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Ascend Wellness Holdings, Inc.

(AAWH.USD.CA)

Q3 2023 Earnings Call

CORPORATE PARTICIPANTS

Rebecca Conti Koar

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

Abner B. Kurtin

Executive Chairman & Founder, Ascend Wellness Holdings, Inc.

John R. Hartmann

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

Daniel Joseph Neville

Chief Financial Officer, Ascend Wellness Holdings, Inc.

OTHER PARTICIPANTS

Sonny Randhawa

Analyst, Seaport Research Partners

Neal Gilmer

Analyst, Haywood Securities, Inc.

Matthew Robert McGinley

Analyst, Needham & Co. LLC

Frederico Gomes

Analyst, ATB Capital Markets, Inc.

Russell Stanley

Analyst, Beacon Securities Ltd.

Andrew Semple

Analyst, Echelon Wealth Partners

MANAGEMENT DISCUSSION SECTION

Operator: Good morning, and thank you for standing by. Welcome to AWH's Third Quarter 2023 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 Strategy. Please go ahead.

Rebecca Conti Koar

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

Good morning and welcome to AWH's earnings call for the third quarter 2023. The presentation that accompanies this call can be found on our website, 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. 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 the call concerning expectations, predications, plans and prospects constitute forward-looking statements. These forward-looking statements 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, and we undertake no obligation to revise or update such statements or make additional forward-looking statements in the future, except as required by applicable laws.

References may be made during this call to future-oriented financial information, 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, and such variation may be material.

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 Ascend, 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 sources, including public sources, and there can be no assurances as to the accuracy or completeness of such information. Although believed to be reliable, management has not independently verified any of the data from third-party sources.

On today's call, we have Abner Kurtin, Executive Chairman; John Hartmann, Chief Executive Officer; and Dan Neville, Chief Financial Officer.

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

Abner B. Kurtin

Executive Chairman & Founder, Ascend Wellness Holdings, Inc.

Thanks, Rebecca. Good morning, everyone, and thank you for joining our third quarter 2023 earnings call.

Before we begin, I would like to thank our customers, partners, investors, vendors and the Ascend team for helping us deliver these strong results this quarter.

In Q3, we exceeded expectations in several key financial areas. The quarter marked our sixth consecutive quarter of record revenue growth, where we saw a noteworthy 15% increase sequentially and a 27% increase compared to the third quarter of last year. The success is attributed to improvements in both our retail and wholesale segments.

We've also made significant progress in enhancing our gross profit and adjusted EBITDA, showing meaningful sequential improvements. Our adjusted EBITDA surged 39% sequentially with a corresponding increase in adjusted EBITDA margin of over 350 basis points. This success was driven by the initiation of adult-use sales in Maryland and margin enhancements in our cultivation operations in New Jersey, Illinois and Massachusetts. I'm pleased to report that this marks the third consecutive quarter of positive cash flow from operations with a substantial \$24 million generated.

Notably, we achieved our first quarter of positive free cash flow, generating \$13 million. This reflects our commitment to fiscal responsibility and continued growth and sustainability of our business.

This quarter, we saw continued progress made in the federal regulatory environment. We continue to believe the process of legalization of some sort is a matter of when, not if, but we're not making any predictions on the timing of an uncertain legislative process.

At the end of the summer, we saw momentous recommendation from the Department of Health and Human Services to the Drug Enforcement Agency, suggesting the reschedule of cannabis from Schedule 1 on the Controlled Substance Act list, where it's currently sits alongside heroin and fentanyl to Schedule 3. This move marks a significant step towards more rational regulation.

However, Ascend remains cautiously optimistic, recognizing that the final decision rests with the DEA and ultimately, the Attorney General. This would be a significant catalyst for the industry as rescheduling cannabis as Schedule 3 could unlock opportunities for improved tax structures, upgraded patient and customer access, enhanced regulatory consistency and potentially enhanced investor access.

We saw modest progress made on the legislative front. Just over a month ago, the Secure and Fair Enforcement Regulation Banking Act progressed through the Senate Banking Committee, a historic milestone, but we recognize that there is no time table for passage by the full Senate or the House.

In parallel to the aforementioned developments in the legislative and executive branch, we continue to participate with an industry group to pursue a lawsuit that challenges the constitutionality of the enforcement of the Controlled Substance Act against state-regulated cannabis businesses. Two weeks ago, we were pleased to officially get this off the ground with the filing of a suit against the United States in the US District Court in Massachusetts. Ascend is proud to be a foundational supporter of this action. We expect this will be a long but worthwhile process and we will provide any material updates as they're available.

We continue to see positive developments at the state level, including the Ohio ballot taking place today as well as legislative developments in Pennsylvania, which we expect is also on a path to legalizing adult-use. We note that Ascend has significant presence in two of the most important markets expected to convert to adult-use in the near future. At this juncture, a significant majority of Americans have access to legal cannabis, with 38 states operating medical programs and over 20 states operating adult-use programs.

While we are pleased with the Federal progress made, we remain focused on executing our strategy to become a scale provider in each of our select adult-use or near adult-use markets. We are currently in vertical in six of our seven markets and now sell adult-use in five of our seven markets. We are anticipating citizens in Ohio will vote in favor of adult-use during the ballot initiative today, with recent polls showing over 55% support versus the 50% threshold required, which would make it our sixth adult-use state.

Ohio was also a key market for us, as we currently have two open dispensaries and three additional dispensaries opening by year-end and are vertically integrated in the state.

As a result of our acute focus and disciplined approach, we remain in position to pursue accretive acquisitions. There are many distressed assets in the market and we continue to evaluate several opportunities to support growth of our asset portfolio via strategic acquisitions. Our portfolio stands out as one of the most robust and strategically concentrated, driving our revenue and cash flow expansion in the forthcoming quarters.

With that, I will turn it over to John Hartmann, our Chief Executive Officer, to discuss the business, beginning on slide 5.

John R. Hartmann

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

Thank you, Abner, and good morning, everyone. It has been a pleasure settling into the role for my first six months at Ascend. Last quarter, I delved deeply into our operations, visiting our 31 dispensaries and six

cultivation sites and took the time to establish a strong foundation by immersing myself in the knowledge shared by our employees, our customers and partners.

This quarter, I turned my attention to understand the opportunities to enhance the customer experience, elevate production quality and consistency, and optimize our cost structure. The team's focus and early results have been encouraging with improved margins and enhanced cash flow in the quarter.

As briefly mentioned last quarter, to accelerate our strategies, we began a realignment of our executive leadership team. I'm pleased to report that we have filled two of the key open roles with highly talented leaders. One important addition to our team is Chris Holzer, who joins us as our Chief of Operations. Chris will be dedicated to enhancing cultivation, production and supply chain operations.

He joins most recently from Bayer Crop Science, where he held the position of Senior Vice President and Head of Quality for Product Supply, Seeds and Chemistry. Prior to that, Chris accumulated nearly 15 years of experience with Syngenta, holding various roles of increasing responsibility, both domestically and internationally.

Chris has managed plant growth for seed production, yields and quality with strict environmental controls and has worked within the highly regulated frameworks. We are pleased to bring someone of this caliber from outside the industry into our organization to elevate the standards of how we produce our products, improve quality and capture efficiencies across the manufacturing and production.

We also recently appointed Denise Pedulla as Chief Legal and Compliance Officer and Corporate Secretary. Denise comes to us from Conformis, where she was responsible for legal and compliance in the healthcare space. Denise brings deep expertise in providing leadership and cross-functional legal services to global life sciences companies. Many, if not all, of her past experiences are relevant for us today, including mergers and acquisitions, working with federal and state regulatory enforcement agencies, and deep experience serving as Corporate Secretary for public companies.

As previously announced, Dan Neville, our Chief Financial Officer, has resigned for an exciting career opportunity. On behalf of the Board of Directors and the entire company, I would like to extend my sincere gratitude to Dan for his dedication and contributions during his tenure as our CFO. His leadership has been instrumental in many aspects of Ascend's growth and overall financial success.

With this, we are very pleased to announce that Mark Cassebaum is joining as our new Chief Financial Officer. Mark joins us most recently from Blackstone-owned Centric Brands and previously was the divisional CFO for Buy Buy Baby and operations at Bed Bath & Beyond. He has held numerous positions of increasing financial responsibility with the Ralph Lauren Corporation, where he served for over 12 years.

These roles, combined with our recently filled Chief Commercial Officer and Chief of Stores positions round out the team to help us improve our emphasis on customer focus, associate engagement and business commitments.

Please proceed to slide 6 to discuss the latest retail updates from this quarter. Q3 was another strong quarter in our retail business, where we achieved the highest sequential revenue growth since the start of adult-use in New Jersey. Retail revenue grew 13% sequentially and 22% year-over-year to \$101 million, making up 72% of our net revenues. While retail revenue growth was led by the successful start of adult-use sales at our four dispensaries in Maryland, we also experienced sequential sales growth for the rest of our portfolio in aggregate. We benefited from partially – we benefited from particularly positive growth in Pennsylvania, Massachusetts, Michigan, and the full quarter benefit of Tinley Park in Illinois.

Q3 represented our fourth quarter in a row with transactions above \$1 million, with transaction growth up 17% sequentially. While some of this growth was the result of adult-use flips and store openings, a large portion was also due to the increased sales from our existing customer base. Earlier this year, we revamped our loyalty program, the Ascenders Club, and have since doubled the active members. It is important to our retail strategy to cultivate these relationships to drive stickier customers.

Looking ahead, our growth plans are on track as we continue to build out our retail portfolio with an intense focus on densifying our current markets. Q4 is a busy quarter as we intend to open four more stores before year-end, including our 10th Illinois dispensary in Northlake, a western suburb of Chicago, and our third, fourth and fifth Ohio dispensaries. Northlake, along with Sandusky and Piqua, Ohio, will follow our successful outlet model, offering everyday low prices, which has proven to be highly appealing to our customers in specific markets.

Our Cincinnati, Ohio ground-up build will be a flagship store located in an ideal location in downtown. Additionally, we have four more Pennsylvania dispensaries in our pipeline and we expect them to be fully operational in 2024.

Let's move on to slide 7 to discuss the wholesale business. In Q3, we saw meaningful sequential wholesale growth for the third quarter in a row. Gross wholesale revenue grew 12% quarter-over-quarter and 33% year-over-year to \$69 million, while net wholesale revenue grew 21% quarter-on-quarter and 41% year-on-year to \$40 million. This quarter, we experienced gross wholesale revenue growth in each of our markets, led by improvements in New Jersey, Illinois and Massachusetts.

From a third-party sales perspective, we maintain our position as market leaders in numerous states, with particular prominence in Illinois and New Jersey, evidenced by 10% sequential growth in our total wholesale client base during the quarter. Additionally, we maintain our dominance in serving social equity customers, reaching 49 out of the 50 open doors in Illinois and all 35 open social equity doors in New Jersey.

From a cultivation and production standpoint, we continue to deliver new offerings to meet our customers' needs and expand our market penetration. We recently launched a new super premium brand, Royale, to help round out our offering. Royale is targeted to the cannabis aficionados, searching for unique phenos with best-in-class profiles. It comes at a higher price point, reflecting the quality of the product and is currently available in Illinois and Massachusetts. This addition complements our existing in-house and partner brand assortment to provide customers with options and variety.

Lastly and importantly, we believe we have largely addressed the issues in New Jersey cultivation that were reported previously. We are seeing tangible improvements in output from the facility evidenced by a 30% increase in yields month-over-month in September alone. We continue to closely monitor, but expect that the majority of these challenges are now behind us.

Before turning it over to Dan to discuss the financials in detail, beginning on slide 9, I would like to once again thank the team for their commitment and dedication, which has delivered these impressive results. Six months in and I'm even more excited about the prospects that lie ahead for Ascend, and I'm honored to be driving the team forward, building on the great foundation in our current markets.

Daniel Joseph Neville

Chief Financial Officer, Ascend Wellness Holdings, Inc.

Thanks, John. Good morning, everyone. Q3 was a standout quarter for Ascend with notable improvements across the board in revenue, EBITDA, and most importantly, cash generation. We reported record net revenue for the

sixth consecutive quarter, a 356 basis point improvement in adjusted EBITDA margin, \$24 million in cash generated from operations, excluding the receipt of the ERTC credit, and our first quarter of positive free cash flow, generating \$13 million, also excluding ERTC.

As we have said many times before, this is a stair-steppy business and we anticipate Q4 to be relatively consistent with Q3 results, but have a lot of exciting opportunities ahead of us in 2024.

Total system revenue increased by 13% sequentially to \$170 million, while net revenue, which excludes intercompany sales of wholesale product, increased 27% year-over-year and 15% quarter-over-quarter to \$141.3 million. This sequential revenue growth was primarily driven by meaningful progress in both the retail and wholesale businesses.

As John mentioned, total retail revenue in the third quarter was – of 2023 was \$101 million, gross wholesale revenue was \$69 million and net wholesale revenue, excluding intercompany sales, was \$40 million.

In a reversal from last quarter, our margins were meaningfully improved. Adjusted gross profit increased 26% to \$56.4 million and adjusted gross profit margin increased 340 basis points from 36.5% to 39.9%. The improvement was the result of AU sales commencing in Maryland and margin improvements in Massachusetts and New Jersey wholesale.

Our Q3 adjusted EBITDA was \$29.5 million, which represents a 6% increase year-over-year and a 39% quarter-over-quarter increase. Our adjusted EBITDA margin for Q3 was 20.9%, which represents a 356 basis point sequential increase. The increase was the result of the aforementioned improvements in gross profit margin as well as increased leverage on our G&A expense base.

Let's move on to discuss our cash position and balance sheet on slide 10. We ended the quarter with \$64 million of cash and equivalents and \$244 million of net debt. We remain committed to generating cash and [ph] achieving (00:18:51) long-term self-sufficiency. In Q3, we generated \$24 million of cash flow from operations, excluding ERTC, which was \$3 million. Also in the quarter, we generated \$13 million in free cash flow, again excluding the \$3 million ERTC inflow, and inclusive of \$11 million of CapEx, which was primarily used to support dispensary builds in Ohio and our Maryland reflagging and renovation.

In the quarter, we used \$27 million in cash to support cash for investing, inclusive of \$11 million of CapEx and \$15 million related to the final milestone payment to a PA medical school for the CR permit we acquired last year.

Before taking it back to Abner and opening it up to Q&A, I wanted to thank you all for your support over my last five years with Ascend. It's been a pleasure to serve as CFO for the company and I look forward to cheering Ascend on from the outside.

Abner B. Kurtin

Executive Chairman & Founder, Ascend Wellness Holdings, Inc.

Thank you, Dan. I just wanted to personally thank you for your exceptional service as our CFO. It's been an absolute pleasure to work alongside you as we navigated our financial journey from the IPO, a successful debt raise and much more. Your contributions to Ascend's growth since you joined us in 2019 have been invaluable. Your leadership, financial acumen and dedication have been instrumental in shaping our success. We are grateful for your commitment and impact you made on our organization and wish you much success in your new role.

Operator, you can open it up for questions.

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] Our first question comes from the line of Sonny Randhawa of Seaport. Please go ahead. Your line is open.

Sonny Randhawa

Analyst, Seaport Research Partners

Q

Hi. Thanks. Thanks for the question. I wanted to – I think we've had some of your competitors talk about the partnership opportunity in New Jersey, where you can take a 35% stake in seven additional retail locations. Have you guys explored that? And if you have, where do you stand in terms of making that commitment?

Abner B. Kurtin

Executive Chairman & Founder, Ascend Wellness Holdings, Inc.

A

Hey, Sonny, its Abner. Yeah, I think that is something that we are actively exploring. We're waiting for some of the details and figuring out how best to achieve that for Ascend. But absolutely, our strategy has always been to get scale in each state we are in. We also work to support and partner with other applicants, particularly social equity applicants. So this is an ideal opportunity for us to expand our New Jersey presence, and we expect to be active next year.

Sonny Randhawa

Analyst, Seaport Research Partners

Q

But have you seen any impact? I know New Jersey retail has expanded quite a bit over the past couple of quarters. I think we're currently showing 62 retail locations and – or 62 adult-use locations and 73 total with, I guess, overall New Jersey revenues still indicating flattish, if not down, growth in September. Are you seeing an impact on your retail business there? I know wholesale is doing great with all those new dispensaries coming on.

John R. Hartmann

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

A

Yes. We've seen a modest impact as the market densifies, but we're – overall, we're very pleased with the performance of the stores and the complement of the – that the wholesale business is making to our overall position in New Jersey, which has been growing very aggressively on the wholesale side. And as Abner mentioned, we continue to pursue deep relationships with social equity partners and we'll continue to do that to focus on ensuring that the New Jersey market is positive for us, as we look to add additional stores in the future.

Sonny Randhawa

Analyst, Seaport Research Partners

Q

And where do you guys stand in terms of the yield improvements? I know, initially, the yield that in New Jersey was adequate and then you had the issues. Have you gotten back to that adequate yield, or, I guess, if we look at Michigan after you guys did some mitigation there, you saw a pretty meaningful improvement in yield?

John R. Hartmann

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

A

Yeah. We've been seeing very nice sequential improvement in our yields coming out of Franklin, New Jersey, over the last several months. As I mentioned in my prepared remarks, we were up 30% month-over-month in

September, and we believe we're on the right track. The facility looks great. The plants are very healthy, and we expect that to continue in the future.

Operator: Thank you. Our next question comes from the line of Neal Gilmer of Haywood Securities. Please go ahead. Your line is open.

Neal Gilmer

Analyst, Haywood Securities, Inc.

Q

Yeah. Thanks very much. Maybe just sort of follow on that last sort of question a little bit, but to talk about the gross margin side of things. I know that some of those yield issues in New Jersey impacted margins in previous quarters. Now that you seem to have addressed most of that, we saw some evidence of that margin improvement in Q3. Are we getting ahead of ourselves to expect further margin improvement in Q4 going forward? Just sort of taking a look at last year, you're in the mid-40% range. Is it realistic to get back towards that range again?

Daniel Joseph Neville

Chief Financial Officer, Ascend Wellness Holdings, Inc.

A

Yeah. I think, I would assume – we had some good progress this quarter, but I would kind of assume flat going forward, maybe we can get a little incremental improvement similar to what we saw with some of the improvements, both in Massachusetts and Franklin, New Jersey this quarter. But we also are opening more and more outlet stores. The outlet model, while very accretive on a gross profit dollar basis, is dilutive to our overall margin profile. And as you have additional stores opening up in Illinois and New Jersey over a longer time horizon, you would also probably anticipate a little bit of softening in the gross margin profile at retail generally.

So I think you got to take the mosaic into account, and somewhere plus or minus around this level is probably a good baseline for us.

Neal Gilmer

Analyst, Haywood Securities, Inc.

Q

Okay. Great. Thanks for that. My other question would just be on your comments with respect to Royale in the prepared remarks. What are your plans on sort of introducing that brand to some of your other markets?

John R. Hartmann

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

A

Yes. We have plans in place to introduce Royale in each of the markets where we're currently vertically integrated. Our priority is on the adult-use recreational markets for the time being. So we'll be focused on Illinois, Massachusetts and New Jersey, and we'll consider Michigan in due course. And then we'll follow in the other markets when it makes sense.

Neal Gilmer

Analyst, Haywood Securities, Inc.

Q

Okay, great. Thanks very much.

Operator: Thank you. And we currently have no further time for questions. So, once again, thank you all very much for your -

Daniel Joseph Neville

Chief Financial Officer, Ascend Wellness Holdings, Inc.

We have time for questions.

A

Rebecca Conti Koar

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

Yeah.

A

Daniel Joseph Neville

Chief Financial Officer, Ascend Wellness Holdings, Inc.

We're good till 9:30.

A

Operator: Apologies. Apologies, sir. Okay. Our next question comes from the line of Matt McGinley of...

[audio gap] (00:27:11-00:27:16)

Rebecca Conti Koar

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

We have time for questions.

A

Matthew Robert McGinley

Analyst, Needham & Co. LLC

Great. It's Matt McGinley. Can you hear me now?

Q

Daniel Joseph Neville

Chief Financial Officer, Ascend Wellness Holdings, Inc.

Yeah. Got you. Hey, Matt.

A

Matthew Robert McGinley

Analyst, Needham & Co. LLC

Great.

Q

Daniel Joseph Neville

Chief Financial Officer, Ascend Wellness Holdings, Inc.

I was scared of your question. So we were trying to end it early.

A

Matthew Robert McGinley

Analyst, Needham & Co. LLC

Hopefully not. Hopefully not. I guess my first question on the cash flow is how much of the \$24 million in cash flow from operations this quarter was from an increase in taxes payable? And what kind of planned outflow do you have for CapEx into the fourth quarter? And I know you typically make some catch-up tax payments in the fourth quarter. Can you kind of help to frame what we should assume in terms of the overall outflow in the next quarter?

Q

Daniel Joseph Neville

Chief Financial Officer, Ascend Wellness Holdings, Inc.

A

Yeah. So on the source on the tax side of things, it was \$12 million on a cash basis this quarter. On a normalized basis, if you're looking at our kind of approvals that we would have quarter in, quarter out at this level of profitability, it's somewhere in the \$9 million to \$10 million range. So it was a little elevated on the cash side of things, just given the timing of payments this quarter. But \$12 million of the \$24 million was from the tax side of things.

And then, on the tax payable, we've kind of taken with all the movement that is occurring at the federal level the position that we should be building tax debt a little bit here given the progress that is occurring both through safer, through rescheduling as well as the third prong that was just added to the stool, with the judicial challenge that the industry has brought – brought against the industry.

So we'll continue to be making payments on the state side of things and continue to pay estimates on that side of things, but we're kind of putting pause for the time being on the federal side of things.

Matthew Robert McGinley

Analyst, Needham & Co. LLC

Q

Okay. And on the G&A side, I assume that a good portion of that \$4 million increase you had in G&A was driven by the Maryland dispensaries. How should we assume that that looks into the fourth quarter? Is \$40 million now the right run rate? Or given that you just brought those stores on this quarter, there were probably some inefficiencies as you brought them online. Is there any opportunity for cutting that into the fourth quarter or even next year?

Daniel Joseph Neville

Chief Financial Officer, Ascend Wellness Holdings, Inc.

A

I think that's probably a pretty good level. We will – Maryland at the very start was definitely – the contribution on that side of things in July ramped throughout the quarter. But we've got four additional stores that are opening in the fourth quarter between the three in Ohio and our 10th dispensary in Illinois. And John and team are also building out our bench on the corporate side of things. So I would think that a slight maybe even increase on that side of things into fourth quarter is probably warranted.

Matthew Robert McGinley

Analyst, Needham & Co. LLC

Q

Yeah. Thank you very much.

Operator: Thank you. And our next question comes from the line of Frederico Gomes at ATB Capital Markets. Please go. aahead. Your line is open.

Frederico Gomes

Analyst, ATB Capital Markets, Inc.

Q

Hi. Good morning. Congrats on the quarter. Thanks for taking my questions. The first one is just on your wholesale, the strength you're seeing across your different markets. I wonder if you could break down the drivers for that strength. Are those improvements in your production or just additional distribution in new doors, or are you seeing any sort of better competitive environment, improvements in pricing, et cetera? So just some color on that.

John R. Hartmann

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

A

Yeah. If I heard your question correctly, sales overall, so I'll break it down retail and wholesale. From a retail perspective, as mentioned, we had the four dispensaries opened in Maryland, and so comping that year-over-year from a store perspective. In the quarter, we had Tinley Park in Illinois and existing sales performance from the balance of our footprint.

On the wholesale side, as mentioned, wholesale sales have improved greatly coming out of Franklin. Also, Barry and Athol in Illinois and Massachusetts, our wholesale sales were up nicely. From a gross wholesale perspective, we saw improvement in each of our markets. So strong gross wholesale.

And then on the third-party wholesale side, we saw – again, we saw increases in New Jersey, Illinois and Massachusetts. And so I think those are primarily the highlights on both retail and wholesale.

Frederico Gomes

Analyst, ATB Capital Markets, Inc.

Q

Thank you. And then just on your outlet model, can you just maybe remind us what sort of – how many stores are within that model at this point? And as you look to open new stores, I know that in the deck, you mentioned two new stores that are outlet. What percentage of the new stores are going to be outlet versus other – your traditional model? Thank you.

John R. Hartmann

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

A

We currently have five outlet stores. And as mentioned in our prepared remarks, Sandusky and Piqua, Ohio, are opening in the outlet model, and Northlake. Thank you. And Northlake, Illinois. So three additional coming online here in the next two months.

Frederico Gomes

Analyst, ATB Capital Markets, Inc.

Q

Thank you very much.

Operator: Thank you. And our next question comes from the line of Russell Stanley at Beacon Securities. Please go ahead. Your line is open.

Russell Stanley

Analyst, Beacon Securities Ltd.

Q

Good morning and thank you for taking my question. First on Illinois and the wholesale business there. Just wondering, it sounds like you're still up near – or essentially at 100% penetration there. How are you thinking about the growth of the business going forward? Is your focus on just grabbing or opening new door – as new doors arise getting into them with the social equity licensees? Or are there opportunities for you to expand share of wallet with existing customers? Just trying to understand the relative priorities there.

John R. Hartmann

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

A

I think those are both very good priorities, expanding share of wallet with our existing customers and continuing to stay on top of the opportunity to add new doors as they open up. So both of those are part of our wholesale

strategy and it's proven quite effective in the last few quarters – or in the last quarter, and we'll maintain that going forward.

Russell Stanley

Analyst, Beacon Securities Ltd.

Q

Great. Maybe on the follow-up, Ohio, as you noted looks likely the voters will approve the adult-use measure. I guess some lingering questions around the legislatures response, given some recent comments by the Senate President. Just wondering how you're thinking about the way this likely plays out as far as implementation goes.

Abner B. Kurtin

Executive Chairman & Founder, Ascend Wellness Holdings, Inc.

A

Yeah. So, obviously, we're quite hopeful about today. We think it's not just passing of 50%, but the number is really important. We think a number closer to 60% or above would really give kind of the mandate that puts pressure on the Senate President and the Governor.

The positive side is we have a really detailed ballot question with real benchmarks for the legislature to live up to. And we hope that what we're getting is a lot of rhetoric in his personal beliefs, but that he's going to follow the law. If it turns out to become a problem and we don't – and they take certain delaying tactics, the possibility is that it goes on the ballot next year as a constitutional amendment, which is something I don't think the Republicans want in the state.

So the hope is the combination of the vote today and the likely follow through if they don't implement is enough to get this done, and the will of the people will prevail in this case.

Operator: Thank you. And we currently have one further question. [Operator Instructions] The next question comes from the line of Andrew Semple at Echelon Wealth Partners. Please go ahead. Your line is open.

Andrew Semple

Analyst, Echelon Wealth Partners

Q

Hi there. Good morning. Thanks for taking my question. While we're on the topic of Ohio, I believe earlier in the year, you decided to defer some capital investments in cultivation in that state and the size that you're going to build out that cultivation facility. Have you made any additional investments or have you returned to that decision now that you've had a quarter here with some pretty substantial improvement in cash flow? Has there been any revision to how you're planning cultivation capacity in that state ahead of the vote tonight?

John R. Hartmann

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

A

Andrew, currently, we're – we've not changed our position on the investment in Ohio. We're still assessing it. The team has done an excellent job of scoping out what additional investments would look like in our cultivation and production capacity in the state of Ohio. So we're just – we're watching the legislation. We'll be prepared to service all of our stores as they open up here in the coming weeks. And then, as the vote plays through, as Abner just referred to, we'll make a decision following on when the right time is for further investment in the state.

Andrew Semple

Analyst, Echelon Wealth Partners

Q

Great. That's helpful. And then if I can go back to New Jersey and the cultivation facility there, clearly, there's been some substantial improvements in that, what would you say that facility is now running at in terms of its nameplate capacity?

John R. Hartmann

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

A

Andrew, I don't think I'm going to get into like a specific percentage of capacity for the facility. I would reiterate that we are very pleased with the progress and the turnaround's been made in the health of the plants. The team has been working very hard to enhance some of our environmental investments in the facility. And we believe it's on track for full capacity in the weeks and months ahead.

So we're just – we're very pleased with the progress, and we expect to see continued financial performance to follow the improvements in the cultivation and production in the facility.

Daniel Joseph Neville

Chief Financial Officer, Ascend Wellness Holdings, Inc.

A

But the rooms are planted, the yields are good. Like, that's – all the rooms are planted, yields are good. We're happy.

Andrew Semple

Analyst, Echelon Wealth Partners

Q

Great. Great to hear and glad to hear. It sounds like there might still be a little bit more wiggle room to come there. That's it for me. Thanks for taking my questions.

Operator: Thank you. And as there are currently no further questions on the line, we'll now conclude the call. Once again, participants, thank you all very much for attending. You may now disconnect your lines.

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