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Verano Holdings Corp. (VRNO.CA)

Q4 2023 Earnings Call

CORPORATE PARTICIPANTS

Julianna Florence Paterra

Vice President-Investor Relations, Verano Holdings Corp.

George Archos

Co-Founder, Chairman & Chief Executive Officer, Verano Holdings Corp.

Brett Summerer

Chief Financial Officer, Verano Holdings Corp.

Darren H. Weiss

President, Verano Holdings Corp.

OTHER PARTICIPANTS

Aaron Grey

Analyst, Alliance Global Partners Corp.

Scott Fortune

Analyst, ROTH MKM

Matt Bottomley

Analyst, Canaccord Genuity Corp.

Russell Stanley

Analyst, Beacon Securities Ltd.

Andrew Semple

Analyst, Echelon Wealth Partners, Inc.

Sonny Randhawa

Analyst, Seaport Global Securities LLC

Frederico Gomes

Analyst, ATB Capital Markets, Inc.

Michael J. Regan

Analyst, Excelsior Equities LLC

Ty Collin

Analyst, Eight Capital

Pablo Zuanic

Analyst, Zuanic & Associates LLC

MANAGEMENT DISCUSSION SECTION

Operator: Good morning, ladies and gentlemen. My name is Abby, and I will be your conference operator today. At this time, I would like to welcome everyone to the Verano Holdings Corporation Fourth Quarter and Full Year 2023 Earnings Conference Call. Today's conference is being recorded and all lines have been placed on mute to prevent any background noise. After the speakers' remarks, there will be a question-and-answer session. [Operator Instructions] Thank you.

And I will now turn the conference over to Julianna Paterra, Vice President of Investor Relations. You may begin.

Julianna Florence Paterra

Vice President-Investor Relations, Verano Holdings Corp.

Thank you and good morning, everyone. Welcome to Verano's fourth quarter and full year 2023 earnings conference call. I am joined today by George Archos, Chief Executive Officer and Founder; Brett Summerer, Chief Financial Officer; Darren Weiss, President; and Aaron Miles, Chief Investment Officer.

During this call, we will discuss our business outlook and make forward-looking statements within the meaning of applicable US and Canadian securities laws, which are based on management's current assumptions and expectations. Such forward-looking statements involve known and unknown risks, uncertainties, and other factors that may cause the actual results, performance, and achievements of the business or developments in the company's industry to differ materially from those implied by such forward-looking statements. Actual events or

results could differ considerably due to risks and uncertainties mentioned in our filings on EDGAR and SEDAR, including our financial statements for the year and quarter ended December 31, 2023.

All financial results for the fourth quarter and year ended December 31, 2023 and related comparisons to prior periods included in this release have not been audited and were prepared by the company prior to the release of the company's independent auditor's audit report.

In addition, throughout today's discussion, we will refer to non-GAAP financial measures that do not have any standardized meaning prescribed by GAAP. Management believes that non-GAAP results are useful to enhance the understanding of the company's ongoing performance, but these are supplemental to and should not be considered in isolation from or as a substitute for GAAP financial measures. These non-GAAP measures are defined in our earnings press release and available on our website at investors.verano.com, which also includes the reconciliation of these measures to their respective most directly comparable GAAP financial measures. Lastly, all currency is in US dollars unless otherwise noted.

George, please take it away.

George Archos

Co-Founder, Chairman & Chief Executive Officer, Verano Holdings Corp.

Thank you for joining today and I hope everyone had a nice start to the year. I am very proud to discuss this past year's results with you, along with the many milestone achievements led by our hardworking team here at Verano.

Today I will provide an overview of the fourth quarter and full year 2023, followed by a deep dive into some of our larger markets before passing it to Brett to cover the financials in more detail. I'll then close with my thoughts on our outlook for 2024 and the many opportunities that lie ahead of both the industry and Verano specifically.

To start, we delivered against our full year 2023 free cash flow guidance, generating \$73 million in free cash flow, what we expect may be the largest for the industry in 2023, given peer guidance. We had a record year, with \$938 million in revenue, or 7% growth versus the prior year. And we maintained our focus on price and cost management, which helped us drive 32% adjusted EBITDA margins for the year, supported by a strong vertical mix and a disciplined pricing strategy.

We continued to execute against our growth strategy, targeting practical pockets of growth across our retail footprint and product portfolio. Throughout 2023, we added 16 dispensaries across key markets including Florida, Connecticut, Pennsylvania, and West Virginia, bringing our year end dispensary count to 136. We've also continued building outs throughout 2024 and now stand at 138.

Along with retail growth, our innovation pipeline was humming all year, evidenced by our over 70 new products deployed across our multi-state footprint. For example, Savvy and BITS, two of our younger brands, grew to represent a combined 22% of our total net revenue within just a year of their launch. And the entire Verano product portfolio gained over 225 bps in market share throughout the year across our BDSA trackable markets. We focused on leveraging this strong brand portfolio to take advantage of organic growth opportunities, including new adult use markets.

Notably, we continue to be an early leader in markets that transition to adult use. In Connecticut and Maryland, both of which transitioned to adult use in 2023, we were able to smoothly execute two successful program launches, as defined by improved output metrics in both markets. By strategically timing our hiring to align with

our projected growth and maintaining an eye for efficiencies, these two markets saw average units produced by head count increase 47% during the first quarter of adult use sales as compared to their prior quarters.

In that same vein of efficiencies, automation continues to be a priority for us, as we delivered continued cost savings and enhanced operating procedures. We implemented additional automation measures across New Jersey, Illinois, and Florida, which contributed to an improvement of 26% for units produced per head count across those three states for 2023, off an already strong base in 2022. We believe automation is critically important to the business and plan to continue investments in efficiencies as we see the opportunity to do so.

We continue to partner with industry representatives in state lobbying efforts, which bore many victories, with Illinois, New Jersey and Connecticut all decoupling cannabis from the 280E tax burden. We commend these three states for implementing a fair tax scheme that will better equip small cannabis businesses to succeed and thrive. These three states represent some of our top wholesale and retail contributors and their fair approach helped us save \$16 million in tax liabilities in 2023.

Though I hesitate to use the word "savings" as that implies we are somehow now tax advantaged versus other industries in the state, when in fact we are only now taxed alongside them, against our taxable income. Imagine the formidable cash flow potential we'd have if and when 280E is decoupled from all of our states and at the federal level.

Regarding capital allocation, we believe we delivered on our goals made one year ago: to leverage our real estate at improved mortgage rates, efficiently manage through our balance sheet and tax payments, and build cash for flexibility. We completed over \$50 million in real estate loans in 2023, including both lower cost of capital new loans as well as refinancings, maintaining a reduced blended cost of capital versus lease-heavy peers. Additionally, as we previously guided, we maintained our income tax payable balance, ending the year at similar levels compared to the prior year.

Finally, after growing our cash balance through the year by \$90 million to a year-end balance of \$175 million, we plan to put this cash to use and reduce our leverage on higher cost of capital debt. Flexibility in the credit agreement allows for nimbleness should any anticipated opportunities arise, given the current political landscape. We have scheduled a prepayment under our senior credit facility of \$50 million for April 30, leaving us optionality to further pay down the credit facility at a time of our choosing, subject to advance notice obligations and potential prepayment premiums. For context, this \$50 million in debt reduction will result in about \$8 million in interest expense saving annually.

Moving on to updates from some of our larger markets, I'd like to begin with New Jersey. As we noted last quarter, given the continued ramp up and normalization of dispensary count in the state, retail revenue declined to \$26 million in the fourth quarter. Again, this was in line with our expectations. Keep in mind that at the beginning of 2023, there were only 19 dispensaries in the state and by the end of the year, there were over 90. While we expect this market to remain competitive as additional dispensaries open, we have the opportunity to open seven social equity JVs which we believe will help to offset increased competition.

In the near term, however, we expect first quarter retail sales in the state to decline sequentially. On the wholesale side, the fourth quarter showed continued strength, with our brand portfolio amongst the market share leaders for the state, according to BDSA. Additionally, we feel that the state's dispensary openings will continue to offer wholesale opportunity this year, especially given Verano's strong brand awareness and popularity in New Jersey with cannabis consumers.

Illinois shares some similarities with New Jersey in that many social equity dispensaries have opened and represent an increasingly competitive retail environment. However, we've developed an arsenal of new brands to combat this and grow our market share, such as the recent relaunch of The Essence brand on Green Wednesday, which contributed to significant market share gains.

Throughout the fourth quarter, we increased our market share by over 20%, elevating us to the number three position in the state according to BDSA. Illinois remains a key state for us, given the state's strong wholesale pricing versus the national average and its over \$2 billion of sales in 2023, which put it in the top five US cannabis markets.

In Florida, we exceeded our expectations for the quarter, with revenue up nearly 11% sequentially. While we opened three new dispensaries there during the quarter, much of this outperformance was driven by market share gains. MÜV had an impressive quarter, gaining 90 bps of market share, as measured by ounces sold versus the prior quarter.

It bears worth repeating that we believe our market share as measured by volume understate our true market share of sales given our premium pricing position. We believe this recent market share increase was due to our deeper product offering and focus on quality versus peers. Notably, we also achieved these gains while maintaining our premium pricing position relative to peers and with lower levels of discounting versus the prior year period.

With support still trending quite favorably, we believe that Florida voters will approve the legalization of adult use consumption. In preparation, we anticipate opening a handful of new dispensaries this year and are already incrementally adding capacity in our Florida production facilities to meet both current medical and future demand. We look forward to what we believe will be a very sunny future in Florida.

In Pennsylvania, adult use momentum has continued, which we believe may ultimately result in a 2025 adult use launch, given the strong support from the governor. With our 18 dispensaries, over 60,000 square feet of cultivation and our expectation for a 2 to 3 times lift in revenue upon adult use commencement, we will be watching the Commonwealth very closely.

Lastly, we are preparing for the much anticipated launch of adult use in Ohio. We are ramping up capacity and plan on adding one dispensary to today's five dispensary footprint, bringing our total to six. Given the significance of a new adult use program launch, we are optimizing everything in the state from SOPs to retail operations. Our expected 2.5 times revenue lift, similar to that of Connecticut and Maryland, should provide a modest top line tailwind in 2024.

Before I pass the call to Brett, I want to take a minute to thank our teammates across the country for an outstanding job in 2023. I am so grateful for our team's efforts, proven by the great results we delivered for the year. Not only did we accomplish a great deal, but we have a proven track record of delivering against our promises.

And now, I'll pass it off to Brett to speak to our financials in more detail.

Brett Summerer

Chief Financial Officer, Verano Holdings Corp.

Thanks, George. I'll begin by covering full year results, before diving into fourth quarter results. Revenue for the full year increased 7% year-over-year to \$938 million, driven by a full year's contribution from New Jersey adult use in addition to adult use launches in Connecticut and Maryland.

On a gross revenue basis, excluding intersegment eliminations, 68% of sales were derived from the retail business, with the largest contributions from Florida, Illinois, and New Jersey. The remaining 32% of sales were derived from the wholesale side of the business, with the largest contributions from Illinois, New Jersey, and Connecticut.

Gross profit for the year was \$475 million or 51% of revenue versus \$423 million or 48% of revenue in the prior year. The gross profit increase was driven by increased vertical mix of Verano products, as well as favorable market mix paired with overall top line growth and continued operational performance improvements. We also reduced inventory by 15 days year-over-year ending with 108 days of inventory on hand, which we feel is a comfortable level.

SG&A expenses were \$332 million for the year, or 35% of revenue versus \$357 million in the prior year, or 41%. The decline in SG&A expense was largely driven by a decrease in employee stock compensation relative to the prior year.

We had a net loss for the year of \$113 million, driven by the provision for income taxes as we still account for income taxes under 280E as well as an impairment associated with our Arizona cultivation reporting unit. Adjusted EBITDA for the year was \$305 million, or 32% of revenue.

Moving on to the financials for the fourth quarter 2023, revenue was \$237 million, up 5% year-over-year, primarily due to growth in New Jersey wholesale in addition to growth in Maryland and Florida retail. Gross profit for the quarter was \$118 million or 50% of revenue versus \$103 million or 46% of revenue in the prior year period, driven by increased wholesale revenue paired with lower cultivation supply costs.

SG&A expenses were \$86 million for the quarter, or 36% of revenue versus \$81 million in the prior year period, or 36% of revenue. Relative to revenue, expenses were kept flat as we balanced store opening costs with business growth.

We had a net loss for the fourth quarter of \$73 million, again driven by the income taxes and impairment of our Arizona cultivation reporting unit. Adjusted EBITDA was \$73 million, or 31% of revenue. Excluding some inventory impacts, sequential performance was strong.

Turning to the balance sheet and cash flows, we maintain a strong balance sheet, ending the year with \$175 million in cash and cash equivalents, which provides us flexibility whether it be through continued deleveraging, further income tax pay down, CapEx, or M&A. Cash flow from operations for the year was a very strong \$110 million, contributing to our free cash flow of \$73 million for the year, meeting our guidance range.

And we achieved our free cash flow alongside tax payments, totaling \$167 million in 2023, and continued investments in the company, with CapEx spending in the fourth quarter and full year at \$10 million and \$36 million, respectively. Looking ahead to 2024, we should expect similar levels of CapEx investment this year, anticipating a \$25 million to \$50 million range, excluding opportunistic activity should any markets expand, such as adult use in Florida.

Given the many uncertainties facing the industry this year, we anticipate placing more emphasis on nearer term guidance. Looking towards the first quarter, we're expecting a 5% to 7% revenue decline versus the prior year period due to competitive pressures in New Jersey. Additionally, we anticipate a similar inventory-related adjusted EBITDA impact, albeit more subtle than the fourth quarter's.

In 2024, we will continue to evaluate the best uses of cash, including opportunities to strengthen our balance sheet and to best position ourselves ahead of growth.

And now, I'll hand it back to George to wrap up.

George Archos

Co-Founder, Chairman & Chief Executive Officer, Verano Holdings Corp.

Thanks, Brett. 2024 looks incredibly positive from where I'm standing, with tailwinds for both the industry and Verano specifically. Here at Verano, we are expanding our robust innovation pipeline, as evidenced by the success of our newer products which comprised 47% of revenue as of the end of the year. These products addressed some key gaps in our portfolio. While we recognize that sustaining over a 40% revenue share from new product launches is likely not sustainable, we remain committed to innovation and are working on some exciting developments that you'll be hearing about as we progress through the year.

At the retail experience level, we are evaluating initiatives to better monetize our sales force. Additionally, given the ROI we've seen from X, or Twitter, advertisements, which is now our third largest web traffic acquisition medium, we anticipate slightly increasing our investment in direct marketing expenses this year. We expect to share more developments with you over the next few months.

Our legislative affairs team continues to focus on achievable state-level initiatives with high ROI. This year, our team is focused on lobbying for lower various state-level fees, lower consumer-level taxes, psychoactive hemp regulation, 280E decoupling at the state level, and additional legalization campaigns. I am confident our team will make important contributions to create another strong year of incremental tangible wins for the company.

And lastly, we retain our appetite for accretive M&A deals, but will remain patient. As we continue evaluating M&A, we will remain focused on identifying opportunities that are not only the right strategic fit, but also financially attractive.

Industrywide, we are, of course, looking ahead to a final rescheduling decision from the DEA. We continue to believe the DEA will agree with HHS' recommendation to reschedule cannabis from Schedule I to Schedule III. We expect the current administration will want to point to not only a promise, but an achievement.

Given the population's strong support of the issue, with 70% of Americans supporting legalization according to the latest Gallup poll, and the depth of new research underpinning cannabis' medical efficacy, we believe the DEA's possible rescheduling decision should be nothing short of a commonsense approach.

I'd like to walk through what a Schedule III decision may mean for our business, an important step towards operating as a normal business. Let's start with the tax implications, arguably the most meaningful impact. We anticipate we would finally be taxed as an ordinary business, able to deduct salary, travel, rent, service provider, and countless other expenses from our taxable income. We estimate not being subject to 280E would have saved us over \$80 million in federal and state tax dollars in 2023.

Additionally, this would have the potential to significantly improve our credit terms, resulting in lower cost of capital. Our consumers might be able to use credit cards, which we estimate would modestly increase basket sizes. Further, we could have a much less burdensome cash management system, allowing us to earn interest on our significant cash balance. And more importantly, our employees would be safer as we'd anticipate a decrease in break-ins industrywide, with dispensaries holding less cash on premises. Our vendor pool could greatly widen. And lastly, we could expect incremental institutional investor comfort, possibly modestly lifting multiples as new names begin entering the space.

Although we don't think a Schedule III designation alone would be enough for a US listing, we think there's a chance that a Schedule III decision would continue momentum for certain exchanges. So as usual, we remain proactive in that arena. While we cannot predict with certainty if or when any Schedule III decisions would be made, or what effect it will have on our business, we expect that these changes will be positive for Verano.

While most are focused on the DEA recommendation, let me remind you of all the other positive catalysts ahead of us, including adult use launch this summer in Ohio and momentum in Pennsylvania and Florida towards adult use legalization, impacts from which cannot be understated.

Today, 38 states have a comprehensive medical cannabis program, and conversations continue in the right direction in states without programs, such as South Carolina and North Carolina. And with 24 established adult use state programs, a wealth of opportunity lies ahead of us regarding future adult use program launches. From where we stand, everything is trending in the right direction. I am tremendously proud of the team here at Verano and thank them again for an incredible 2023. As I said at the onset of the call, we have so much to look forward to in 2024. I look forward to seeing what additional momentum this year brings.

Operator, please open up the line for questions.

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] To be able to take as many questions as possible, we ask that you please limit yourself to one question. And we will pause for just a moment to compile the Q&A roster. And we will take our first question from Aaron Grey with Alliance Global Partners. Your line is open.

Aaron Grey

Analyst, Alliance Global Partners Corp.

Q

Hi. Good morning. Thanks for the question and a nice finish to the year there, and thanks for all the commentary in the prepared remarks. So first question for me, just want to ask a high level, maybe give some color in terms of how you're seeing pricing pressure. I know it goes a lot market by market, but just any color you can offer in terms of your confidence in maintaining the EBITDA margin above the 30%, despite the guide that you gave for the first quarter? And then any commentary in terms of the impact you believe New Jersey could have post the first quarter in terms of continued impact from store saturation within the state? Thank you.

George Archos

Co-Founder, Chairman & Chief Executive Officer, Verano Holdings Corp.

A

Good morning, Aaron. It's George here. Thanks for the questions. As far as pricing pressure, we're seeing stabilization in quite a few of our markets. But until we see adult use in Ohio, we think there will be additional pricing pressure there. As far as the other markets, again, we're seeing stabilization in New Jersey. I think we're going to continue to see retail stores open throughout the year. Wholesale business, I think, will continue to climb, but it will be offset by the retail sales decline.

Aaron Grey

Analyst, Alliance Global Partners Corp.

Q

Okay. Great. Thanks.

Operator: We will take our next question from Scott Fortune with ROTH Capital Partners. Your line is open.

Scott Fortune

Analyst, ROTH MKM

Q

Yeah. Good morning. Thanks for the question. Obviously, great job on cash flow and you mentioned additional cash flow with 280E elimination here, if that comes about, and you continue growing the free cash flow nicely here. But you mentioned priorities or optionality here looking at to allocate that capital, obviously, to pay down debt and taxes. How are you looking at the growth as we look going out to 2024 and potential cash flow on top of the \$25 million to \$50 million in CapEx, just kind of help us understand where growth will come from as you look to allocate your cash priorities from that standpoint?

Brett Summerer

Chief Financial Officer, Verano Holdings Corp.

A

Sure. So, thanks for the question. This is Brett. As we look at our growth projections for 2024 and where we're spending our capital, the big one on the table is [indiscernible] (00:24:01) preparation we need to do there, but, obviously, any preparation we have for other movements that we might have, given some of the changes recently in the political landscape and the different states that are out there. So I think any of those opportunities are very

high on our list, but we're not saying it's part of our default baseline capital spending. Our baseline capital spending is additional store expansions in Florida, as well as some of the social equity joint venture opportunities that we have in New Jersey and Connecticut.

Scott Fortune*Analyst, ROTH MKM*

Q

Okay. Thank you.

Operator: And we will take our next question from Matthew Bottomley with Canaccord Genuity. Your line is open.

Matt Bottomley*Analyst, Canaccord Genuity Corp.*

Q

Yeah. Good morning, everyone. I'm just wondering if we can get a little more color on the dynamics in New Jersey to end the year. I know it's not perfect information, but some of the BDSA point of sales data pointed to a pretty healthy Q4 and particularly a pretty, pretty strong [indiscernible] (00:24:52) market. And if you look at Verano brands, they seem to be very strong as well, top two or competing for top one. So just the declines that we saw sequentially, I'm just wondering if we can triangulate your experience specifically in your stores as an operator relative to what we're seeing in the macro data that a lot of us subscribe to.

George Archos*Co-Founder, Chairman & Chief Executive Officer, Verano Holdings Corp.*

A

Hey. Good morning, Matt. So, let me talk about New Jersey, we're seeing most of the decline in the retail side of our business. There've been quite a few stores that opened throughout the year. We also had some construction going at the facility, so we were a little short on flower as we were making some transitions throughout the facility. That will ramp back up throughout this first quarter and second quarter of 2024. So we're anticipating some good wholesale growth.

But like we said earlier, the retail sales decline is real. I mean, we started with 19 stores and that's grown dramatically throughout the year and will continue to grow this year. So, it is what it is, that's a beautiful New Jersey, still a great market for us, we're anticipating opening up the additional seven stores throughout this year and next as we're looking for locations. That will offset some of the retail sales decline. But it's been a strong market and will continue to be a strong market for Verano for years to come.

Brett Summerer*Chief Financial Officer, Verano Holdings Corp.*

A

And just to add to something that George has said, keep in mind that a \$1 of retail is not the same – is not as valuable as a \$1 of wholesale when it comes to New Jersey in that market. So, even though we are seeing retail sales declines, with a competition that comes in the market, we're also selling into additional stores and that's lifting our margins.

Operator: We will take our next question from Russell Stanley with Beacon Securities. Your line is open.

Russell Stanley*Analyst, Beacon Securities Ltd.*

Q

Good morning and thank you for the question. Just following up on New Jersey, can you, I guess, elaborate on what kind of penetration you're seeing with those new stores in New Jersey as wholesale customers, how they're behaving, how their buy in activity compares to those of MSO customers, for example, any color there would be helpful. Thanks.

George Archos

Co-Founder, Chairman & Chief Executive Officer, Verano Holdings Corp.

A

Hey. Good morning, Russ. Great question. Apparently, you guys love New Jersey today. What we're seeing in the new stores, we're in over 90% of the stores in the state. We're obviously a very strong wholesale provider within New Jersey. But like any new market, new stores start off pretty slowly. So the buy in is generally pretty small in the beginning as we continue to ramp up. Sales throughout the state are continuing to climb as there's more access. So generally, we anticipate strong wholesale sales as we move forward and the market continues to grow. But like we said earlier, retail in our size is going to continue to drop until we open some of the new stores.

Operator: And we will take our next question from Andrew Semple with Echelon Capital Markets. Your line is open.

Andrew Semple

Analyst, Echelon Wealth Partners, Inc.

Q

Hi there. Thank you for taking my question and congrats on the results. Just maybe going into your commentary on margins, 30% EBITDA margins in the quarter, do you think you could continue to hold the line on that 30% [audio gap] (00:27:47-00:28:01) items also playing out in Q1. So maybe you could speak to that. And then also, how much of a benefit are you expecting from the automation investments that you're making on the overall consolidated, either gross or EBITDA margin profile, that would be helpful. Thank you.

Brett Summerer

Chief Financial Officer, Verano Holdings Corp.

A

Sure. Thank you for the question. So if you think about our margins this quarter, we were at 31%, again, 32% for the year. If you adjust out the inventory movement that we had, which we try to talk about, so you've heard me talk multiple times in the past on these calls about the fact that we kind of live in that 59% to 61% sort of on a margin – on a gross margin basis, excluding inventory movements. So we did additionally have inventory reduction this quarter as well. We're down to 108 days.

If you were to remove that impact, our gross margin this quarter were actually in the 64%, 65% range. So from an EBITDA perspective, excluding inventory, be kind of closer to 36%, 37% EBITDA. So actually even though we published the number we did, it was because of inventory reductions that were fairly intentional. So overall, our margin is very strong. And going into fourth quarter – first quarter, we're seeing again some of that, although we're going to see some repeat on the inventory reduction as well, but to a lesser degree.

Darren H. Weiss

President, Verano Holdings Corp.

A

Yeah. And I'll speak – this is Darren speaking – to automation. Obviously, we continue to invest in automation technology. That technology also continues to get better, both in terms of the machinery that's being developed and our own internal team tweaks as we get accustomed to newer technologies. So short term, I don't know that it would be fair to predict what the margin impact would be. From a long-term basis, we predict that we're going to have some serious savings in terms of cost of inputs. So very, very excited to continue to develop that technology alongside our partners.

Andrew Semple

Analyst, Echelon Wealth Partners, Inc.



Great. Very useful. Thank you.

Operator: We'll take our next question from Sonny Randhawa with Seaport Global Securities. Your line is open.

Sonny Randhawa

Analyst, Seaport Global Securities LLC



Hi. Thanks for taking my questions. Just wanted to kind of get a sense of the consumer. I guess, last year, we saw an acceleration of the value segment, but with inflation slowing, have you seen any changes in terms of consumer trends or preferences in 2024?

George Archos

Co-Founder, Chairman & Chief Executive Officer, Verano Holdings Corp.



Good morning, Sonny. It's too soon to tell. I mean, that's just happening now. Right now, the client has been still focusing on the value sector and the brands have done very well there. We just did a relaunch in The Essence, which is more of a mid-tier product. It's gone extremely well for us. So it's going to take us a little bit more time to assess and maybe we can answer that in the next call.

Sonny Randhawa

Analyst, Seaport Global Securities LLC



Okay.

Operator: And we will take our next question from Frederico Gomes with ATB Capital Markets. Your line is open.

Frederico Gomes

Analyst, ATB Capital Markets, Inc.



Hi. Good morning and thank you for taking my question. Question is on Florida. You mentioned you exceeded expectations there. You gained some market share. So just curious if you could provide a little bit more color on how you were able to achieve that given your premium pricing compared to peers, that also related to a bit of lower pricing pressure there in the market or changing consumer behavior, anything that you could add that to your performance in Florida? Thank you.

George Archos

Co-Founder, Chairman & Chief Executive Officer, Verano Holdings Corp.



Hi. Good morning. Florida, we had a very strong quarter. Like we said earlier, we've always focused on premium-based products. So the quality of our products are usually higher compared to our peers. That's why we have a higher price point. We feel very comfortable in that space. We've also launched a number of new products throughout the quarter and throughout the year, and we had increased production at our facility, which has also helped our gains.

Frederico Gomes

Analyst, ATB Capital Markets, Inc.



Thank you.

Operator: We will take our next question from Mike Regan with Excelsior Equities. Your line is open.

Michael J. Regan

Analyst, Excelsior Equities LLC

Q

Hey. Good morning. Thanks for the question. Basically when you were mentioning the potential allocation of – where you could reallocate those \$80 million of potential 280E, if we get rescheduling, just help me understand your views on how those would be allocated and in terms of M&A, what would constitute sort of a strategic fit or what you're on the lookout for? Thanks.

George Archos

Co-Founder, Chairman & Chief Executive Officer, Verano Holdings Corp.

A

Yeah. So, cash is fungible, so we see any inflow of additional cash no different than any other inflow that we would have, whether it's from operations or real estate loans or that sort of thing. So therefore, it hasn't really changed our strategy in terms of where we would redeploy it. Our priorities, as we mentioned before, is to pay off our Chicago Atlantic \$100 million onetime prepayment. And then after that, we have obviously a menu of options ahead of us. We're saving or holding back some cash for Florida adult use this year, in case that happens. We're also looking at M&A. And in terms of how do we prioritize that, we're always looking for the highest ROI for our dollars. So, always it's going to depend upon the business conditions and the environment that we're in at that time.

Michael J. Regan

Analyst, Excelsior Equities LLC

Q

Okay. Great. Thanks.

Operator: And we'll take our next question from Ty Collin with Eight Capital. Your line is open.

Ty Collin

Analyst, Eight Capital

Q

Hey, guys. Thanks for the question. Just wanted to ask your thoughts on Ohio with that market potentially flipping to adult use in the fall and now that we have a little bit of a preview of what the regs might look like, just wanted to get your outlook on that market, the way it's structured and I'm wondering if there's another market in your portfolio that you might liken it too.

George Archos

Co-Founder, Chairman & Chief Executive Officer, Verano Holdings Corp.

A

Hey. Good morning. We're excited about Ohio. I mean, we see there's another 2.3 to 3 times lift, similar to Maryland. It's a legacy market for us. We're prepared and we're excited for the opportunity.

Operator: And we will take our next question from Pablo Zuanic with Zuanic & Associates. Your line is open.

Pablo Zuanic

Analyst, Zuanic & Associates LLC

Q

Thank you. George, can you clarify a comment you made regarding rescheduling? I mean, you pretty much imply that with rescheduling, you would have everything that's in the SAFER Banking bill, right? I think there are trade terms, lower rates, greater usage, better cash management. Are you talking about, I mean, that it would really –

SAFER Banking would not be necessary if we get rescheduling, what is it more that just because your cash flow profile improves, you are in a better position in terms of credit, if you can clarify that. Thank you.

George Archos

Co-Founder, Chairman & Chief Executive Officer, Verano Holdings Corp.

A

It's just increased momentum. We're assuming all those things come with the rescheduling. But SAFER Banking is just another step, should add more positive momentum for cannabis. So if you put the two together, it is better for our company, better for investors to be able to enter the space, again, credit cards, banking, all of those things come together. So we'll see how it pans out this year. We're very excited for both of these outcomes, but we think DEA has a higher probability.

Pablo Zuanic

Analyst, Zuanic & Associates LLC

Q

Right. And then just if I can follow-up [indiscernible] (00:35:25) this morning talked about getting about \$115 million tax refunds as they are fighting the 280E rules. Are you planning to take a similar stance also and maybe I don't know what's the word, more proactive or more aggressive, in asking for refunds on past 280E payments. Thanks.

George Archos

Co-Founder, Chairman & Chief Executive Officer, Verano Holdings Corp.

A

Yeah. Thanks for the question. We're still evaluating exactly what happened with that, just to make sure that we can support it from our perspective as well. But to the extent that we get comfortable with that, you can be assured that we will very shortly be doing that for ourselves and getting our refunds.

Pablo Zuanic

Analyst, Zuanic & Associates LLC

Q

Got it. Thank you.

Operator: And we will take a follow-up question from Aaron Grey with Alliance Global Partners. Your line is open. And Mr. Grey, did you have any follow-up questions to ask today? And hearing no response, we have no further questions at this time. So I will now turn the call back to Mr. George Archos for closing remarks.

George Archos

Co-Founder, Chairman & Chief Executive Officer, Verano Holdings Corp.

Thank you, everyone, for joining the call today. Have a great day. We'll look forward to seeing you in the next quarter.

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

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