

14-Nov-2022

Verano Holdings Corp. (VRNO.CA)

Q3 2022 Earnings Call

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George Archos

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Brett Summerer

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Russell Stanley

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning. My name is Devin and I will be your conference operator today. At this time, I would like to welcome everyone to the Verano Corp. Third Quarter 2022 Earnings Conference Call. All lines have been placed on mute to prevent any background noise. [Operator Instructions]

Julianna Florence Paterra

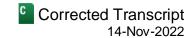
Director-Investor Relations, Verano Holdings Corp.

Thank you and good morning, everyone. Welcome to Verano's third quarter 2022 earnings conference call. I am joined today by George Archos, Chief Executive Officer and Founder; Brett Summerer, Chief Financial Officer; Aaron Miles, Chief Investment Officer; Darren Weiss, Chief Operating Officer; and Rich Tarapchak, our Corporate Controller.

During this call, we will discuss our business outlook and make forward-looking statements within the meaning of applicable US and Canadian securities laws, which are based on management's current assumptions and expectations. Such forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause the actual results, performance and achievements of the business or developments in the company's industry to differ materially from those implied by such forward-looking statements. Actual events or results could differ considerably due to risks and uncertainties mentioned in our filings on EDGAR and SEDAR, including our financial statements and MD&A for the quarter ended September 30, 2022.

In addition, throughout today's discussion, we will refer to non-GAAP financial measures that do not have any standardized meaning prescribed by GAAP such as EBITDA, adjusted EBITDA and free cash flow. Management

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believes non-GAAP results are useful to enhance the understanding of the company's ongoing performance, but these are supplemental to and should not be considered in isolation from or a substitute for GAAP financial measures. These non-GAAP measures are defined in our earnings press release and available on our website at investors.verano.com, which also includes the reconciliation of these measures to the most comparable GAAP financial measures. Lastly, all currency is in US dollars unless otherwise noted.

Given the ongoing litigation surrounding the company's decision to terminate the acquisition of Goodness Growth Holdings Inc., we are unable to provide commentary in addition to what has already been disclosed in our 8-K filed on October 14, 2022. Goodness Growth has filed a lawsuit in British Columbia, Canada, seeking damages from Verano. Our response to the suit will be filed later today with the British Columbia Court.

I will now turn the call over to George. Please go ahead.

George Archos

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

Thank you for joining us this morning. Today, I will cover the third quarter in more detail, discuss updates to our capital allocation strategy, including commentary on our refinance debt deal, and finish with my thoughts on Verano's positioning for future growth. I'll then pass it over to Brett to cover financials before I get a few closing comments and provide a fourth quarter outlook.

I am extremely proud of what we accomplished in the third quarter, highlighted by revenue of \$228 million, representing sequential growth of 2% and year-over-year growth of 10%. We also generated another quarter of strong adjusted EBITDA margin of 36% or \$82 million compared to 34% or \$76 million in the prior quarter. This progress and ability to deliver growth is a reflection of our relentless focus to continually adapt the business in light of industry evolution, especially given the current macroeconomic environment. The depth of measures we drove throughout the quarter, including evaluating head count and store operations while accelerating the launch of new brands and product offerings, including the introduction of mid and value tier items.

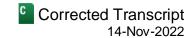
Overall, the cannabis industry continues to grow at a time when many other industries are contracting, however, it has also faced its share of challenges. Consistent with other operators, we saw demand and pricing pressures for the third quarter in certain markets such as Pennsylvania and Florida, which were slightly offset by growth in other markets, primarily in New Jersey.

New Jersey remains an exceptional market for Verano with our third and final dispensary, Zen Leaf Neptune, opening to adult-use consumers midway through the quarter. We are one of the top wholesalers in the state with wholesale revenue up 3 times over the prior year and our dispensaries remain busy and efficient with retail revenue up over 5 times versus the prior year.

We expect to see some normalization over the coming quarters as some of the initial adult-use excitement wears off, especially versus peak summer months. Additionally, we saw basket sizes decrease slightly in New Jersey versus the prior quarter, which we believe was due to both the increased proportion of recreational sales and inflation-driven pressures as we fight for wallet share alongside other categories.

However, we remain bullish about this state. Looking ahead, we expect our mix of wholesale in the state to increase as newly approved dispensaries slowly come online over the next 12 months. Regarding Florida, first and foremost, we are grateful that all of our employees are safe and accounted for following Hurricane Ian. We continue to wish the people of Florida a swift and safe recovery after this tragic event and are grateful for all the first responders who put their lives at risk during such a dangerous time.

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We also announced our donation to a Florida relief organization last month and will continue to help any of our employees that sustained significant personal losses. While we are fortunate enough to avoid significant damage at our cultivation facilities, we did incur damage to some of our dispensaries, forcing us to temporarily close certain locations anywhere from a few hours to a week or so. Most locations recovered quickly; all but one of our dispensaries are now up and running. And we have since seen a period of softness that carried through into the fourth quarter.

Outside of this historic hurricane, patient growth for the third quarter tapered, which we generally expect as the Florida medical market matures. Despite this, we continue to see value in strategically open locations as we position ourselves ahead of an anticipated future adult-use market. We opened 11 dispensaries in Florida during the third quarter and subsequently opened two more.

Of note, we don't expect to see the full impact of a new store opening for about six months, so we generally absorb higher costs initially compared to top line acceleration. Looking ahead, we anticipate a slower pace of store openings in the fourth quarter versus the third quarter as we grow increasingly comfortable with our footprint in the current medical market but we still expect some growth from the 61 Florida dispensaries we hold today. Lastly, while the fourth quarter has historically been strong in Florida, given the state's ongoing large scale hurricane recovery efforts and the impacts from Tropical Storm Nicole, we are tempering our expectations for the remainder of the year.

We continue to face challenges in Pennsylvania from a pricing and demand perspective related to the increase in state dispensary count, which has grown about 20% in 2022 versus 2021. While dispensary count growth offers us additional wholesaling opportunities, this has also added some additional retail pressure. To combat this, we accelerated the launch of our mid-tier brand Essence to complement our premium Reserve brand and expect to launch our value brand Savvy shortly.

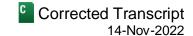
Throughout the quarter, we are also continuing to phase out the Agri-Kind brand as we focus on scaling our namesake brands that were introduced in the market in August. Through our affiliates, we now have 15 dispensaries in the state with runway to open three more, and we look forward to having the opportunity to realize our full potential in the market once all three value tiers are fully rolled out in the state.

We remain keenly aware of the current macroeconomic environment and the impact it has had on consumers. As mentioned on our last call, we pulled forward the launch of Savvy, our value brand, in anticipation of the impact that growing inflation would have on our customers. We have also introduced the Savvy brand across Illinois, Florida, Arizona, Nevada, Ohio, Massachusetts and Maryland. We are very pleased with the initial results we are seeing following the launch of Savvy and we will continue to tailor our portfolio based upon market trends.

Moving on to our capital allocation strategy. I want to reiterate that we are always striving to be prudent stewards of capital. Given potential recessionary pressures, we are taking further measures that we believe will insulate and prepare the business for a recessionary environment, prioritizing cash flow first and foremost.

In addition, we decided to strategically delay CapEx projects that we do not believe will provide immediate-term returns as we balance short-term return on investment with long-term growth opportunity. At this time, we prefer to hold cash on the balance sheet to provide flexibility. We will continue to monitor and, as we've done historically, react accordingly as progression towards adult-use picks up in certain markets.

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We also have the optionality to reignite these projects at the appropriate time, once-adult use programs for certain states become clear and we see the ROI potential develop. Given our prior CapEx range included amounts associated with Goodness Growth's New York and Minnesota assets, in light of our termination of that acquisition, we expect a much lighter CapEx spend than previously disclosed. We are now targeting \$20 million in the fourth quarter and \$25 million to \$50 million in 2023. We have less of our cash flow currently earmarked for certain CapEx projects and we will continue to take a balanced approach to increasing our cash reserves along with utilizing cash in a strategic manner.

With that said, last month, we announced the refinancing of our \$350 million credit facility to October of 2026. This new credit facility provides us with more flexible terms that we believe can save the business money, such as prepayment optionality and ways through which we can decrease our cost of capital.

Specifically, we have the option to prepay up to \$100 million on the facility, allowing us to de-lever at what we believe is a low-cost prepayment fee of \$1 million. Additionally, we expect to continue to leverage our unencumbered real estate with a goal of bringing down our blended cost of capital to approximately 10.5% in the medium term. We are very pleased with the extended terms we were able to secure in a rising interest rate environment and believe this is an example of prioritizing our investors' best interest.

In terms of future growth opportunities, looking ahead, we also continue to ramp up our R&D efforts as we find ways to target new consumer segments. Earlier this month, we announced the launch of our low-dose, high-function edible line, BITS, a unique brand platform of five flavor variety that combines 5 milligrams of THC, complementary cannabinoids, and functional adaptogens. The initial launch of this product line spans six core markets, including Illinois, Ohio, Nevada, Massachusetts, Maryland and New Jersey, soon to be followed by Arizona and Florida.

In addition to expanding our brand portfolio into new and exciting categories, part of our strategic growth plan includes partnerships and licensing opportunities such as our recent Ric Flair Drip Cannabis launch in partnership with Tyson 2.0.

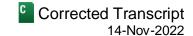
We also look forward to the tremendous future growth opportunity in five potential future adult-use markets representing 43 million Americans, where Verano maintains scaled operations and competitive positions; Maryland, whose residents voted just last week to legalize adult-use sales in 2023, and Connecticut, which should launch in the next six months as well as Florida, Pennsylvania and Ohio.

In Maryland, a legacy state for Verano, we have positioned ourselves in advance of adult-use legalization, as we have successfully done in Illinois, Nevada and New Jersey, a key tenet of our strategy. We are ready to go and look forward to working collaboratively with state regulators on next steps to ensure another smooth and successful program launch, and are excited to welcome adult-use customers at our four Maryland Zen Leaf dispensary locations.

On the M&A front, we will continue to evaluate opportunities to strategically expand our footprint when and if the time is appropriate. Given some of the macro trends in the industry, especially the challenging headwinds many smaller operators are facing, we continue to evaluate opportunities with a critical eye towards accretive growth.

Before turning it over to Brett, I want to touch on the momentum we see building in DC. We are encouraged by the recent announcement of President Biden to review the scheduling of cannabis and pardon prior federal cannabis possession charges. The President's recent directive is part of what we see as growing positive momentum for the industry. From two new states, Maryland and Missouri, having voted to legalize adult-use

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cannabis in the midterm elections to recent signals from Senate leadership that banking reform will pass in the lame duck session, we welcome the normalization of an industry that has been far too long marginalized.

We don't anticipate a cannabis scheduling decision in short order, but we understand that the US cannabis market of tomorrow won't be the same as it is today. We will continue to have conversations and explore every avenue so that we are best positioned to capitalize on any opportunities that present themselves on the legislative front.

In addition, we will continue to push forward with certain partnerships that help to shape the new narrative. We have never been more bullish of movement at the federal level. That being said, our success does not and has never, depended upon changes in the federal level and we are as confident as ever that we can execute irrespective of potential movement.

Finally, at the state level, the New Jersey Assembly recently passed a bill that would exempt cannabis companies from the 280E tax code. This bill heads to the state Senate next for consideration, but so far, we are also encouraged by this positive action.

And now, I'll turn it over to Brett to discuss the financials in more detail, after which I will provide some closing comments.

Brett Summerer

Chief Financial Officer, Verano Holdings Corp.

Thanks, George. Today, I'll review financial highlights from the third quarter 2022, but first I want to briefly cover some of the progress we've made structurally. We continue to add and recruit additional head count for our finance and accounting teams, including roles specific to internal audit, internal controls, as well as technical accounting and operational finance resources. We're very happy with the renewed relationship with our auditor, and I'm very pleased with how smoothly the transition has gone.

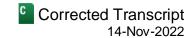
Moving on to the financials. Third quarter 2022 revenue was \$228 million, up 10% compared to the third quarter of 2021 and up 2% sequentially driven by growth in New Jersey, offsetting softness in other markets.

On a gross revenue basis, excluding intersegment eliminations, 30% was derived from the wholesale side of the business, slightly above the second quarter's mix of 27% primarily due to an increase in New Jersey wholesaling. The remaining 70% was from the retail business.

Gross profit for the quarter was \$123 million or 54% of revenue. On an adjusted basis, this was an improvement of about 4% versus Q2, primarily driven by the benefit of more efficient production as we built inventory to support seasonally higher Q4 retail sales. We expect some of this impact to reverse in the fourth quarter as seasonality ramps back down in Q1. Though pricing pressures were a headwind, this is mostly offset by an increase in Verano products sell through at our stores, which we increased by 6% quarter-over-quarter to 47% excluding Florida, Arkansas and Michigan.

SG&A expenses were \$86 million for the quarter or 38% of revenue. On an adjusted basis, this is an improvement of nearly 2%, which reflects the alignment of our cost structure to industry sales expectations. Given the uncertainty surrounding the current economic environment, we will continue to manage our costs in line with our revenue. We had a net loss for the quarter of \$43 million and \$82 million of adjusted EBITDA or 36% of revenue for the third quarter, an improvement of \$7 million or 34% of revenue versus the second quarter.

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Turning to the balance sheet and cash flows, we ended the quarter with \$76 million in cash and cash equivalents. Cash flow from operations for the quarter was \$21 million and \$65 million in the first nine months.

CapEx spend for the quarter and first nine months was \$23 million and \$110 million, respectively. Spend for the third quarter was nearly an even split between wholesale and retail projects. Going forward, we expect approximately \$20 million in CapEx spend for the fourth quarter as we wrap up some smaller scale projects. We will strive to match CapEx spend with both economic and legislative developments. But for now, we anticipate between \$25 million and \$50 million in spend for 2023.

Regarding taxes payable, we made payments of \$21 million within the third quarter. Our tax strategy remains unchanged whereas we leverage our income tax payable as a low-cost source of capital. Lastly, our acquisition consideration payable has decreased to \$54 million as over \$13 million was paid out in Q3. We have estimated cash payments of \$30 million to make in the fourth quarter with the balance being closed out in 2023.

Despite a slowing economic environment, consumer demand for cannabis remains strong. Looking ahead, we feel very well-positioned for the future and will maintain our agile mindset so that we can continue to deliver strong and sustainable results in the year ahead.

And now, I'll hand it back to George to wrap up.

George Archos

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

Thanks, Brett. While we still see a tremendous amount of growth ahead of us, we want to set the appropriate expectations for the fourth quarter. We anticipate revenue that is flat to down versus the third quarter as we're seeing some of the recent trends continue. Similarly, we also expect margins to decline in the fourth quarter, primarily driven by pricing pressures, increased costs ahead of growth, the accelerated rollout of our Savvy brand into new markets, and the lingering impacts from the recent events in Florida.

Despite market movements and economic challenges, operationally, we are in the strongest position today than we have ever been in before. In addition, we are poised for key adult-use markets.

As Brett mentioned, and something I want to emphasize, we continue to beef up our accounting and finance teams and recently strengthened our board with the addition of Lawrence Hirsh, who now chairs our Audit Committee and brings in extremely tenured background. We remain focused on corporate governance as we position ourselves for a potential entry into the US capital markets, when possible, which would be gamechanging for us.

Lastly, we are very optimistic about the current legislative backdrop and look forward to further developments.

With that, operator, please open up the line for questions.

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] Our first question comes from Aaron Grey with Alliance Global Partners.

Aaron Grey

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

Hi. Good morning and thank you for the questions here and I see the margin improvement there. So first question I have is on Florida, and I see some of the store openings there. But just curious there because, volume share looked to have been flattish looking at some of the weekly data despite all the store openings that you guys had, which looks to be about twice as many as the next closest competitor. So outside of the dynamics of the hurricane, just in terms of the competitive dynamics of the market. Any additional color you can provide on that, particularly given – your particular pricing strategy? I know it remains a promotional market, so are you still comfortable with the pricing strategy despite share roughly flat with store openings? Thank you.

George Archos

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

Hey. Good morning, Aaron, thanks for the question. Yeah, I mean, Florida's been a little soft. Normally, we anticipate additional growth around this time of year but with the hurricane, with what's going on, we've seen a little bit of flatness and we expect that to continue through the quarter.

Aaron, pricing pressure there is something we've been talking about. That's why we're introducing new brands and new price points to become a little bit more competitive but we're not changing our structure on the current brands, right. That price remains intact. It's still very popular. We're just trying to attract the new consumer that get in the current economy, something that we need to do. So, that's what we're focused on and we're excited about it. Savvy has done very well and all the launches in these different markets and we anticipate the same in Florida as it rolls up.

Aaron Grey

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

Okay. Great. Thanks very much for that color. And then in terms of your lower CapEx plans, it certainly makes sense given the environment. Just any additional color you can maybe provide in terms of markets you spoke to in terms of less earmarked for those states and whether or not that states were no longer looking for that CapEx, does that include potential CapEx plans you would add for such as New York with Goodness or is that excluding that? Thank you.

George Archos

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

Yeah, including those, right. So Pennsylvania, we anticipated it about used to come a little bit sooner than what's happening currently. So we paused some construction there. Florida, same thing; we built up the second facility, but we paused future rollout of additional square footage there. New York and Minnesota both obviously no longer on our CapEx schedule. So give us a little optionality with our cash moving forward, which is a good thing given what's going on in the economy today.

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

Okay. Great. Thanks very much. I'll jump back in the queue.

George Archos

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

Thanks, Aaron.

Operator: Our next question comes from Matt McGinley with Needham.

Matthew Robert McGinley

Analyst, Needham & Co. LLC

Thank you. So on your wholesale program, do you have sufficient supply in New Jersey to be able to grow your overall wholesale business into the fourth quarter? Or should we assume that the overall trends that you mentioned were being [ph] flapped (00:22:25) down. Would pressure in both of those segments ratably and that wholesale would be down at around the rate of retail?

George Archos

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

Hey. Good morning, Matt. New Jersey, we do have additional supply for wholesale. We do need to see more stores open. I think that's going to be, kind of, the determining factor of our increasing wholesale sales. We'll see when these new stores start opening. But we do have additional capacity. We just added the third tier to our facility.

Again, we didn't want to oversupply the market, so we plan for that recently. So we have additional supply coming online. So we are in a very good position in that state and we're excited for the new stores to open to have additional wholesale demand but the timing of that remains to be seen. The new stores have to open first. Everyone there is vertical, so their additional suppliers come online. So we'll see what happens in the near term with the new source.

Matthew Robert McGinley

Analyst, Needham & Co. LLC

Got it. And on the G&A, despite the pace of store growth you had in the third quarter, you had what appears to be very strong control of your core G&A in the quarter. When you mentioned that margin pressure, you expect to see in the fourth quarter. Can you sustain that core G&A dollar base at the same level in the fourth quarter, or is the margin pressure that you're talking about largely going to come from the gross margin side in the beginning of the year?

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Brett Summerer

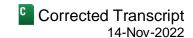
Chief Financial Officer, Verano Holdings Corp.

Go ahead.

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George Archos

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

On the SG&A side, I think you're going to see us continue to become more efficient there. So that should remain pretty flat. But I'll let Brett answer a little further on that.

Brett Summerer

Chief Financial Officer, Verano Holdings Corp.

Yeah. I think the ability to sustain our SG&A percentage is going to stay consistent in Q4, actually probably even improved potentially just as we see a full quarter of the realization of the actions that we've taken. On the gross margin side, you will see some deterioration there simply because we won't have the same level of efficiency in Q4 that we had in Q3 as we matched up to our anticipated demand is going to be in the seasonality associated with the industry.

Matthew Robert McGinley

Analyst, Needham & Co. LLC

Okay. Thank you.

Operator: Our next question comes from Russell Stanley with Beacon Securities Limited.

Russell Stanley

Analyst, Beacon Securities Ltd.

Good morning and thank you for taking my question. Maybe first on Florida, you mentioned that as a potential adult-use market. Just wondering what your latest views are on the Smart and Safe initiative, what your interests might be in supporting that going forward?

George Archos

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

Good morning, Russ. Florida AU, we believe it's a pretty viable option 2024 to make it as a valid initiative. So we're excited about it. We'll see how that comes along. And obviously, it could be a game changer for the entire industry. We view Florida as a major driver of this business for multiple companies in the future, and we'll see what happens.

Russell Stanley

Analyst, Beacon Securities Ltd.

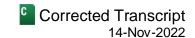
Got it. But it may be on Illinois, wondering what – from a wholesale perspective, what level of visibility you might now have around those new stores coming online from the 185 licenses issued? Obviously, a major boost, but wondering if your visibility has improved, with respect to timing. I know it's always guessing, but any ideas how many stores you might be thinking about for 2023?

George Archos

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

As far as how many stores for 2023, I would put it on the lower end. Maybe a third of those stores open in 2023 is based on what I'm hearing. Two stores were recently approved last week and I think they're opening this week, which is great for Verano. We've made a couple of shipments there and we anticipate that does slowly come out over the next few quarters. That's exciting for Illinois. We need those additional stores, provides additional

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wholesale capacity for us and others, and additional access, right? Now, we're competing against the black market and adding additional access to the customers in Illinois is a major positive for us. So we expect good things on the wholesale front there over the next few quarters.

Russell Stanley

Analyst, Beacon Securities Ltd.

That's great. Thanks for the color. I will get back in the queue.

George Archos

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

Thanks, Russ.

Operator: Our next question comes from Matt Bottomley with Canaccord.

Matt Bottomley

Analyst, Canaccord Genuity Corp.

Good morning, everyone. Thanks for the questions and congrats on a very healthy margin profile for the quarter. On the margins, I know you discussed a little bit already, but I'm just wondering if you could break it down a little bit more with respect to the impacts of macro level pricing pressures versus your own facility utilization and anything else that might be driving the margin profile, again, came in very healthy, but your profile seems to move around in terms of the balance more so than your peers. So, just trying to get an understanding of what sort of in Verano's control versus what might be macro elements causing some of these changes?

George Archos

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

Hey. Good morning, Matt. I'll pass off to Brett here in a minute. For us, there is a little bit of bouncing around here. So remember, we had quite a few acquisitions last year, so as we streamline and integrate those facilities, we do make changes, mostly for the positive. While at the same time, we're being offset by what's going on, on the macro side. We are seeing pricing pressure in multiple markets, so although we are becoming more efficient and we are absolutely in the best position we've ever been in from an operational perspective, there's only so much you can do with what's going on in the economy. But I'll let Brett further clarify.

Brett Summerer

Chief Financial Officer, Verano Holdings Corp.

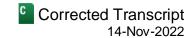
Yeah, sure. So, to your point, right, it does – it is a bit of a roller coaster ride as we go through this. But if you think about it, we did have some pricing pressure primarily in handful of states, and that was largely offset with our sell-through. So if you just look at what we've done internally to kind of manage our sell-through and help us offset our pricing margins, our pricing deterioration in our margins, that's kind of a wash. And then the operational efficiency kind of provided a lift from there. So hopefully that gives you the color you're looking for.

Matt Bottomley

Analyst, Canaccord Genuity Corp.

Yeah. Got it. And then just one more for me, just on the overall cash flow profile, so it looks like you had about \$65 million for the nine months. Can you just remind us what is expected, whether it's an actual number or just kind of maybe pointing to a previous quarter that might be analogous for how cash taxes will finish down the

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year? Just trying to get idea of where the full year cash flow profile will come in, inclusive of some of the different timing of tax payments?

Brett Summerer

Chief Financial Officer, Verano Holdings Corp.

Yeah. Again, we continue to manage our tax payments and we make the choices on timing, depending on what we want to do in the quarter, where our cash flows are and make choices at that time as to what the highest return on our investment is. So the strategy hasn't changed, 12 to 18 months on average outstanding. However, within the quarter, we might move or push and accelerate depending on what the opportunities are. So it's hard for me to sit here today and tell you exactly what we're going to do in terms of this quarter's cash tax payments.

Matt Bottomley

Analyst, Canaccord Genuity Corp.

Okay. Thanks, guys. Appreciate the color.

Operator: Our next question comes from Scott Fortune with ROTH Capital Partners.

Scott Fortune

Analyst, ROTH Capital Partners LLC

Good morning, and thanks for the questions here. Just, can you provide a little more color on the wholesale side of the business? And what are you seeing from a pricing standpoint? We know there's been pressure there, but are you seeing any stabilization here in some of your states? And then in respect to your footprint, what states do you have, a room to kind of meaningfully move up your verticality in those states kind of options to sell more brands in your own stores from different states level? That would be great.

George Archos

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

Hey. Good morning, Scott. On the wholesale, price stabilization depends on the market. We are seeing some prices starting to stabilize a little bit pretty significantly in Arizona, same with Nevada. PA, we'll see in pretty short order here, where they start stabilizing. Hopefully, that happens here soon. I think the other thing that's going to play a factor here is you're not seeing as much construction in the population side anymore. So a lot of the CapEx projects that were happening over the last couple of years, I think most of them come to close when they come to fruition. So I don't think we're going to see additional supply which should help stabilize a lot of these markets.

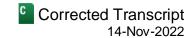
As far as verticality, we do have additional movement. We have some additional cannabis that came in line with Nevada and in Arizona in respect to be able to increase our vertical integration there. Illinois, we're capped unfortunately, but on the wholesale side, that will help. Pennsylvania, we will also increase some vertical integration there as well. Massachusetts came online. For the most part, that's pretty much it. Florida is obviously 100% vertical. So we see some couple markets, and in others, I think we'll have some additional wholesale opportunities.

Scott Fortune

Analyst, ROTH Capital Partners LLC

Got it. I appreciate the color. And then real quick, you mentioned CapEx as far as production, can you provide a little more color on the retail side, store additions, kind of some states there? And then with your current

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production in Florida, what is the kind of the amount that you can support as far as potential new stores in Florida?

George Archos

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

We're pretty comfortable with our Florida footprint. We will probably end the year in the mid-60, 64, 65 stores. We do have the cultivation capacity to do – to be able to handle probably about 10 more stores above that. So we're in a pretty comfortable position and we'll continue to open stores as we see fit based on what's going on in the economy. Other markets with additional stores, Pennsylvania we'll open three more. We're moving a couple of stores in a couple of key markets and that's pretty much it for now. And we're looking at some additional opportunities in other markets and we'll see how this play out over the next year.

Scott Fortune

Analyst, ROTH Capital Partners LLC

Thanks. I'll jump back in the queue.

George Archos

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

Thank you.

Operator: Our next question comes from Kenric Tyghe with ATB.

Kenric Tyghe

Analyst, ATB Capital Markets, Inc.

Thank you and good morning. George, just with respect to your comments on a worsening macro environment, some of the pressures you're seeing. Could you provide any insight on sort of the promotional discipline you saw at quarter? And perhaps more specifically, concerns you might have around on that discipline being maintained as we exit 2022 into 2023? And to the extent you can or will dive into any specific markets, that would be great? Thanks.

George Archos

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

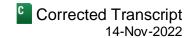
Hey, good morning, Kenric. So promotional activity, it's actually been a bit better but going into the holidays, I'm sure we're going to see pretty significant promotional activity over the next 45 days. So we'll see what that looks like. Traditionally, though, it's actually positive. I mean, this time of year, you see almost all retailers having some type of propulsion activity. We'll see how aggressive it gets. But for the first time, we'll be able to participate in all the different tiers of pricing. Savvy and Essence and Reserve will actually be able to do a couple of different unique things ourselves. So we're actually excited to see how the year ends out and what that looks like.

Kenric Tyghe

Analyst, ATB Capital Markets, Inc.

Appreciate that, George. Thank you. And then just quickly on the CapEx guide for 2023, can you help us better sort of tease out the buckets on the reset? How much of that reset was Goodness related versus just a step down in the cadence in your core operations? Just want to make sure we're getting the sequencing and the cadence correct?

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George Archos

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

Goodness would have been roughly 25% to 50% depending on how aggressive we got in Minnesota, and the rest of it was all Verano-based. So we scaled down some cultivation expansion in Florida, Pennsylvania, a couple other markets, just based on what's going on in the wholesale front.

And retail stores are going to continue to expand, just not as quickly as we had anticipated. We're pretty comfortable with our Florida footprint now. We want to see organic growth with our own stores. So we'll continue to add on strategically throughout the state as we see fit but not as aggressively as we work. So we feel very comfortable with the position that we're in.

Again, we announced about becoming more efficient, hitting all the value tiers, and continuing to grow the company organically.

Kenric Tyghe

Analyst, ATB Capital Markets, Inc.

That's correct, George. Thanks so much and congrats on the quarter.

George Archos

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

Thanks, Kenric.

Operator: Our next question comes from Andrew Semple with Echelon Capital Markets.

Andrew Semple

Analyst, Echelon Wealth Partners, Inc.

Good morning. Thanks for taking my question and congrats on the Q2 results. Just want to turn the attention to Connecticut and how you guys are feeling about your capacity in that markets, given that we might see adult-use sales beginning in the next couple of months here. Do you feel comfortable you'd be able to be active on the wholesale side in that state?

George Archos

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

Good morning, Andrew. We do. We're one of the largest wholesalers currently in the state. We brought on some additional supply. We also will be opening some additional retail sources and JV structures. So we're anticipating pretty good wholesale growth and retail growth in Connecticut.

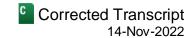
From a timing perspective, we will see. It should happen in the pretty near term. So it'll probably be mostly wholesale growth as we continue to build out and find these new store locations. But we're excited about CT. It's a pretty tight market. And traditionally, CT Pharma has done very well there, and we anticipate good growth from that market.

Andrew Semple

Analyst, Echelon Wealth Partners, Inc.

Great. Glad to hear that. Second, just want to ask on the outlook that you provided for Q4, point of sales growth flat or down for that quarter. Can you maybe speak to which states might be soft this quarter-over-quarter in Q4?

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And are you anticipating in that outlook that the flat-to-down might be more attributable to wholesale, given that we typically see retail sales seasonally higher in the fourth quarter? Can you help us kind of understand that comment a little bit better?

George Archos

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

Yeah. I mean, the majority of that comment is coming from Florida. We're seeing softness that we haven't seen there before. Traditionally, Q4, people move back to Florida. You see additional strength over the hurricane and what's going on in that state? We're just not seeing the uptick that we normally see. So we're just being cautious and we'll see how it plays out.

Other markets, you see the numbers, state numbers. They're all relatively flat or down a percent or two. So again, we're being very cautious about what we're doing and, again, focusing on our efficiency and in our operations and, yeah, that plays out.

Andrew Semple

Analyst, Echelon Wealth Partners, Inc.

Understood. That's helpful. Thank you very much. I'll get back in to queue.

George Archos

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

Thank you.

Operator: And our final question comes from Spencer Hanus with Wolfe Research.

Spencer Christian Hanus

Analyst, WR Securities LLC

Great. Thank you for the question. With the industry's pullback in CapEx, when do you think we'll start to see that increased discipline lead to better pricing trends out there? And then how close is that \$25 million to \$50 million CapEx target for next year to your maintenance CapEx needs?

George Archos

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

Good morning, Spencer. Maintenance number, Brett can answer on that. He's got that number pretty dialed in at this point. So we'll see how that plays out. I'm sorry, what was the first part of the question? I lost that.

Spencer Christian Hanus

Analyst, WR Securities LLC

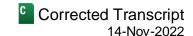
In terms of when do you think we'll see the increased capital discipline lead to pricing stabilization in the market, is that a 2023 event? Is that a 2024 event? How do you think that plays into the pricing dynamics?

George Archos

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

Yeah, it's something we talked about earlier. I mean, you don't see the CapEx being spent on cultivation currently. So that usually takes a year and a half or so to play out. But it'll depend on what happens within the individual

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markets, right. So as you see transition from medical, say, you'll see a huge increase in demand and a lot of it will also be based on the economy.

Brett Summerer

Chief Financial Officer, Verano Holdings Corp.

Yeah. On the – just to answer the first question on the maintenance CapEx, it's about \$10 million a year.

Spencer Christian Hanus

Analyst, WR Securities LLC

Got it. Got it. That's helpful.

Brett Summerer

Chief Financial Officer, Verano Holdings Corp.

So as we see [indiscernible] (00:38:01), we could see our basket prices increase and hopefully demand increases as well.

Spencer Christian Hanus

Analyst, WR Securities LLC

Yeah, that makes sense. And then in terms of New Jersey, I think you mentioned in the prepared remarks that you're seeing demand start to taper there as adult-use bump wears off. Curious what you guys can do to drive more interest in the category just given that we're so new in the launch there and the state has still underscored relative to the population?

George Archos

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

The biggest driver there is going to be additional stores. You know, there's only so much we can do with a small amount of stores and especially throughout the state, there aren't that many open for a use. As you see additional traditional stores and you have more access, you'll see an increase in sales.

Spencer Christian Hanus

Analyst, WR Securities LLC

Okay. Fair enough. Thank you.

George Archos

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

All right. Thank you, Spencer. Thank you...

Operator: There are no further questions at this time.

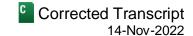
George Archos

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

...have a wonderful day.

Operator: There are no further questions at this time. I'll turn call back over to speaker, George Archos.

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George Archos

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

Again, thank you, everyone. Have a wonderful day and we'll see you in the next quarter and happy holidays, everyone.

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