to report that the Company generated \$124.7 million of revenue and \$31.1 million of adjusted EBITDA for the third quarter of 2025.

Compared to the prior quarter, total revenue decreased by \$2.6 million or 2 percent, while adjusted EBITDA increased by \$2.5 million or 8.7 percent.

Retail sales for the quarter were \$83.8 million, which is a \$2.7 million or 3 percent net decline from Q2.

The sequential decrease is almost equally driven by declines in the average basket size, as well as the transaction volume, mainly in our Illinois and New Jersey markets. The impact of these declines was partially offset by the gradual ramp-up of five new stores that were added in the first half of the year.

During the quarter, we have seen variety of competitors offer aggressive discounts aimed at taking share. We evaluated (phon) those actions and only respond where appropriate, prioritizing profitability over sales growth.

We believe that a disciplined approach to pricing and promotions leads to a more sustainable business model, as reflected in our improved adjusted gross profit and adjusted gross profit margins.

Wholesale sales for the quarter totalled \$41 million. Although flat to Q2, our sales mix improved, with finished goods making up a larger portion of the B2B sales channel.

Despite the sequential decrease in top line, adjusted EBITDA improved by \$2.5 million, and adjusted EBITDA margin improved by 250 basis points, finishing the quarter at 25 percent.

We realized margin expansion across both sales channels, leading to an overall 300-basis-point improvement in adjusted gross profit margin, while SG&A remained flat.

In retail, the largest driver was improvement in vertical sales mix, with a larger percentage of total retail sales coming from our own brands.

Margin on third-party finished goods also improved, as a result of purchasing efficiencies executed over the course of the year and a better product mix offered on our retail menus.

In wholesale, improvements in operating cost bases and product mix also drove the margin expansion for the quarter.

Moving on to our balance sheet.

We closed the third quarter with \$87.3 million of cash, representing a sequential decrease of \$8 million. This net reduction in cash reflects \$2 million of negative operating cash flows, \$12.5 million used in investing, partially offset by \$6.5 million provided by financing inflows.

The negative \$2 million of operating cash flows was heavily impacted by the \$19.1 million semiannual interest payment in July.

As noted earlier, transition from quarterly to biannual interest payments under our 2024 indenture will continue to create variability in our quarterly operating and free cash flows moving forward.

\$12.5 million of investing outflows include \$6.4 million of CapEx and \$5.5 million of M&A-related payments. CapEx includes approximately \$1.4 million of new store build-out costs, and the rest was used to improve our cultivation and manufacturing facilities.

We're still expecting our full year CapEx to finish in the \$30 million to \$35 million range as planned early in the year.

\$6.5 million of financing inflows reflects proceeds from the \$9.3 million mortgage, offset by the \$1.6 million related to debt repayments, \$0.6 million in share repurchases, and \$0.5 million of payments associated with finance leases.

As Sam mentioned earlier, our capital position was strengthened with a \$9.3 million mortgage financing from a traditional banking partner. This loan is secured against some of our retail real estate assets in Ohio and carries a competitive annual interest rate of 8.5 percent, with maturity in September of 2030.

Elsewhere in the balance sheet, finished goods and packaging inventory levels are beginning to reach optimal levels.

Receivables have been in a steady state as we continue to actively monitor our credit exposure and collection cycles.

The business is current on all payables, and we do not have any large debt maturities coming up for a number of years.

We're happy with our overall balance sheet position, and we continue to believe that our current market value does not fully reflect the quality of our assets and strength of operations.

Initiatives such as our buyback program are aimed at addressing this misalignment and returning value to our shareholders.

During the quarter, we repurchased and cancelled approximately 1 million shares. Since the launch of the buyback initiative last year, we have repurchased and retired approximately 50 million shares at an average price of \$0.30 per share. This represents a 7 percent reduction in the trailing-12-month average shares outstanding as of Q3, and a 9 percent reduction if you exclude approximately 45 million shares held by directors and officers, as disclosed in our most recent proxy.

As we look towards the fourth quarter, we expect the top-line performance to remain relatively stable, with projected revenues slightly down from Q3. This guidance reflects the promotion-heavy holiday period ahead and continued industry headwinds.

However, adjusted EBITDA margin is expected to exceed 23 percent, along with a much stronger cash flow generation, given the timing of the next interest payment in Q1 of next year.

Although we're disappointed with delays in new store openings, as well as declining transactions and basket-size trends, we believe that our new eCommerce platform will provide a strong foundation for customer acquisition and retention in the near future.

Our strong cash position should also enable us to execute on a densification strategy and highly accretive acquisitions as we continue to pursue greater scale and sustainability in our core markets.

Additionally, our refreshed portfolio of flagship and emerging brands and products should help offset the negative pricing trends.

Rebalancing of our portfolio towards the higher end of the value spectrum is also expected to present additional opportunities for margin expansion, moving into next year.

I will now turn the call back to Sam for closing remarks.

Sam Brill

Thank you, Roman.

While the market environment remains challenging, our performance this quarter reflects encouraging progress as we execute on our strategic priorities. Our leading brands, strong retail locations, and excellent customer service, paired with our disciplined execution, continue to drive results. Margin optimization efforts are taking hold, supporting improved profitability despite top-line pressure.

With a strengthened product and brand portfolio, expanding retail footprint, and growing customer loyalty, we believe that we are well positioned to build on this momentum.

As we head into 2026, our focus remains on driving profitability and sustainable growth, all while delivering exceptional products, experiences, and long-term value for our customers and shareholders.

None of this would be possible without the dedication and hard work of our talented AWH team. They are the key to our ongoing success, and I appreciate all that they do.

With that, I'll 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 *, followed by the number 1 on your touch-tone phone. You will hear a prompt that your hand has been raised. Should you wish to decline from the polling process, please press the *, followed by the number 2. If you are using a speakerphone, please lift the handset before pressing any keys. Please also limit your questions to one question and one follow-up.

One moment, please, for your first question.

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

Frederico Gomes — ATB Capital Markets

Hi. Thanks for taking my questions. First question on the decline in retail revenue. I think you mentioned that not only due to price compression but also lower transaction volumes. Can you talk a little bit more about all these lower transaction volumes?

Sam Brill

Sure. I think there's probably a 50/50 mix between the two, and it's—you have additional competition in our key markets. When I look at New Jersey, they added 52 stores this year. And New Jersey now has almost as many stores as Illinois, which also added about 20.

So, as more stores open up around us, you're going to compete more heavily. And we're not going to stoop to the point where—some of these competitors, when they come in, they do 50 percent off their entire menus. We're not going to play into that game and give product away for free. But we do have to weather that storm of when the competition comes in with prices that cheap.

But ultimately, long term, we believe that we have the right experience and product assortment to win. And I think that speaks more to what we're doing on the eCom side to make sure that we tie loyalty

to every transaction, understand who our customers are, and be able to give them the best experience possible, because that's what's going to win in the long term.

Frederico Gomes

Thank you. Appreciate that. And then, second question, just on the regulatory delay that you mentioned to open more stores. Is that specific to any market? I know that, probably, New Jersey's one of them. But any other markets that you're seeing that, that could maybe get in the way of you opening those stores next year? Thanks.

Sam Brill

Yeah. Well, New Jersey was specific because it was a new program enacted recently by the legislature there and the CRC. This was new for them. So we worked with them very carefully to construct the right terms to be able to move forward. They just approved it, and that opens up the opportunity to really push forward the five additional stores that we have in that state.

And it's extremely important for us because, with the size of cultivation facility in New Jersey and only having three stores, we don't have as much going through our stores. And having seven additional stores will shift more product through our stores and create better vertical margins and put us with less exposure to wholesale, which is lower margin by nature.

But other states would be just—I would say, is more typical. There's always delays. It's usually on the local level, and it's natural across the board. So I wouldn't say that there's—it was the CRC specifically that took it, like, significantly more time. We expected to get that store open in Q2, and we'll hopefully get that first store open by the end of this month.

Frederico Gomes

Thank you. Appreciate that.

Sam Brill

Sure.

Operator

Your next question is from Neal Gilmer from Haywood Securities. Please go ahead.

Neal Gilmer — Haywood Securities

Yeah. Thanks very much. Good evening. I just want to start on the gross margins. Congrats on the strong improvement quarter over quarter and, I believe, highest level it's been in a few years. I'm also aware that it can fluctuate from quarter to quarter. So, is there anything sort of one-time in nature that helped improve it to those kinds of levels?

And sort of how do you want to sort of set expectations with investors, going forward, as far as what sort of the—on an annual basis, not looking at it on a quarterly basis—sort of a range that may be sort of a reasonable target to work for?

Sam Brill

No. I think this is the fruit of all of our hard work to try to get to this point. I mean, this was a weakness that we've had, and the strategy, I think, is working.

There's no single callout that I would say was one-time for this quarter. I think it's more about better discipline with third-party purchases, having a better product assortment, and the product development that we've done internally. Commercializing 420 new SKUs is a very, very hard thing to do in less than a year. We've done that, and it's very important to always have what the consumers want.

And the customer, when they come in, they tell us. They always want new. They want new and interesting products, and that's what we're bringing to market. We're bringing—we're trying to be at the

forefront of innovation to bring those new—we see it in other markets. Right? And so we want to meet the customer where they are and always bring that innovation to our stores.

And I think that product mix certainly helps, and it certainly helps with vertical penetration. You're not going to get vertical penetration unless you have products that customers want. And I think we brought that to the table, and it's showing this quarter.

Neal Gilmer

Okay. Great. Thank you. In your prepared remarks, you sort of commented about you noticed more sort of promotional activity and discounting in the summer months. Wondering whether that sort of implies that you're seeing a little bit less of that as you moved into October here at the start of Q4. I'm aware at the end of this month, obviously, that kicks back in with the Black Friday and holiday. But how have you sort of seen sort of October play out in some of your markets with respect to that promotional activity? Or has that sort of continued on from the summer?

Sam Brill

Yeah. I would say that it's continued. I haven't seen it slow down in any material way.

I think, unfortunately, many other players in the market, the only way they understand how to win a customer is through price, and so that's the lever that's pulled most often. It's frustrating because, in some cases, it's just—some of it's irrational.

But when it comes to price compression, I mean, if there's a opportunity going forward—I mean, the recent talk about actually closing the hemp loophole could be quite meaningful for the entire industry. I mean, you have an unregulated market that is somewhere in the neighbourhood of \$20 billion to \$30 billion which, I believe, is the same size as the adult-use regulated market. And if that loophole actually gets closed, then that's a whole lot of market share for us to be able to pick up as regulated players.

So that could be very interesting if that actually happens. And that might alleviate price compression as new customers come into market wanting products.

Neal Gilmer

Yeah. Fair. Understood. Okay. Thanks very much. I'll go back in the queue.

Sam Brill

Sure.

Operator

Your next question is from Luke Hannan from Canaccord Genuity. Please go ahead.

Luke Hannan — Canaccord Genuity

Yeah. Thanks. Good afternoon. I wanted to follow up on Ohio. Sam, you touched on that as being a market that continues to perform and mentioning it's the strongest retail market in the portfolio. I imagine that's because of the nascency of the adult-use program. But is there anything else to call out there? And can you give us a sense of what maybe same-store sales would look like in that market in particular?

Sam Brill

I mean, that market is, as you said, relatively new. It's about—it's a little over—I think it's the one-year anniversary or a little past that. So now you're kind of seeing same stores like on a—like at an AU level.

But it continues to gain traction. It's been pretty, like, linear growth so far. We do expect 10Bs eventually to get approved and more stores to enter the market but, hopefully, at a slower pace, as more customers come to the store, and it becomes a more mainstream industry for that region.

I would say we've had the past—like we're now able to sell pre-rolls, which is new form factors. And that's gone extremely well. We have three different pre-rolls in the market. It's been extremely well received. And so I think that that's going to help drive some additional growth.

And then, eventually, I hope that we'll be able to advertise and they'll allow more—there are still some form factors that are not allowed in that market. So I think, as you allow advertisements and more form factors to come into Ohio, that will hopefully create an opportunity for additional growth.

Luke Hannan

Okay. Thanks. And then I wanted to follow up also, you had some commentary on one of the reasons why you are having better gross margin is there's more discipline when it comes to buying third-party brands. I mean, what exactly is it that's underpinning that? What are you doing differently there now versus what you were doing before?

Sam Brill

It's just having a process that is focused on what it is that we're buying, how we're populating our menu in a more disciplined way. So I think it's more about buying those top products in each market and understanding the profitability metrics of those items. I mean, honestly, we didn't have something that was, like, really set in place to have that discipline. And we have put that in place, and we follow it very carefully.

So it's just something that wasn't there. And so putting that in, like, that was a key factor in making sure that we were actually aware of the margin profile of the things we put on our menu and focus on the ones that have the highest margins; but also make sure that we have the key leaders in every single market, in every single category, because we always want to have our menu that's going to have something that the customer wants.

Roman Nemchenko

Yeah. And just to add to that as well, I mean, it's really assortment. There's a big piece of it focusing on items that complement our menu, buying efficiencies, buying at scale, watching kind of how we run a promotion, the pricing cycle. So I think a mixed combination of efforts. When you look at sequential and even year-over-year margin profile on that third-party product, it's a pretty massive improvement.

Luke Hannan

Okay. Got it. Thanks.

Sam Brill

Thank you.

Operator

Your next question is from Andrew Semple from Ventum Financial. Please go ahead.

Andrew Semple — Ventum Financial

Good evening. Thanks for taking my questions. Congrats on the Q3 results here. I'm going to return back to the retail segment, at least relative to our forecast. That's probably where the biggest surprise was, on the sales pressure, but also on the margin outperformance.

You've seemed to indicate that most of the—maybe the delta there was mostly related to kind of market pressures, including competition from third-party stores. Just want to unpack if there's anything maybe internally or operationally that happened as well. Was there any shift in the outlet retail strategy that happened during the quarter?

And were you seeing any—maybe some impact at the stores from increasing vertical integration and putting more of your own products on the shelves? Any colour on that would be helpful.

Sam Brill

No. I think actually—like the vertical, I think, penetration has really been driven by the refreshed product portfolio. The products speak for themselves. We're seeing people actually pay higher prices for some of these things because they're new and fresh.

I would say that the price compression competition or sort of—like you look at the State of Ohio that was essentially flat despite adding 20 new stores. I mean, that means that the pie is getting split up across more units, essentially. And so that's what we're facing.

And at the same time, you do have irrational players that are willing to give away product, essentially for free in some cases, in order to steal traffic. And if we went down that route, then we wouldn't have the margins that we have. And we need to stay disciplined and rational and not chase, basically, very low-value sales.

So I think it's just the mindset. We're just not going to play in that sandbox. And that discipline, yes, are we losing some sales as a result? We are but, like, we don't have any margin on those sales. So you could see a higher sales number. You'll probably get the same result in terms of EBITDA, maybe even lower, and then you end up lowering the value of everything else that you have on the menu. So it's a losing strategy, long term, and so we need to stay disciplined and focus on where we see success and lean into that.

Andrew Semple

Great. That's helpful. And then maybe my follow-up would be on the margin. Given the EBITDA margin guidance next quarter, it sounds like you're hoping to sustain at least a decent portion of the quarter-on-quarter margin improvement we saw.

Maybe just thinking into, like, 2026, do you think you can continue to hold onto kind of the higher margin level we saw in the third quarter? Or do you think competitive pressures and pricing pressures can continue to weigh?

Sam Brill

Well, we'll see what happens with the price compression. Again, if this hemp thing happens, that's a \$30 billion opportunity for this industry. So we'll see where that goes. We're going to continue to stay disciplined with our strategy.

And, look, in Q4, you do have the seasonality. You do have the holiday season. We're cognizant of that. We have to be competitive for the holiday menu. And, look, we're anticipating a slightly down quarter-over-quarter revenue. So we're not going to get the same operating leverage because SG&A is going to remain, like, flattish with lower revenue. So I think that has the bigger impact than the gross margin in terms of where you'll see results next quarter.

And then, as we look into next year, as our densification strategy continues to take hold, we should be able to grow revenue as we add more stores. And that's the key is to add more stores and then grow revenue and then see what this looks like when we actually have operating leverage. That's the key, get to a place where we have operating leverage. And so hopefully, in 2026, as the densification strategy takes hold, we can actually demonstrate that and see where we go.

Andrew Semple

Great. Thanks, Sam. I appreciate the colour.

Sam Brill

You got it.

Operator

There are no further questions at this time. Ladies and gentlemen, this concludes your conference call for today. We thank you for participating and ask that you please disconnect your lines.