

MariMed Inc.

Third Quarter 2022 Financial Results Conference Call

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PRESENTATION

Operator

Good morning. My name is Pam and I will be your conference operator today. At this time, I would like to welcome everyone to the MariMed Third Quarter 2022 Financial Results 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. If you'd like to ask a question at any time, simply press star then the number one on your telephone keypad. If you would like to withdraw your question, please press star followed by two. Thank you.

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

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

Good morning, everyone, and welcome to MariMed's third quarter 2022 conference call. Joining me on the call today are Bob Fireman, our Chief Executive Officer; Jon Levine, our President; Tim Shaw, our Chief Operating Officer; and Susan Villare, our Chief Financial Officer. 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.

For your future scheduling purposes, our fourth quarter 2022 earnings release is tentatively scheduled to be issued after the market closes on March 1, 2023 and our subsequent analyst call will be held the morning of March 2, 2023.

I will now turn the call over to Bob.

Bob Fireman — Chief Executive Officer, MariMed Inc.

Thank you, Steve, and good morning, everyone.

I am pleased to report that MariMed had another solid quarter of financial and operational results. Our revenue continues to increase both year over year and quarter over quarter. Most importantly, we are reporting positive adjusted EBITDA for the 11th consecutive quarter.

We continued to successfully execute on our strategic growth plan during the third quarter, advancing several significant milestones. These milestones include assets and resources to further increase our Company's revenue and earnings. We are pleased that we are outperforming our competitors in terms of sales growth in all our key markets. The headwinds of inflation from COVID, the

war in Ukraine, the price compression have not taken MariMed off our course. This is the result of the quality of our products and services as well as the culture and excellence of our team. We are hopeful that President Biden's new cannabis policy statement and other initiatives at the federal level will improve capital market access for U.S. cannabis companies to list on the senior exchanges. This will allow more institutional investors to participate in our success.

MariMed is poised to continue to grow up to \$400 million in revenue in the next few years. As one of the few MSOs with a clean balance sheet, operational excellence, strong financial discipline, and is profitable, we are well positioned as a transformational M&A participant. Rest assured, any transaction seriously considered must be accretive and improve MariMed's shareholder value. I suggest you all keep watching the MariMed story.

Let me now turn it over to Jon. Thank you.

Jon Levine — President, MariMed Inc.

Good morning, everyone.

As Bob said, we had another solid quarter. First, we completed the expansion of our state-of-the-art kitchen in Maryland, which allows us to manufacture, sell, and distribute our award-winning products, including Betty's Eddies and Bubby's Baked.

Second, we acquired a dispensary license in Illinois, which will be in the eastern part of the state near the Indiana border. Once completed and approved to open, it will be our fifth Thrive dispensary in Illinois.

Third, we launched three new products. In Massachusetts, we launched Betty's Eddies ice cream and Nature's Heritage "LIVE Flower", which are both selling very well. Also in Maryland, we launched a line of gummies under our in-house brand. We continue to innovate with new brands and products that address consumer needs.

Fourth, we partnered with a processing license holder in Missouri to develop and manage a state-of-the-art kitchen to produce and sell all of our award-winning edibles in the wholesale market. We hope Missouri voters will pass adult-use ballot initiative at the polls today.

And fifth, we entered into a manufacturing contract with 42 Degrees, a leading distributor in Michigan. 42 Degrees will sell our award-winning Betty's Eddies fruit chews with the intention of expanding to include our other brands in the future. 42 Degrees has an extensive sales force and currently wholesales into 340 dispensaries, or about 75% of Michigan dispensaries.

Our momentum continues into the fourth quarter as we recently announced the opening of our first dispensary in Maryland and officially achieved full vertical integration in that state. We remain focused on maintaining our financial discipline, building great brands, and executing our strategic growth plan. Our core retail business continues to strengthen and our wholesale business is gaining momentum, despite flower pricing pressures. While the overall industry remains challenged, we are focused on operating great at retail and wholesale. And, by delivering outstanding customer service, we will continue to outperform the industry.

With that, I will turn the call over to Tim for an operational update.

Tim Shaw — Chief Operating Officer, MariMed Inc.

Thank you, Jon, and good morning, everyone.

Let me begin our operations review with retail, where we grew revenue by 2% sequentially compared to the second quarter. Our sequential growth was comprised of 10% transaction growth, which was offset in part by a decrease in the average ticket. The country is experiencing historic inflation and nearly every state with a cannabis program reported slowing or negative growth in the third quarter compared to the second quarter. To say we are overjoyed that MariMed was able to buck this trend is an understatement. We worked extremely hard to find the right balance of premium and value offerings, extended hours, new product launches, advertising, and delivery services, and these initiatives are paying off. We received more great news a few weeks ago when Maryland regulators approved the opening of our Annapolis dispensary. While we are still waiting regulatory approval for our dispensary in Massachusetts, we are optimistic it will open in the coming months.

On to wholesale. Our sales increased 13% sequentially, primarily due to our performance in Maryland, which increased 53% compared to the second quarter, and Massachusetts, which also reported positive sequential growth. We have seen wholesale price compression in flower compared to last year, but it remains stable in Massachusetts and Maryland is showing signs of stability. The good news is we're able to offset most of that price compression by introducing our in-house branded value products, which now account for about 20% of our total sales. This includes Maryland, where we launched our in-house vapes late in the second quarter shortly after we launched a line of 10-milligram gummies. In Maryland, our branded edibles such as Betty's Eddies and Bubby's Baked are literally selling

faster than we can produce them. As a result, we are significantly increasing our staffing to run multiple production shifts per day, seven days a week. While this has been a difficult year for the wholesale in Maryland, we have the parts in place and ability to ramp up production and sales to quickly meet the unprecedented demand for our edibles.

Before I finish, I'd like to share some exciting news. We recently received the necessary local and state approvals to begin hydrocarbon extracting in Massachusetts, which allows us to produce our own derivative extracts such as live resin, budder, and diamonds and sauce. We will also begin producing Nature's Heritage branded live resin and sauce carts, which will be available in select dispensaries by year end.

And finally, on the product front, as Jon mentioned, we continue to innovate and develop products that address what today's cannabis consumer wants. Data and customer feedback showed us that they want their edibles to deliver a specific benefit. Just a couple of weeks ago, we improved our top-selling Betty's Eddies lineup by adding some new products, improving others, while keeping some of the fan favorites unchanged. Every chew is now custom formulated to help address basic needs such as a better sleep, pain relief, stress relief, increased libido, and others. Great brands will win in cannabis and we are confident ours will be among the long-term champions.

That concludes my operations review. I will now transfer the call to Susan, who will go over our financial results.

Susan Villare — Chief Financial Officer, MariMed Inc.

Thank you, Tim, and good morning, everyone. I would like to start with a brief recap of our third quarter financial results.

Total revenue was \$33.9 million, which increased nearly \$1 million or about 3% sequentially. This was driven by both our dispensary and wholesale operations, partially offset by lower revenue from other sources such as rental income and management fees.

I want to provide some more market data within the states we operate that Tim briefly touched upon. External reports show this being the third quarter sequentially that sales slowed both in Illinois and Massachusetts while declining in Maryland. I am pleased to note MariMed's dispensaries saw flat to positive traffic growth versus the previous quarter at every single dispensary for the second consecutive quarter. MariMed's outperformance against these unfavorable market trends is a testament for our award-winning dispensary and brands.

Moving to gross margins, our non-GAAP gross margin was 48% compared to 46% last quarter. The gross margin improvement was primarily attributable to our increased sales of our branded products in the wholesale markets of Maryland and Massachusetts. We continue to believe our second quarter gross margin was a low watermark and we expect our margins to continue to improve and stabilize.

Moving to non-GAAP operating expenses, we continued to be very disciplined with our discretionary spending. Our non-GAAP operating expenses increased \$1.6 million sequentially to \$8.7

million in the third quarter. This sequential increase was due to planned increases in both personnel and marketing programs to support our strategic growth initiatives. Our adjusted EBITDA was \$8.7 million, which represents a 25% margin. This is down sequentially versus the second quarter's adjusted EBITDA margin of 27% due to our planned increases in operating expenses.

Now turning to the balance sheet, we ended the third quarter with \$11.1 million of cash and equivalents, which increased versus our second quarter cash balance of \$7.9 million due to our continued ability to generate positive cash flow from operations. Our net working capital increased to \$13.6 million from \$8.3 million at the end of the second quarter. Our ability to generate cash remains a core strength of MariMed, as illustrated by our year-to-date positive cash flow from operations. We remain on track to be cash flow positive for the full year.

Now with respect to our full year 2022 guidance, we are now assuming that our new adult-use dispensary in Beverly, Mass, which has been on the ready to open since early summer, will not open until 2023. We continue to face regulatory timing delays, but we remain optimistic that they will be resolved in the near term. Additionally, we are assuming that the pricing pressure will continue in the states where we operate, both on the wholesale and retail fronts. Accordingly, we expect full year revenue to be in the range of \$132 million to \$135 million, which represents a year-over-year growth rate of 9% to 11%. Our full year non-GAAP gross margin outlook is between 48% and 49%, which is slightly lower than our previous guidance of 50% due to the (inaudible) associated with the delayed revenue from our unopened dispensary. Our adjusted non-GAAP EBITDA forecast is between \$33 million and \$35 million. Finally, our full year CapEx spend is estimated to be between \$16 million and \$17 million.

That concludes my prepared remarks and at this time I would like to now turn the call back over to Jon for his concluding comments.

Jon Levine — President, MariMed Inc.

Thank you, Susan.

We are incredibly proud of delivering another strong quarter of operational and financial results, which remain some of the strongest in the industry. Before closing, I want to acknowledge the positive progress towards cannabis reform we are seeing at the federal level. Hopefully, the momentum of the President's recent announcement will have a domino effect of SAFE Banking finally passing. In the meantime, we will continue to focus our attention on executing our strategic growth plan.

As we noted earlier, despite the significant headwinds facing consumers in the U.S., we continue to report improving sales trends in both our retail and wholesale businesses. Looking ahead, 2022 remains a foundational year and we continue to be very bullish about next year. In addition to Maryland dispensary we just opened in Annapolis, we expect several new assets to come on line in 2023 to help drive accelerated growth. In retail, we anticipate opening dispensaries in Ohio, Massachusetts, and Illinois. In wholesale, we expect our new production kitchens in Illinois and Missouri to be completed. We also expect our new cultivation facility in Illinois and our expanded cultivation in Massachusetts to become operational in 2023. And we remain very active in discussions for additional accretive acquisitions.

To summarize, we are financially solid and poised for continued long-term growth and success. We continue to improve our sales trends at both retail and wholesale in our key states. Our great foundation of revenue-producing assets will allow us to continue growing organically and generate positive cash flow to further strengthen our balance sheet. We're extremely excited about MariMed's prospects for 2023. I would like to thank all of our MariMed employees for their hard work and dedication, making us one of the best run and financially sound cannabis companies.

Operator, you may open the line for questions.

Q & A

Operator

Thank you. Ladies and gentlemen, we will now begin the question-and-answer session. Should you have a question, please press star followed by one on your touchtone phone. You will hear a three-tone prompt acknowledging your request and your questions will be polled in the order they are received. Should you wish to decline from the polling process, please press star followed by two. If you are using a speakerphone, please lift your handset before pressing any keys. One moment for your first question.

Your first 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. So, first question for me, I just want to go back on some commentary in the prepared remarks regarding Massachusetts. I believe you talked about

some stabilization. I think you're talking about the wholesale market there. So I just wanted to get some further color there, because we're continuing to see pricing pressure at the retail level, so I want to know your thoughts on that, whether or not you think that's sustainable, particularly with some of the neighboring states with Connecticut and Rhode Island going to be starting adult-use sales soon. And just in terms of that stabilization, is that more dynamic of your own strains and genetics because you think they're differentiated and it's more commoditization with some of the other strains or if there's something else going on with those dynamics? Thank you.

Tim Shaw — Chief Operating Officer, MariMed Inc.

Thanks, Aaron. This is Tim. A great question. The stabilization, yeah, we were really bullish and we're a true brand company. Our Nature's Heritage brand has continued to buck the trend. We stay at a premium above the rest and we've brought in-house to help keep our top brands at the premium level and in-house has really grown in our wholesale market to compete with all those trends of value needs and value adds.

Aaron Grey — Analyst, Alliance Global Partners

Okay, great. Thank you very much for that color. And then just turning to Michigan, where you guys recently launched some of your brands there, just wanted to know your thoughts on that market. It's another one we've seen a lot of pricing pressure kind of offset by some volume growth. So just what are your thoughts in terms of the timing and when you're looking to enter the Michigan market, given a lot of the dynamics and that being one of the markets that's seeing more of the pricing pressure? Thanks.

Jon Levine — President, MariMed Inc.

Yeah, good morning. Aaron. Thank you very much for joining the call this morning. Yeah, Michigan, we went in there with an agreement to expand our brands into that state, which we're very excited to bring our award-winning brands, Betty's Eddies, and in the future our others. But we went into that market knowing that it's a very big market with a lot of retail and flower distributors already. So we're concentrating on an area that we feel we could target first to figure out what the market's like before we try to become vertical, if we have the opportunity.

Aaron Grey — Analyst, Alliance Global Partners

Okay, great. Thanks for the color. I'll jump back into the queue.

Operator

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

Andrew Semple — Analyst, Echelon Capital Markets

Good morning. Thank you for taking my questions. First off, I just want to ask, with value kind of tier products making up more of the revenue mix, how do the gross margins on these products compare with the gross margins on your generally more premium product line and how should we be thinking of that impacting maybe the margin profile in 2023?

Tim Shaw — Chief Operating Officer, MariMed Inc.

Andrew, this is Tim again. Thanks for the question. Our margins on the value products are great actually. We've cut costs on some of those things and optimized efficiencies to make sure that we attain the same margins and it's really just helped our Nature's Heritage brand. And Nature's Heritage has actually—BDS data just came out saying in Massachusetts we're number one in both sales dollars and market share. So it's really been accretive to the entire portfolio of our flower strains.

Andrew Semple — Analyst, Echelon Capital Markets

Okay. Thanks for that, Tim. Conversely, on more of the premium product side, could you maybe give a bit of an update on how "LIVE Flower" has been received in the market? Has that received the premium pricing that you had hoped for and is demand continuing to build for that product line?

Tim Shaw — Chief Operating Officer, MariMed Inc.

I didn't catch the beginning part of that question, Andrew. I'm sorry.

Andrew Semple — Analyst, Echelon Capital Markets

Sorry. For the "LIVE Flower" product, how has that been received in the market and has that achieved the pricing you'd hoped for and is demand building, does demand continue to build for that product line?

Tim Shaw — Chief Operating Officer, MariMed Inc.

Gotcha. Yes. Actually, “LIVE Flower”, we are getting a premium above all other. It is steady rolling out. We’ve started off with a soft roll into our own dispensary and we’re slowly releasing it into other dispensaries, being that there’s an education piece that goes along with it to make sure the consumer understands exactly what they’re getting and why they’re spending more. So it is gaining traction.

Andrew Semple — Analyst, Echelon Capital Markets

Great. Thanks for taking my questions. I’ll get back into queue.

Operator

Your next question comes from Jon DeCoursey with BTIG. Please go ahead.

Jon DeCoursey — Analyst, BTIG

Hey, guys. Thanks for the question. Congratulations on another execution quarter here. Just a couple quick questions out of me. Can you provide a little bit more color, you talked about the Maryland opportunity to ramp cultivation and production to be more of a wholesale provider, can you kind of talk about scale and timing that you have for that initiative, if and when you decide?

Jon Levine — President, MariMed Inc.

Good morning, Jon. Jon Levine speaking. Thank you very much for joining the call this morning. Yes, in Maryland, we completed our expansion of our kitchen, which has allowed us to produce all of our

brands in a more efficient way to supply the market heavily with all of our brands. We also have the ability to expand our flower rooms as the adult-use becomes approved in the state, which they're voting on today and we're hopeful that that will pass. So right now we're concentrating on the brands. We have plenty of flower that we're wholesaling into the market. The wholesale has been going up, as we reported earlier, and we look forward to continuing that as the market expands.

Jon DeCoursey — Analyst, BTIG

Okay. And then I think Bob was mentioning M&A transactions. I'm sure it's a case-by-case basis but, just generally speaking, are we thinking about more small, tuck-in acquisitions just within existing states or are you guys targeting further expansion beyond your current footprint?

Jon Levine — President, MariMed Inc.

This is Jon again. Yeah, as Bob said, we're looking for accretive states with opportunities to expand our distribution of our award-winning brands. But when we look at mergers with others, we're looking for likeminded operating philosophies and culture, which is very important to us, to make sure that we have a culture that's very similar. We're looking at expanding in the states that we're in to get to our limits in each state, but we're also looking at new states like New Jersey and New York, Georgia, Virginia to expand into as they come available.

Jon DeCoursey — Analyst, BTIG

Okay. No, that's interesting. And would you consider a partnership with a like-sized operator or is it just only, again, the kind of smaller opportunities?

Jon Levine — President, MariMed Inc.

No, we're in discussions and we just haven't found that quality of the culture and philosophy that we're looking for to make sure that we have the right merge.

Jon DeCoursey — Analyst, BTIG

Okay. Great. And then last question for me, Jon, is you guys gave a lot of color on why you're bullish for 2023 with the opening of some dispensaries in key states and the wholesale expansion. What does that look like from a CapEx standpoint? What's required to build out those assets in terms of remaining spending?

Susan Villare — Chief Financial Officer, MariMed Inc.

Sure. This is Susan Villare. Thanks for joining the call. So, at this point, we haven't given CapEx guidance for next year, but we are using currently our cash flow from operations to fund these build-outs. To the extent that we were able to find favorable financing to do some transformational acquisitions, we would certainly look at that but, based on our very strong cash flows, we can build those out with our existing cash flows we have today.

Jon DeCoursey — Analyst, BTIG

Okay, great. All right. That's it for me. Thanks, guys.

Operator

Your next question comes from Tom Carroll with Stansberry Research. Please go ahead.

Tom Carroll — Analyst, Stansberry Research

Hey, guys. Good morning. Thanks for the question. I think all my questions have pretty much been answered. I wonder if you would chat a little bit about if you've done any work recently, given that it's election day, on SAFE Plus being passed during the lame-duck session? I know it's kind of a crazy question, but have you guys dug into anything specifically on the Plus part? Thank you.

Jon Levine — President, MariMed Inc.

Well, we basically don't do a lot of lobbying, but we've been working with a lot of the local politicians in the states that we're in, trying to help push through the SAFE Banking Act, and we're very hopeful that that's still, with the President, that that can get through.

Tom Carroll — Analyst, Stansberry Research

Okay. Thank you.

Operator

Ladies and gentlemen, as a reminder, if you do have any questions, please press star one.

Your next 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. Could you just talk about how your pricing strategy for your premium brands has evolved over the past few months here? Are you looking to sort of maintain any consistent pricing across your markets or is this just sort of more on a market-by-market basis, looking at trying to drive consistent margins? Just any color on your evolving sort of pricing strategies in wholesale given the evolving dynamics would be great. Thanks.

Tim Shaw — Chief Operating Officer, MariMed Inc.

Eric, Tim Shaw here. Thanks for the question. This hodgepodge industry, it is market by market that we are working with our strong sales team. It's about relationships. Working with the wholesale buyers at each dispensary in the wholesale world is very important, as they are our frontline salespeople, right, working with the consumers. So we work really hard to keep our brands in the highest regard to all these folks and take care of all the things in the back end and giving them the easy button, making sure that we are efficient in delivery and efficient in the highest quality and just continue to provide the best service possible. And that's helped us stay a couple notches above the rest of the market, paying attention to the details.

Eric Des Lauriers — Analyst, Craig-Hallum Capital Group

Yeah, it certainly appears that way. Last question for me here. Can you just kind of talk to the potential for brand licensing opportunities? I know you guys have done a bit more in the past. Is that something that you would sort of entertain going forward or is that a sort of strategic priority for you

guys or would you just look to sort of own and build out all your operations versus going the brand licensing route? Just wondering how you're thinking about those two different pathways. Thanks.

Jon Levine — President, MariMed Inc.

Good morning, Eric. Thank you for the questions and joining the call this morning. This is Jon Levine. Yeah, as I've stated earlier, we're looking for opportunities to expand our brands into other states, as we've done in both Michigan and in Missouri. Expanding the licensed product is something that we're paying attention to, but right now we're looking to find opportunities to get licenses in as many states for doing, sorry, for doing the processing through the (inaudible) and that we can expand. We'll always look at opportunities for licensing, but it's a better opportunity if we can own the license and move forward.

Eric Des Lauriers — Analyst, Craig-Hallum Capital Group

Thanks.

Operator

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