

MariMed, Inc.

Third Quarter 2023 Financial Results Conference Call

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Jesse Redmond

Water Tower Research — Analyst

PRESENTATION

Operator

At this time, I'd like to welcome everyone to the MariMed, Inc. Third Quarter 2023 Financial Results Conference Call.

(Operator Instructions)

I will now turn the line 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 third quarter 2023 earnings call.

Joining me today are Jon Levine, our Chief Executive Officer, Tim Shaw, our Chief Operating Officer, and Rene Gulliver, our Head of Business Development. Most of you know, Rene having met him on various calls and conference meetings.

This call will be archived on our Investor Relations website and 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 some of these risks is contained in the Risk Factors section of our 10-K 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 certain non-GAAP financial measures, which are reconciled in our earnings release and our supplemental slides located on the Investors section of our website.

Finally, our fourth quarter 2023 earnings release is tentatively scheduled to be issued after the markets close on March 6, 2024, and our analyst call will be held the morning of March 7, 2024, at 8 a.m.

I will now turn the call over to Jon.

Jon Levine — Chief Executive Officer, Interim CFO & President, MariMed, Inc.

Thank you, Steve, and good morning, everyone.

I'm pleased to report that MariMed had another strong quarter of revenue growth, which was the result of the strong growth in our core wholesale businesses in Maryland and Massachusetts, as well as our new dispensaries ramping towards maturity. We reported positive Adjusted EBITDA for the 15th consecutive quarter, and we remain on track to generate positive operating cash flow for the fourth consecutive year.

Let me quickly highlight some of the key achievements since our last earnings call. First, we began adult sales in Maryland on July 1. As expected, sales have been very strong. Our Annapolis dispensary sales are trending more than 2 times what they were before adult use. In fact, our Annapolis dispensary is on a trajectory to be our second largest revenue-producing dispensary behind our Metropolis, Illinois location. While wholesale results continue to accelerate, sales are stabilizing due to limited flower supply. Which we are aggressively addressing through the expansion of the cultivation facility in Hagerstown, Maryland. I could not be more excited for Maryland's long-term potential.

Subsequent to the end of the third quarter, we opened our fifth dispensary in Illinois. Our new Thrive Dispensary in Casey is our 12th dispensary across five states that we own or manage. We still have room to double our dispensary counts in Illinois, which we are actively seeking to do so.

Additionally, I'm thrilled to announce that we received the certificate of occupancy for our new processing facility in Mount Vernon, Illinois. We are awaiting approval from the Department of Agriculture to begin manufacturing cannabis products, which we expect receipt of shortly.

For more than three years, I have wanted to say to the residents of Illinois, Betty's is finally back. We're quickly ramping operations, and our sales team has already secured early sales commitments from the largest retailers in the state. We expect our products to begin selling through our retail and wholesale chains in time for the holiday seasons.

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

Timothy Shaw — Chief Operating Officer, MariMed, Inc.

Thank you, Jon, and good morning, everyone.

Let me start my operational review with our retail business. We continue to post strong retail growth throughout most of our footprint during the third quarter. Retail revenue increased 2 percent year-over-year and decreased about 1 percent sequentially. While our retail traffic was up 18 percent, driven by new store growth, our average check was down 13 percent. All of this is consistent with the industry according to BDSA data. Clearly, economic pressures continue to impact the consumer.

Despite those pressures, Massachusetts grew 9 percent sequentially and 42 percent year-over-year, driven primarily by our new dispensary openings. Maryland grew 88 percent sequentially as our Annapolis dispensary, which opened in the fourth quarter of last year, continued its strong ramp and experienced a significant boost from the implementation of adult-use sales. In Illinois, sales declined due to increased retail competition as well as the impact of adult-use sales in Missouri. These declines will be partially offset with the recent opening of our Casey dispensary.

Additionally, we are introducing more value products and new product bundles at retail to regain lost traffic and boost average check. We are also redirecting some marketing dollars from national initiatives to local. These same initiatives have helped us regain share in Massachusetts when we faced similar competitive pressures.

Finally, introducing Betty's Eddies in our dispensaries and tactically wholesaling, our branded products, primarily in areas where we do not operate retail locations, will help drive traffic to our dispensaries. Overall, we are pleased with our retail business. We continue reporting increased revenue in Massachusetts, Maryland, and Ohio as our new dispensaries ramp to maturity.

Moving to wholesale, we reported \$13.6 million in wholesale revenue, which increased 51 percent year-over-year and 24 percent sequentially. In fact, this was the seventh consecutive quarter of sequentially higher revenue in the fifth consecutive quarter of record sales within our wholesale business. This growth was driven primarily by adult-use in Maryland, but make no mistake, Massachusetts is also growing very nicely. We could not be more pleased with our overall momentum we are experiencing both our Maryland and Massachusetts wholesale business.

On the marketing front, we launched our seasonal Beachtime Betty's in July. I'm proud to say in October, we partnered with Keep A Breast Foundation, which advances breast cancer awareness, education and supports the millions of people affected by the disease. The limited-edition pink packaging of our Ache Away Eddies and the Keep A Breast partnership were a huge hits with our customers.

Our world-class R&D team has been working on new and improved versions of our Vibrations drink mix, K Fusion chewable tablets, our in-house gummies, and other new products. These improvements are focused on efficacy, onset time, and the expansion of our variety of need states and taste profiles. These efforts represent a demonstration of the team's dedication for restless dissatisfaction with the status quo.

Over the next six months, we plan to launch several new products to include, we will extend the Betty's Eddies with limited time apple pie and champagne flavours this December. We're launching Double Duos under Nature's Heritage, which offers two distinct strains in one convenient package. We're adding gingerbread and candy cane seasonal disposable vape flavours under our in-house brand in time for the holidays.

Finally, taking a page from the beer and sneaker industries, we recently launched our small batch exclusive loyalty programs for Nature's Heritage. We surprised in delight our Massachusetts loyalty members with an e-mail letting them know that a rare strain in Nature's Heritage in very limited supply will be available the next day only at our Panacea dispensaries.

This has proven to be among the best marketing campaigns we have done, as the buzz we are generating is very high. In fact, the initial product drop at our Middleborough dispensary sold out within an hour, and our loyalty members are clamoring for the next strains to drop.

That concludes my operational review. I will now turn the call over to my good friend, Rene.

Rene Gulliver — Head of Business Development, MariMed, Inc.

Thank you, Tim, and good morning, everyone.

I would like to start with a brief overview of our third quarter financial results. Revenue totaled \$38.8 million in the quarter, which represents a 14 percent year-over-year increase and a 6 percent sequential increase. As Tim discussed, our year-over-year and sequential growth results were driven by both our wholesale and retail operations.

Moving to gross margin, our non-GAAP gross margin was 45 percent in the quarter, which is a decline versus the comparable period in 2022. This decline was attributable to a number of items including, macroeconomic factors, both domestic and global in nature. These factors have driven up our input costs and have resulted in delays in opening our new dispensaries and other operations due to supply chain challenges. In addition, we have experienced increased competition in Massachusetts and Illinois. We expect gross margin to improve going forward as new assets come online and continue to ramp.

Our non-GAAP operating expenses were \$12.8 million in the quarter compared to \$8.7 million in the third quarter of 2022. This \$4.1 million increase was due to planned increases in personnel, marketing, and G&A to support our strategic growth initiatives. Non-GAAP OPEX was essentially flat as a percentage of sales versus the second quarter. We continue to expect OPEX to decrease as a percentage of sales, as our topline increases and leverages our fixed costs.

Our Adjusted EBITDA was \$6.1 million in the quarter compared to \$8.6 million in last year's third quarter, due to the previously mentioned growth investments, which require the Company to incur costs prior to revenue ramping up.

Now, turning to the balance sheet, we ended the third quarter with \$13.3 million of cash and equivalents, which decreased slightly versus our second quarter cash balance of \$14.6 million. Our net working capital remained strong at \$15.5 million compared to \$28.7 million at the end of last quarter. Cash flow from operations was \$7.9 million, and we remain on track for our fourth consecutive year of reporting positive operating cash flow.

Moving on to our 2023 financial outlook. While topline growth remains well above industry average, our margins have not improved as anticipated due to the combination of the delayed dispensary openings and their subsequent sales ramps combined with the increased operating costs associated with these new assets. As a result, our 2023 financial targets are as follows: revenue of \$148 million to \$150 million. The low end of this range implies the current revenue trend, the high end of the range primarily reflects the Illinois wholesale operations coming online in Q4; non-GAAP gross margin of approximately 45 percent, which is lower than the 48 percent originally guided due to the reasons previously stated; non-GAAP Adjusted EBITDA of \$27 million to \$32 million, down from the \$32 million to \$35 million we previously guided. While EBITDA did not meet expectations as we previously explained, we view the lower target as more of a delay in generating EBITDA into 2024; CAPEX of \$22 million to \$25 million, down from our previous \$30 million guidance due to construction delays. We expect the remainder of the original \$30 million guidance will be spent in 2024 to complete the expansion of our Maryland, Illinois, and Missouri cultivation and processing facilities.

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

Jon Levine — Chief Executive Officer, Interim CFO & President, MariMed, Inc.

Thank you, Rene.

As our results illustrate, we continue to execute our strategic plan. I'm truly pleased with the progress the Company has made, despite regulatory and construction delays and increased competition. MariMed still has one of the most conservative balance sheets in the industry, which has allowed us to accelerate our revenue growth faster than the overall industry.

Looking ahead, we believe our top-line growth will continue to outperform the greater industry. As Rene explained, while our topline growth remained strong this year, our margins did not meet expectations due to higher input costs, regulatory, and construction delays, carrying costs associated with building several of the new assets, so quickly and macroeconomic pressures on the consumer.

That said, our new assets are ramping, which will lead to margin improvements in 2024. These new assets will continue growing sales, allowing us to finally leverage the investments we made in personnel, infrastructure, and growth over the past 18 months. In addition to our focus on growth and improving our financial results, we also take seriously our responsibility to be an industry thought leader.

Last quarter, we were proud to call for the elimination of 280E through our staging of the Boston 280E THC Party. We generated over 100 million media impressions with that initiative. We'll let history determine if our stunt was a nudge that the Department of Health and Human Services needed to deliver

its recommendation to reschedule cannabis shortly afterwards. As you know, a Schedule 3 classification would mean the end to 280E, saving us to most other cannabis companies, millions of dollars in tax payments.

Before I wrap up our call, as a die-hard sport fan, I love watching the amazing post-season run of the Texas Rangers. The scrappy Rangers reminded me of how far MariMed has come these past few years. Like them, we were not considered as a top tier competitor, but like the Rangers, we have invested our money wisely, built a world-class team, and embraced the underdog growth. We have put all these pieces together ready to be a champion among our peers.

Looking ahead at 2024, which is a couple months away, we are once again poised for a championship run. The heavy investment in the organization is substantially complete, and we are ready to begin reaping the fruits of our labours, in terms of accelerated revenue and profit growth in 2024 and beyond.

I would like to thank all our employees for their continued hard work and dedication to helping MariMed achieve our mission to improve the lives of people every day. In fact, over the past 12 months, our employees have helped to improve the lives of nearly 5 million patients and customers with our products.

Operator, open the lines for questions.

Q & A

Operator

Thank you. (Operator Instructions)

Your first question will come Pablo Zuanic with Zuanic & Associates.

Pablo Zuanic — Analyst, Zuanic & Associates

Thank you, good morning, everyone. Look, just on the guidance, particularly in terms of sales guidance for the fourth quarter. That means based on your nine months, means 38.3 to 40.3. That's minus 1 percent to plus 4 percent. Not to get too numerical here, but we're almost in mid-November. That's quite a bit of a variance there. What are the levers for you to be at the high end or the low end there in terms of—just a quick answer on that.

Rene Gulliver — Head of Business Development, MariMed, Inc.

Pablo, hi it's Rene. Thanks for the question. On the low end, we're seeing good uptick in Maryland wholesale and retail, and I think we're anticipating hopefully that trend continues, so that would be the low end of the scale. Like we mentioned, if the operations in Illinois, the grow operations and processing operation comes online in Q4, that's kind of the upside. We're hoping that happens. We're going through the final regulatory approvals, and we expect to hopefully have some production come out of there in Q4. That's the upside on that range.

Pablo Zuanic — Analyst, Zuanic & Associates

Okay, thank you. Then just staying on that point. Just a reminder, in terms of all your expansion plans and all these new assets you are talking about, what's coming through in the fourth quarter and

what's still to come in the first half? I think at the end of '24, at the end of your prepared remarks, you mentioned something about the expansion in Missouri and other places. Just to remind there about all those new assets that should come through in the first half of '24. Thank you.

Jon Levine — Chief Executive Officer, Interim CFO & President, MariMed, Inc.

Morning, Pablo, thank you for joining us, and thank you for the question. Yes. As Rene was just saying, our Illinois cultivation processing center is having inspections and we hope to have at least the processing center opened in the next couple of weeks and getting products into that state. We just opened up our fifth dispensary in the state in Casey.

In addition to further growth, as you said, Missouri should be coming on sometime either late Q4, early Q1. Hopefully, it's just regulatory delays, trying to get approvals still in Missouri. Then we're still finishing up our construction of our expansion in Maryland. We hope for that to be early 2024. We had some delays on supplies of materials. It's the parts that are important to be able to get them open as quick as possible for the demand. Then in Massachusetts, our expansion, so additional growth and a new kitchen to help the demand in that state. Again, that would be 2024.

Pablo Zuanic — Analyst, Zuanic & Associates

Yes, that's great, thank you. Just one last one. Based on the positive results in Ohio, how are you thinking or expanding there in terms of M&A, particularly in terms of adding stores? Thank you.

Rene Gulliver — Head of Business Development, MariMed, Inc.

Yes, Pablo, it's Rene. Definitely. We've always liked Ohio as a state, and now we take it even more. We continue to look for opportunities in our goal, we've stated all along is to be vertical in every state we're in. We look for that opportunity in Ohio as well. We do have the one retail as you know, we're allowed four more. Like I said, ongoing search for opportunities in that state to get us to a vertical position ultimately.

Pablo Zuanic — Analyst, Zuanic & Associates

Thank you.

Operator

Your next question will come Andrew Semple with Echelon Wealth Partners.

Andrew Semple — Analyst, Echelon Wealth Partners

Great, thank you. Good morning. First up on the margins, which came down this quarter despite the significant improvements we saw in revenue and asset utilization really across the organization, but especially in Maryland. Wondering if there were any costs associated with the ramp-up of all those facilities you were going through just now, that would have resulted in increased costs without offsetting revenues. Was that a dynamic that impacted the margins this quarter end? If so, do you think you can get back some of that margin profile in subsequent quarters and into 2024?

Rene Gulliver — Head of Business Development, MariMed, Inc.

Yes, there's some impact for sure, the Ohio dispensary for sure, Illinois processing. We did have some of those costs that hit the margin. Will those come back? Yes. As those operations come online and the revenues starts to ramp up even more in Ohio and Illinois, starting in the processing area like we've mentioned, then the answer is yes. We would expect obviously some positive accretive income from those.

Andrew Semple — Analyst, Echelon Wealth Partners

Great. Then just thinking about operational spending for the next few quarters. Do you think you have all the operational infrastructure in place for the next leg of growth? We could see that start to flatline somewhat. Or, do you think that there will be additional investments needed to continue to grow the business?

Jon Levine — Chief Executive Officer, Interim CFO & President, MariMed, Inc.

Morning, Andrew, thank you for joining, and thank you for the question. We've spent a lot of the gross money on our structure of the executive and mid-level. But we still will need to hire as we expand into Illinois, with the cultivation and processing with some additional hires as we build out Missouri. But that's just operation people that were in our original forecast, but the major piece of the growth, it's all over for the executive team in mid-level. All those expenses should be flat or even coming down a little bit.

Andrew Semple — Analyst, Echelon Wealth Partners

Great, that's helpful. Last one for me, just quickly would be on the CAPEX guidance coming down. Is that reflecting scaled back investments or is that just drifting into 2024?

Jon Levine — Chief Executive Officer, Interim CFO & President, MariMed, Inc.

That is really due to the fact of the delay of materials coming in and delay of the operations being completed. As we go into 2024, I do see those completions and those dollars being spent early.

Andrew Semple — Analyst, Echelon Wealth Partners

Great, thank you very much.

Operator

Your next question will come Jesse Redmond with Water Tower Research.

Jesse Redmond — Analyst, Water Tower Research

Good morning, guys. I have a question mainly related to gross margins. It seems like you saw more pressure this quarter and you talked about that coming primarily from Illinois and Massachusetts. Curious, I guess, on two fronts, can you talk a little bit about what's driving that strategy? Then elaborate a little bit more on the strategy to maybe try to recoup and if you need to go down in price a little bit. Or what else you can do to counteract maybe some of those new stores opening that might be driving that competition?

Rene Gulliver — Head of Business Development, MariMed, Inc.

Yes. Thanks, Jesse, for the question. It's Rene. Yes, there's no question the competition is having an impact. Tim outlined a number of initiatives, whether it's bundling and some of the other things that he talked about, just some improvement in our marketing, our target marketing and that sort of thing. We're seeing certainly the benefit of that in Massachusetts. We'll continue to do that, those types of things. But that will help us recoup some of that lost revenue and get the average ticket up. That's only part of the margin story, though.

We also talked about these delays are obviously having an impact on us and the inflationary pressures are—we don't want to downplay those, because we're certainly seeing that as everybody seems to be. Those are other factors aiding gross profit. Now, will inflation come down when we start to recoup some of that? Not sure. What we can control obviously, is what we do in terms of hitting the competition head on. That's the type of stuff Tim outlined.

Jesse Redmond — Analyst, Water Tower Research

That's helpful. Do you see the competition continuing to increase in those markets? I know there's much more social equity stores to be opened in Illinois and yes, there's more stores opening in Mass. Or is that a trend that you see, can you see the trend stabilizing and potentially see it accelerating? How do you see that evolving as we head into '24?

Tim Shaw — Chief Operating Officer, MariMed, Inc.

Thanks, Jesse, this is Tim. Yes, there are a lot more social equity licenses that have been issued minimal around the areas that we have our retail operations in specifically, Illinois. Bringing our

manufacturing facilities online and bringing our award-winning products with a lot of pent-up demand in that state is going to help offset some of our margins and capabilities to have a feather in our cap at our own dispensaries as we'll keep some of our specific brands like Betty's at our own dispensaries and not in the surrounding dispensaries and flood the market where we don't have operations. We really believe that will bring customers back, bring more transactions to our facilities, and help with our bottom line.

Jesse Redmond — Analyst, Water Tower Research

Will that Illinois manufacturing primarily focus on edibles? Specifically getting Betty's up and running first?

Tim Shaw — Chief Operating Officer, MariMed, Inc.

To start, that's where we have focused in our Phase 1 build. Yes, we are focused on our lab and kitchen operations. Not just Betty's, our Bubby's has really taken great trajectory in both markets that it's in. Our Vibrations drink mix also. We're going to be focused on our five high-margin products out of the kitchen, and really getting those across the state of Illinois. Our sales teams actually already hit the streets and has a great traction, with a lot of the big guys and smaller operators ready and willing for our products for their shelves. We're excited.

Jesse Redmond — Analyst, Water Tower Research

Last question on Illinois. Can you remind us of the—what your best guess is now, in terms of timing on the cultivation facility and when we might see a first harvest out of there.

Tim Shaw — Chief Operating Officer, MariMed, Inc.

It's really been electrical gear and things that have held us back. I think we're just about over that hump. We're about a month out from completion on the Phase 2 for our cultivation, barring any more issues with the supply chain. We see late Q2 our first harvest.

Jesse Redmond — Analyst, Water Tower Research

Okay. Thank you very much.

Operator

(Operator Instructions)

It appears there are no further questions at this time. Mr. West, I'll turn the call back to you for any additional or closing remarks.

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

Thanks, guys for joining us. If you have any questions, you know how to reach me. I'm at IR in MariMed and we are open for questions. Thank you very much.

Operator

This concludes today's conference call. Thank you for attending.