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Verano Holdings Corp.

Third Quarter 2021 Earnings Conference Call

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Scott Fortune, *ROTH Capital Partners*

Andrew Semple, *Echelon Capital Markets*

Matt Bottomley, *Canaccord Genuity Co.*

Aaron Grey, *AGP/Alliance*

PRESENTATION

Operator

Welcome to the Verano Holdings Third Quarter 2021 Earnings Conference Call.

Please be advised that today's conference is being recorded.

I would now like to hand the conference over to your speaker today, Julianna Paterra.

Julianna Paterra

Thank you, and good morning, everyone. Welcome to Verano's Third Quarter 2021 Earnings Conference Call.

I am joined today by George Archos, Chief Executive Officer and Founder; Brian Ward, Chief Financial Officer; Darren Weiss, Chief Operating Officer and General Counsel; and Aaron Miles, Chief Investment Officer.

During this call, we will discuss our business outlook and make forward-looking statements which are based on Management assumptions and expectations. Actual events or results could differ considerably due to risks and uncertainties mentioned in our filings with SEDAR, including our financial statements and MD&A for the fiscal year ending December 31, 2020, and for the three and nine months ended September 30, 2021.

In addition, throughout today's discussion, Verano will refer to non-IFRS measures that do not have any standardized meaning prescribed by IFRS, such as EBITDA, Adjusted EBITDA and free cash flow. These non-IFRS measures are defined in our earnings press release issued earlier today and are available at investors.verano.com, which also includes the reconciliation of these measures to the most comparable IFRS financial measures.

Please note the financial information we are reporting today is on a pro forma consolidated basis that includes the AltMed Companies for the nine months of 2021 as if the acquisition closed on January 1, 2021. The financial statements we filed on SEDAR are in accordance with IFRS and account for the AltMed Companies beginning on February 11, the actual date of the acquisition. As a result, the IFRS numbers filed with SEDAR will differ from the pro forma consolidated numbers reported today.

Lastly, all currency is in U.S. dollars unless otherwise noted.

I will now turn the call over to George. Please go ahead.

George Archos

Good morning, and thank you, everyone, for joining us today. I will kick-off the call by sharing an update on our business and highlighting key areas of focus followed by a deeper look at some of the most significant opportunities for Verano moving forward. After that, Brian will provide highlights from our financial results and discuss our capital position in more detail.

Today, we reported results from another strong quarter, underscoring an extremely active and successful three months for our Company. We continue to invest in both organic and inorganic opportunities that position the Company for long-term sustainable top-line growth. Additionally, our proven ability to operate the business efficiently has allowed us to continue driving bottom-line growth even as we scale, as evidenced by our industry leading margins and profitability.

I am so proud of the many Verano team members across the country and wish to publicly thank them for their incredible contributions. I believe we employ some of the industry's most dedicated and diligent professionals, and our ability to leverage this talent has contributed to our performance.

I am pleased to report a decisive improvement in margins while maintaining steady top-line performance in the quarter. In Q3, we continued our core focus on people, process and product, integrating and refining operations across our footprint.

We continue to invest in our business, adding accretive assets to our platform through M&A, while expanding cultivation capacity nationwide and driving organic growth by opening new retail doors. In addition, we believe efficiencies in production, driven by our investments in automation, will help build incremental value going forward.

This was another productive quarter with tremendous executional pace. We maintained positive free cash flow while self-funding Capex and improving margins. Strong fundamentals remain a central theme in the Verano story, which we feel are now more important than ever. We remain intently focused on the bottom line and operating an efficient and profitable business as demonstrated by our EBITDA growth in the quarter.

Turning to the results from the quarter, we achieved revenue of $207 million, representing 106% growth year-over-year or 4% growth quarter-over-quarter. Given the complexity of evolving market dynamics, we believe there was a material impact to revenue in the quarter due to several challenges, which included regulatory setbacks across Pennsylvania, Massachusetts, and New Jersey; severe weather events across the East Coast impacting Florida, New Jersey, and Pennsylvania, notably shutting down one of our highest volume dispensaries in the Philadelphia market for over a month; and the shutdown of telehealth in Florida slowed new patient growth, which overlapped with soft summer months in snowbird states of Florida and Arizona. Fortunately, we have already seen this trending back in the right direction.

With respect to our key performance metrics on the quarter, we achieved significant margin expansion underscored by 64% gross profit margin, which equates to $133 million, or 33% growth sequentially. In addition, we generated an industry leading 54% Adjusted EBITDA margin, or $111 million, up 36% from the prior quarter. On an unadjusted basis, we reported 52%, or $107 million. Going forward, with uncertainty around the timing of several significant externalities, we anticipate some fluctuation in these metrics but remain confident in our ability to operate and grow the business with a low-40s target for our Adjusted EBITDA margin profile.

In the current environment, strong fundamentals and financial health are more important than ever. We maintain flexibility to position the Company for success ahead of market growth given the conservative nature in which we evaluate our capital needs. Remaining unencumbered by sale leasebacks is a signature focus of the Company as well as responsibly tapping into the debt markets only to the extent necessary to support strategic growth initiatives.

Last month, we announced the upsizing of our credit facility by $120 million at one of the best rates in the industry at a non-dilutive basis, with the opportunity to upsize by an additional $100 million. We are proud of our responsible management and we will continue to be disciplined stewards of capital.

Next, I want to point out to some recent operational achievements.

One item that I am excited to highlight is the expansion of our Executive Leadership team, including the recent hiring of Destiny Thompson as Verano's Chief People Officer. The Company has sustained tremendous growth this year and we look forward to Destiny's contributions to future successes and value creation for our employees and Shareholders by further integrating the people-first culture across our Organization and expanding our already impressive talent pool.

In addition, long-time Verano veteran, Darren Weiss recently stepped into the Chief Operating Officer role. His work will prove critical given our Company's emphasis on operations.

Moving on to M&A, we believe the execution of our acquisition strategy has helped set the tone for broader industry consolidation and we'll remain acquisitive when and where it provides accretive value to the Verano platform. To provide a brief recap of our M&A activity, we closed on the Mad River Remedies transaction in July, maxing out our Ohio footprint at five stores with one of the state's highest volume dispensaries in Dayton. We have closed on the Agri-Kind and Agronomed transactions early in the quarter, unlocking vertical integration and enhancing our dispensary footprint in Pennsylvania.

We announced the Sierra Well acquisition in July, which will expand our Nevada supply chain and will provide us with strategic retail coverage in the northern part of the state, with dispensaries in Reno and Carson City, plus a 10,000 square foot cultivation and production facility in Reno. Last week, we were very pleased to announce three accretive acquisitions in Connecticut, including two active dispensaries and one of just four licensed cultivation and production facilities in the state. At 217,000 square feet, the state-of-the-art cultivation facility has propelled CTPharma to establish a dominant share of the market today and positions Verano for long-term growth by entering Connecticut, with vertical integration ahead of the State's forthcoming adult-use transition.

Since Q2, we have opened or added nine new dispensaries, including closed and pending acquisitions, broadening our footprint in Pennsylvania, Florida, Ohio, Nevada, and Connecticut. In West Virginia, we anticipate opening our first store by the end of the year in a highly populated college town. Also under development is a state-of-the-art cultivation and production facility in West Virginia. Following this activity and the completion of pending acquisitions, we will have 90 active dispensaries and over one million square feet of active cultivation and production capacity nationwide.

To summarize, this was a successful quarter with respect to foundational development. We believe in the top-line potential of our platform. We remain principally focused on bottom-line performance as a means of value creation for our Shareholders, with confidence that top-line revenue potential will come as a result of our foundational strength and as both internal and external catalysts materialize. Twenty Twenty-one is a defining year for us on many levels. Since taking the Company public last February, we laid out our strategy to drive sustainable top-line growth while at the same time delivering industry leading margins. I am proud to say that we have been successful in executing on our vision.

Looking ahead, we anticipate that with continued investment in infrastructure, including people, processes and products and holding steadfast in our commitment to our strategy and broader mission, we will realize the full potential of this Organization heading into next year.

With that, I will turn over to Brian to review our financial results in more detail.

Brian Ward

Thank you, George.

To begin, I will review financial highlights from the third quarter 2021 and then move on to discuss our balance sheet and capital allocation strategy. Please note the financial information is reported on a pro forma consolidated basis as if the AltMed acquisition had closed on January 1, 2021, versus the actual closing which took place on February 11, 2021.

First, however, I'd like to provide a brief update on our efforts to convert over to U.S. GAAP, which has been ongoing since the second quarter. My team continues to make progress on the conversion and we are on track to report under GAAP for the fourth quarter of this year. This conversion will better position us to uplist to a U.S. stock exchange and it allows us to report under a more familiar framework, which should clean up much of the accounting noise IFRS standards bring to cannabis Company operations.

Moving on to financials, I am very pleased to report revenue of $207 million, representing 4% sequential growth and 106% year-over-year growth. Revenue from retail and wholesale was 82% and 18% respectively. As George highlighted earlier, both retail and wholesale revenue were impacted this quarter by industry-wide challenges, including regulatory setbacks, soft summer sales in warm weather snowbird markets, and weather-related hurdles across multiple states, including severe flooding that closed one of our top performing Philadelphia area stores for over a month, which had a material impact to the top line.

On the wholesale side, we continue to invest in our cultivation facilities. With the Sierra Well and Connecticut deals, we will hold over 1 million square feet of active cultivation and are currently building out further capacity in Pennsylvania, Florida, Nevada, Arizona, and West Virginia. Additionally, our Massachusetts facility recently came online, giving us vertical integration in 10 of our 12 active markets pending the close of acquisitions. We anticipate our retail/wholesale ratio to begin to balance out via growth in the wholesale vertical stemming from new facilities coming online, investments made in cultivation expansion, and increased focus on brands, products and innovation across our footprint, though our significant footprint in Florida also contributes to the retail imbalance.

Moving on, gross profit for the third quarter on an unadjusted basis and excluding the impact of biological assets was $133 million compared to $100 million in the prior quarter and $69 million in the prior year. As a percentage of revenue gross profit was over 64%. Our gross margin results represent the realized benefit from investments made across our cultivation footprint. For example, after our Agri-Kind transaction in Pennsylvania closed and gave us vertical operations, our gross margins in the state increased by over 50%.

SG&A expenses were $32 million in the third quarter, or 15% of revenues, down from $53 million in the prior quarter, or 27% of revenues. While we continue to maintain a focus on expense management, this decline does not signify any diminishing investment in our people and sales and marketing efforts. For example, sales and marketing expenses were roughly flat, and salaries and benefits were up about 45% versus the prior quarter as we invest in our teams ahead of growth.

The main driver behind the decrease in SG&A expenses as a percentage of revenue was the change in accounting treatment of earn-outs for management teams involved in Verano acquisitions, which now run through our balance sheet as opposed to our income statement. Looking ahead, we anticipate SG&A as a percentage of revenue to increase, especially as we continue to invest in top-tier talent across the Organization.

Net income, excluding the impact of biological assets, was about $15 million in the third quarter versus $32 million in the second quarter.

Adjusted EBITDA was $111 million, or 54% of revenue, for the third quarter versus $81 million, or 41% of revenue, in the prior quarter and $56 million, or 55% of revenue, in the prior year. We are immensely proud of our EBITDA margin profile, as this is reflective of the Company's operational success.

Turning to the balance sheet, we ended the quarter with $57 million in cash and cash equivalents. In October, we announced a $120 million upsizing of our existing credit facility agreement with one of the best rates in the industry on a non-dilutive basis of 8.5%. We continue to take on debt in measured amounts with the goal of improving upon terms and rates to decrease our cost of capital. This $120 million upsize provides further M&A optionality as we continue to evaluate targets to both broaden our footprint into new markets and deepen our footprint in current markets. We remain unencumbered by sale leasebacks and actively manage our cash flow and feel well-positioned with our continued cash generation.

Cash flow from operations for the third quarter was $68 million and free cash flow was $35 million. We take tremendous pride in remaining cash flow positive and self-funding our Capex.

Capex spend for the quarter was $33 million, bringing the year-to-date total to $96 million. We expect to close out the year above $120 million in Capex as we invest back into our business.

To recap, I am incredibly proud of our team for executing during another quarter of growth marked by continued acquisitions and integrations. We remain committed as an organization to delivering industry leading profitability while growing the top line.

With that, I will turn it back to George for some closing remarks.

George Archos

Thank you, Brian.

From a macro viewpoint, we are encouraged by the most recent dialogue around legislation concerning federal legalization. Regardless, as I previously emphasized, we believe in our long-term plans to drive growth within the current regulatory environment, but also recognizing incremental opportunity that federal legalization or some form of amendment, such as the SAFE Banking Act, may provide. We are excited to be a part of the conversation surrounding such transformational reform, which presents an abundance of potential benefits to the cannabis landscape in the U.S.

As we look at the trajectory of the business to close out the year, I firmly believe in our top-line potential. However, given the shift in timing of several anticipated growth drivers, we feel that it would be imprudent to reiterate or update specific revenue guidance metrics at this time. That said, we remain optimistic about long-term revenue growth and want to again reiterate that we believe we can achieve Adjusted EBITDA margins in the low-40s.

Thank you again for joining us today. I am incredibly proud of what the Verano team accomplished this quarter in many respects, but particularly in delivering industry leading margins. We look forward to closing this transformative year and driving further business momentum heading into 2022.

Operator, you may now open the line for Q&A.

Operator

Your first question is from the line of Camilo Lyon with BTIG.

Camilo Lyon

Thanks and good morning, everyone. Really nice job on the margin recovery there.

Brian, I am wondering if you can help maybe parse out some of the impacts that happened in Q3, and maybe give us some insights into how much the Philly store closure helped, and maybe it's better to go on a state by state basis or just on an aggregated basis. What do you think the impact to your overall top line was in Q3 from some of these unforeseen sort of delays and impacts to the business?

Brian Ward

Sure. Good morning, Camilo. Thanks for the question.

As we think about the third quarter, there were a couple of headwinds that we faced. Massachusetts on the cultivation side was certainly one. The closing of our high-performing store in Philadelphia for over a month did have a material impact. Then the other key item would be New Jersey. That's something that we are focused on. We are ready for adult-use. We really don't operate the business on a quarterly basis. We are excited about where we're headed.

I think, really on the margin side, we proved that we have got a really efficient quarter and efficient business. So that's how we really think about the third quarter. We are excited about it. But some of those headwinds I think will naturally kind of tailor off over the coming months.

Camilo Lyon

Okay. Maybe just following that line of questioning, I think you said in the prepared remarks or maybe George did that there is some improvement already being felt in some of those states recovery if you will.

Maybe if you could just talk to that? What kind of rate of acceleration are you seeing? I think you are probably referring to maybe the Arizona market in Florida, but any sort of context will be helpful.

Brian Ward

Yes. In Florida and Arizona, we did see some seasonality. I think as we sit here today, in the middle of November, we have seen some of that rebound. We are certainly excited about both of those markets, especially with that seasonality. We have had a lot of questions around Pennsylvania and Florida and discounting, and we certainly have been extremely proud of our offerings and our product differentiation in those markets. We will continue to be competitive where it makes sense, but I think as we stand today, I am very excited about how things have really shaken out and the prospects ahead.

Camilo Lyon

Got it. Then my final question is on Florida; since you brought it up, might as well go there. More strategically, thinking about how that market is evolving from a competitive landscape and the seemingly continued sort of promotional cadence that exists in that market. Can you talk about—maybe George, love your thoughts on this too—can you talk about the AltMed positioning in that market from a price perspective and any intent to expand the premium end of their product offerings that you are actually taking price up? I think the average price there in new stores is about $50 an eighth. I am wondering if there is any intent to improve the premium product offering and raise price in that market. Thank you.

George Archos

Good morning, Camilo. This is George. Appreciate the question.

Yes, we actually just did a limited reserve launch on some flower. We're moving it at a much higher price points, sold out of all of that product, which was obviously the intent. We also will be launching some Verano genetics very soon, again, at a higher price point. That has been our business model for the past seven years. We are proud of that fact. We did very well in that category. So that will be our plan in Florida.

For us, heavy discounting is not something that works for us, because we have a high quality product. There is no such thing as a free lunch. If you want to move your top line, you sacrifice your bottom line, and that's not our intent.

Camilo Lyon

Got it. Great to hear. Thanks, and I will turn it over.

George Archos

Appreciate it. Have a great day.

Operator

Your next question is from the line of Russell Stanley with Beacon Securities.

Russell Stanley

Good morning and thank you for taking my questions.

First, around Illinois. I just wonder what your latest views are there in respect to the 185 retail licenses. How are you thinking about when those might get issued and translating into wholesale demand? I guess second to that, what opportunities are there for growth in the interim?

George Archos

Good morning, Russ.

The 185 stores, unfortunately, they are mired in litigation as expected. We are hoping that they come out of that process here soon, because the state needs it. I mean, this should be a $3 billion to $4 billion market, but you need access in order to achieve those types of numbers. Being one of the largest wholesalers in the state, we are really looking forward to those stores getting online.

Fortunately, there is a good chunk of the social equity participants that are moving forward with real estate plans, are building out their facilities. We are helping out a number of them to make sure that they design accordingly and that they are successful. But we don’t know on timing yet. When something is in the litigation process, your guess is as good as ours. But we are eagerly anticipating them. We are hoping that next year, by next summer, we start seeing some stores come online and see some growth in Illinois market. In the interim, we are going to keep doing what we do best, which is continue our wholesale strategy, continue to push our own retail stores, and try and grow the business in our home state.

Russell Stanley

Got it. Just moving on to Pennsylvania, I think you highlighted the margin improvement you saw in this state with Agri-Kind, and just wondering, is that a full contribution there or do you think there is additional upside heading into subsequent quarters, and more generally, how the integration of multiple acquisitions in that state is playing it?

George Archos

There is definitely additional upside in that State. That facility wasn’t fully operational when we took over. So we will see the benefit of that heading into next month in Q1 of next year, which will give us additional biomass. More importantly, it will give us some of the genetics that we look forward to bringing to the market and introducing the Verano brand to continue to push our wholesale strategy in that state. We also have additional stores opening through—hopefully we have through our different entities, about 18 stores open by next summer. We are working on almost all of them and we should be opening another store here pretty soon. We like Pennsylvania, and we expect further margin improvement and a stronger business there in the future.

Russell Stanley

Excellent. Thanks for the color. I will get back in queue.

Operator

Your next question is from the line of Scott Fortune with ROTH Capital Partners.

Scott Fortune

Good morning, and thanks for the question.

Can you talk about a little bit the brand positioning? You have done a great job with that positioning from a premium perspective, but can you provide color on some of the key assets or markets where you can continue to move that premium brand up as we look out into 2022 here?

George Archos

Appreciate that. I mean it's something that we do in every market. It's not something that—it's just being launched in Florida, because it wasn't a original historical Verano entity. We are also going to be doing that in Arizona. We will be doing something similar in Connecticut in the future after we close on that acquisition, but for the most part, every other state that we operate in we already have a premium offering.

Scott Fortune

Okay, great. Then when you look out West, kind of west exposure here with Arizona and Nevada and we have seen a lot of different pricing pressure with a lot of those states kind of.

Can you help us understand what we are seeing that pricing perhaps just starting to stabilize a little bit, or kind of how can we interpret the fourth quarter from your West Coast footprints going forward here?

George Archos

Well, fortunately, the fourth quarter should be a little bit stronger in the West Coast. Arizona, Nevada, you have the seasonality trend here where we have people, snowbirds moving back into those states. So we have seen some stronger top-line growth there, which we are excited about. As far as the offerings, we are going to continue to add SKUs in all of those markets. We are just almost done with our expansion in Nevada. Arizona also just recently underwent expansion. Q1 should see growth from both of those states from us from a cultivation and processing perspective. So, we are excited about the future there.

Scott Fortune

Appreciate it. Thanks for the color, and I will jump back in the queue.

George Archos

Absolutely. Have a great day.

Operator

Your next question is from Andrew Semple with Echelon Capital Markets.

Andrew Semple

Good morning, and congrats on the strong results.

I just want to go back to Pennsylvania being a meaningful driver of the gross margin improvement quarter-over-quarter. I just want to get a sense of what proportion of the newly acquired production capacity in that market was allocated to your own store network, and whether that product allocation decision was a major driver of margin enhancement within the quarter.

Brian Ward

Good morning, Andrew. Thanks for the question. This is Brian, I will take that one.

Pennsylvania, it's no secret, the vertical benefit is significant to our results. In the quarter, we did move a lot of products through our own stores, having 12 open stores in Pennsylvania in the quarter. I would say it's roughly a third of the production. We see that could continue and certainly will be a driver for us going forward. As George alluded to, we still have significant investment going into the Agri-Kind facility that we closed on in July, and remain pretty optimistic about getting that facility optimized, our brands and products in the State of Pennsylvania, and certainly it will be a key state for us.

Andrew Semple

Great. Then looking at the EBITDA margins signaled for 2022, you are signaling normalized level in maybe the low-40s. Just want to dig into some of the assumptions behind that and where you are expecting the delta to be relative to the current margin profile. I assume the bulk of the change would be attributable to a reallocation of market attribution. Would that be a fair assumption there? Then what sort of directional pricing assumptions and adult-use timing assumptions are built into that figure, the low-40s normalized EBITDA margin?

Brian Ward

Yes. I think your first question on attribution is correct. For '22, there are still a lot of moving parts. We believe we can run this business on an EBITDA margin in the low-40s. That's something that we are proud of. We continue to run a very efficient business. This quarter in particular was highly efficient.

We believe low-40s for Adjusted EBITDA is a fair target for our Company. Then, really as we think about adult-use, we don't have the crystal ball. New Jersey is looming. That's certainly a market we are very excited about. We now have Connecticut. We believe Connecticut is probably going to be maybe late summer, but hopefully sooner. For New Jersey, I think everyone remains hopefully optimistic around kind of March or April. But certainly we don't have any more insight at this point.

Andrew Semple

Great. That's very helpful. Thanks for taking my questions. I will get back in queue.

Brian Ward

Thanks, Andrew.

Operator

Your next question is from the line of Matt Bottomley with Canaccord Genuity.

Matt Bottomley

Good morning, everyone. Thanks for all the color so far this morning.

I just wanted to maybe dig a little deeper into one of the adjustments you noted in your prepared remarks. I think it's in the G&A line, substantial reduction in that expense line. I think you mentioned it had to do with capitalizing some of these earn-outs from an accounting perspective. So, I am just curious if that impacts your Adjusted EBITDA account or how that rolls down, and kind of comparing what you guys did this quarter and the last, given that accounting change?

Brian Ward

Yes. Matt, good morning. This is Brian. Thanks for the question.

We did have some earn-outs related to two acquisitions that we did earlier in the year. Fortunately, we had an accounting treatment change that moved everything to the balance sheet, so it's a change in the consideration from compensation. So, they no longer are showing on the P&L. When you look back at Q2, those numbers are baked in. So, it's not exactly an apples-to-apples comparison. But going forward, the G&A line will not include those earn-outs. So it's something we are excited to kind of clean up and share our story in a more clear and concise manner, given that those were related to the acquisitions. So again, I know it's a tough comparison, but those will be out of the P&L going forward.

Matt Bottomley

No. That to me, that makes sense to have it anyway. So, just that's why I appreciate that comparison. Then just my second question, maybe just more holistically on your sort of Capex initiatives without getting into dollars. Just given all the M&A that's closing and all the growth markets you are in, if you kind of look at, I think you did about $90 million some odd for the first nine months in PP&E purchases, kind of where that's trending going into next year. Obviously, there are some ebbs and flows to when markets open, but just curious on sort of the magnitude, nine months into this year versus where you think it will be going into next.

George Archos

Yes, we are at $93 million through the first nine months of this year. We expect that run rate is going to continue in the next year. We have got large scale investments in Pennsylvania and Florida, plus a number of others. We are always active on the capital investment front. It's a huge driver for this business and something we are very excited about. We continue to put money into Pennsylvania and Florida, namely, but also projects in West Virginia, Arizona, Maryland, etc. So, we are going to continue to invest back into our business. I think for this year we will be north of $120 million in Capex, and I would assume the same run rate for next year.

Matt Bottomley

Perfect. Very helpful. Thanks again.

George Archos

Thanks, Matt.

Operator

Your next question is from the line of Aaron Grey with AGP/Alliance GI.

Aaron Grey

Hi. Thanks. Good morning, folks. Thank you very much for the question and congrats on the quarter.

First question for me, just on the M&A front, and I just want to get some color in terms of how you are thinking about M&A in terms of going deeper in current states versus expanding into new states. I saw you guys just got into Connecticut. So just wanted to get some further commentary on how you are thinking about the M&A and then maybe about some pricing that you are seeing in the marketplace and what has been trending, especially relative to the private market versus the public market? Thank you.

George Archos

Good morning, Aaron. This is George.

Our goal has always been to go deeper. There are still a couple of markets that we would like to add some depth in, primarily, possibly Arizona, Nevada, Massachusetts, we would like to add another store. But for the most part, we have gone pretty deep in the majority of our markets that we would like to. We are looking at opportunities outside of our current footprint, like Connecticut. We thought that was a great opportunity for us, vertically integrated, one of the best cultivation and processing assets in that state, two very strong stores.

With adult use on the horizon, it was a deal that made a tremendous amount of sense for Verano. The margin profile is there. More importantly, the team that's running those assets is going to integrate very well with the Verano team. There are a couple of key players there. One of the founders of CTPharma that we believe is going to be incremental to our growth on the East Coast. We are excited about that opportunity.

As far as pricing, private pricing, if you know how to negotiate, it falls in line with public pricing. We don't overpay for assets. We are not known for that. We pay within a certain margin profile. It also depends on how much capital has been deployed into those assets. So as we ebb and flow with the public market, the pricing in the private market ebbs and flows as well. We are not going to stop transacting if the public market is a little bit off, even though we feel it shouldn't be, we feel the fundamentals of the business are very strong. We will continue to transact in deals that make sense for Verano.

Aaron Grey

Great. Thank you very much for that color. That's helpful. Then second question for me, you guys always position Verano as being premium product as a way to differentiate yourself. A lot of your peers, as you are seeing some pricing pressure in some of the markets, particularly on value in mainstream, looking to improve yields and shift a little bit more towards premium segment.

Just want to get some commentary from you in terms of how you see that competitive dynamic evolving in terms of premium segment, whether or not you think there is going to be the availability for them to shift from mainstream maybe to premium with the current cultivation assets, and you kind of see that category evolving for you guys. Thank you.

George Archos

Good question. Easier said than done. When you are growing a million square feet of canopy, two million square feet of canopy, whatever it can be, very difficult to keep consistency. But there are many operators out there that do offer premium offerings, we see them in multiple markets, and there is room for everyone. People like variety, and that competition is not something that we are worried about. We have built a tremendous business here. We have great people. We welcome more competition, and we feel they can only make us look even better. That's how we look at it, and that's how we feel about the outcome is looking for us in the future. I mean, we love premium offering. We are going to continue to bring our new SKUs and form factors in every single market, but our flower will always be our namesake.

Aaron Grey

Makes sense. Thanks for the detail. Congrats on the corner.

George Archos

Thanks, Aaron.

Operator

I will now turn the call back over to George Archos for closing remarks.

George Archos

Thank you, everyone, for joining us today. We would like to wish you happy holidays, and we look forward to the next call.

Operator

Ladies and gentlemen, this concludes today's conference call.