

Verano Holdings Corp. (Q3 2025 Earnings)
October 29, 2025

Corporate Speakers:

- Steve Mazeika; Verano Holdings Corp.; Vice President, Communications
- George Archos; Verano Holdings Corp.; Founder and Chief Executive Officer
- Richard Tarapchak; Verano Holdings Corp.; Chief Financial Officer
- Aaron Miles; Verano Holdings Corp.; Chief Investment Officer

Participants:

- Aaron Grey; Alliance Global Partners; Analyst
- William Kirk; ROTH Capital Partners; Analyst
- Russell Stanley; Beacon Securities; Analyst
- Frederico Yokota Gomes; ATB Capital Markets; Analyst
- Kenric Tyghe; Canaccord Genuity Capital Markets; Analyst
- Andrew Semple; Ventum Financial; Analyst
- Neal Gilmer; Haywood Securities; Analyst
- Pablo Zuanic; Zuanic & Associates; Analyst

PRESENTATION

Operator^ Good day. Thank you for standing by. Welcome to the Verano Holdings Corp. Third Quarter 2025 Earnings Conference Call. (Operator Instructions) Please be advised that today's conference is being recorded. (Operator Instructions)

I would now like to hand the conference over to your speaker today Steve Mazeika, VP, Communications.

Steve Mazeika^ Thank you. And good morning, everyone. Welcome to Verano's Third Quarter 2025 Earnings Conference Call. I'm joined today by George Archos, Founder and Chief Executive Officer, Rich Tarapchak, Chief Financial Officer, 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 U.S. and Canadian securities laws, which are based on management's current assumptions and expectations. Such forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause the actual results, performance and achievements of the business or developments in the company's industry to differ materially from those implied by such forward-looking statements.

Actual events or results could differ considerably due to risks and uncertainties mentioned in our filings on EDGAR and SEDAR including our financial statements for the quarter ended September 30, 2025. In addition, throughout today's discussion, we will refer to non-GAAP financial measures that do not have any standardized meaning

prescribed by GAAP. Management believes non-GAAP results are useful to enhance the understanding of the company's ongoing performance, but these are supplemental to and should not be considered in isolation from or as a substitute for GAAP financial measures. These non-GAAP measures are defined in our earnings press release and available on our website at investors.verano.com, which also includes a reconciliation of these measures to their respective most directly comparable GAAP financial measures.

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

I'll now pass it over to George.

George Archos^ Thank you. And good morning, everyone. The third quarter results reflect the strategic actions we've taken to position Verano ahead of long-term growth opportunities. We made progress generating efficiencies, improving wholesale and brand performance and strengthening our capital structure and financial foundation for the future.

Before we jump into the third quarter results, I am pleased to confirm that we have settled all litigation matters with Vireo that have been ongoing in the British Columbia court for over three years. Although we stand firmly behind our claims against Vireo and our defenses to Vireo's allegations, after careful consideration of the costs and burdens of the prolonged litigation, we determined that resolving this matter was the most prudent business decision for Verano.

The settlement to Vireo consisted of a \$1 million cash payment and transfer of a building in Pennsylvania, which was nonoperational and held for sale. We expect the settlement will have zero impact on our operations. The settlement marks the conclusion of this chapter, and we look forward to moving ahead laser-focused on strategic priorities for the business.

Since inception, we have focused on ways to unlock shareholder value and create potential catalysts for the business. Building on our strategic decision to list our shares on Cboe Canada, a senior exchange with Cboe Global Markets, the world's leading derivatives and securities exchange network based in the U.S., we're also aligning our organizational and regulatory structure with our operations by re-domiciling Verano Holdings Corp. in the U.S.

We announced our proposed plan to re-domicile Verano Holdings Corp. from British Columbia to Nevada, which was approved by our shareholders on October 27, 2025, and ratified by our Board of Directors. We believe re-domiciling in the U.S. will increase the acceptance of the company in the U.S. capital markets, improve the marketability of our stock, and allow for a more expedient uplisting onto a U.S.-based exchange in the future. The completion of the re-domicile requires filings in both British Columbia and Nevada, and due to an employee strike at the British Columbia registrar of companies, we cannot provide a definitive date on when the completion will occur, but we plan to finalize it as expediently as possible.

Additionally, we further enhanced our capital and finance structure by securing a \$75 million revolving credit facility under which we immediately drew \$50 million to retire higher interest rate debt.

Jumping into the third quarter results, revenue was \$203 million, up slightly versus the prior quarter, driven primarily by an increase in wholesale revenue, improved efficiencies and cost management and strong new product performance.

We generated gross profit of \$95 million or 47% of revenue and adjusted EBITDA of \$53 million or 26% of revenue. Margins were affected primarily by short-term CPG projects that we believe will benefit the business in the long term. Our industry requires lightspeed decision-making, and after a thorough review of our facilities, we made strategic decisions to pull forward planned expenditures on infrastructure enhancements that we believe will benefit the business both now and in the future.

SG&A decreased 7% sequentially and 13% versus the prior-year period, demonstrating the success of our ongoing efforts to drive efficiencies across the business. The sequential and year-over-year decrease in SG&A is particularly notable given the new store and new products we brought online during the third quarter.

From a retail perspective, we generated revenue of \$164 million in the third quarter, a decrease of slightly below 3% sequentially and in line with the prior-year period. Along with retail pricing and promotional adjustments, seasonality in Arizona, and Florida - our largest retail market - contributed to the modest sequential decrease. Heading into the busy holiday season, we expect to stabilize the top line with improved retail performance in the fourth quarter.

From a wholesale standpoint, the strategic and purposeful actions we've undertaken throughout the past year drove sequential revenue gains across nearly all of our markets in the third quarter, led by Illinois, New Jersey, Ohio and Maryland. Excluding intersegment eliminations, we generated \$82 million in wholesale revenue, a 12% increase versus the second quarter. The increase in wholesale revenue was driven by successful new product innovation, strengthening relationships with key third-party accounts, and reestablishing additional customers based on our accounts receivable strategy.

New product innovation from our stable of powerhouse brands delivered market share gains in key categories across our footprint. Throughout the third quarter, we rolled out our award-winning Avexia line of topicals and tinctures, barrel-style pre-rolls from our Savvy and Essence brands, and multiple SKUs from our expanding vape portfolio across Florida, which have performed very well in the market. From a footprint optimization standpoint, I'm proud of our ability to efficiently expand our operations while keeping SG&A costs down. We've added six new dispensaries in three states this year, including our 82nd MUV location in Florida, where we plan to open several more MUV dispensaries in the months ahead.

I'll now pass it over to Rich to go over our financial results in more detail.

Richard Tarapchak^ Thanks, George. And good morning, everyone. Third quarter revenue was \$203 million, a slight increase sequentially and a decrease of 6% versus the prior-year period. Quarterly highlights include wholesale sales improvements, lowering SG&A by 7% quarter-over-quarter and increasing our cash balance. Retail revenue was \$164 million in the third quarter, a 3% decrease versus the second quarter and flat with the prior-year period, driven by seasonality in key markets including Arizona and Florida, price compression in Illinois and New Jersey, and an adjustment to our retail pricing and promotion strategy in the quarter.

On the wholesale side of the business, we generated \$82 million in the quarter, up 12% sequentially and down 9% versus the prior-year period, excluding intersegment eliminations. Wholesale gains were driven by positive sales across nearly all markets and strong new product performance, most notably in Ohio, Maryland, Illinois and New Jersey. We also benefited from our ongoing accounts receivable strategy by working collaboratively with partners on payment solutions, allowing us to gradually reinstate additional accounts.

By the end of the third quarter, we reduced net outstanding receivable balances by nearly \$15 million versus the prior-year period. We generated \$95 million in gross profit or 47% of revenue and adjusted EBITDA of \$53 million or 26% of revenue. The decrease in gross profit dollars and margins versus the prior quarter was driven by retail pricing and promotional adjustments and ongoing price compression, which impacted adjusted EBITDA margins by 3% in the quarter.

Also as George touched on earlier, we made strategic decisions to pull forward several CPG enhancement projects during the quarter that affected margins by approximately 1%. We anticipate an adjusted EBITDA margin range of between 27% to 30% in the fourth quarter, subject to discount and price compression activity in the quarter.

Vertical mix increased to over 54% across all markets, excluding Florida, driven primarily by our focus on baseline promotions of house brands and new product development.

SG&A was \$81 million for the quarter, a decrease of 7% sequentially and 13% versus the prior-year period.

As George mentioned, the decrease in SG&A during the quarter resulted from successful cost management across our operations that offset new store opening and product launch expenses. We had a net loss of \$44 million in the third quarter compared to a net loss of \$19 million in the second quarter, driven primarily by lower gross profit, an impairment charge of \$5 million and legal cost contingencies of \$10 million, partially offset by cost savings across the business.

CapEx spending for the third quarter was \$7.5 million, down from \$10 million sequentially. Given our continued infrastructure focus, we're raising the lower end of our prior guidance range and anticipate the year to end between \$37 million and \$45 million in CapEx spending.

Turning to the balance sheet and cash flows, we ended the third quarter with \$83 million in cash and cash equivalents, an increase of \$14 million versus the prior quarter, and we expect to continue to build our cash balance heading into year-end. Cash flow from operations was \$26 million, and we paid \$13 million in income taxes during the quarter.

As George addressed earlier, we've continued to focus on our capital and financial structure including securing a \$75 million revolving credit facility from which we drew \$50 million to immediately retire higher interest cost debt with no additional prepayment penalty. We also continue holding proactive debt refinancing discussions in advance of the October 26 due date for our current term loan.

Additionally, with the approved plan to re-domicile the company from British Columbia to Nevada that is pending completion, we believe re-domiciling in the U.S. better aligns with our U.S.-based business and operations. Heading into the end of 2025, we will maintain our focus on cost management, strengthening the balance sheet, lowering our cost of capital and building our cash balances. George, back to you.

George Archos^ Thanks, Rich. From a product standpoint, new innovation and line extensions have driven market share gains and milestones for our brands. We recently marked the 3-year anniversary of our Savvy brand by hitting an all-time high of number 3 in brand market share, followed by the Essence at the number 9 position across our BDSA-tracked markets. And from a category market share perspective, Verano house brands are number 1 in edibles and topicals; number 2 in pre-rolls; and number 3 in vapes, extracts and flower across our markets, according to BDSA.

In September, we introduced pre-rolls across Ohio following state approval, and our pre-rolls are now available in more than 80% of dispensaries statewide. And we're also very excited by our recent first-to-market launch of HYPHEN, a revolutionary all-in-one vape device featuring best-in-class technology that allows consumers to seamlessly flex between extracts, size formats and temperature settings. We launched HYPHEN across some of the nation's largest cannabis markets starting in Arizona, Illinois, Maryland and New Jersey, and initial sales have been strong. Following its successful launch, we're excited to scale HYPHEN across the rest of our vertical footprint throughout the fourth quarter.

From a legislative standpoint, we remain engaged with stakeholders in D.C. on key industry reform topics including rescheduling and intoxicating hemp regulation. At the state level, in the short term, we are optimistic on adult-use prospects in Virginia, a market where we see tremendous upside given the legislature's willingness to pass an adult-use bill each of the last two years. And looking ahead, we will continue monitoring

potential adult-use developments in Pennsylvania and Florida, large medical markets where we have significant vertical operations and 100 dispensaries combined.

In conclusion, we aim to close out 2025 on a high note by launching more exciting new product innovation in time for the busy holiday season, strengthening our financial and capital structure for the future and delivering efficiencies across the business. As always, I am thankful for our team's efforts across the country and look forward to hitting the ground running in what we hope will be a transformative year for Verano and the industry in 2026.

Operator, you may now open up the line for questions.

QUESTIONS AND ANSWERS

Operator^ (Operator Instructions) Our first question comes from Aaron Grey with Alliance Global Partners.

Aaron Grey^ Congrats on resolving the Vireo issue there. First question for me, great to see the wholesale rebound in the Q. You mentioned reestablishing certain third-party accounts. It's great to see the effectiveness of that new AR strategy. Just some more color in terms of where do you stand today in terms of total progress for reestablishing the wholesale partners? Do you feel like there's still some risk of new AR issues coming, absent rescheduling? Are you comfortable with the current base? Then in terms of reestablishing more, is there more upside in terms of growing that wholesale revenue back to where it was maybe a year ago versus what it was today? So great progress so far. I just want to get some more color in terms of how much going forward.

Richard Tarapchak^ Yes. From an AR perspective, I think as we talked about in the quarter, we spent really time kind of reestablishing. So I think from a perspective of shutting down accounts, we're kind of past that at this point. And now it's really about reestablishing with some of these folks. And as we've talked about before, it isn't like you turn on everybody 100%. You go at 25% and you make sure they're doing the things that they should be doing and being good customers, and then we'll gradually move things forward. But from an AR perspective, you can tell by our lower balances and really no AR charge-offs in the quarter, we think we -- like we said last quarter, we think we hit the bottom in the last quarter and now everything is going to kind of move forward and progress sequentially.

Aaron Grey^ Okay. Great. Appreciate that. Second question for me, just in terms of pricing pressure and the gross margin, right? It's obviously an ongoing issue for the industry, something you guys called out in your prepared remarks and press release. Just maybe some broader [context] of where do you feel like it's being attributed most? People point to the legal market, the illicit market as well as the intoxicating hemp market. So just any -- kind of where you're seeing it most? I'm sure it's market by market. Then just in terms of how much of that was an impact on the gross margin during the quarter versus some other call-outs such as the short-term operational enhancements?

George Archos^ Rich, go ahead.

Richard Tarapchak^ So I think for the quarter, we called out a couple of markets where we did see some price compression discounting more than what our expectation was for the quarter, specifically in Illinois and New Jersey. Also with the seasonality issues in Arizona and Florida, we did have seasonality issues and along the line there, also some more price compression than what we would normally see.

I think -- you kind of talked about the illicit market, I think a lot of the focus sometimes is still a lot of these folks with large number -- states with large number of stores, there are still -- some of our competitors are still selling to some of these people that really are not good customers, and they have a tendency to do, I'll call it, race to the bottom. They're just trying to get cash flow in the business, and it's impacting the market. But again, as we guided, we think that impact in the quarter, I quoted in the prepared remarks was about 3% adjusted EBITDA impact. And again, as we guided for the fourth quarter, we think if some of that begins to pick up, we'll be back to where we want to be, which is closer to the 30% adjusted EBITDA for the quarter.

Aaron Grey^ Last question, if I could, just on Virginia with the election coming up next week, you spoke about it briefly in the prepared remarks, George. But your expectations for the election, is it whether you see a Democratic governor and also holding the house is best positioned further to be adult-use? Then how do you see it in terms of the potential opportunity in terms of how fast adult-use might be able to come online and how it sets up given the current dynamics of it being a limited license market with a few operators and how that could evolve in terms of a potential adult-use market?

George Archos^ Thanks, Aaron. Yes, Virginia is exciting for us. I mean it's a big opportunity, one of the biggest we've had in our history, similar to New Jersey and set up to actually be better than that. We'll see what happens with the election. Like you said, with a Democratic governor coming in, this has already passed twice. So we feel pretty strongly about an adult-use prospect there next year. What we're hearing timeline-wise is could be as early as late summer, pretty good target. So we're hopeful like the rest of the Virginia operations, and we'll see what happens here soon.

Operator^ Our next question comes from Bill Kirk with ROTH Capital Partners.

William Kirk^ George, you talked about the pull forward of investments. Can you give us some context on what you and the team saw, where you saw it that may be convinced you to make these investments sooner? And I'll come back with the second question.

George Archos^ Sure. I mean listen, we're always looking at our facilities. We're in our 11th year of business. So facilities are needing improvements. So we pulled forward some of that just considering what's happening in the marketplace, and we continue our path on automation, efficiencies, changing up facilities for better layouts, better yields, et cetera. So we're doing as much as we can to set ourselves up for a better future, right? It's

-- you look at our SG&A item, that's down. There's other things that we want to do with it that will have greater benefit, but short-term hits, which we're okay with. I mean that's -- we can't run the business quarter-to-quarter. We're trying to hit it now -- because that could deter success in the future.

William Kirk^ Okay. Then when you see pricing pressure out there, how much of it is showing up as like promotional price points, which can come and go, right, that change a little bit more rapidly versus like everyday lower shelf pricing that's a little bit stickier and maybe slower to change?

George Archos^ It really depends on the market, right? And like Rich said earlier, you have to remember, September is a slower retail month. We have seasonality with Florida and Arizona being two very large businesses for us, especially Florida. You see some hits there, which we'll see the rebound here in Q4. But it really depends market by market. I mean you see some BOGO activity, et cetera, in certain markets, others you don't. Promotional activity varies.

Operator^ Our next question comes from Russell Stanley with Beacon Securities.

Russell Stanley^ My first is a repeat, I think from the August call but can you talk to us about what kind of appetite you're seeing from new and existing lenders around the debt and the debt refinancing and wondering if you've seen any or observed any change in that appetite over the last three to six months.

George Archos^ It depends. We've been working with banks throughout the country, so we have seen the appetite increase there, and we're constantly building relationships. So we feel very good about that. The top lenders are still in the space. I think with potential federal news in the future that, that landscape could drastically change. But for now we continue to work with local banks and the lenders that we've known, that we have relationships with, but overall, positive news.

Richard Tarapchak^ Yes. To add to that, we are talking with people that aren't necessarily in our credit today. So we take that as a very good sign that it's just not our existing credit that's talking to us from a refinancing perspective, but we have other folks that haven't been in our facility before that are showing interest. And again we take that as a very positive sign.

Russell Stanley^ Got it. Then maybe around the decision to pull forward those investments. Wondering if you can provide a bit more -- even some examples. Just trying to understand were the types of investments you're making reasonably common across different facilities? Was it the kind of same initiative or same couple of initiatives replicated at different facilities? Or was it more nuanced than that, maybe different upgrades at different facilities? Any color there would be helpful.

George Archos^ It's definitely more nuanced, right? We have facilities all across every single state. They all have different needs depending on the market and what is currently needed -- but it's spread out amongst various facilities.

Richard Tarapchak^ Yes. And along that line, I think George is -- he has spent a lot of time. We talked about this before. George has been very focused on the operations. And as he's gone through all the CPGs, there's a number of things that we would have addressed over time that we are addressing now and a lot of that stuff got pulled forward. It isn't -- it's impacting the margin because a lot of those things aren't necessarily capital, things that I can capitalize, but they're large expenses that, again are -- we're going to get a real benefit in operating efficiency and yields coming up from that. But a lot of that happened in the quarter. And again we pulled it forward because as George was in the facilities, saw what needed to be done, and we're moving as quick as we can to get these things addressed.

Russell Stanley^ Got it. Then just final question on that, understanding the adjusted EBITDA margin expectations for Q4, how much of a margin impact does that assume from these investments continuing in Q4?

Richard Tarapchak^ I don't think that -- from the way that we're looking at it, there isn't anything additional here. We actually probably will have a little bit of a benefit because some of those -- we spent the money in Q3. There certainly will be some money spent in Q4, but it will be at a lower clip. So I'm not expecting to say that we had a 1% margin impact on adjusted EBITDA for these expenditures next quarter.

Operator^ Our next question comes from Frederico Gomes with ATB Capital Markets.

Frederico Yokota Gomes^ First question, just on M&A, how are you thinking about it today? Are there any attractive opportunities coming up maybe to enter new markets or in your existing markets? And how are valuations looking?

George Archos^ M&A is something we're always actively looking at. Obviously we're a highly acquisitive company. There are, of course always opportunities, but we're being very careful in our selection of those opportunities and watching each market. I think our focus is to always look for great operators in both existing and new markets. So we're keeping an eye out.

Frederico Yokota Gomes^ Then second question, just as we continue to see investments from different companies into the hemp market, we're also seeing aggressive decline in alcohol and the hemp (inaudible) beverage market growing. So any update on how you're viewing that market and how you're looking at that as a potential investment?

George Archos^ Yes. Interesting question. We talked about this a couple of times. We continue to look at the hemp market. You see a couple of different things happening. You are seeing it expanding in certain places, and you're seeing retraction in others, right? Certain states are pulling back and cracking down on hemp. So we're watching this play

out, and we don't want to be jumping the gun and then having the carpet pulled underneath us. So we're actively watching every single market and paying attention to the regulations, both on a state and federal level, and we haven't made any decisions yet, but we're definitely looking.

Operator^ Our next question comes from Kenric Tyghe with Canaccord Genuity Capital Markets.

Kenric Tyghe^ George, you called out the improved availability in Florida. Could you provide some additional insight on not just the improvements, but how they are tracking relative to plan and how sticky you expect those gains to be just given how important Florida is as a market for you?

George Archos^ Kenric, I didn't catch the first part. You broke up a little bit. Can you say that again?

Kenric Tyghe^ Sorry, just in your comments, you called out the improved availability in Florida. I was just hoping to get some additional insight into that availability, how it's tracking relative to your plan? Then just how sticky those gains are proving quarter-to-date?

George Archos^ Yes. Great question. We've talked about this before. Last year, we obviously had taken a big chunk of the big facility down as we expanded our canopy there, and those improvements have been tremendous for us this year, giving us increased variety, availability of all products and all SKUs. We're actually about to hit our stride there as we launch new products and we get into season in Florida, we're actually -- a lot of good things. I'm very excited for what the team has done there. The facility is looking amazing, both of them, and our stores have done very well this year, and we're looking at improvements on that front as well with some additional new stores opening. So we remain focused on the Florida market. It's been very good to us, and we're going to continue to do amazing things there.

Kenric Tyghe^ Great. And just asking the Virginia question a bit -- a different way perhaps, which is how material is it that Abigail Spanberger, the Democrat who's polling very well at the moment, actually gets the seat? Or is it just sufficient political world do you think or less opposition, however you want to frame it, to actually getting adult-use started. Certainly, you seem confident or positive around a late summer start, I heard you say. Just how material is the -- who's in the governor's seat from your perspective and how that plays?

George Archos^ That is a good question. It's already passed there twice. So we think that regardless, very high opportunity for adult-use to pass again and actually get across the finish line. We also do think it's beneficial if she wins the race. So we're watching closely, and we'll be there to support. And it's a material adult-use change for us, right, regions in that state with great operations, a great team, and we're going to do whatever we need to do on our side to support the adult-use transition.

Kenric Tyghe^ (inaudible) This fourth quarter in terms of margin, that's a wider range than we typically see out of the team. We're ordinarily kind of back at that 30% mark. Is that just a function of how noisy this market is or -- the fact that it's too early to say new what initiatives are tracking or how sticky they will prove?

George Archos^ Kenric, I don't know if that's me or you, I'm losing you a little bit. I think you're hitting on the EBITDA margin, the fluctuation in margins. Last quarter, obviously we had a much higher margin. This quarter, a little bit lower. It'd be nice to track it as nice even margin. But for us, we're constantly looking at improvements to make within the business for long-term gains. So there will continue to be some fluctuations from quarter-to-quarter as we make decisions that we feel will benefit us.

Promotional activity as well changes from quarter-to-quarter. Typically, we go into Q4 with the holidays coming up, there's higher activity, but there's also higher sales. So we'll see how this plays out over the next couple of months. But you're going to see a little bit of a rollercoaster ride. Like Rich said, that's why he wants -- we're guiding at a range of 27% to 30% versus kind of a steady state 30%, and that's where we're at, at the moment.

Operator^ Our next question comes from Andrew Semple with Ventum Financial.

Andrew Semple^ First one would just be on, we're seeing some strain on certain consumer segments and other consumer product categories, have you been seeing any similar pressures on consumer spending or maybe even consumers trading down at your stores? Then how are you planning to manage the consumer dynamic that you are seeing for the upcoming holiday season?

George Archos^ Thanks, Andrew. Great question. The answer is yes. We have seen a strain in the consumer segment in pricing. We've seen a lot of trade down from the higher tier to a lower value tier. That had bounced back a little bit last year, changing again. So again, this is why we're making some of the improvements that we're talking about here, right? So those will help us get through some of these. We focused on our yields. We focus on our products, variety. Our Savvy brand has done extremely well which is more of our value tier.

So we're -- this is why we constantly have to flex and make different changes from quarter-to-quarter. That's why you see a little bit of that rollercoaster ride in margin. But overall, we're anticipating these things. We're watching closely, and we're getting ready for them. And that's -- it's a testament to the team when our SG&A costs are dropping and these things are happening, and we're getting more efficient at the facilities, and we want to continue to do that.

Andrew Semple^ Great. That's helpful. Then understanding that there's new products coming, you're playing around with yields, you're doing work at the facilities. However, just keeping an eye on inventory balances, those have continued to creep higher throughout the year. And even as sales have been relatively steady or on a year-over-year

basis down. I just want to get a sense of how we should be thinking about inventory management in the upcoming quarters, whether that's something we should be keeping an eye on, whether that's something the management team is keeping an eye on.

George Archos^ Yes. We do keep an eye on it, and some of that's from the improvements we made at the facilities. Again with the seasonality in Florida and Arizona being two of our bigger markets, you tend to see a creep up here through the summer. So we expect that to transition down here as we get into season in both of those markets. So we're watching closely.

Operator^ Our next question comes from Neal Gilmer with Haywood Securities.

Neal Gilmer^ Maybe -- a bunch of the questions have been asked. On the SG&A side of things, you previously have made remarks about realizing cost efficiencies, which has been clearly demonstrated over the past few quarters. Do you still have more opportunities there to take some more cost out of the business? Or is what you've achieved here with that decrease of 15% year-over-year sort of a base to build on as you open new stores and obviously inflation costs?

George Archos^ Thanks, Neal. So I think we've done quite a bit of work over the past year. We believe there's still some room for improvement. Some of the things that we're doing today we won't see until really 2026. So we should see some continued improvement, albeit it might not be as large, it will still be improvement for us. And we're always looking at ways where we can -- in different parts of the business to gain more efficiency. We concentrated in certain areas this year, we'll be concentrating in other areas next year, and we're always on that pursuit of perfection, right? So that's where we currently are.

Neal Gilmer^ Okay. I appreciate that. Maybe just a small other one for me here on the gross margin side. Again not looking at it on a quarter-to-quarter basis because I understand those fluctuations. But historically, on an annual basis, you've been in around that 50% gross margin level. Do you think that's still sort of a reasonable expectation going forward or the pricing pressures you're seeing in various markets sort of suggesting that it might be slightly below that 50% level going forward?

George Archos^ Yes. I'll let Rich take that one.

Richard Tarapchak^ Yes. So again, I think we are striving to get back to that level. It's one of those things where, again, there's still a lot of price compression out there in certain markets. And again, as George talked about earlier, part of our strategy is if we can't get to that price point from a gross margin perspective, what other costs can we take out, whether it be SG&A and other things to kind of get us to the same level of profitability out there. Because again, the group that has the best cost structure is the one that's going to be the most successful of here.

Operator^ Our next question comes from Pablo Zuanic with Zuanic & Associates.

Pablo Zuanic^ George, my questions are two on the legal side of things. The first one is regarding the Boies Schiller case. You were a party there with Canna Provisions last Friday. I think the petition for a writ of certiorari was filed. I'm just trying to understand the timeline here. Like based on what you know how much time does the Supreme Court have to get back to you and tell you whether they will look at the case? Then what are the steps after that? If you can help us clarify that.

George Archos^ Good question, Pablo. I will let Aaron, if he's looped in on that. I've been out of pocket there a couple of months. If not, we can answer that for you later today.

Aaron Miles^ Yes. Pablo, we're obviously letting the process play through. We played a big role in that, especially in the early stages, but timing is still kind of TBD on this one. But as with other litigation, we're just letting this one play through, and we'll have more information probably in the coming months.

Pablo Zuanic^ Okay. Then the second one also on the legal front. You probably saw Jushi filing a lawsuit against DoorDash and Total Wine and other companies because of breaking rules around hemp derivatives in Virginia. Is that a strategy that you would think about pursuing in Virginia or other states?

George Archos^ It's an interesting strategy. We're going to watch it, and we'll comment later on.

Pablo Zuanic^ Okay. I guess my two last ones now on the operational side. I know that we've talked a lot about on the wholesale side of things, but I hear that reciprocity, it's always been, of course a factor in the industry, but it's becoming more and more of a factor, right? And in your case, having a large store count in various states, Pennsylvania, Illinois and other places, that works in your favor. Am I right in thinking about it that way that reciprocity, it's always been there, but it's more of a factor now and that's beneficial for companies like yourself? That's the first question.

The second one, whether the Metrc change in Illinois had any noise in the numbers that you reported in the third quarter for Illinois or whether in the second quarter?

George Archos^ Thanks, Pablo. So reciprocity, we run our business on what our customers need, so it doesn't really factor into what we're doing. As far as Illinois Metrc change, there was a little fluctuation there between Q2, Q3. The teams handled it very well. So not a lot of noise around that for us, very little change. Thanks, Pablo. Thank you, everyone, for joining us today. I think that's the last set of questions. We'll see you next quarter.

Operator^ Thank you. This concludes the conference. Thank you for your participation. You may now disconnect.