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Verano Holdings Corp. (VRNO.CA)

Q3 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.

Darren H. Weiss

President, Verano Holdings Corp.

Brett Summerer

Chief Financial Officer, Verano Holdings Corp.

Aaron Miles

Chief Investment Officer, Verano Holdings Corp.

OTHER PARTICIPANTS

Aaron Grey

Analyst, A.G.P. / Alliance Global Partners Corp.

Matthew Robert McGinley

Analyst, Needham & Co. LLC

Scott Fortune

Analyst, ROTH MKM

Russell Stanley

Analyst, Beacon Securities Ltd.

Andrew Semple

Analyst, Echelon Wealth Partners

Frederico Gomes

Analyst, ATB Capital Markets, Inc.

Matt Bottomley

Analyst, Canaccord Genuity Corp.

MANAGEMENT DISCUSSION SECTION

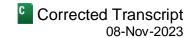
Operator: Thanks for standing by and welcome to the Verano Holdings Corp Third Quarter 2023 Earnings Conference Call. I would now like to welcome Julianna Paterra, VP of Investor Relations to begin to call. Julianna, over to you.

Julianna Florence Paterra

Vice President-Investor Relations, Verano Holdings Corp.

Thank you, and good morning, everyone. Welcome to Verano's third quarter 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 risk and uncertainties mentioned in our filings on EDGAR and SEDAR, including our financial statements for the quarter ended September 30, 2023. In addition, throughout today's discussion, we'll refer to non-GAAP financial measures that do not have any standardized meaning prescribed by GAAP. Management believes 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.

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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 the respective most directly comparable GAAP financial measures. Lastly, all currency is in US dollars unless otherwise noted.

I'll now pass it to George.

George Archos

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

Thank you all for joining us today. The third quarter was an exciting and productive time for Verano, highlighted by positive results and strategic enhancements across our business, and we are pleased to share details on our progress today. I will begin with a brief recap of our strong third quarter results before our President, Darren Weiss, provides commentary on legal and legislative developments. Our Chief Financial Officer, Brett Summerer, will then provide a deep dive into our financials before our Chief Investment Officer, Aaron Miles covers capital market updates. I will then provide some closing thoughts and our outlook before taking questions.

I am so appreciative of our team as they continued to set the industry standard on multiple fronts over the course of the quarter. Verano is not only thriving in the current environment, but we are executing on our plan to establish and run the business for long-term growth, enabling the company to navigate changing market landscapes and an otherwise challenging macro environment. We also recently took a major positive step forward by uplisting our publicly-traded shares to Cboe Canada, which we believe strengthens our ability to move quickly to a US stock exchange if and when we receive approval to do so, which should open the doors to a new and larger investor base. We believe that the swift execution and elevation of our capital markets strategy best positions Verano for access to more robust equity markets, especially as the US market dynamics continue to evolve.

In preparation for possible new investment dollars, and consistent with our desire to stand out as a market leader, we are proactively enhancing the transparency of our financial disclosures. This quarter we have disclosed additional state-level data, which we believe will be meaningful to investors, especially given the opacity of the industry. Looking ahead, we plan to continue to lead the way in enhanced disclosure, and will work to evolve and supplement our disclosures, particularly as we believe more robust reporting can help break down investment barriers for some institutional investors.

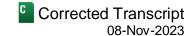
Moving to third quarter results, we achieved \$240 million in revenue, representing 5% year-over-year growth led by increases in Connecticut wholesale sales and strong results from Maryland's adult use launch. Most significantly, we generated a record \$37 million of net cash provided by operating activities in the quarter, bringing our year-to-date total to \$77 million. And with our CapEx guidance for the year, this implies delivering full year net cash provided by operating activities of \$102 million to \$113 million.

Regarding free cash flow, we also generated \$27 million in the quarter bringing our year-to-date total to \$51 million. Although many of our competitors only report on net cash provided by operating activities, we believe free cash flow provides a useful data point representing cash available to the business even after funding growth initiatives.

On our first earnings call this year, we stated that our top priorities were strengthening our balance sheet and generating free cash flow. I believe we have set the standard for the industry with our progress year-to-date, and we will continue to prioritize these items throughout the fourth quarter.

We increased our cash balance to \$130 million, up from \$103 million at the end of the prior quarter, consistent with our previously-stated goal to build our cash balance. We believe available cash provides us more financial

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flexibility to take advantage of opportunities and manage our financial position, including debt reduction. As a reminder, we have a favorable prepayment fee of \$1 million on the first \$100 million of debt prepaid under our credit facility, and in October 2024, our prepayment fee on the debt balance is reduced to a mid-single digit percentage, further decreasing in October 2025.

Given our progress year-to-date, I am pleased to announce that we are raising and tightening our full year 2023 free cash flow guidance to \$72 million to \$76 million, up from \$65 million to \$75 million. Note, this guidance includes an expected tax payment of around \$50 million in the fourth quarter and is based on assumptions of operating in today's environment, making no assumptions of legislative moves or opportunities that may materialize in the space. As things progress, we may decide to utilize extra cash for strategic or growth opportunities.

Moving to broader demand dynamics, we continue to see sustained demand across our portfolio. Consumers are consistently buying more product than ever in terms of units, and in turn, we are selling more product than ever even in markets where we have hit retail caps and are subject to strict advertising constraints. While growing demand is often overshadowed by a focus on revenue trends, we believe growing demand is a positive structural indicator.

In the third quarter we increased units sold across retail and net wholesale channels by 19% year-over-year. Across our net wholesale channel, we increased units sold 10% year-over-year, and in our retail channel, we increased units sold by 23% year-over-year. And we see this trend in both nascent and mature markets. For example, in our more mature adult use markets of Arizona, Illinois, Nevada, and Michigan total retail and net wholesale volume increased 18% versus the prior year, led by particular strength in Arizona retail. In Connecticut, one of our newer adult use markets, demand measured by total retail and net wholesale volume has grown steadily, up 4% sequentially. We're even experiencing demand increases in more mature medical markets, with total volume across Florida, Pennsylvania, Ohio, and West Virginia up 10% for the third quarter year-over-year.

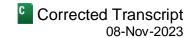
We believe that strong and growing consumer demand is a clear tailwind for our business, despite downward pressure and pricing in certain markets. And as prices and supply continue to stabilize, we believe the often overlooked demand story provides a recipe for organic growth.

I would now like to take a few minutes to highlight some key developments in select markets before talking about brands. I'll begin with our two newest adult use markets, Connecticut and Maryland. Connecticut continues to display strength with both retail and net wholesale revenue increasing each quarter this year-to-date. As of today, we have four open dispensaries, including two social equity joint ventures, and anticipate that our remaining four additional joint venture dispensaries will open over the course of the next year. Maryland has also performed well in its first quarter of adult use sales, with our branded market share growing steadily this year. Now up to over 7%, which is within the top five for the state, according to BDSA data.

And in Illinois, we are beginning to see some pricing pressure reemerge in the retail market from new social equity dispensaries. While we believe that ultimately these new dispensary openings will be a net positive for us, given they offer further wholesale opportunities and we see this as a headwind. Nonetheless, we continue to prioritize both our margin and maintaining our price points.

In New Jersey, Verano remained the number one brand for the quarter, and Savvy, which was only recently released this past June, is already the number five brand in the state, according to BDSA.

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With competition increasing in New Jersey as additional retailers enter the market, we anticipate that our net retail sales will decrease mid-to-high single digits sequentially. However, we still expect opportunities for modest sequential growth in our New Jersey net wholesale revenue over the mid-term, especially given our top brand positioning in the state.

Turning to our branded products, I would like to take a moment to outline our progress in developing and deploying a growing portfolio of industry leading brands. As many of you know, in our early days we focused on premium positioning across our product lineup, which is arguably the toughest niche of brand segmentation. However, over the past 12 months, we have leveraged our deep data insights to develop and launch products to meet new consumer wants and needs accelerating our brand releases. We have launched over 100 products over the past 12 months, which contributed 43% of our company revenue in the third quarter, up from 21% in the third quarter of 2022.

We view this as a testament to the new consumer segments we're reaching with a much more extensive suite of brands and products. From brand extensions to our Savvy lineup, including rough-cut flower and single-serve edibles to solventless extracts and infused prerolls, we have turbocharged our innovation and creative engines striving to deliver consistent, high-quality, and wallet-friendly products with the target of maintaining strong margins and generating free cash. And as a data-driven company, we are constantly evaluating new information and persistently pursuing innovation. So I expect you'll continue to see exciting, innovative launches from us.

And now I'll turn it to Darren to provide some commentary regarding legal and legislative developments.

Darren H. Weiss

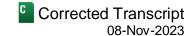
President, Verano Holdings Corp.

Thank you, George. Beginning with Ohio, we are thrilled to see initial results indicating that Ohio's constituents voted in favor of adult use this week. Under the proposed program, our existing licenses would allow us to open an additional dispensary, giving us six retail locations in the state in addition to our 22,000 square foot cultivation facility. However, while we very much look forward to the opportunity to further serve the Buckeye State, there is a chance that this program can be amended or even repealed by the state government as a result of Ohio's unique ballot initiative process. Assuming the program is fully implemented, Ohio is estimated to generate a total of over \$200 million in annual tax revenue from cannabis sales in 2024 according to the OSU Drug Enforcement and Policy Center, versus only \$118 million from alcohol sales in 2022. Although we are hopeful the state will be able to realize the many benefits of implementing a safe and regulated adult use program, we are not celebrating just yet. We call on the Ohio legislature and the governor's office to support the will of the state voters to implement an adult use program quickly and provide its adult citizens access to cannabis.

With respect to Florida, we eagerly await a decision as to whether adult use will appear on the state's 2024 ballot. As many of you know, oral arguments are scheduled for this afternoon on the measure. Given the governor's previous position toward adult use cannabis and Attorney General Moody's challenge, we see Florida adult use as an uphill climb, but we are hopeful that the Supreme Court will do the right thing, and leave it up to the voters to decide. We look forward to hearing the outcome from the oral arguments later today, and our Florida team remains ready and prepared regardless of the result. In the meantime, the Florida medical market remains a strong contributor to Verano's success, with 72 locations today and what we estimate is 12% of total market share by revenue.

Moving on to federal progress, we are of course encouraged by the news of HHS's recommendation in August to reschedule cannabis from Schedule I to Schedule III. Although this schedule change doesn't give us everything we want or everything that our patients and customers deserve, merely the recognition from the nation's leading

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health department, that cannabis provides safe and meaningful medical benefits is a massive accomplishment. Along with other industry participants, we are eagerly awaiting the DEA's response to the recommendation. We anticipate the DEA accepting the recommendation and promulgating rules to that effect.

Although there's no guarantee on outcome, we are also bullish on there being additional protections for state legal, medical, and adult use markets through a forthcoming DOJ-issued memorandum. Between rescheduling and a new memo from DOJ, we could realistically see the elimination of 280E, which would, of course, be incredibly meaningful to the industry.

We hope to hear the DEA's response by early 2024, but as we've always said, we don't operate the business assuming policy or legislative changes. As a result, these developments, while welcome, don't and won't change how we continue to run our business. We will maintain our conservative approach to operating, we will continue to prioritize cash generation, and we look forward to what we believe will be good news for our industry next year.

Lastly, I'd like to address the groundbreaking lawsuit that was filed in October against the US Attorney General in which Verano is a plaintiff. This case has been developed over quite some time by a coalition of operators and investors, with Verano having one of the leading roles in the initiative. As a member of the Steering Committee for this litigation, I am honored to be working with a phenomenal cohort of industry participants, and we are grateful for the support of both small businesses and operators as well as several large MSOs.

Based on how cannabis is regulated at the state level, changes in Commerce Clause jurisprudence and the current makeup of the Supreme Court, we filed this case asking the US federal court to declare that the Controlled Substances Act simply does not apply to state legal cannabis businesses operating in compliance with state regulations. We believe the federal government has no basis for enforcing the Controlled Substances Act against intrastate state regulated cannabis operators and seek to confirm the rights of states to regulate cannabis within their borders. We collectively hold a strong conviction in our cause, and more importantly believe this lawsuit can and will help small, struggling businesses that are desperately in need of federal change.

As with all legal proceedings, we know this will be a process and during the pendency of the case, other developments in DC could solve a number of these issues. We will update our investors if we have any further material developments on this important matter.

Now I will pass to Brett to walk through the financials in more detail.

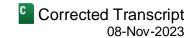
Brett Summerer

Chief Financial Officer, Verano Holdings Corp.

I am pleased to share details on what was another strong quarter for Verano. Third quarter 2023 revenue was \$240 million, up 5% compared to the third quarter last year, led by wholesale strength in Connecticut and Maryland. Sequentially, revenue was up 3% driven by strength in Maryland as its adult use market launched on July 1. On a gross revenue basis, excluding intersegment eliminations, 67% was derived from the retail side of the business and 33% from the wholesale business.

Gross profit for the quarter was \$133 million or 55% of revenue, up from \$123 million or 54% in the prior year period driven by increased vertical mix, top line growth, and new product launches, slightly offset by pricing pressure. Our vertical mix or Verano sell through, remains high at 46% for the quarter, excluding Florida, Arkansas, and Michigan as we do not wholesale in those markets. We anticipate our vertical mix remaining in the high-to-mid 40s for the foreseeable future.

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SG&A expenses were \$86 million for the quarter, or 36% of revenue, about flat with the \$86 million, or 38% of revenue in the prior year period.

We had a net loss for the quarter of \$18 million and adjusted EBITDA of \$89 million, or 37% of revenue. We had a positive impact of about \$6 million or 3% from inventory this quarter as we built levels in Arizona and New Jersey ahead of what is usually a high volume fourth quarter. We do not expect margins this high going forward, but as always, anticipate levels above the industry average.

Turning to the balance sheet and cash flows, we ended the quarter with \$130 million in cash and cash equivalents, growing our balance \$27 million from the second quarter's balance. We will continue to evaluate the best use of our excess cash in the near term, with plans to deploy it in a way that maximizes shareholder returns

Our acquisition consideration payable is nearly eliminated with only \$2 million remaining as of the end of the third quarter. In addition, we continue to effectively manage our income tax payable balance and although it increased sequentially to \$250 million, this is merely a function of our estimated tax accrual for 2023 outpacing that of older tax accruals given our growing gross profit driven by stronger performance of our business. As a reminder, we guided our first quarter 2023 earnings call that we anticipate maintaining an income tax payable balance around \$250 million assuming fluctuations of about 5%. That said, we have made \$115 million of tax payments year-to-date, which includes \$27 million in the third quarter. Looking ahead, we anticipate maintaining a balance at yearend around our stated guidance level.

CapEx spend for the third quarter was \$10 million or \$27 million year-to-date. In line with raising our free cash flow guidance, we anticipate only spending between \$30 million and \$37 million in CapEx for the year outside of any adult use preparation or M&A spending that may come up this year.

Net cash provided by operating activities for the quarter was \$37 million, contributing to the \$27 million of free cash flow generated in the quarter, bringing our year-to-date free cash flow total to \$51 million. As George mentioned earlier, we are raising and tightening our full year free cash flow guidance to \$72 million to \$76 million, up from \$65 million to \$75 million. Of note, this range accounts for the tax payments previously discussed. However, if we decide to get more aggressive in bringing down our tax balance, that is essentially an increased dollar-for-dollar impact to free cash flow.

We are meeting or exceeding our internal 2023 financial goals year-to-date, and our momentum keeps growing. We have invested a lot of resources to build our internal capabilities and we are benefiting from those efforts as we have built a solid balance sheet and continue to build our reporting strength ahead of a potential US market inclusion.

It's important to evolve the transparency and disclosure of information, and I look forward to providing updates on our full 2023 performance next year.

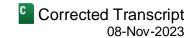
Now I'll pass over to Aaron, who will provide more detail on our exciting move to Cboe Canada.

Aaron Miles

Chief Investment Officer, Verano Holdings Corp.

Thanks, Brett. As George mentioned at the beginning of our call today, we have recently made the move to Cboe Canada from the Canadian Securities Exchange, which I would like to highlight in more detail. Cboe Canada sits within Cboe's global platform, a globally recognized exchange encompassing 26 markets, allowing Cboe Canada to benefit from Cboe's global scale, distribution, and capabilities. Although it's more commonly known for its

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leading specialization in futures and options, Cboe has built out a corporate listings business in recent years, most notably through the acquisition of the NEO Exchange and the launch of Cboe US, a bonafide US exchange established to compete with the NYSE and Nasdaq. Of total equity volume traded within the US, NYSE and Nasdaq hold the top two spots with mid-to-high teens market share, however, Cboe US is right behind them averaging around low-to-mid teens market share of volume traded. It also holds a dominant market share of about a quarter of volume traded in Europe.

Overall, this was a very deliberate and strategic move for us, and while we expedited our decision and listings application on the heels of the HHS announcement, we have persistently evaluated and reevaluated our capital markets strategy since going public in Canada in 2021. First and foremost, this move gives us senior exchange status and further aligns us closely with the listing requirements of US exchanges. Listing on a Tier 1 exchange is a commitment and a mandate to adhere to higher standards as an organization, which aligns us with our commitment to enhanced transparency of information George highlighted earlier.

Given we are listed on a Cboe network exchange, which also has a US listings business; we believe we are positioned for a smoother transition into the US if and when we get approval to do so. In addition, unlike alternative options, this move did not require any costly or cumbersome corporate restructuring and allows us to continue to operate our business as is, including using our stock as currency for acquisitions should we desire to do so.

Cboe Canada also implements a designated market maker model, which we believe is an opportunity to strengthen liquidity and enhance trading efficiencies while working towards curbing predatory trading. It also offers broader institutional investor access, in addition to eligibility into the world's largest index benchmarks from MSCI and FTSE Russell.

We are excited about this move and continuing to improve upon our capital markets strategy.

With that, I'll pass it back to George for final comment.

George Archos

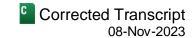
Co-Founder, Chairman & Chief Executive Officer, Verano Holdings Corp.

Thank you, Aaron. We communicated on earnings calls earlier in the year that we anticipated an active year for M&A as smaller operators feel price-driven pressures. And obviously that has not yet materialized. I want to reiterate, however, that we remain interested in M&A and will continue to evaluate accretive opportunities across the cannabis ecosystem to grow our business and improve verticality.

Moving to our guidance for the fourth quarter, we anticipate a sequential low-to-mid single digit decline on top line revenue given the typical increase in promotional activity in the fourth quarter and as our New Jersey retail environment normalizes alongside new store openings. Despite this anticipated short term dip in the top line, we still project growth drivers for 2024, which includes four social equity joint ventures yet to open across Connecticut and the opportunity to open seven social equity joint ventures in New Jersey. And even as competitive pressures persist, we remain committed to our strategy of avoiding irrational pricing as we are focused on maintaining our high quality brand identities.

We look forward to providing further updates on our fourth quarter and full year call, especially our progress on our free cash flow guidance of \$72 million to \$76 million for 2023, which we believe is the largest reported free cash flow guidance in the industry to date.

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In closing, we will continue to strategically disrupt, innovate, and differentiate Verano at every level of our business. I am proud of what we've accomplished and I look forward to our future.

Operator can you please open up the line for questions?

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] Our first question comes from the line of Aaron Grey with Alliance Global Partners. Please go ahead.

Aaron Grey

Analyst, A.G.P. / Alliance Global Partners Corp.

Hi. Thanks for the question and congrats on the quarter here. So first question for me is on the gross margin. So we saw some notable improvement there quarter-over-quarter. In the PR and on the call, you guys spoke to some of the vertical sell through increasing quarter-over-quarter, and kind of helping that there. Rental — retail mix of sales was down quarter-over-quarter. So on a quarter-over-quarter basis, and applied to the vertical mix might not have been as much of a benefit. So just curious to other factors that might have driven that improvement, maybe less of an impact of some of the inventory rightsizing that we've seen weighing on margins in the first half of the year. So any commentary on your comfortability of maintaining gross margins at this level? I believe you said you don't expect them to remain this high going forward. So any expectation in terms of other factors that impacted the improvement quarter-over-quarter? And how do you think about gross margins going forward would be helpful. Thanks.

Brett Summerer

Chief Financial Officer, Verano Holdings Corp.

Sure. Thanks for the question. So gross margin in general continues to track to the level that we've got in the past on an operating basis. So excluding inventory build and stock based compensation. So we're still in that kind of range that we talked about before. What happened this quarter is we delivered that, although it was kind of towards the upper end of our range that we typically have talked about. In addition to that, we also had growth in inventory in New Jersey in preparation for some of these social equity joint ventures and other dispensaries opening up. We've added significant inventory there, about 5 million grams. And then in Arizona, we added about 1 million grams, which is due to additional support for the market. So we actually had underserved Arizona and we did some adjustment to our inventory there to make sure we could continue to do that.

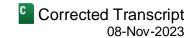
So all in about \$6 million worth of inventory adjustments, about 3% of our gross margin, a little bit less than 3%, call it 2.5% in our results is driven entirely by that inventory movement. And the rest is, again, pretty flat to the range that we've talked about in the past.

Aaron Grey

Analyst, A.G.P. / Alliance Global Partners Corp.

Okay. Great. Thanks. That's really helpful color there. And then second for me, I know there's still some uncertainty and a bit early because as we think about potentially the DEA coming out, a lot of folks talking about the 280E cash flow implications. Just as you guys begin thinking about allocation with the additional capital, and cash flow that could come in from the 280E change, how do you think about the allocation between maybe, paying down debt, tax payables or utilizing that additional cash flow for growth for your CapEx or M&A? So just in

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terms of where you guys' mindset is now, in terms of how you guys might utilize that extra cash flow that could come in [indiscernible] (00:26:56). Thank you.

Brett Summerer

Chief Financial Officer, Verano Holdings Corp.

Sure. No, I will say right now we're really blessed for choice and we have a significant amount of cash on our balance sheet that we're thinking through how we want to apply that. But we're looking at the highest returns and what the best – what's best for investors. Everything is on the table. M&A opportunities are out there. We have some capital expansion opportunities, especially with the news of Ohio; obviously, we need to take that into account.

We also have optionality to pay down taxes or the flexibility on our debt to kind of take out a third of that debt with a low – almost a third of that debt with a low upfront payment. So I'd say all options are on the table. We do have a significant amount of cash on the balance sheet, so we're going to be able to have a great decision ahead of us here in the coming months. And this will just add to that pile.

Aaron Grey

Analyst, A.G.P. / Alliance Global Partners Corp.

All right. Great. Thanks so much for the color. I'll jump back in the queue.

Operator: Our next question comes from the line of Matt McGinley with Needham. Please go ahead.

Matthew Robert McGinley

Analyst, Needham & Co. LLC

Thank you. You've been building momentum in the wholesale business this year, pretty nice sequential increases every quarter as part of that low-to-mid single digit revenue decline you had noted you expect in the fourth quarter. Do you expect that to be more of a retail decline or should we assume some wholesale pressure there as well?

Brett Summerer

Chief Financial Officer, Verano Holdings Corp.

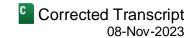
Yeah. Thanks for the question. So overall we do have a very high, we tend to see very high discounting in Q4. And as a result of that, we also see a significant amount of sales in preparation for those sales in Q3. So you just don't typically see as much of a lift in Q4 on the wholesale side, just because people are starting to stock up here towards the end of Q3 in preparation for [indiscernible] (00:28:41). So right now, it's always hard to judge that because of seasonality and discounting and whatnot, but that's one of the bigger drivers there.

Darren H. Weiss

President, Verano Holdings Corp.

Yeah, Matt, this is Darren. Thanks for the question. I would just add, one of the things that we talked about and we're experiencing as we're looking at future is just what's going on in New Jersey, the impact of the additional stores. Obviously, it gives us opportunity for wholesale to get on more shelves and to maintain our very strong market share position. But that's one area where we expect and have expected really since the start of the program to see eventual declines as we have more doors across the state.

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Matthew Robert McGinley

Analyst, Needham & Co. LLC

Got it. And on the, what do you think the opportunity is for new unit growth next year outside of the JV units that you noted you'll be able to put up in Florida, and I guess specifically – or sorry, in Connecticut, rather for the JV. But in Florida, does it make sense to continue to put up new units there under the medical program if they really aren't moving the needle on overall revenues in the state?

George Archos

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

Hey, Matt. This is George. Good morning. Thanks for the question. So we do still see further opportunity in Florida. We're being very selective on the markets that we're choosing. But the new stores that we're opening, although they're not ramping as greatly as they were before, but still doing very well for us. We're just being very selective in the markets. There's still a number of cities that we're not in. So when and if it makes sense, we transact, as we've shown in the past. So I think you will see some additional units from us in Florida next year. But obviously, we're looking forward to this adult use transition if and when it happens. So that'll be a big driver as well. But the medical market is still doing very well for us.

Matthew Robert McGinley

Analyst, Needham & Co. LLC

Great. Thanks. And I just want to say, thank you very much for the increased disclosure you provided this morning in the press release. It really does make it much easier to understand the business and those disclosures are really best-in-class. So thanks for providing that additional information on the state level trends.

George Archos

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

Thanks, Matt. Looking forward to giving you guys some more.

Operator: Our next question comes from the line of Scott Fortune with ROTH. Please go ahead.

Scott Fortune

Analyst, ROTH MKM

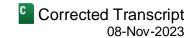
Yes. Good morning and like to echo, thanks for introducing that state level revenue functions there, transparency, that's helpful. But with that said, can you provide a little more color on kind of looking out to 2024? We have – we see Ohio potentially coming on board here. The new states of Connecticut, Maryland, New Jersey are continuing to fully ramp, as you've talked about. But more color on the large markets of Illinois, Massachusetts, Pennsylvania, even Florida that you're in. And then, what will, kind of, you mentioned [indiscernible] (00:31:24) store side of things, but kind of your CapEx needs looking into 2024 to build out here that would be helpful to provide more color looking out.

George Archos

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

Hey. Good morning, Scott. This is George. I'll give you a couple of tidbits and then Brett can add further clarification. As far as the markets you're talking about. I mean, we still feel confident in all these markets. If you look at the units sold across the board, the business continues to increase, although there has been pricing compression, we're starting to see stabilization there. Illinois has been doing well for us. There are further stores

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that are continuing to open, which peck away a little bit at our retail business, but wholesale has been doing continuously better. So we like Illinois.

Connecticut has been a very strong market for us. What we anticipated was taking some of the product off of wholesale and moving it into the retail channel with these social equity JVs. So we'll continue to do that as they open throughout the rest of this year and next year. But the market has been very strong. And in Maryland as well, wholesale business has been very good. They're a legacy market for us, we're in the top five wholesalers, I think it'll continue to do well there. Although we don't currently have the opportunity to open more retail outlets, that could change in the future, which could give us some potential upside in Maryland, which is something we'd like to work with the legislature on.

But overall, we're excited about what's happening although we're saying it could be a flat year, that doesn't mean the business is not going to continue to grow. We're still seeing new entrants to the market. There are opportunities. There might be some M&A that might come up, with Ohio announcing what they did yesterday. Hopefully, we see that transition sometime next year if the governor approves it. And that'll be significant upside, there's a big population base in Ohio. We have a good footprint there. So there's a lot of upside. We'll wait for news from PA here soon. We're working on a legislative fix there for adult use. Maybe that's in 2024 or 2025.

And obviously, the big news will be in Florida. So a lot of upside in our current portfolio with a lot of upside outside of our portfolio. So good stuff to come.

Scott Fortune

Analyst, ROTH MKM

And then maybe a follow-on, Brett, with kind of the CapEx, kind of need. You mentioned Ohio potential expansion of CapEx from that standpoint

Brett Summerer

Chief Financial Officer, Verano Holdings Corp.

Yeah. So we obviously have some internal numbers on that that we've been kicking around. But at this point, we just found out last night, right, that it was approved. So in terms of dialing in what that needs to be, et cetera, we're still looking to work through that over the next few week, few months, and then we'll have something out there. But, big picture CapEx for the business next year, excluding adult use items is going to be very low, significantly lower than it has been historically. And this is just a good investment to capture that market. So we'll talk more about it in the future.

Scott Fortune

Analyst, ROTH MKM

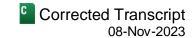
Great. And then my follow-on, it's just kind of looking focusing on the SG&A. You've kept the level up, 36% here. What can we expect, are there more efficiencies kind of in opportunities here going forward? How should we look at the cadence for SG&A in your OpEx side of things?

Brett Summerer

Chief Financial Officer, Verano Holdings Corp.

Sure. So from an OpEx perspective, the guidance we provided previously, which is – has been based on SG&A less depreciation, so our comp continues to be in that same range that we've historically shared, which means again, with the depreciation and stock comp, it's going to be in that same range as well. So, I think, we're really

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comfortable with the range that we have out there. I don't see anything major changing there. And to the extent that it starts to climb, we'll take action. In the extent that it's too low, we'll take action on the opposite side as well.

Scott Fortune

Analyst, ROTH MKM

Thanks for the color.

Operator: Our next question comes from the line of Russell Stanley with Beacon Securities. Please go ahead.

Russell Stanley

Analyst, Beacon Securities Ltd.

Good morning and thanks for taking my question. Just wanted to follow-up on Darren's comments around Ohio. Just wondering, I guess the consensus was that if voters support for it was not only strong enough to pass, but strong enough beyond the 50% threshold, and that would send a clear message to the legislature and the governor as to the will of the people. And just wondering how you feel about the actual level of voter support in that context and the odds for implementation on that basis?

Brett Summerer

Chief Financial Officer, Verano Holdings Corp.

Yeah. Thanks. So, Darren had to step out for a second, but the feeling that we have here is very, very positive from the results that came through were. If you look at the demographics of the state and how they voted, what you can see is that there is a significant younger population that was in strong favor of the measure. And then, as you kind of look at the demographics, as the age continues to climb, it started to fall off a little bit. But I think the level of response, the level of yes votes, I think sends a real strong message to the government there, and we're really happy with the result.

Russell Stanley

Analyst, Beacon Securities Ltd.

Thank you. That's great. Maybe if I can move to CapEx and the guidance, and taking down the numbers for 2023. I just wanted to get a better understanding given your comments around 2024 also being loaded, did you – are there projects being pushed off until 2024 or are there projects that you've just postponed indefinitely at this point? And any color on that will be great. Thanks.

Brett Summerer

Chief Financial Officer, Verano Holdings Corp.

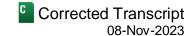
Yeah. So, there is nothing that we've pushed off. We have just been choosy about what we want to do. So, we're generally happy with our footprint. The little bit of CapEx that we have planned next year is going to support kind of the ongoing operations as well as some store buildouts, which tend to be very inexpensive. So, if you think about that, really, it's the cultivation projects that we have and the significance of those, and those are triggered by adult use, triggered by legislation changes, triggered by expansion that we might have through additional stores opening in that state et cetera. So, from that perspective, it's very thoughtful and very [ph] planful (00:37:36), and we haven't necessarily punted anything and we're just waiting for the decisions to be made so that we can deploy our capital in those places.

Russell Stanley

Analyst, Beacon Securities Ltd.



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Thanks for that. I will pile on and say thanks very much for the additional state level disclosure. It's much appreciated and we hope your peers follow. Thank you.

George Archos

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

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Thank you.

Brett Summerer

Chief Financial Officer, Verano Holdings Corp.

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Thanks.

Operator: Our next question comes from the line of Andrew Semple with Echelon Capital Markets. Please go ahead.

Andrew Semple

Analyst, Echelon Wealth Partners

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Great. Thank you. Good morning. Congrats on the Q3 results. I will also join the parade and say the state level data is much appreciated by us, and I'm sure investors as well. Maybe turning your attention first to Connecticut and the wholesale activity we're seeing in that state. Can you maybe talk to the level of third party stores that we've seen open this quarter and year-to-date and what your expectations are for the next 6 months to 12 months? Number of third party stores you see coming down the pipeline there.

Darren H. Weiss

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President, Verano Holdings Corp.

Yeah. Thanks so much for the question, Andrew. This is Darren speaking. We've been — been really pleased with the progress of the social equity joint ventures opening up. We've had the opportunity to open two stores and have plans as we've mentioned before to open four more over the ensuing months and into next year. The pace has been relatively, I would say, relatively stable. We're adding five or so doors on a monthly basis. Thus far, we expect that to accelerate into next year, just as folks have been tied up in zoning, et cetera. It remains a very, very strong wholesale market for us. But as Brett mentioned, given capacities in the state and given our store opening schedule, we intend to be putting more product onto our own shelves to make sure that we can give the customers coming to our [indiscernible] (00:39:35) stores the best products in the market.

So it's been a success story. We – it's really an example of the power of bringing legacy operators and multi-state operators into conjunction with one another. And we hope that other states like Maryland follow suit.

Andrew Semple

Analyst, Echelon Wealth Partners



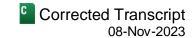
Great. That's helpful. Maybe just expanding on the launching products and brands. I hope I have the stats right. You launched over 100 new products this year, now representing over 40% of revenues. Given the success that you're seeing with newly launched products and brands, do you think the consumers are looking for more variety and more innovation from cannabis companies such as yourselves? And are you planning to continue with new product launches, given the success you've seen with recent product and brand portfolio additions?

George Archos

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



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Thanks for the question. I mean, the consumer is always looking for new products, right and it's an important part of the business. This is another business. Everyone likes variety and we've done a great job here of the company. The team has done an amazing job actually over the last couple of years of launching a variety of new products at different pricing categories. And they've done extremely well for us.

Although the pace might slow down, we will continue to launch new products in various markets as we see fit. We're following the data of what sells where, what sells best, and we'll continue to have these launches. And it's an opportunity for us to continue to grow the business on the wholesale side.

And the other part of that is the R&D. I mean, we've done a significant amount of work on the R&D as far as growing new genetics, developing new items, and that'll continue to ramp up over the next few years as well.

Darren H. Weiss

President, Verano Holdings Corp.

Yeah. Andrew The other thing I would add is it's very much in line with our desire to maximize our vertical sell through or vertical mix. And so to be able to compete not only on various price points, but in various categories, and to be able to produce best-in-class products in each category. And of course, the gold standard category definition creating new categories enables us to continue to drive vertical mix and maintain price points and margin. So that's very much part of the strategy. It's one of the things that's been able, has enabled us to grow that vertical mix number so substantially over the course of the last year without sacrificing the top line.

Andrew Semple

Analyst, Echelon Wealth Partners

Great. That's very helpful. I'll get back into queue thank you for taking my questions.

Operator: Our next question comes from the line of Frederico Gomes with ATB CM. Please go ahead.

Frederico Gomes

Analyst, ATB Capital Markets, Inc.

Good Morning. Thank you for taking my questions. Just on your wholesale penetration in Illinois and New Jersey, and [indiscernible] (00:42:30) new doors opening? Any color on how many doors you're selling into and how much room you have there to sell more?

Darren H. Weiss

President, Verano Holdings Corp.

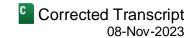
Okay. So that we wouldn't necessarily disclose exactly those numbers. But what I can say is, in Illinois, we had a good lift in terms of sales as these stores are opening up and we're seeing wholesale increase at least quarter-over-quarter. And I think, that continues to evolve as we see how many more stores are continue to open. But we also see that in New Jersey and the other markets as well. I think, your guess is as good as mine in terms of what does that mean for New Jersey, and Illinois, and the other markets that we have that are having those new store openings. But overall, we're pretty happy with the increases we are seeing it come through, and hopefully it continues for a while now.

Brett Summerer

Chief Financial Officer, Verano Holdings Corp.

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Yeah. And know I would just add to put a finer point on it, Puerto Rico, we do sell into the overwhelming majority of doors in each of the markets that you've mentioned. And again, this is part of the benefit of having a wide variety of categories and a wide variety of price points, just given the spends for new stores as well as taking into account the demographics and being able to meet the consumers where they are. And so we continue, of course, to build and maintain relationships with social equity store owners prior to and, of course, after opening and that's very much part of the growth strategy.

Frederico Gomes

Analyst, ATB Capital Markets, Inc.

Thank you. Then on your Cboe Canada listing, I know you mentioned some of the potential advantages there, and I know that the listing is very recent, but have you seen any increased investor interest based on that or some other I guess some other tangible advantages already playing out given your listing?

George Archos

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

It's still early right in the move. I think there's kind of a combination of things with the HHS announcement and the move to the Cboe, we've definitely had more interest in communicating the story and talking about the industry in general. Again, as a reminder the big part of this move or one of the biggest aspects of this move is the MSCI and FTSE eligibility. And we're still kind of pointing towards that, which will really increase a lot of the touch points from larger institutions. But still early and still getting settled in. But so far, it's been an extremely strong and powerful move for us and we're happy with where we at.

Frederico Gomes

Analyst, ATB Capital Markets, Inc.

Thank you very much. I'll hop back in the queue.

Operator: Our next question comes from the line of Matt Bottomley with Canaccord Genuity. Please go ahead.

Matt Bottomley

Analyst, Canaccord Genuity Corp.

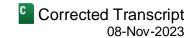
Hey. Good morning, everyone, and congrats on the strong quarter, particularly on the margin side of things. Just going through the new disclosures you put in on a state-by-state basis, no surprise that Florida, Illinois, and New Jersey are leading positions for you guys, and you gave some forward-looking commentary, particularly for Q4 on New Jersey. I'm just wondering if you could share a little more color on your near-term expectations or maybe going into 2024 on Florida and Illinois, particularly on the retail pricing side? It's a question I get inbounds on quite a bit with respect to what the dynamic is in Florida relative to volume growth in contrast to what you guys are seeing at the retail level on the pricing side of things.

Darren H. Weiss

President, Verano Holdings Corp.

Yeah. So big picture pricing stabilization continues to stable – continues to flat line, right. So we saw significantly different pricing movements last year, as the industry as a whole is starting to hemorrhage money in some instances. They're starting to be a little more rational with their pricing and that's what's driving the overall slowdown. We are continuing to see it in different markets, obviously. Florida is a little bit unique in that Florida has higher margins than all the other states. Therefore, they have more room to fall before we get to the point where the other competitors in the state really need to dial back and be more rational on pricing. So what I would

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say is you should continue to see an overall slowdown and there's more room in Florida than there is in other states. So the likelihood is that they will see more price declines than anybody else. But I think that, again, applies to all of the – all the people in the space.

Matt Bottomley

Analyst, Canaccord Genuity Corp.

Got it. Appreciate it. And then, just more of a housekeeping item on my end. We're looking at through the adjusted EBITDA reconciliation, just given the magnitude of the increase. I'm just wondering if you can give us just a couple of points on I think there's a \$6 million addback on other income. Is that just adding back an investment loss that we saw on the P&L in an associate or what's the nature of that nugget. I think it's the last line item in the reconciliation.

Brett Summerer

Chief Financial Officer, Verano Holdings Corp.

Yeah. So it was an investment that we made years ago in a California operation that worked with remediation of pesticides as it related to plants and cannabis and in particular. But over time we've just decided that's not a core operation of our business and therefore we've elected to liquidate the business and therefore take a write off on our P&L for the investment that we had.

Matt Bottomley

Analyst, Canaccord Genuity Corp.

Okay. Thanks, guys.

Operator: Okay. There are no further questions at this time. I would now like to turn the call over to George Archos for closing remarks.

George Archos

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

Thank you, everyone, for your time today. Happy Halloween everyone, and we'll see you next year.

Operator: I'd like to thank our speakers for today's presentation and thank you all for joining us. This now concludes today's call and you may now disconnect.

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