FINAL TRANSCRIPT

MariMed, Inc.

Second Quarter 2022 Financial Results

Event Date/Time: August 9, 2022 — 8:00 a.m. E.T.

Length: 34 minutes

CORPORATE PARTICIPANTS

Steve West
MariMed Inc. — Vice President, Investor Relations

Jon Levine
MariMed Inc. — Chief Administrative Officer

Timothy Shaw
MariMed Inc. — Chief Operating Officer

Susan Villare
MariMed Inc. — Chief Financial Officer

CONFERENCE CALL PARTICIPANTS

Eric Des Lauriers
Craig-Hallum Capital Group — Analyst

Glenn Matson
Ladenburg Thalmann — Analyst

Andrew Semple
Echelon Capital Markets — Analyst

Aaron Grey
Alliance Global Partners — Analyst

PRESENTATION

Operator

At this time, I would like to welcome everyone to the MariMed, Inc. Second Quarter 2022 Financial Results Conference Call.

Thank you. I would now like to turn the conference call over to Mr. Steve West, Vice President of Investor Relations for MariMed. Please go ahead.

Steve West — Vice President, Investor Relations, MariMed, Inc.

Good morning everyone, and welcome to MariMed's Second Quarter 2022 Conference Call. Joining me today are Jon Levine, our Chief Administrative Officer, Tim Shaw, our Chief Operating Officer, and Susan Villare, our Chief Financial Officer. Bob Fireman, our Chief Executive Officer, sends his regrets, as he has a family matter to attend to and cannot join us this morning.

This call is being recorded and will be archived on our Investor Relations website at ir.marimedinc.com.

Today's call contains forward-looking statements subject to various risks, uncertainties, and other factors that could cause actual results to differ materially from those forward-looking statements. These risks and uncertainties are discussed in our documents filed with the SEC, including our most recent Form 10-K and Form 10-Q. Any forward-looking statements reflect Management's expectations as of today's date, and we assume no obligation to update them, other than as may be required by applicable Securities laws.

In addition, we will present non-GAAP financial information on this call. Reconciliations to applicable GAAP financial measures are included in our earnings release, as well as in the supplemental slides which are available on our Investor Relations website.

Now, for your future scheduling purposes, our third quarter 2022 earnings release is tentatively scheduled to be issued after the market closes on November 7, 2022, and our subsequent analyst call will be held the morning of November 8, 2022.

I will now turn the call over to Jon.

Jon Levine — Chief Administrative Officer, MariMed, Inc.

Thank you, Steve, and good morning everyone.

I am pleased to report MariMed's had another solid quarter of financial and operational results. Our revenue grew versus last year. More importantly, our revenue grew 5 percent sequentially and we reported positive Adjusted EBITDA for the 10th consecutive quarter. Additionally, we delivered on several facets of our growth plan during the second quarter, and already into the third.

First, we closed our acquisition of Kind Therapeutics, a Maryland wholesale cannabis operation which will soon be vertical with the opening of a new medical dispensary in Annapolis.

Second, we closed on an acquisition of our craft grow license in Illinois and purchased a 40,000 square foot building in Mount Vernon, which we will retrofit as a cultivation and processing facility for the distribution of our award-winning branded products. Once complete, we will be a vertical in Illinois, enabling us to improve our margins.

Third, in Ohio, which is the seventh most populous state, we began development of a new medical dispensary in Tiffin, with the license we were awarded in the state lottery. We plan to open in early 2023.

Fourth, we completed a licensing partnership to produce and distribute our Betty's Eddies Fruit Chews in Maine's adult market, which complements our existing license deal to sell Betty's in the main medical market. Maine's tourism attracts millions of visitors every year.

Our momentum continues in the third quarter. We announced a significant expansion of the kitchen in our Hagerstown, Maryland processing facility, enabling us to bring our entire portfolio of award-winning brands to the state in time for adult use sales, which is expected to be adopted by the voters this fall.

We launched Betty's Eddies Ice Cream, and Nature's Heritage "Live Flower" in Massachusetts. We have launched a new line of gummies in Maryland out of our expanded kitchen. We also partnered with a social equity applicant in Connecticut, which was selected to receive a cultivation and processing license. This award is pending the final approval from the state.

We completed our dual listing on the Canadian Security Exchange, which we believe will increase liquidity and give easier access to retail investors in Canada, as well as institutional investors throughout North America. We have already seen the benefit of this dual listing with new institutional investors taking equity positions in MariMed.

Finally, we announced yesterday the acquisition of our fifth dispensary in Illinois. We are thrilled to add another dispensary to our successful Thrive retail dispensary base. We remain focused on financial discipline, building great brands, and executing our strategic growth plan. Our core retail business has never been stronger and our wholesale business is picking up, despite the pricing pressures.

With that, I now turn the call over to Tim for his operational update. Thank you.

Timothy Shaw — Chief Operating Officer, MariMed, Inc.

Thank you, Jon.

Beginning with retail, we had a 12 percent growth in revenue versus last year. Our transactions increased 16 percent versus last year, while our average ticket declined by approximately 3 percent. We're consistently working on new strategies and marketing programs to increase revenue and improve the sales experience of our customers.

In Massachusetts, we have recently extended store hours and are offering home delivery, so our customers have more convenient access to our products. We also initiated a billboard campaign in Massachusetts to attract more commuters going to and from the Cape during the summer months.

Our Thrive dispensaries in Illinois continue to do exceedingly well, and we're implementing new marketing programs in the second half of the year to maintain and drive new customer traffic. We are still awaiting regulatory approvals before we can begin operations at our new dispensaries in Maryland and Massachusetts, but we remain optimistic both will be operational in the coming months.

Our wholesale revenues increased 31 percent sequentially, primarily due to the addition of Kind's Maryland wholesale revenue. Fortunately, our commitment to high-quality flower has enabled us to retain our premium pricing. For our customers who are more price-sensitive due to the tough economic times, we have launched a value line of products, including vapes, flower, prerolls, and concentrates.

In Maryland, the oversupply of cannabis flower has led to significant price compression and ultimately affected our sales. The good news is edibles and other derivative products are holding up well. The expansion and upgrading of our kitchen in Maryland to nearly 7,000 square feet provides the ability to produce all of our award-winning branded products, which are already contributing to increased sales.

On the development front, we experienced construction delays on our new cultivation and processing facilities in Illinois. We are pushing as fast as possible on the Illinois facilities, in hope to have the kitchen operational in early 2023.

Additionally, in Massachusetts, we will be starting the initial expansion of our cultivation processing facility this fall. This will increase our canopy by approximately 50 percent. The final expansion phase will begin in 2023 and will ultimately more than double our current flower production.

Let me now update you on some more recent product launches. Last week, we launched our THC-infused ice cream at our Panacea dispensary under the Betty's Eddies brand in partnership with Emack & Bolio's Ice Cream. I encourage you to try it. It is the best ice cream I have ever tasted.

We also launched our live flower product under the Nature's Heritage brand in Massachusetts. We utilize a new proprietary fresh cure process, which includes flash-freezing the flower right at harvest. The process delivers the freshest, most colourful, flavourful, smooth smoking buds available. Additionally, the process eliminates two to three weeks of drying versus traditional flower, which results in increased production and lower costs.

That concludes my operations review. I'll now turn the call over to Susan. She'll do our financial results and provide an update on our financial outlook.

Susan Villare — Chief Financial Officer, MariMed, Inc.

Thank you, Tim, and good morning everyone. It is a real pleasure to be with you all today.

I would like to start with a brief recap of our financial results for this past quarter. Total revenue was $33 million, which increased 5 percent sequentially. As Tim discussed, the sequential growth was driven by our strong dispensary operation and our wholesale business.

Non-GAAP gross margin was 46 percent compared to 54 percent last quarter. Our decline in gross margin was due to several factors.

First, we underwent a significant change in our business model once we closed the Maryland Kind acquisition. We had lower Management and rental income, at 100 percent margin, which was replaced by wholesale revenue at a lower margin.

Second, we experienced higher cost for raw materials and freight due to significant inflation.

Third, we wrote off some old inventory on certain discontinued products such as hemp.

Last, we brought several new machines online this past quarter, which required extensive testing and fine-tuning before they could be operational. This included our machine for live flower and new equipment to increase production of Betty's Eddies Fruit Chews, Vibations drink mixes, and our new Betty's Eddies Ice Cream. This did result in under-absorption of certain fixed costs, which we don't anticipate will continue in the second half of the year.

We believe our second quarter gross margin was a low watermark for the Company, and expect margins to sequentially improve and climb above 50 percent by our fourth quarter this year.

Moving to our non-GAAP OpEx, we continue to be very disciplined with our discretionary spending. Our spend decreased $300,000 sequentially and was $7 million this past quarter. Our Adjusted EBITDA was $8.9 million, which does represent a 24 percent margin.

Now, turning to the balance sheet, we ended the second quarter with $7.9 million of cash and equivalents. The sequential decline in our cash balance was primarily the result of net cash payments for acquisitions, as well as income tax payments. Despite the decline in cash on-hand, our working capital remained positive at $8.3 million. Our ability to generate cash remains the strength of MariMed, as it's illustrated in our year-to-date positive cash flow from operations, and we do remain on track to be cash flow positive for the full year.

Now, I'd like to provide an update on our full year 2022 guidance. We are revising our annual revenue guidance to be in the range of $135 million to $140 million. This represents a year-over-year growth rate of 11 percent to 15 percent. More than two-thirds of the reduction was a direct result of delays in both construction and regulatory approvals.

Our full year non-GAAP gross margin outlook is now at approximately 50 percent. Our adjusted non-GAAP EBITDA guidance is now in the range of $35 million to $40 million, which represents a margin of 26 percent to 29 percent.

Finally, we are lowering our CAPEX target, from $25 million to $18 million, due to the delays in our construction projects.

That concludes my prepared remarks. I will now turn the call over to Jon for his concluding remarks.

Jon Levine — Chief Administrative Officer, MariMed, Inc.

Thank you, Susan.

We are incredibly proud of our amazing financial performance at MariMed these past two years, and we did it while successfully transforming our Company from being consultants into a vertically-integrated, seed to sale MSO. The fact is, we still reported some of the strongest financials in the industry. Actually, despite the number of headwinds facing the industry, we increased traffic at every one of our dispensaries versus the first quarter. This is a testament to our great dispensary operations, the culture we've maintained, and the great products we create.

All of that said, we have said before that 2022 would be a foundational year at MariMed, a year in which we would be investing to position ourselves as a Company to accelerate revenue earnings growth in 2023. We are very excited about the new assets we will have up and running to help drive new revenue next year. In fact, across all facets of our growth plan, we have been making great progress. It's important to point out that without any significant acquisitions, if we just focus on growing our current footprint, we estimate that we can generate over $350 million in revenue over time.

The bottom line is this: we are not sitting idly by and allowing forces outside of our control to derail us. We took decisive action in both our retail and wholesale businesses to address the macro forces working against the industry. We will continue to operate in an efficient and financial disciplined manner. That is what has made us profitable, have positive cash flow, have essentially no debt, and a solid balance sheet with the ability to raise capital. We have a great foundation of revenue-producing assets to allow us to continue to grow organically, or allow us to be capable of acquiring great new businesses to accelerate our growth.

To summarize, over the last two years, MariMed's financial performance has established credibility among investors and industry analysts. We are financially solid and poised for continued long-term growth and success. We are optimistic as ever in our future as we plan to have another breakout year in 2023. We will continue to put the pedal to the metal and grow our Company to be the leader in the cannabis industry.

Before I close, let me thank all the MariMed employees around the country for all of their hard work and dedication.

Operator, you may open the lines for questions.

Q & A

Operator

Thank you.

Your first question comes from Eric Des Lauriers with Craig-Hallum Capital Group. Please go ahead.

Eric Des Lauriers – Analyst, Craig-Hallum Capital Group

Thank you for taking my questions.

First one for me, on the margin headwinds, can you just help us understand the impact of pricing pressures versus cost increases? Then, to the extent that you have the data, can you talk about how your premium, over-average pricing has fared throughout these headwinds? Thanks.

Susan Villare — Chief Financial Officer, MariMed, Inc.

Sure, this is Susan, thank you for the question.

Yes, in my prepared remarks, we went over what had transpired with the margins, and I would say pricing is probably about 25 percent of the compression, and the remaining 75 percent was really due to the Kind acquisition that we closed, which is that wholesale margins versus 100 percent. Then we did have a tremendous amount of equipment that we brought online that took a bit more overhead than we had previously—so, that we'd had more overhead that was under-absorbed.

Then, last but not least, we did have some old hemp inventory, etc., that we had written off, which we don't anticipate going forward. But I think in the guidance we've provided, we will get to at least 50 percent by Q4 of this year. (Multiple speakers) I don't know if you want to talk about the pricing?

Timothy Shaw — Chief Operating Officer, MariMed, Inc.

To add to that…

Susan Villare — Chief Financial Officer, MariMed, Inc.

Yes.

Timothy Shaw — Chief Operating Officer, MariMed, Inc.

Oh, sorry. Yes, this is Tim. Thanks for the question, Eric.

As far as our pricing on our premium products, we're staying well above what the average is in all markets. We're feeling slight pressure, but we're still holding. To be specific, around $3,800 a pound but down from $4,200 in the market. We're doing much better than most, but we are feeling some pressure.

Eric Des Lauriers – Analyst, Craig-Hallum Capital Group

Yes, certainly still impressive figures there. Last question from me; so in Maryland with the expanded kitchen, how should we think about this in terms of near-term volumes? I guess, do you expect to buy more from the spot market, now that you have this kitchen up and running, to sort of help drive volumes in the near-term? Or, is this more about increasing margins and vertical sales mix until adult use starts? Thanks.

Jon Levine — Chief Administrative Officer, MariMed, Inc.

Hi, this is Jon. I'd be happy to answer first and I'll let Tim pick up after. We're using the expansion of the kitchen to expand our branded products into the Maryland market. We're bringing in the Bubby's and the Vibations. We'll eventually bring the ice cream. We've launched a new gummy in the market. This is all by having the bigger kitchen and the ability to expand our revenue through the branded products, but also, that will help us increase our margins overall.

I'll let Tim talk more to the specifics, though.

Timothy Shaw — Chief Operating Officer, MariMed, Inc.

Thanks, Jon.

Yes, another important piece to add about the Maryland kitchen; we built this kitchen to GMP specs. We're going through a certification to be GMP-certified. Maryland has a regulation that requires you to be GMP-certified to be able to participate in higher-dose edibles out of the kitchen. There's only two, maybe three companies that are participating in this currently, and we're noticing that they're having much higher velocity with those products.

Prior to these regulations, some of the higher-dose Betty's was a large portion of our portfolio than in sell-through, so we look forward to regaining our market lead with our Betty's high-dose products once we are certified to do so.

Eric Des Lauriers – Analyst, Craig-Hallum Capital Group

Okay, great. Thank you for taking my questions.

Timothy Shaw — Chief Operating Officer, MariMed, Inc.

Thanks, Eric.

Operator

Your next question comes from Glenn Matson with Ladenburg. Please go ahead.

Glenn Matson – Analyst, Ladenburg Thalmann

Hi, yes, thanks for taking my question.

Congratulations on getting another Illinois dispensary. Curious on just kind of the dynamics around that deal; maybe if you could share what you paid for it, or just the environment for acquiring an asset like that, especially as you think about continuing to grow that footprint in light of all the licenses that are coming online?

Jon Levine — Chief Administrative Officer, MariMed, Inc.

Sure, thank you, Glenn, for the question.

Yes, no, we're seeing a bunch of licenses coming on the market. There has been a big price reduction. I can't speak to the specifics of this one deal that we just announced, as we have not filed all the paperwork yet. But the prices are coming more in line with what we feel is good for the market, in that we're getting these at a price where we'll be able to get into the market quickly, expand our revenue in a growing market in Illinois, and we're very excited about it. We have some other ones that we are presently looking at.

Glenn Matson – Analyst, Ladenburg Thalmann

Great. Just as a follow-up, can you give us a background on how things are going in your home market in Massachusetts? The market's been under pressure for some time. Is it continuing to kind of deteriorate a little bit, or do you have a sense of any timing as to when you could see an improvement there, just in pricing and the general supply/demand dynamics?

Jon Levine — Chief Administrative Officer, MariMed, Inc.

Tim, I'll let you answer this part.

Timothy Shaw — Chief Operating Officer, MariMed, Inc.

Yes, how's it going, Glenn? This is Tim Shaw. Massachusetts continues to be a strong market for us. We've done a great job with creating some highly sought after products, very strong in the market with our Nature's Heritage, our Betty's Eddies. We've brought in a new line of products, a value brand that is really helping to capture some of the folks that are feeling the price compression with inflation and looking for the most value. We're trying to capture that extra demographic that we haven't necessarily paid enough attention to in the past.

The market is being flooded with more and more flower and other products coming online. However, ours have continued to fare very well, and we're doing great. We have the dispensary in Beverly coming online; we're just awaiting regulatory approval. Once that happens, we'll also have another out there where we'll have a full seed to soil vertical for our products. That should be very helpful for our margins also.

Glenn Matson – Analyst, Ladenburg Thalmann

Great, thanks again.

Operator

Your next question comes from Andrew Semple with Echelon Capital Markets. Please go ahead.

Andrew Semple – Analyst, Echelon Capital Markets

Hi there, good morning. Just wanted to go back to the guidance; maybe it would help if you could clarify some of the states and some of those specific assets where you are seeing some of those delays in construction and regulatory approvals, and where CAPEX is potentially being pushed back to 2023.

Jon Levine — Chief Administrative Officer, MariMed, Inc.

Sure. Thank you very much, Andrew, nice to talk to you again.

The markets that we've been building out and running into construction delays and regulatory approvals happens to be Massachusetts and Maryland, where we have been trying to build up this kitchen which we just completed. We have been waiting for the dispensary sign-off, we've got in our CO, and we're waiting on our approval to open by the state. The same is in Massachusetts, that we have the CO, but as usual in Massachusetts, it's taking months to get the final inspections, and then you still have to get the regulatory approvals.

In those three locations, we're slightly delayed due to construction supplies being in shortage and having to wait. The Annapolis got delayed by an additional two, three weeks, with an inspector requiring one additional emergency shutoff that took us two weeks to get before we could get our final CO. Just an example of what's going on out there.

I have worked with Susan and Tim; we're going to be delayed on being able to open our cultivation and processing centre in Illinois, which will make us fully vertical, but that's mostly due to the timing of what we're being told for supplies, to be able to come in to complete this as timely as we are used to. We're seeing supply chain issues throughout the country, but those are the major projects that have delayed our CAPEX.

Andrew Semple – Analyst, Echelon Capital Markets

Appreciate the additional colour in there. That's very helpful. Then just returning to the topic of margins for a little bit; you listed several factors behind the pressure within the current quarter. Would you be able to rank those in terms of which had the largest impact within the current quarter?

Then secondly, it felt like some of those factors, such as inventory and new machine testing, among others, would appear to be temporary. Would there be any lingering impacts from the more temporary aspects of that margin pressure into the third quarter?

Susan Villare — Chief Financial Officer, MariMed, Inc.

Yes, no, thanks, this is Susan.

Yes, I think as far as magnitude, the largest was really all of this equipment that was coming online. It was a tremendous amount for us to test, and we also had the Kind close, so we were busy with that kitchen. Those are really behind us; they're fully operational, all the machines that we purchased.

Then, we reviewed all of the inventory that we have, etc., everything's moving off the shelves every month, but we did have some lingering old hemp inventory that was kind of one-off. There is nothing else there that would be impacting margins. At this point, we are very streamlined operationally. The new equipment should actually make us much more efficient, and with the two new dispensaries coming online from seed to sale, that should drive the margins very nicely.

We do believe it is a temporary quarter that we had these unusual events that we don't expect to happen in the second half of the year.

Andrew Semple – Analyst, Echelon Capital Markets

Great, great. Then a third question here if I may, just quickly, wanted to touch on some of the new product launches, ice cream and live flower, some pretty innovative products. As you go out and build the wholesale demand for some of these products, is there really an education factor that has to happen, or are you seeing demand build nicely and organically on its own?

Timothy Shaw — Chief Operating Officer, MariMed, Inc.

Hi, this is Tim, Andrew. It's a little bit of both. We launch in our own dispensary, which is helpful, and we have a very strong staff that has been trained deeply into these new products. Our Brand Ambassador team is treating this kind of like a tour, and they're launching into these new facilities with support in each one to help bring brand awareness and the education to make sure that we have not just the first purchase, but the second purchase. There's definitely a little bit of both happening for both launches, and they've both been successful thus far.

Andrew Semple – Analyst, Echelon Capital Markets

Great to hear. Thank you so much for taking my questions, I'll get back into queue. Thank you.

Operator

Your next question comes from Aaron Grey with Alliance Global Partners. Please go ahead.

Aaron Grey – Analyst, Alliance Global Partners

Hi, good morning and thank you for the questions here.

First question for me; I know you guys mentioned some value brands in certain markets, always have the historical focus, non-premium. Obviously, I imagine you want us to focus on premium, but just kind of acknowledging where the consumer sits today. Can you maybe talk about how you're potentially seeing the value brand potentially evolving for you guys, maybe in the near-term, certain markets? As we deal with the wallet-constrained consumer, and how you'd want to kind of allocate that within the brand portfolio, and the near and longer-term? Thank you.

Timothy Shaw — Chief Operating Officer, MariMed, Inc.

Great, thank you, Aaron, this is Tim.

Yes, the value brand is becoming more and more important to our portfolio. It's really become a high velocity product. We launched with a vape pen, a disposable vape pen at a very competitive price. In both Maryland and Massachusetts, it has proven to be successful, and we're dovetailing from that product and putting flower and prerolls, and soon to have concentrates, keeping all of our new equipment running, buying cheap trim from the market and putting that product back into the market at a value price. It's really helped to complement some of our premium brands rather than hurt the premium brands. There's different dispensaries and different locations that have a different demographic, and we've been able to really navigate and maximize where each one of the products live and belong. It's been an incremental help for our portfolio.

Aaron Grey – Analyst, Alliance Global Partners

Okay, great, thanks for that.

Second for me, you obviously touched a couple times in terms of getting more vertical and have the operations come online in Illinois. But just some of the commentary we've heard from some of the MSOs around their owns products, getting more vertical, (inaudible) within their retail stores. Has that caused any need to accelerate with your own? I know with Illinois, it's not really the same case, because you already have retail and you'll be bringing on wholesale. But in terms of any of your more wholesale markets, are you seeing any impact there, to where it might be getting harder to get on shelf and more need to get vertical? Or, are you not really noticing on your end right now? Thank you.

Jon Levine — Chief Administrative Officer, MariMed, Inc.

Thank you, Aaron.

Timothy Shaw — Chief Operating Officer, MariMed, Inc.

Thanks for the question.

Jon Levine — Chief Administrative Officer, MariMed, Inc.

Go ahead, Tim.

Timothy Shaw — Chief Operating Officer, MariMed, Inc.

I was just going to say that it's always important to get the full vertical. It's great, it's much better margins, obviously, to have your own place. Our products, we make some of the highest quality craft cannabis at scale, and we continue to have a large demand for the product. There's definitely pressure out there; we've been able to hold strong.

I don't know if that really answers the question. Yes, it's very important to get the other dispensaries open, to help with margins, but we haven't seen much of a decrease in the demand for our branded products.

Jon Levine — Chief Administrative Officer, MariMed, Inc.

Aaron, this is Jon. I'll just add in…

Aaron Grey – Analyst, Alliance Global Partners

Okay, great.

Jon Levine — Chief Administrative Officer, MariMed, Inc.

…part of our growth strategy is to build out in each of the states that we're in, as they're limited licenses. It's very important for us to grab some more dispensaries in each of those states so that we can keep the margins up and to expand our brands in each of those states. We do have award-winning brands in each and that they're always up there at the top, and I just think getting into our own dispensaries and building out and getting to the number that we're allowed in each of these limited states will help us maintain margin and increase margin.

Aaron Grey – Analyst, Alliance Global Partners

All right, great. Thank you very much.

Operator

There are no further questions. Please proceed.

Jon Levine — Chief Administrative Officer, MariMed, Inc.

Thank you, Operator, and I thank everybody for joining us today.

Timothy Shaw — Chief Operating Officer, MariMed, Inc.

Thank you, have a great week, everyone.

Operator

Ladies and gentlemen, this concludes your conference call for today. We thank you for participating, and ask that you please disconnect your lines.