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Verano Holdings Corp. (VRNO.CA)

Q2 2024 Earnings Call

CORPORATE PARTICIPANTS

Julianna Florence Pattera

Vice President-Investor Relations, Verano Holdings Corp.

Brett Summerer

Chief Financial Officer, Verano Holdings Corp.

George Archos

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

OTHER PARTICIPANTS

Aaron Grey

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

Ty Collin

Analyst, Eight Capital

Matt Bottomley

Analyst, Canaccord Genuity Corp.

Andrew Semple

Analyst, Ventum Financial

Scott Fortune

Analyst, ROTH Capital Partners LLC

Michael J. Regan

Analyst, Excelsior Equities LLC

Russell Stanley

Analyst, Beacon Securities Ltd.

Pablo Zuanic

Analyst, Zuanic & Associates LLC

MANAGEMENT DISCUSSION SECTION

Operator: Thank you for standing by. My name is Krista, and I will be your conference operator today. At this time, I would like to welcome everyone to the Verano Holdings Second Quarter 2024 Earnings Conference Call. All lines have been placed on mute to prevent any background noise. After the speakers' remarks, there will be a question-and-answer session. [Operator Instructions] Thank you.

I will now turn the conference over to Julianna Pattera, VP of IR. Please begin.

Julianna Florence Pattera

Vice President-Investor Relations, Verano Holdings Corp.

Thank you, and good morning, everyone. Welcome to Verano's second quarter 2024 earnings conference call. I am joined today by George Archos, Founder and Chief Executive Officer; 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 results or events could differ considerably due to risks and uncertainties mentioned in our filings on EDGAR and SEDAR, including our financial statements for the quarter ended June 30, 2024.

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 the reconciliation of these measures to their respective most directly comparable GAAP financial measures.

Lastly, all currency is in US dollars unless otherwise noted. And now over to George.

George Archos

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

Good morning, and welcome. I am very pleased to share our second quarter results this morning, demonstrating wholesale growth in key markets and reliability in our margin profile. Performance over the quarter was in line with our previous guidance, with overall strength in net wholesale revenue offsetting some continued pressure from retail.

Leaning into a long-term growth mindset, Verano has also been on the offensive these last few months, announcing accretive M&A just last week. I'll get into more details shortly, but we've been proactively and aggressively pursuing smart growth and expansion, and I'm tremendously proud of what our team has accomplished, especially with some of the industry's most exciting catalysts on the horizon.

This morning, I will cover some performance updates from the second quarter and provide an outlook on the many catalysts we have ahead of us over the next few years. But first, I want to start by highlighting last week's announcement that we've entered into agreements to acquire licenses in both Arizona and Virginia. Virginia, in particular, as a new limited license market for Verano is incredibly exciting.

Upon closing, Verano will have a 66,000 square foot cultivation and production facility, as well as six dispensaries. As one of only four operational producers in the market, Verano will serve as the sole cannabis cultivator and retailer in the Southeastern and Eastern portion of the state across populated regions such as Virginia Beach, Chesapeake, and Norfolk.

In addition to this exclusivity, Virginia's unique program structure also gives us the ability to deliver our products to both third-party retailers and patients throughout the state. Bringing our portfolio of brands and products to an entirely new state provides us the ability to instantaneously and significantly expand our addressable end user base in a market with attractive pricing.

Our entrance into Virginia is the culmination of a years' long effort to find a pathway into this lucrative, limited license state, particularly with an adult use transition on the horizon. We look forward to serving the nearly 2 million residents and 14 million tourists in our exclusive region as well as throughout Virginia.

In Arizona, the transaction provides deeper penetration into the mature Arizona market, which upon closing will give us eight dispensaries and three cultivation facilities. Arizona was already a top five revenue contributor for us. So we're excited about leveraging our scale and expanding our reach in the state. Once both the Virginia and Arizona transactions close, our diverse portfolio will grow through 14 states and 150 stores. We expect to close in all three acquisitions within the coming weeks, depending on regulatory and other approvals.

As discussed on so many of our prior calls, we have built a strong capital allocation strategy in which we look to deploy capital in the most efficient manner. This includes growth-driven CapEx, strengthening the balance sheet,

and a disciplined approach to M&A, requiring us to exercise patience given industry volatility. But with the recently announced transaction, we believe our patience is paying off.

Moving on to the quarter. I am very pleased to report revenue of \$222 million in line with our previous guidance. Adjusted EBITDA was \$71 million or 32% of revenue above both the prior quarter and the prior year period. Our consistent margin profile speaks to our never-ending focus on efficiencies and cost management in an environment of price declines and rising costs.

Before turning it over to Brett, I'd like to cover a few markets specifically, beginning with Florida. We remain tremendously excited about the prospects of this state and expect more growth in the back half of this year. As discussed in our last call, we took a temporary yet purposeful step to take some cultivation capacity offline in order to reconfigure rooms to allow for a larger canopy. Essentially, we took one step back in order to take significant steps forward.

So far, we've made tremendous progress in retrofitting approximately 60% of the flower rooms in our Apollo Beach facility in order to expand. We knew this meant we would incur a short-term impact to output, but we felt the move was prudent and necessary. As always, we strive to prioritize the company's long-term growth paths and feel the short-term variability is well worth it. Overall, we believe our Florida output bottomed out in July due to this construction, and we expect output to continue to grow over the coming months.

Next, in New Jersey, we continue to maintain a dominant brand position in the top two of total market share. Additionally, pricing remains solid. This stage of an adult use program typically brings price compression, so we're quite pleased with New Jersey's relative stability. As the number one brand in 2023, according to BDSA, Verano is trusted and valued in New Jersey, underscored by our wholesale relationship with nearly every operating dispensary.

And though we see the craft growers beginning to gain market share, we remain committed to our wholesale presence as one of the state's market leaders. We believe the new dispensaries in the state will continue to look at Verano's product quality, availability, and reliability.

And in Illinois, we continue the trend of net wholesale revenue growth, which increased 25% versus both the prior quarter and prior year period. Similar to New Jersey, we are competing with new craft growers. However, we modestly grew share in the second quarter versus the prior year period.

Moving on to some forward-looking thoughts, Verano has always focused on the long-term picture, and I'd like to speak a bit more to what we see ahead of us in terms of upcoming catalysts. Looking ahead, we, of course, await what we expect will be the DEA's final rule to reschedule cannabis to a Schedule III drug. As we've discussed, this would greatly lower our tax burden by our estimates based on prior year periods by more than \$80 million annually, among other positive possibilities.

We pride ourselves in our successful legacy of transitioning operations in medical markets to meet swelling adult use demand. We have successfully navigated the shift in eight markets to date, including Ohio, which just launched yesterday, and our positioning ahead of an additional three markets that we anticipate may launch in adult use program in the coming years. This includes Florida, Pennsylvania, and now Virginia.

First, we have Ohio adult use, which began just yesterday. BDSA estimates Ohio will generate over \$1 billion in revenue next year, and we had already ramped up production in our facility to meet elevated demand. Our sixth dispensary location has been secured and will be located in Antwerp, only a six-minute drive from the Indiana

state line and one of the closest locations to Fort Wayne, Indiana, right off of a major highway. We expect this location to be up and running within the next couple of months, depending on the state's timeline, of course. We were thrilled to welcome new consumers yesterday in what was our eighth medical to adult use transition and look forward to continuing to welcome Ohio's new adult use consumers.

As outlined in our last call, we believe in adult use program in Florida could translate to an incremental \$300 million to \$450 million of annual revenue from what is one of our highest margin markets. As a result, we are understandably laser focused on the election in November, where adult use will appear on ballots across Florida. We see Florida easily becoming one of the largest markets in the US, especially with its massive tourism industry, which welcomed 140 million tourists in 2023 alone and is one of the larger contributors to the Smart & Safe initiative we are collaborating with our peers to educate the voter base about the benefits of a legal adult use cannabis program.

But thus far, we have already contributed over \$2 million to the campaign. We continue to be incredibly optimistic given polling consistently trending above the 60% threshold. Additionally, Pennsylvania appears to be inching closer to adult use. So far, the Commonwealth has decoupled 280E, which we anticipate will incrementally, albeit slightly, add to our bottom line. Looking ahead, our hopes remain high that we may have a 2025 adult use program on the horizon in Pennsylvania.

And Virginia marks yet another opportunity to implement our steadfast strategy in building robust operations and goodwill in a medical market, laying the groundwork for massive growth in an adult use transition. While adult use timelines are notoriously difficult to estimate, we believe there's a strong possibility that Virginia could launch an adult use program in 2026. BDSA is already estimating \$430 million in total cannabis sales in Virginia for 2027.

Given the uncertainty surrounding the timing of the closing of all of the recently announced transactions, we are refraining from providing specific topline guidance at this time. However, despite the many unknowns in the industry, some of which make forecasting even next quarter's revenue a challenge, I am grateful that our operational machine has helped to consistently generate reliable and strong margins historically. We are always focusing on operational efficiencies to mitigate pricing declines and inflation.

I'll now pass it to Brett to cover the financials in detail.

Brett Summerer

Chief Financial Officer, Verano Holdings Corp.

Thanks, George. Revenue for the quarter increased slightly versus the prior quarter to the \$222 million driven by strength from our wholesale segment, offsetting declines in the New Jersey and Illinois retail markets. On a gross revenue basis for the quarter, excluding intersegment eliminations, 64% of sales are derived from the retail business with the largest contributions from Florida, Illinois, and New Jersey. The remaining 36% of sales were derived from the wholesale side of the business with the largest contributions from New Jersey, Illinois, and Connecticut. As discussed last quarter, we welcome this increased contribution from the wholesale side of the business as it generally is the most profitable arm of the business. And we continue to expect that trend to continue through 2024.

Gross profit for the quarter was \$114 million or 51% of revenue versus \$115 million or 49% of revenue in prior year. The decrease in gross profit from an absolute dollar standpoint is driven by the top line decrease. However, we managed margin expansion of about 220 bps due to the increased proportion of sales from third-party wholesale, as I just discussed.

SG&A expenses were \$87 million or 39% of revenue versus \$85 million in the prior year period or 36%. The year-over-year increase in SG&A expense was primarily driven by an increase in salaries and benefits due to increased headcounts related to new store openings. Notably, we decreased our SG&A expenses by over \$3 million sequentially, as well as reducing by about 1% as a percentage of revenue. We had a net loss of \$22 million driven by the provision for income taxes as we currently account for income taxes under Section 280E of the tax code. Adjusted EBITDA for the quarter was \$71 million or 32% of revenue.

Turning the balance sheet and cash flows, we maintain a strong balance sheet, ending the quarter with \$130 million in cash and cash equivalents. Looking into the third quarter, we anticipate paying \$35 million in cash consideration pursuant to the agreements to acquire Virginia and Arizona operations from the cannabis company. Cash flow from operations year-to-date is \$39 million, and thus far we spent \$28 million in CapEx, largely on Florida cultivation expansion and various dispensary openings.

At the beginning of the year, we guided \$25 million to \$50 million of CapEx as a base for the full year, excluding opportunistic activity such as M&A and Florida adult use preparation. As George mentioned, we have begun some expansion initiatives in our Florida facilities and expect to make some investments in the pending acquisitions of the Arizona and Virginia operations. As a result, we are increasing our CapEx guidance for the year to \$90 million to \$130 million, again, heavily dependent on these catalysts.

As always, we strive to remain one step ahead of growth. And based on our experience at eight other transitioned markets, we are confident that we'll strike the right balance and remain a market leader in Florida. Given that we expect this to be a heavier CapEx investment year, we are focusing more on operating cash flow versus free cash flow for 2024. Year-to-date that was \$69 million.

Overall, I'm very happy with our performance this quarter, and I'm really looking forward to all the exciting things we have coming for us in the second half of the year. And now I'll hand it back to George to wrap up.

George Archos

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

Thanks, Brett. Verano is charging ahead, well positioned for the many monumental opportunities in front of us from adult use in four new markets, including what will likely become one of the nations' largest, to meaningful reform in Washington. We remain focused on smart and sustainable growth. And with the best team in the business, the future looks bright.

With that, operator, you may open up the line for questions.

QUESTION AND ANSWER SECTION

Operator: Thank you. We will now begin the question-and-answer session. [Operator Instructions] Thank you. Your 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.

Q

Hi. Good morning. Thank you for the question, and nice quarter there. So first thing, I want to ask about is the acquisitions for Virginia and Arizona. Just to get a little bit deeper in terms of, where you guys see the opportunities right now there? So obviously, for Virginia, you spoke towards potential adult use in 2026. Could you add some color in terms of your view there? Would you still be content with VA remaining a strong medical market for the interim? And then for Arizona, could you provide some color in terms of how you're viewing the market landscape there? So increased retail there, how does that better allow you to leverage your scale in the state? Thank you.

George Archos

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

A

Hey. Good morning, Aaron. Thank you for the questions. So acquisitions, obviously, we're very excited about both acquisitions. Arizona, I'll take that first. We already have a pretty substantial footprint there, six stores, cultivation of two sites. We actually needed additional cultivation there. So this fit perfectly into what our needs were in Arizona, as well as the retail. Both retail stores we acquired are in good areas. Actually, there's – the sales there have been very stable for a few years. So as a – we view it as a very strong acquisition for us. We have a great team on the ground. So it's a very accretive deal for us overall and for that market.

Virginia is something that we're ecstatic about, not only excited because it's a market that we wanted to be in for quite some time. And this was a perfect acquisition. The facilities has expansion capabilities for us to be able to get ready for AU at 66,000 square feet. There is both internal and external expansion capability. The six stores are built out. One of them is currently sitting in the cultivation. So we'll look to move that store out. And Virginia has a very strong medical market. So we – adult use has passed there once, the Governor has kind of held back. So we view as that Governor comes out of his term that adult use will move forward in 2026.

Regardless of that fact, we view it as a very strong medical market, and the opportunity will continue to grow there. And this opportunity is – we view as very, very strong for Verano. And the entire team is thrilled to bring on the employees from cannabis over to the Verano side. We have a transition plan in place. We're going to be deploying our products, all of our efficiencies in the cultivation. And we view it as a highly accretive transaction.

Aaron Grey

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

Q

Okay. Great. I appreciate that color there. And maybe just want to touch on second question on wholesale, right? So it seems to have driven a lot of the growth in the quarter there. Specifically on Illinois, it looks like you had some nice growth there sequentially. It's been a state where new stores have been opening. We haven't seen the market grow as much as we – and I know some others might have hoped. So speak to, how you found success on the wholesale side there? And then how you're seeing that competitive environment evolve and potential for incremental cost base coming online from competitors? And how that could change and how you're seeing success there? Thank you.

George Archos

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

A

Illinois is our home market. In the past, we've had some pretty substantial market share here on the wholesale side. We pivoted into retail. And as these new retail stores open, we're pretty laser focused on our brands and deploying all those brands throughout the state. So our team has done a very good job at gaining some traction on the wholesale side. And we view that as additional opportunity in the future. We think we'll be able to continue to gain some traction, get on more store shelves. Our new brands have done extremely well in all of our markets. Savvy has done very well, very proud of the team and what they've done there. So we view it as the additional opportunity in Illinois.

As far as the competition, there's some additional cultivation coming online and the craft grows. But overall, I think the actual product coming into the markets' been pretty stable. Pricing has been pretty stable. So we feel pretty comfortable for what – where we're at. We also have – if needed, we have more rooms if we can turn online and put more supply into the market. But right now, we feel comfortable with where we're at.

Aaron Grey

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

Q

Okay. Great. Appreciate the call. And I'll jump back in the queue.

George Archos

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

A

Thank you. Have a great day.

Operator: Your next question comes from the line of Scott Fortune with ROTH Capital Partners. Please go ahead. Scott, your line is open. [Operator Instructions] And your next question is going to come from the line of Matt Bottomley with Canaccord Genuity. Please go ahead.

Matt Bottomley

Analyst, Canaccord Genuity Corp.

Q

Good morning, everyone. Thanks for the questions here. I guess I wanted to just pivot back to Ohio here. So you've had a lot of MSOs announced favorable headlines here that the doors have been opened. So I'm just curious with about 100 locations in the state, can you give any commentary on how you think you're strategically situated relative to maybe what the average store is doing? And then I just wanted to clarify, too, I think you said it was a BDA estimate, but that \$1 billion potential TAM in that market, is that including the existing medical sales, which I think is about \$0.5 billion already? I'm just trying to get an idea of what the incremental upside is on legalization and where you think your stores are situated strategically, as I mentioned, relative to that sort of 100 that are already open.

George Archos

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

A

Good morning, Matt. Yeah. Great question. Ohio launch went very well yesterday. One of our stores didn't transition over to AU yesterday, but it's transitioning today. We saw the lift that we kind of anticipated. And overall, we're off to the races. Stable market for us. Our retail is spread out pretty evenly throughout the state. That six store will be also, I think, very accretive to our portfolio, [ph] will be right (00:21:28) on the Indiana state line. We have a nice competitive moat around that store. So we feel very confident it.

So overall, we're very excited about Ohio. It's an adult use transition we've been waiting for some time. I think the expectation there is going to be it's going to happen. And as far as \$1 billion in sales, that's inclusive of medical. But we think it could do better than that as time goes on.

Matt Bottomley

Analyst, Canaccord Genuity Corp.

Q

Perfect. And then one more for me. Different market, though. Just in New Jersey, so you had talked the last couple of quarters about the impact of your retail sales out of your specifically owned stores with respect to the opening of new locations and that you saw some erosion there, which I guess is to be expected. Where is that dynamic now? And where do you see sort of New Jersey retail specifically for you guys sort of in the next back half of the year?

George Archos

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

A

We expect some continued pressure. We don't know how many more stores are going to open in New Jersey. I would anticipate that that opening schedule is going to slow down. There's been quite a few stores have opened throughout the state. Not every municipality's allowing it. If you look on the shore where we are, not a lot of competition there, which is very fortunate for us. So overall, we see – we anticipate New Jersey after this year just kind of stabilize, more of like a – of a mature market. And the wholesale continues to grow.

We have an emphasis on wholesale, we continue to get on more store shelves. Like Brett always says, \$1 of wholesale is like \$2 of retail. So we feel pretty good about that. And overall, it's been a fantastic market. Again, we won in license there years ago. We feel very confident about our position in New Jersey. And we think it's going to be a very good market for us for many years to come.

Matt Bottomley

Analyst, Canaccord Genuity Corp.

Q

Great. Great. Thanks all.

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

Scott Fortune

Analyst, ROTH Capital Partners LLC

Q

Yeah. Sorry about that. And good morning. Thanks for the questions. Real quick just focus on the Florida production and bringing that back online to reach full optimization here. You said kind of July was kind of the bottom of that. Now that that's completely done, what type of capacity are you looking to add or the yields that were improved from a cost standpoint? And then with the added capacity, what's the plan for adding kind of new store builds here in Florida for the remaining of the year – ahead of kind of adult use going forward here?

George Archos

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

A

Good morning, Scott. All great questions. We don't give specific data in yields or our canopy. What I can say is, we took a large majority of that facility and converted from single tier to double tier. So as you can imagine, it's a pretty significant upside opportunity within that current facility. The reason we said, July we bottomed out is the end of July is where we start matching what we took down to the additional yields from the double-tier facility, the

double-tier rooms. But those are going to continue throughout the end of the year. So we'll see increase canopy throughout the end of the year, which will be able to give us more sales, more variety and strains. And we'll continue to expand in Florida, because we do anticipate adult use. I'm very confident that's going to happen. And as we normally do, we will be ready for it when it comes. Some more news ahead.

Scott Fortune*Analyst, ROTH Capital Partners LLC*

Q

Got it. And just big picture kind of the overall health of the consumer. Seems like we're starting to see a little bit of slowdown. But just kind of put that in perspective of what you're seeing from the consumer as they trend down. By continuing, you see volume increases and transactions continuing price pressure. Just kind of your sense of the consumer here now leading into the second half from you guys state, obviously, it's different market by market, but overall from the consumer health side of things?

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

A

Yeah. It is – it varies market to market, right? I mean, pricing pressure comes not only from the consumer, but it really comes from the operators, right? Operators make the decisions to drop price and create pricing pressure that might sometimes not be needed is, in our view, basket sizes haven't – basket sizes have not changed much. Yes. There was a transition to more value brands in the past 12 to 18 months. But we've seen that kind of stabilize. We feel pretty comfortable with where the markets are at. A lot of the pricing pressure is coming from the additional retail outlets in most of these markets and the competition. It's not so much the consumer. Demand from the consumer continues to remain high for cannabis. And we feel very strongly about the future of the industry.

Scott Fortune*Analyst, ROTH Capital Partners LLC*

Q

I appreciate the color. Thanks.

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

A

Thank you.

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

Russell Stanley*Analyst, Beacon Securities Ltd.*

Q

Good morning, and thanks for the questions. Just coming back to the – pardon me, the Virginia and the Arizona transactions, I heard the comments around the increase in the CapEx guide and the plans to move that one store, that's co-located with the grow in Virginia. I'm wondering if you can elaborate on what other upgrades are in store there, whether it's focused on retail, store design, and location. Or is it more on the cultivation front in terms of scale or other upgrades, you can work on what your plans are there? Thanks.

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

A

Good morning, Russ. Thanks for the question. I think that you're going to see the typical Verano kind of game plan, right? I mean, we have some additional efficiencies we can add within the facility. Add canopy, make that

grow a little bit more efficient, more automation. With the retail stores, obviously, we're excited to move that one store. We're in a very populous region. So there are a lot of opportunities to gain traction there from both the medical and an AU side by moving that store. So we'll deploy our game plan. We think we can make it a better facility, more efficient. We're very fortunate to have great employees already in place. We've seen nothing but good things. They're doing a great job there. So we see a lot of opportunity in Virginia. Excited about it.

Russell Stanley*Analyst, Beacon Securities Ltd.*

Q

Great. And congrats on this being, I think, the first meaningful M&A announcement we've seen in some time. So I'm wondering what your appetite is from Verano's front, Virginia is a new market for you. Are there other new markets you'd like or perhaps or should we expect maybe a focus on existing markets? Obviously, Arizona is one you can go deeper in. But I would love to hear your M&A thoughts at this point. Thanks.

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

A

Yeah. I mean, we started off this year. We thought M&A was going to be stronger last year. But with the announcement around rescheduling, et cetera, the market [ph] speed (00:28:05) we were pretty strong. Everyone was not ready really to do M&A. We started out this year saying that we really aggressively want to look at some deals in places we want to be. So Virginia has always been at the top of our list that's checked off. Arizona is a place that we can go deeper in, and we like the market. We'll continue to look at transactions throughout the US. We have a pretty strong track record of closing on acquisitions that are great. So if we find something that fits the Verano footprint and profile, we'll close on it. We're always looking at everything and anything, but we'll only close on the best.

Russell Stanley*Analyst, Beacon Securities Ltd.*

Q

Thanks for the color. I'll get back in the queue.

Operator: Your next question comes from Ty Collin with Eight Capital. Please go ahead.

Ty Collin*Analyst, Eight Capital*

Q

Hey. Good morning. Thanks for the questions. For my first one, could you maybe help us break down the incremental \$65 million to \$80 million in CapEx that you're now guiding for the rest of the year? How much of that comes from Florida, Virginia, Arizona, or elsewhere, respectively?

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

A

Yeah. Thanks for the question. I would say – obviously, we can't talk too much about the specifics on each of those. But we've telegraphed before and talked publicly about the fact that we're going to have some heavy investment in Florida. In terms of how much is Florida versus how much is the new markets, I think, one, right now, these acquisitions haven't even closed yet. Although, they will very, very shortly. So I would say, it's very preliminary at this point. I wouldn't take anything too seriously right there, but that's why we gave the range that we gave. But anyway, again, yeah, I mean, obviously most of it's going to be focused on Florida, but we still have other opportunities out there as well.

Ty Collin

Analyst, Eight Capital



Okay. Great. Thanks for that. And then just more of a capital allocation question. You have the NCIB going now. Could you just talk about how you're viewing that as a capital allocation option given where the stock's trading today? And maybe how you're stacking that up against some other priorities, be that CapEx [indiscernible] (00:30:10)?

George Archos

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



[indiscernible] (00:30:12-00:30:28) but right now, the amount of volatility that we see between now and the end of the year, the acquisitions that we can do absorb the Florida work that we need to do. There's a lot of stuff going on, and we're not really getting too specific about that. What's really important is making sure that we continue to have a very strong balance sheet and are very comfortable with the strength there and the existing cash there.

Ty Collin

Analyst, Eight Capital



Okay. Thanks for the questions.

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

Andrew Semple

Analyst, Ventum Financial



Hi there. Good morning. Congrats on the results. First question on Virginia. It's been a state where it's been hard to get sales data for. So maybe if you could help us understand how that medical market has been developing since cannabis was earlier decriminalized in the state. Are you still seeing good growth in the Virginia medical market? Or is this more of a place for an eventual switch to adult use sales?

George Archos

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



Good morning, Andrew. Yeah. Fortunately for us, it's both. I mean, it's a strong medical market with continued upside there. And we view the adult use transition on the horizon. So we feel very confident about it. And as far as sales data, well, you're going to be seeing it soon enough, so.

Andrew Semple

Analyst, Ventum Financial



Great. And then second, just like to ask on wholesale for the second half this year. How are you thinking about the continued evolution of that with the new third-party stores opening in some of your key wholesale markets like New Jersey, Illinois, and Connecticut, though we're continuing to see some pricing pressure and as you know the competition? Do you think you can still squeeze out some wholesale growth in the second half of this year?

George Archos

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



That's what we're striving for. Wholesale teams are on the ground. We've expanded. We're pretty laser focused on wholesale in multiple markets. We view opportunity in New Jersey. We view some opportunity in Illinois, some

additional opportunity in AZ. Once we close this deal, I have some additional canopy. So there's a lot of work ahead. There's also some other markets where we're pushing on some wholesale sales where we have some a little bit of capacity. So we're fortunate that we have the ability to expand our wholesale sales. And that's what we're going to do.

Andrew Semple

Analyst, Ventum Financial

Q

That's helpful. Thanks for taking my questions. I'll get back in the queue.

George Archos

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

A

Thank you.

Operator: Your next question comes from the line of Mike Regan with Excelsior Equities. Please go ahead.

Michael J. Regan

Analyst, Excelsior Equities LLC

Q

Hi, everyone. Thanks. Yeah. It's Mike with Excelsior Equities. Just a quick question, I know you can't give guidance, because the timing of the closing of the acquisitions. But is there any color you can give us on sort of the annualized revenue or profit levels of those acquisitions? So we can try to guess what they might be whenever we guess they'll close?

George Archos

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

A

Yeah. We can't do that today. But you'll have some additional info next quarter. So soon enough.

Michael J. Regan

Analyst, Excelsior Equities LLC

Q

Soon enough. Okay. And then in terms of taking the Florida assets offline, I'm going to guess that that was basically sort of a margin headwind. Is there any sort of way to think about how that temporary reduction offline, I'm trying to understand, it hits sales? Is there any way to think about the – or quantify the margin impact from that, which presumably that's a headwind that should go away as [ph] you've know that (00:33:52) you bottomed out in July?

George Archos

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

A

Yeah. There wasn't much margin impact there. I mean, you still have the same amount of people working. We took some canopy offline, but it's not a long enough period to have a substantial margin impact. And again, it was a short-term hit for a long-term goal that we need to hit. So we view it as a positive overall. I mean, as you see now, our numbers are starting to bounce back. We'll have additional capacity here in the next few months. And more importantly, it positions us for adult use, which we feel is definitely on the horizon.

Michael J. Regan

Analyst, Excelsior Equities LLC

Q

Got it. Great. So more of a sales impact than a margin impact. Great. Thanks a lot.

George Archos

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

A

All right.

Operator: [Operator Instructions] Your next question comes from the line of Pablo Zuanic with Zuanic & Associates. Please go ahead.

Pablo Zuanic

Analyst, Zuanic & Associates LLC

Q

Thank you. Good morning. George, just regarding Florida, what's your view? I mean, if the ballot passes, when does it start? Does it start May 5 next year? Or does it get stretched all the way to 2026? Any thoughts there? And then I don't know if the rules are exactly clear, but will they allow wholesale when that program starts? Thank you.

George Archos

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

A

Good morning, Pablo. Always a pleasure. So we view currently that, it'll be May sales start. That being said, you don't know what the legislature can do, what the Governor can do. But that's what we anticipate. So we'll see what happens there.

Pablo Zuanic

Analyst, Zuanic & Associates LLC

Q

And just a – thank you. And just a quick follow up. Given the letter from the IRS from June 28 regarding to 280E, any changes on your side in the way you're planning for that? Thank you.

George Archos

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

A

Yeah. I'll let Brett answer that. And as far as the wholesale in Florida, there's no change there. I mean, it could happen in the future. But right now, we don't see a wholesale opportunity in Florida.

Brett Summerer

Chief Financial Officer, Verano Holdings Corp.

A

Yeah. From a 280E perspective, we are complying with 280E. Historically, we will continue to comply with 280E. To the extent that, descheduling happens, there is impacts, obviously, we'll be the first to tell you about it. But right now, no change there.

Pablo Zuanic

Analyst, Zuanic & Associates LLC

Q

Okay. Look, if I may add, I mean, I know it's a long call, but just have one last one. Other MSOs are starting to delve into hemp derivatives with all the proper controls, of course, and test. It's a way to build your brands. You have got a strong brand portfolio. You are growing wholesale. Is that something you're thinking of also? Can you comment on that? Thank you.

George Archos

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

A

It's something we're looking at and evaluating. It isn't in our business model today, but it could be in the future.

Pablo Zuanic

Analyst, Zuanic & Associates LLC

Q

Thank you.

George Archos

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

A

Thank you.

Operator: And that concludes our question-and-answer session. I will now turn the conference over to George Archos, Chief Executive Officer, for closing remarks.

George Archos

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

Thank you, everyone, for joining. Enjoy the rest of your summer. We'll see you next quarter.

Operator: And this concludes today's conference call. Thank you for your participation, and you may now disconnect.

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