

MariMed Inc.

First Quarter 2023 Financial Results Conference Call

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CONFERENCE CALL PARTICIPANTS

Andrew Semple

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Jesse Redmond

Water Tower Research — Analyst

Mike Regan

Excelsior Equities — Analyst

PRESENTATION

Operator

Good morning, ladies and gentlemen. My name is Michelle, and I will be your conference Operator today. At this time, I would like to welcome everyone to the MariMed Inc. First Quarter 2023 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 would like to ask a question during this time, simply press *, then the number 1 on your telephone keypad. If you would like to withdraw your question, please press *, followed by the number 2. Thank you.

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

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

Good morning, everyone, and welcome to MariMed's first quarter 2023 earnings call. Joining me today on the call are Jon Levine, our Chief Executive Officer; 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.

Today's call contains forward-looking statements. Actual events or results may differ materially from these forward-looking statements and are subject to various risks and uncertainties. A discussion of these risks and other factors is contained in our filings with the SEC and our earnings release, which are available on our website. Any forward-looking statements reflect management's expectations as of today, and we assume no obligation to update them unless required by law.

Additionally, we will refer to a certain non-GAAP financial information on this call. A reconciliation of these non-GAAP financial measures is included in our earnings release and our supplemental slides.

Finally, our second quarter 2023 earnings release is tentatively scheduled to be issued after the market closes on August 2, 2023, and our subsequent analyst call will be held the morning of August 3, 2023, at 8:00 a.m.

I will now turn the call over to Jon.

Jon Levine — Chief Executive Officer, President, MariMed Inc.

Thank you, Steve, and good morning, everyone. I'm pleased to report that MariMed had another solid quarter. As we continued to expand our business through the execution of our strategic plan, we remain committed to creating long-term shareholder value.

You know, many people think that 13 is a number you should stay away from. Buildings don't have a 13th floor, and most athletes won't wear the number 13 on their uniforms. Well, it's actually always been one of my personal favourite numbers. In fact, I wore it with pride as a youth soccer player. And now, I have yet another reason to embrace it. For the 13th consecutive quarter, we recorded positive adjusted EBITDA, which grew 58 percent sequentially.

Another of my favourites is the number four, and I'm proud to say we are remaining on track to generate our fourth consecutive year of positive operating cash flows. MariMed is one of the only cannabis companies to report positive cash flow over this extended period of time.

During the first quarter, we closed a \$35 million credit facility at favourable terms compared to our industry peers. While MariMed was capable of funding its long-term growth plan through cash flow from operations, this capital infusion allowed us to immediately accelerate our growth plans. In fact, a

little over a month after closing the facility, we announced the acquisition and consolidation of a medical-licensed vertical operation in Quincy, Massachusetts.

Subsequent to the end of the quarter, we announced three additional operational milestones.

First, we received GMP certification of our production kitchen in Maryland.

Second, we received approval in Maryland to produce and sell high-dose edibles once again.

Before Maryland regulators changed the rules in the state, our high-dose Betty's Eddies were the number-one selling edible, and we've set our sights on recapturing that market position in the upcoming months.

Third, we finally received the long-awaited regulatory approval to open our adult-use dispensary in Beverly, Massachusetts, and we had our grand opening during the last week in April. We now have three operating dispensaries in Massachusetts, and I could not be more excited about their full revenue potential. We anticipate having more exciting news this year and beyond. Stay tuned.

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

Tim Shaw — Chief Operating Officer, MariMed Inc.

Thank you, Jon, and good morning, everyone.

Let me start my operational review with our retail business, where revenue increased 8 percent year over year and decreased 6 percent sequentially compared to the fourth quarter of '22, due to normal seasonality and increased competition.

We continue to outperform the industry throughout our footprint. According to BDSA data, Illinois sales in the first quarter were up 3.2 percent year over year, while MariMed experienced 5.5 percent growth, leading competition there by more than 200 basis points.

Additionally, in Massachusetts, our total business significantly exceeded competition. However, retail traffic was slightly impacted by the increased number of nearby dispensaries. We anticipate

offsetting these impacts with several traffic-driving initiatives to include ramping our two new dispensaries in Beverly and Quincy, which will include obtaining an adult-use licence at our Quincy medical dispensary and obtaining a medical licence at our Beverly adult-use dispensary.

We'll also be implementing delivery at all three of our locations made possible by taking a significant ownership position in an existing delivery business that will exclusively sell products from our three dispensaries in Massachusetts. Our vans are fully outfitted, and we are set to commence full operations this month.

Now, let's discuss our wholesale business. Wholesale revenue increased 71 percent year over year and 5 percent sequentially, driven primarily by our Maryland acquisition that closed in April of '22, as well as the strong growth in Massachusetts.

Sequentially, wholesale growth clearly bucked a typical first quarter seasonality effect and was not impacted by the competition and price compression that so many of our peers are experiencing. In fact, this was the fifth consecutive quarter of sequentially higher wholesale revenue and the third consecutive quarter where we set a new record high-water mark within our wholesale business.

We continue to see strong demand for our branded products in both Massachusetts and Maryland, and we are pressing hard to maintain our outsized growth in these states. I could not be prouder of our sales force for their tremendous work as they keep raising the bar every single quarter.

Let me quickly update you on the progress towards our growth initiatives for this year.

During the quarter, we completed two of our eight expansion projects, which were the opening of two dispensaries in Massachusetts. Jon mentioned we anticipate more exciting news, which includes the six remaining growth projects planned for this year including a medical dispensary in Ohio, an adult-use dispensary in Illinois, a craft processing and cultivation facility in Illinois, a processing kitchen in

Missouri, and the expansion of both of our Maryland and Massachusetts cultivation and processing facilities.

On the marketing front, we rolled out a very cool marketing campaign for our Nature's Heritage brand to reinforce its premium positioning. This Keep It Fresh campaign celebrates our most popular strains, and we hope it will generate tremendous buzz for the future launch of new strains.

We have already brought the strain experience to life in dispensaries, social media, and advertising through illustrations and animations designed by Duncan Hatch, a local Massachusetts artist. The initial response has been off the hook. We just celebrated our Lemon Cherry Gelato strain, and, later this month, we plan to celebrate our tasty Shortcake strain utilizing this campaign, and I encourage you all to keep an eye out on social media for these latest strains we will be celebrating.

And finally, we expect to launch several new products in the next few months to include live resin from Nature's Heritage disposable vapes, two new Betty's Eddies ice cream flavours, and I'm excited to say, we are bringing our very successful InHouse gummies from Maryland to both Massachusetts and Delaware.

That concludes my operations review. I will now turn the call over to Susan.

Susan Villare — Chief Financial Officer, MariMed Inc.

Thank you, Tim, and good morning, everyone.

I would like to start with a brief overview of our first quarter 2023 financial results.

Total revenue was \$34.4 million, which increased 10 percent year over year and decreased 4 percent sequentially. Our year-over-year growth was driven by our retail and wholesale operations partially offset by lower revenue from other sources such as rental income and management fees from

the consolidation of our Maryland operations. The sequential decline was due to typical seasonality and increased retail competition.

Moving to gross margin, our non-GAAP gross margin was 46 percent compared to 54 percent in the comparable period in 2022. First quarter gross margin declined due to inflation of our output costs, increased headcount, and the shift away from higher-margin management fees after consolidating our Maryland operations.

We were pleased to see non-GAAP gross margin increase 100 basis points versus the 45 percent we reported in the fourth quarter of 2022. We remain laser-focused on improving margins back to 50 percent once our in-flight assets are fully operational.

Moving now to non-GAAP operating expenses. Our non-GAAP operating expenses were \$9.6 million compared to \$7.3 million in the comparable period in 2022. The increase in non-GAAP operating expenses was due to planned increases in both personnel and marketing programs to support our (unintelligible) initiative.

Non-GAAP OpEx decreased \$2.9 million, or 23 percent, compared to the fourth quarter of 2022, due primarily to lower bad debt expense.

Our adjusted EBITDA was \$7.1 million compared to \$10.4 million in the comparable period in 2022. This was due to planned increases in operating expenses to support our growth initiatives as well as the shift in revenue mix due to the consolidation of our Maryland operations.

Our adjusted EBITDA increased 58 percent sequentially compared to the fourth quarter of 2022, despite the sequentially lower revenue, due to normal seasonality. Said another way, our first quarter adjusted EBITDA margin of 21 percent improved more than 800 basis points compared to our fourth quarter 2022 margin of 13 percent.

Now turning to our balance sheet. We ended the first quarter with \$21.6 million of cash and equivalents, which increased versus our fourth quarter 2022 ending cash balance of \$9.7 million.

Our net working capital increased to \$34.9 million compared to \$17.7 million at the end of the fourth quarter 2022.

Cash flow from operations was a net use of cash of \$4.5 million, which included cash payments for taxes of \$5.3 million and interest of \$1.1 million.

Now moving on to our 2023 financial outlook.

As Tim discussed, our retail business was impacted by increased competition and our wholesale business had another record quarter. Considering these factors combined with our sequential margin improvement, we feel comfortable maintaining our 2023 financial targets of at least \$150 million in revenue; non-GAAP gross margin consistent with full year 2022, which was 48 percent; at least \$35 million in non-GAAP adjusted EBITDA; and \$30 million in CapEx.

Finally, I want to give some insights on how to think about modelling the second quarter. We believe revenue will be up sequentially and OpEx will increase ahead of our new facility's opening. It is becoming more probable that Maryland will commence adult-use sales on July 1st. To that end, we're ramping up production by almost 2x and are building inventory to meet the anticipated demand spikes. This will likely have a short-term impact on our cash position and inventory during the second quarter.

While cash usage will increase for inventory build, this will be largely offset as we are current on our estimated tax payments as compared to last year when we paid \$11.8 million of cash taxes in the comparable period.

That concludes my review of our financial results and our full year outlook. I would like to now turn the call back to Jon for his concluding remarks.

Jon Levine

Thank you, Susan. We continue to have one of the most conservative balance sheets in the industry as it relates to debt leverage. In addition to growing our existing footprint organically, we remain well positioned to grow through additional acquisitions. We remain steadfast that all transactions must be accretive and improve long-term shareholder value.

We utilized the past couple of years to transform our business through accretive acquisitions in Maryland, Massachusetts, Illinois, and Missouri. We fully intended to continue utilizing the strength of our balance sheet.

On the regulatory front, we are cautiously optimistic about the recent news coming from Capitol Hill. Time will tell if the House, which (unintelligible) again, will result in anything meaningful during this week's Senate Committee hearing.

At the state level, particularly in states that matter the most to MariMed, we continue to see very positive news. Maryland's adult program should commence in a few months. In Missouri, adult sales have been nothing short of fantastic since commencing in February. Additionally, Delaware's legislature approved the adult use a couple weeks ago, and we are closely watching Delaware's progress with our partner, First State Compassion.

This leaves Ohio as the only state in our footprint that has not approved adult use yet, and there's indication that could approve adult use in the next year or so.

We continue to manage our balance sheet every day, further strengthening our financial standing. Our strong balance sheet has opened doors, allowing us to accelerate our earnings growth for the foreseeable future.

We worked hard through many challenges over the years to create these amazing opportunities, and we are poised to take advantage of any other prospects that come our way. I am truly pleased with our stock for the year. Despite continued industry challenges, I am ecstatic for our long-term growth prospects.

Last quarter, I compared MariMed to those Cinderella stories who come out of nowhere to make a splash in the NCAA basketball tournament. This quarter, I'd say NHL playoffs offer a similar analogy. My hometown Bruins had the greatest regular season in NHL history, only to see it all go to waste in the first round of the playoffs when they were beaten by the Florida Panthers, a major underdog who no one paid much attention to.

Well, the eyes of the cannabis industry continue to pay most attention to the bigger MSOs. But the Panthers, like MariMed, putting all ingredients together to win when it matters most. We have the necessarily capital, financial discipline, operating expertise, and award-winning brands to take MariMed to the next level and beyond.

In closing, I would like to say welcome aboard to all our new Massachusetts employees in our Quincy and Beverly operations. And, finally, I would like to also thank all the MariMed employees for their hard work and dedication to helping improve the lives of people every day. Your efforts help us remain the leading operator in the cannabis industry.

Operator, you may open the lines for questions.

Q&A

Operator

Thank you, sir. Ladies and gentlemen, we will now begin the question-and-answer session. If you would like to ask a question, please press *, followed by the number 1 on your telephone keypad. If your question has been answered and you would like to withdraw from the queue, please press *, followed by the number 2. And if you are using a speakerphone, please lift your handset before pressing any keys.

Your first question will come from Andrew Semple at Echelon Capital Markets. Please go ahead.

Andrew Semple — Echelon Capital Markets

Hi, there. Good morning. Congrats on the Q1 results. First question here, I guess, just on the guidance that was provided for the year. Since the last update and since you initially issued that 2023 guidance and as you mentioned in your prepared remarks, Maryland's set the start date for adult-use sales, which looks to be July 1st. And just want to point out that the guidance has been maintained.

Just want to confirm that adult-use sales is still not in the guidance. Or if it is, could you please let us know that?

And does this potentially make the guidance for the second half of the year a bit more conservative than it would have been before?

Susan Villare

Yes. This is Susan. Thank you. Yes. We did consider Maryland adult use, and we did look at the retail that we have in existing states. And we did see a little bit of competition, so we put very modest amount in for adult use, about \$2 million. And we think there's considerable upside, but until it gets going and we have a better sense of what that's going to be, it will not be in the guidance. So our goal is to increase it as we get going with adult use.

Andrew Semple

Great. That's helpful. And then just want to ask similarly on Delaware, which also made some progress towards legalizing adult-use cannabis since last update. As you mentioned, you made one of the larger operators within that state. Does that state legalizing adult use change any plans for the year ahead? Are you planning potentially some more capital allocations to that state?

And any clarity with the legislation that was passed, whether it be allowed to fully consolidate those operations in a for-profit model?

Jon Levine

Andrew, good morning. It's Jon Levine. Thank you for joining the call this morning. Yeah. We're very excited about Delaware. The good news is that we put all the capital needs into the state already. We're ready to flip the switch and be able to produce as much cannabis as necessary to supply the whole state.

We don't know as yet because reading the law that they wrote so far doesn't have all the answers yet. But we are very positive and upbeat that this will allow First State to be rolled into MariMed once they make the adult-use legalization and allow for-profit entities. But again, we don't know the final bill that will be put in place, but we have a lot of hope and excitement about it.

Andrew Semple

Great. Thank you, Jon and Susan. Maybe just a very quick one. Could you quickly comment on how the Beverly store is performing in the first few weeks of operations? And I'll get back into queue. Thanks for taking my questions.

Jon Levine

Sure. I mean, Beverly has been a ramp-up that we expected it to start off at a medium pace, slow pace, and it will grow over time. There's still a great market up there. But it's really getting the message

out that we're fully open with operations and that we have a wide variety of items to be looked at by our customers. We're seeing increased patient counts, and we're very bullish on it.

Operator

Your next question comes from Jesse Redmond at Water Tower Research. Please go ahead.

Jesse Redmond — Water Tower Research

Hey, guys. Congratulations on the quarter. I was looking to learn a little bit more about Massachusetts. I know historically that's been a harder wholesale market, but you've done well there with Nature's Heritage. So just looking for an update on if you're still seeing that outperformance on the Nature's Heritage side.

And then also in Massachusetts, it sounds like the bigger issue is increased competition on the retail front, and I was wondering if that was specific to new dispensaries in areas where you're located and what you can do to help combat some of that competition.

Tim Shaw

Hi, Jesse. This is Tim Shaw. Thanks for the question. Appreciate you.

So yeah. In Massachusetts, Nature's Heritage continues to be the front-runner in the state. It's a well sought-after brand. High-quality flower is always going to win the race. We continue to stay above the fray. There is definitely price compression in the state, and we're standing on the sideline, not being a part of this race to the bottom.

And as far as the retail goes, the increased competition is real. There is more and more dispensaries coming online. We have seen some pop up around our facility. But as we did last year, we adjusted. We made some improvements and created the traffic to come back to our stores. So we're bullish on that, that we'll be able to retain our customer base.

Jesse Redmond

Thanks. And just one more on Illinois. I know some other MSOs have talked about losing revenue as people come in from Missouri. Looks like of your stores aren't too close to the border there, but just curious if you're seeing any of that pressure as Missouri is open and lots of those people are coming into Illinois to get their cannabis.

Jon Levine

Yeah, Jesse. Jon Levine. Thank you very much for joining us this morning and offering some questions.

Yeah. Illinois, we are far enough away on most of our stores that we haven't seen great pressure. We have seen some pressure on one of our stores, which is in Anna, which is a little closer to the border. But our business has maintained an increase month over month, and we are very bullish, again, still on Illinois that we're adding another store this year as Tim said earlier. So it's an exciting opportunity with Illinois. But we're very bullish on opening up our Missouri operations and being able to get into that adult-use market there.

Jesse Redmond

Great. Thank you very much.

Operator

Ladies and gentlemen, once again, if you would like to ask a question, please press *, 1 now.

Your next question will come from Mike Regan at Excelsior Equities. Please go ahead.

Mike Regan — Excelsior Equities

Hi, everyone. Thanks for taking the questions. Just first question, can you help us understand the drivers for the expanding gross margin in the second half of the business? You have between either the pricing or ramping up new assets that are currently underutilized.

Susan Villare

Sure. Hi, Mike. This is Susan. So it's a great question. And this past quarter, we did ramp up and acquired, as you know, the Quincy store. So we, obviously, with the change up there changed up the menu, et cetera, and we had personnel on before revenue grant.

Similarly in Beverly, we had folks on for almost six weeks before the store got the final approval to open. And as Jon had talked about, we've had six pretty large operations that are opening throughout the course of the year.

And so as Illinois gets up, we'll be hiring a lot of folks to do processing as well as grow about two months before we're actually selling. Similarly with Missouri.

So once those are in place, we will definitely be at that 50 percent mark and maybe even ahead of that. So we are laser focused on input, maintaining the highest quality, but as we're ramping and growing our headcount to produce these assets, it will be a little bit of a drag until they're fully operational.

Mike Regan

Got it. Okay. So yeah. The drag is obviously sort of the difference between the merchandise margin and the actual product you're selling versus underutilized assets until they're actually turned on, which makes sense.

And then, another quick question on the Massachusetts competition. In the past, you've noted that you've sort of avoided some of just the price declines as those have a mix shift in Massachusetts. And

if you're saying your higher-level craft, that it's having less of an impact, from those new stores, are you seeing impact more on traffic? Or on pricing?

Or how is that competition sort of manifesting itself?

Tim Shaw

Hey, Mike. This is Tim. If you're speaking about the retail stores, yes. It is traffic. And the economy is driving the ticket price down. We're doing a lot of promotions to try to buy more, get more to get the ticket prices back to a reasonable number and continue to drive people to our shops with great deals, but it's really competition and the economy that's driving the ticket prices lower.

Mike Regan

Okay. Great. Well, thanks a lot for taking the questions.

Susan Villare

Thank you.

Operator

Ladies and gentlemen, guests and speakers, as we have no further questions, this will conclude this morning's conference call. MariMed would like to thank everyone for participating. And at this time, we ask you please disconnect your lines.