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Verano Holdings Corp.

Fourth Quarter 2021 Earnings Conference Call

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Darren Weiss, *Chief Operating Officer and General Counsel*

Brett Summerer, *Chief Financial Officer*

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Mackenzie Boydston, *BTIG*

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PRESENTATION

Operator

Welcome to the Verano Corp. Fourth Quarter 2021 Earnings Conference Call.

Please be advised that this conference is being recorded.

I would now like to hand the conference over to your speaker today, Ms. Julianna Paterra. Ma'am, please go ahead.

Julianna Paterra

Thank you, and good morning, everyone. Welcome to Verano's Fourth Quarter and Full Year 2021 Earnings Conference Call.

I am joined today by George Archos, Chief Executive Officer and Co-Founder, Brett Summerer, Chief Financial Officer, Darren Weiss, Chief Operating Officer and General Counsel, and Aaron Miles, our Chief Investment Officer.

During this call, we will discuss our business outlook and make forward-looking statements within the meaning of applicable security 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, including our financial statements and MD&A for the fiscal year ended December 31, 2021.

In addition, throughout today's discussion, Verano will refer to non-GAAP measures that do not have any standardized meaning prescribed by GAAP, such as EBITDA, Adjusted EBITDA and free cash flow. Management believes non-GAAP results are useful to enhance the understanding of the Company's ongoing performance, but are supplemental to, and should not be considered in isolation from, or as a substitute for, GAAP financial measures. These non-GAAP measures are defined in our earnings press release issued earlier today, and available at investors.verano.com, which also includes the reconciliation of these measures to the most comparable GAAP financial measures.

The financial statements we filed on EDGAR are in accordance with GAAP and account for the AltMed Companies beginning on February 11, the actual date of the acquisition. For convenience, we will also present financial information on a pro forma, consolidated basis. That includes the AltMed Companies for fiscal year ended December 31, 2021, as if the acquisition closed on January 1, 2021.

Lastly, all currency is in U.S. dollars, unless otherwise noted.

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

George Archos

Thank you all for joining today.

To begin, I cannot emphasize enough how proud I am of what we accomplished in what was a truly transformational 2021 for Verano, our first year as a publicly traded company.

At the beginning of last year, we announced our plan to enter the public market and become one of the largest and most profitable Tier 1 multi-state operators in the U.S. I am pleased to report results that highlight the significant progress towards achieving those goals.

After I discuss our preliminary results and progress, Darren Weiss, our Chief Operating Officer, will detail some of these organizational initiatives and operational developments that have been instrumental in our growth over the last six months. I will then cover my vision for Verano in 2022, followed by a detailed financial review from our Chief Financial Officer, Brett Summerer.

Heading into 2021, we knew that it was going to be the most important year to date in Verano's history. We developed and executed against our strategic plan to bolster our visibility in the public markets, expand and deepen our footprint and improve upon our financial health. Our positive free cash flow and profitability continued to differentiate us, and they allow us to reinvest in the business to relentlessly pursue growth.

Since going public in February of last year, we have continued to set the pace for consolidation, demonstrated by 16 announced acquisitions, with 14 closed and two pending. Between organic and inorganic activity, including the contribution from pending acquisitions, we have increased our dispensary total by 60, to 114 dispensaries nationwide, and increased our cultivation capacity to over 1.1 million square feet. To support our record growth, in 2021, we held one equity raise and made two amendments with favorable terms, along with three draws on our credit facility. Due to increased demand, we also proactively managed our cap table by accelerating our lock-up schedule to facilitate additional liquidity and attract long-term fundamental and institutional investors.

Of note, all of the items I just mentioned were done virtually and under the umbrella of COVID, inflation and supply chain disruptions. More importantly, we achieved all of this while remaining profitable and prioritizing a strong margin profile. We believe these strategic actions have set us up with one of the strongest growth platforms in the industry that will also increase our ability to attract and incorporate new talent and assets. We believe these actions, in combination with our operational expertise, solidifies Verano's reputation as a partner of choice for groups which we identify as strategic additions to our portfolio.

Diving into the financials of the quarter, notwithstanding the industry and macro headwinds we faced in the fourth quarter, including rising inflation, COVID-related impacts and pricing pressure, I am extremely pleased to report that we achieved fourth quarter 2021 revenue of more than $211 million with a strong Adjusted EBITDA margin of 40%. On a full-year basis, but not including the full contribution from AltMed, revenue came in at $738 million with Adjusted EBITDA margins of 44%. On a pro forma basis, assuming the AltMed transaction closed January 1, 2021, we achieved 2021 revenue of $760 million with a margin profile within the range of what we guided to. Despite downward market pricing pressure, we were also able to maintain our premium pricing position, which helped us maintain a strong margin profile.

Looking ahead to our first quarter 2022 results, January and February both were impacted by significant challenges, led by the Omicron variant sweeping across our consumer base on top of inflation, supply chain issues and expected seasonality. Additionally, the industry was subject to a vape ban in Pennsylvania that impacted our sales for six weeks. While the beginning of the year had its fair share of obstacles, the good news is that we've experienced growth and normalization in March. Given all of these headwinds, for Q1 2022, we anticipate a mid-single-digit percentage decline for top-line revenue. Of note, however, using March as a run rate for the first quarter, revenue would have increased sequentially from the fourth quarter, even excluding the contribution from our CTPharma acquisition. We have continued to see the momentum carry into the second quarter, which includes adult use sales turning on in New Jersey.

New Jersey is a prime example of our ability to quickly scale and deploy our strategy. On April 11, 2022, the New Jersey Cannabis Regulatory Commission, or CRC, voted to finally approve adult use sales. One week later, the CRC advised that sales would begin on April 21. Last week, April 21 marked the first day of adult use sales for the state, a date for which we were preparing for nearly a year. We built our operations in the state, with legalization of adult use in mind, and had more than adequate supply for what was extremely strong demand. In fact, to our knowledge, we were the only operator in New Jersey that did not cap per-customer sales, as we were confident that we could meet this extra demand while continuing to prioritize our medical patients.

I spent last week in New Jersey at ground zero, coaching staff, packaging product, quality-checking our dispensaries and even meeting with Governor Murphy at our Elizabeth store to kick off the festivities. I saw firsthand the excitement from our new consumer base. Although lines were wrapped around our dispensaries, we managed the (inaudible) as a team to deliver an exceptional experience for our first-time cannabis buyers and repeat customers and patients. Our first few days of sales in New Jersey have been a huge success.

We also remain well positioned in our other core markets. In Florida, despite significant price compression across the industry in the second half of 2021, we held true to our premium price points, averaging prices more than 20% above other operators in the state, given the quality of our flower and other products. This is truly significant because, despite our premium pricing, between July and December, we gained market share to achieve the third largest market position in Florida. Further, Florida reports on a volume and not dollar basis, so this likely understates our market positioning.

Florida is a very important market for our portfolio and is an example of us positioning ourselves in states that are primed for state legalization of adult use. We currently stand at 45 operating dispensaries in the state, including the recently opened Hobe Sound location, and have plans to continue store openings throughout the year.

To ensure adequate supply of our full suite of offerings as we expand our dispensary footprint, we are in the process of building out a second indoor facility. In addition to supporting our MÜV brand, this increased capacity now includes a high-quality Verano brand which was introduced into Florida earlier this year. Similar to the playbook we employed in Illinois, we are positioning ourselves ahead of the curve by growing our operations in advance of adult use legalization by the state, ensuring we are prepared to meet the resulting demand.

In Pennsylvania, we are also preparing for a state-legalized adult use market through investments in our current cultivation facility and a phased build-out of a second cultivation facility which we anticipate coming online by the end of this year. Of note, we are building this new facility from the ground up to our state-of-the-art specs, empowering us to deliver our top-quality products to the Pennsylvania wholesale market. In addition, through our current operations, we anticipate introducing our Verano strains into the Pennsylvania market in Q3 of this year.

In other markets, we recently received operational approval for the expanded cultivation facility in Nevada. In West Virginia, our newest active state, we opened our first dispensary in Morgantown in mid-March, had plants in the ground in our newly operational cultivation and processing facility, and maintain the option to open six additional dispensaries across the state.

Overall, 2021 saw significant legislative progress at the state level. A total of five states approved adult use cannabis programs, giving nearly 25 million additional adults legal access to cannabis. The largest of these markets, with approximately 15 million adults over the age of 21, is New York, a market into which we are thrilled to be expanding, pending the close of the previously announced Goodness Growth Holdings acquisition.

We believe we are entering the market at just the right time, and ahead of the state's rollout of its adult use program, one which is projected to do over $1.5 billion in sales next year. The close of this acquisition will give Verano one of the 10 existing vertical licenses in the state, and four of the state's 40 current dispensaries, with the option to open four additional dispensaries in high-traffic areas in the future. Goodness Growth's New York cultivation facility was already under expansion in preparation for a state-legalized adult use demand, which, upon close, gives us the ability to hit the ground running with a state-of-the-art facility built out to the highest operational standards.

Closing on the Goodness Growth transaction will also get Verano one of just two existing licenses in Minnesota, a state that is projected to generate over $150 million in medical-only sales next year. We believe this license is significantly underappreciated by the market, and we are incredibly excited to add this license to our portfolio. The state also recently introduced flower sales, with edible sales soon to follow, which present additional growth opportunities for Verano. We are also pleased by the incremental discussions surrounding the state's prospects of transitioning to adult use legalization in the years ahead.

In addition, closing on the Goodness Growth transaction will also allow us to enter New Mexico, which just launched state-legalized adult use sales this month, to much excitement. In fact, the state achieved nearly $2 million in sales on its first day. We continue to be excited about the Goodness Growth transaction, which we expect to occur by the end of the year, pending the appropriate regulatory approvals.

Now I want to turn it over to our COO, Darren Weiss, to talk about some of the strategic initiatives on the organizational and operational fronts. Darren has been with us since 2015 and has an extremely strong operational background. He is an invaluable asset to the team, having led the Company through our go-public transaction and helping the Company build its operations during our recent period of explosive growth.

Darren Weiss

Thanks, George.

Considering the role of COO last year, one of my key initiatives was to build a more agile framework for the Company, allowing for quicker and more tailored execution across the organization. Beginning in Q4, we set to reorganize and reinvent our organization. We deployed a regional corporate structure with market-level oversight at the operations, cultivation, retail and sales levels, ensuring we continue our unwavering focus on maintaining the high-quality standards Verano is known for across the industry while we further scale in new and existing markets.

As part of our corporate organization efforts, we put together a talented Research and Development team to preserve and create new genetics, and catalyze our product and innovation pipeline as we continue to explore new opportunities. From new flower strains and form factors to product line extensions and the exploration of different tiered products and compelling brands, patients and customers can expect to see exciting new offerings from Verano in 2022 and beyond.

As we've discussed historically, we recognize that the market is bigger than just the premium shopper, and want to serve the entire community through the rollout of a tiered pricing strategy to our product lines. Our Verano Reserve line will remain our top-quality brand, and we've recently launched a Verano Essence line that is meant to serve the middle market. We're also launching a value brand to capture consumers down the value pyramid. This will not be a nationwide approach, but is instead market by market, based upon our analysis.

In addition, we stepped up marketing investments, including the refresh of our signature Verano brand, launched late 2021, which you will see reflected in our presentation today. This was released alongside our revamped and newly developed Company mission, vision and values. Our vision statement, "We cultivate progress", means we are tireless in our efforts to improve and progress our processes, our products, our industry and our relationships with our customers, employees and our communities. Our vision will guide the business today and in the future, and when combined with our new branding strategy, "We Say Yes", we are flipping the script on historical cannabis prohibition and igniting enthusiasm in our team and our consumers.

I'll now turn it back over to George.

George Archos

Thanks, Darren.

While our acquisitive investments often get the headlines, I want to emphasize the importance of investing internally across our business to propel operational improvements and deepen our bench by bringing additional expertise to Verano.

To keep up with our growth, we doubled our corporate headcount and nearly tripled our retail and cultivation headcount in 2021. We made key executive enhancements by elevating internal talent and attracting experienced external leaders. This included naming Brett Summerer our CFO at the beginning of this year. We have continued investments in people planned for 2022 as we hire ahead of anticipated growth.

Now, I'll pass it to Brett before I conclude with some final thoughts on our 2022 outlook.

Brett Summerer

Thank you, George.

Today I'll review financial highlights from the full year and fourth quarter 2021, before moving on to discuss in detail our balance sheet and capital allocation strategy.

Before I discuss our financial results, I'd like to address our conversion from IFRS to U.S. GAAP. Starting with the fourth quarter of 2021, our financials now conform to U.S. GAAP standards. We welcome this transition, as it is one more step forward in our preparation for a domestic exchange dual-listing.

I'll begin by reviewing the impacts the transition has had on our financials as a result of the differences in accounting methodology between IFRS and U.S. GAAP. In addition, I want to briefly touch on the restatement of our 2021 IFRS quarterly financials. During the course of our year-end audit, we identified a minor change to the valuation of consideration for certain acquisitions. This resulted in a positive revaluation in classification of certain assets and liabilities for those acquisitions. The net year-to-date through Q3 impact of these was small, less than $1 million in total positive change to shareholders' equity. While we are only filing U.S. GAAP financials going forward, we decided to restate our 2021 IFRS financials.

Moving on, broadly speaking, there are four key financial items which are different for Verano under our U.S. GAAP books and our previous IFRS books. Three of these are specific to IFRS versus U.S. GAAP treatment: biological assets and inventory step-up primarily from the AltMed transactions' biological assets, and the treatment of leases. In addition to that, we would like to start depreciating our licenses concurrent with our U.S. GAAP conversion.

Traditionally, the largest U.S. GAAP conversion impact in our industry is an increase in expenses due to sale leasebacks. However, as Verano continues to hold a strong aversion to sale leasebacks, it was a minimal impact that added $3 million to our expense line for the full year of 2021. Licenses will now be amortized for 15 years on the P&L under U.S. GAAP. This will impact our gross profit, as cultivation licenses will fall under cost of goods sold and retail licenses will fall under SG&A. Because of the impact to gross profit, we realize the positive impact and tax savings in 2021, and we'll continue to enjoy these tax savings for many years. This has no impact on Adjusted EBITDA. Finally, as part of the transition, we will no longer report 2021 with pro forma AltMed results for Q1.

Turning to U.S. GAAP results for the full year, 2021 revenue was up 223% to $738 million, driven not only by our acquisitions and subsequent growth in Florida, Pennsylvania and Arizona, but also from organic performance in Illinois and New Jersey. While we're not reporting pro forma financial results for the sake of comparison on a pro forma basis, assuming the AltMed transaction closed January 1, 2021, our Full Year 2021 pro forma revenue was $760 million. Of note, although a large portion of our revenue was generated from Illinois and Florida, we are encouraged by our market positioning in New Jersey during the state's transition to legalized adult use, and by the progress we're making in Pennsylvania, Connecticut, Arizona, Maryland and Ohio.

Gross profit for Full Year 2021 was $335 million, or 45% of revenue, compared to $136 million, or 59% of revenue, in 2020. It's important to recognize that gross margin includes the $81 million one-time item previously noted of inventory step-up, as well as the new amortization licenses. These two items are worth over $140 million, and if adjusting for both items in both periods, our gross margin has improved slightly in 2021 versus 2020.

Twenty Twenty-one SG&A expense was $188 million. However, essentially all of this cost increase is simply related to the acquisitions we've made. We have kept a close watch on our overhead despite making key people investments. We firmly believe that we have industry-leading expense management, which is a testament to our Operations teams and their ability to create efficiencies and streamline the business. As demonstrated by our results in 2021, we are efficiently scaling our business and generating operational leverage.

We had a net loss for the year of $15 million, driven by the one-time inventory step-up adjustments, primarily in Florida, and the choice to amortize our licenses. Full-year Adjusted EBITDA was $322 million. As a percent of revenue, 2021 Adjusted EBITDA was 44%. We remain extremely pleased with our margin profile and are happy to have closed the year in line with our guidance.

Turning to the balance sheet and statement of cash flows, we ended the year with $99 million in cash and cash equivalents. In October, we announced a $120 million upsizing of our existing credit facility with a non-diluted basis of 8.5% and we recently exercised our option to draw the additional $100 million, bringing our total credit facility to $350 million. We expect to continue to take on debt in measured amounts, with the goal of improving terms and rates to decrease our cost of capital. The additional $220 million has provided us further M&A optionality as we continue to evaluate targets to both broaden our footprint into new markets and deepen our footprint in existing markets. We also actively manage our cash flow and feel well positioned with our continued cash generation.

We anticipate continuing to invest in our infrastructure in light of expected market growth. In 2021, our investment in capital expenditures totaled $141 million, fully self-funded by operating cash flow. Cash flow from operations in 2021 was $181 million, and free cash flow was $40 million. Looking ahead, we plan to continue to invest in strategic projects to further enhance our capabilities and position us to take advantage of market growth opportunities. We expect to spend between $185 million and $250 million in capital in 2022 as we invest back into our business.

Moving onto the financial results for the fourth quarter of 2021, and as a reminder, these metrics are all in U.S. GAAP, I'm very happy to report revenue of $211 million in what has continued to be a very challenging environment. Sales growth was slower than anticipated; however, we believe we are continuing to see seasonality effects develop in the industry, in which winter months are softer than summer months, a trend that has carried over into the first quarter of 2022.

Revenue from retail and wholesale for the year was 73% and 27%, respectively, assuming a gross wholesale number. On the wholesale side, we continue to invest in our cultivation facilities and are currently building out further capacity in Pennsylvania, Florida, Connecticut, Nevada and Arizona. Additionally, our Massachusetts and West Virginia facilities recently came online, giving us vertical integration in 11 of our 13 primary active markets.

On the retail side in the quarter, same-store sales growth was 4.5% versus prior-year. However, we are seeing slight decreases in basket size, which we attribute largely to recent inflationary highs. For example, our quarter-over-quarter basket size in Q4 fell by about 2%, which is in line with quarter-over-quarter inflation.

SG&A expenses were $56 million in the fourth quarter, or about 26% of revenue. While we continue to maintain a focus on expense management, we plan to continue investment in our people and sales and marketing efforts, ahead of identified market growth opportunities. Looking ahead, we anticipate SG&A as a percentage of revenue to increase slightly, especially as we continue to invest in top-tier talent across the organization.

Net income was about $27 million for the fourth quarter, with the favorable impact driven by a reduction of acquisition liabilities. Adjusted EBITDA was $84 million, or 40% of revenue, for the fourth quarter.

To recap, I'm incredibly proud of our team for executing during another quarter of growth marked by continued acquisitions integration. We remain committed as an organization to delivering industry-leading profitability while growing the top line. The strong actions we have taken within the finance function, including converting to U.S. GAAP, growing our team's breadth and depth, and deploying state-of-the-art finance systems, is setting the groundwork for the future.

Also, I would like to take a moment to recognize my team, who continue to excel through one of the most complex and grueling financial reporting periods I've experienced in my 20 years in finance, with the U.S. GAAP change, 18 acquisitions and two auditors.

Before turning over to George, the biggest thing I want to highlight is that, while a lot of the actions we have taken may not have shown up in immediate financial results, we feel that no other operator is better positioned for growth than we are. As a Company, our near-term mindset is on market positioning as we exit Q1, and the good news is we are already seeing improvements: New Jersey adult use sales, the possibility of Connecticut adult use sales, actions across our cultivation footprint and our updated tiered product strategy.

Our efforts in 2021 and our continued focus on strategic capital allocation set the stage for Verano to continue on the path of profitable growth. We have access to the most strategic markets, offering the highest returns on invested capital, and we're executing on our strategy.

I will now turn it back over to George for some final thoughts.

George Archos

Thank you, Brett.

To recap, I'm tremendously proud of what we have built and grown since going public last year. We are now vertically integrated in 11 of 13 primary active markets, and 14 out of 16 active markets upon the close of our Goodness Growth Holdings acquisition.

While this past year was incredibly important for Verano, I am even more excited about 2022. On the closing of the Goodness Growth acquisition, we will have a leading position in four markets that are transitioning to adult use, New Jersey, Connecticut, New York and New Mexico, as well as very strong positioning in four markets that we believe could pass adult use programs in the near term, including Pennsylvania, Florida, Ohio and Maryland.

We also have additional organic growth opportunities with plans to open a new dispensary this year in Florida, Pennsylvania and West Virginia. These planned dispensary openings are examples of how we continue to best position ourselves ahead of market growth.

On the M&A front, we remain selectively acquisitive by exploring new and interesting opportunities to strengthen our portfolio. While we've accomplished a lot this past year, we understand that there is more work to do. As 2021 progressed, we realized that industry challenges would arise. However, this time represented an opportunity to enhance our organizational and operational processes, accelerate our growth and meet the ever-changing demand from consumers. We also witnessed seasonality effects typical for the industry, and it should surprise no one that we've had our strongest sales in summer months, which are more active and social months for much of our geographic footprint.

Additionally, muddling the discussion is COVID. Supply chain disruptions, industry price compression and inflation, all clouds that have hung over the business these past two years. We will revisit top-line guidance for 2022 on next quarter's earnings call as we gain more visibility into the New Jersey market and other growth drivers that we've built. We remain comfortable with what we've guided to in the past from a margin perspective, given our current business model, although we want to reiterate that we anticipate some volatility quarter-to-quarter, with our margin profile building throughout the year, and ending with a 2022 Full Year low-40s margin.

Again, with significant legislative uncertainty and numerous variables beyond our control, we do not feel it is prudent to provide Full Year 2022 top-line guidance at this time. However, because of the efficient business model we have built, we remain confident in our ability to deliver industry-leading margins.

Before I close, I want to reiterate that our core strategy has remained the same since our inception: target attractive medical markets and prudently grow our presence so that we are prepared for increased demand once the state legalizes adult use sales. The one takeaway I want to leave you with today: we are relentless in strategically positioning Verano ahead of growth. We believe this, paired with our prioritization of margins, sets us apart in the industry.

With that, please open it up for Q&A.

Operator

Thank you.

The first question comes from the line of Matt McGinley of Needham. Your line is now open, you may ask your question.

Matt McGinley

Thank you.

It looks like Verano had a fairly large step-down in your wholesale business in the fourth quarter. What was the split between net wholesale and retail in the fourth quarter; where did you see that softness in that wholesale business? With that mid-single-digit revenue decline that you alluded to in the first quarter, is that more on the wholesale side, or is that more on the retail side, or were they fairly ratable in the first quarter?

Brett Summerer

Yes, to answer your first question, the net numbers for wholesale/retail are about 82% retail and about 18% wholesale. Then in terms of where we see Q1 versus Q4, you're going to see that the retail side has increased a bit, and more or less in total we're flat. We're seeing that with lower discounting, and therefore stronger profitability.

George Archos

Good morning, Matt. George here.

Another big component of that is we've also been stocking up in New Jersey to make sure we have enough supply for our stores and fully have inventory there. But we'll transition from wholesale in that market as time goes on.

Matt McGinley

Thank you so much. Then on the restatement, so I guess, how did this go from what you had stated was an auditor disagreement regarding the valuation of a single dispensary, to the restatement of your 2021 financials under IFRS last night. There was some not inconsequential P&L restatements on the income statement. I guess I'm curious, how would those 2021 restatements be related to purchase accounting on a dispensary that was consolidated back in 2019?

Brett Summerer

It's not: those are two separate items. The Green Rx transaction that we were having the debate with the auditors was, again, just a continuous debate. That took about another week, week and a half to wrap up. Then subsequent to that was just the QC process. However, as we went through and finalized U.S. GAAP, we felt it was best to go back and evaluate whether the IFRS numbers should be restated.

We went ahead and did that, because we think it was the right thing to do; but if you look at the balance sheet, what you'll see is the net impact to shareholders' equity was $706,000 on a basis of $1.8 billion. We're talking about a very, very small number, relatively speaking. There's some P&L geography, or some balance sheet geography associated with that; but long story short, it doesn't really affect anything from an investor perspective, in our opinion.

Matt McGinley

Okay. Thank you.

Operator

Thank you.

The next question comes from the line of Aaron Grey of Alliance Global Partners. Your line is now open, you may ask your question.

Aaron Grey

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

First one for me, just want to talk about the margin profile, appreciate some of the commentary, remaining comfortable in the low 40s, expect to get there by 4Q. Just some of the detail you provided, some near-term volatility, right? First off, can you maybe talk about, on an apples-to-apples basis for the quarter how the EBITDA margin profile would have fared? Then kind of going forward, just near term, how much volatility should we expect there? You talked about some increase on the headcount planned going forward, as you had doubled it last year. Just any additional commentary on the margin profile you expect near term as you get to the low 40s into 4Q would be helpful. Thanks.

Brett Summerer

Are you talking more about Q1 guidance, or are you talking more about second half and Q4?

Aaron Grey

Both. What happened 4Q on an apples-to-apples basis, and then kind of going forward, near term, or 1Q, how we think about it. Thanks.

Brett Summerer

Sure, sure. On an apples-to-apples basis, Q3 to Q4, we did see some discounting, like our competitors, due to the holiday season. It's better than what they were doing in the market, but we did do some of that as well and participated. That drove a little bit of it. We also had some one-time items from an SG&A perspective, the Goodness Growth acquisition costs and also some bonuses that we increased towards the end of the year.

Largely speaking, those are what's in there, and they're not driving a ton of margin, but that's probably the key drivers of what you're seeing. For Q1, I'm not sure that we're in a position we want to guide on that at the moment; but as soon as we want to, we'll reach out.

Aaron Grey

Okay, great. Thank you.

Then on New Jersey, so yes, going through, I saw your store in Elizabeth this weekend, and you guys had edibles and a good amount of inventory (audio interference) limitations on purchasing. Just on the inventory position for you guys, how do you think about the wholesale opportunity, getting more stores in New Jersey selling adult use kind of going forward, to ensure that you have enough product for your own stores while also taking advantage of the opportunity of a supply-constrained market, kind of going forward? Thank you.

George Archos

Thanks, Aaron.

Obviously, we've been getting ready in New Jersey for quite some time and we anticipated adult use launch last year, not this year, but we did scale back on wholesale just to make sure we had enough supply for, more importantly, our medical patients and the new adult use consumer base. We do anticipate gearing up on the wholesale side here in the next couple weeks. We do have supply and we want to make sure that the Verano brand is throughout the market, and we also want to make sure that all patients have access, as well as the new adult use consumers throughout the state.

We're excited about the opportunity and I think New Jersey's going to be a shining light for us in 2022 and beyond, and we're really excited about it.

Aaron Grey

All right, great. Thanks a lot for the comment. I'll jump back to the queue.

George Archos

Thank you.

We have the next question, comes from the line of Camilo Lyon of BTIG. Your line is now open, you may ask your question.

Mackenzie Boydston

Hi, this is Mackenzie Boydston on for Camilo. Thanks for taking our question.

My first question is on Illinois. Could you just talk about where your reset of this market stands today, and then just how your production ramp is progressing?

George Archos

Good morning, Mackenzie.

It's actually going really well. We made some changes in part of our operation there, changed the mechanical system to be able to gear up and get the quality back to where it was historically. That process has happened and we're now bringing down fantastic product again, which we're really excited about and we're putting it out into the market.

We also introduced a middle tier brand, which is the Essence line on the flower side, which has been received tremendously well. We anticipate gearing up throughout the year. It doesn't happen overnight, and we have to get that market share back slowly, and we anticipate doing that. But we thought that these new stores coming online was going to give us a better opportunity there, but unfortunately they're still tied in litigation, so when that does happen, it will be easier for us to get that back.

Mackenzie Boydston

Perfect, thanks. Then on the Goodness Growth acquisition, is there any update on the timeline of when you think it will close? Then also, on the assets you needed to invest in Maryland, any idea of kind of what the appetite might look like for those dispensary assets?

George Archos

Yes, great question. The appetite is very strong for the Maryland assets. I think Maryland's going to legalize adult use here in pretty short order. We have high demand for those assets currently. We have not run the process yet, but we will fairly soon. That should happen in short order. We do anticipate closing to be in Q4, although with New York, I anticipate it's going to be late Q4, but we'll keep you guys updated as we get more information.

Mackenzie Boydston

Great, thanks so much.

Operator

Thank you.

We have the next question comes from the line of Scott Fortune at ROTH Capital Partners. Your line is now open, you may ask your question.

Scott Fortune

Good morning, and appreciate the questions here.

Real quick, we'll focus on Florida and the premium sales there in Florida, and how the premium pricing's holding up in that state, seeing promotions and discounting on the lower end discussion and value side.

Can you help understand, strategically, kind of holding up those margins in Florida, (inaudible) sales or margins, or can you provide a little color more on the sales mix coming from premium versus more of the mainstream or the value products? How do you look at Florida, strategically, from that market side of things?

George Archos

Florida for us is one of our key markets, and it will be for many years to come. We're building out our second facility there, plants are in the ground. We continue to ramp-up our retail mix. We have great locations, A sites coming online this year, which we'll open as the new plant material comes out of the new facility.

As far as premium sales, we added a new tiered product there at a higher price point. Every time we introduce it, it sells out, which is going very well for us. Again, we feel the premium branding now, in the market that we're in today with what's going on in the macro side. Is it going to be the majority of our sales? Mostly likely not, but it will continue to drive our Company and our margins. It's a product mix that we've built our Company on, and we feel comfortable in it.

Now as we enter the middle market and we deploy our good, better, best strategy in some of these markets, we feel good about it. The costs associated with the lower tiers is lower than what we put into our premium products, so the margin is still strong, and as time goes on, we feel confident in being strong in all three categories, both on the wholesale side and the retail side.

Scott Fortune

Thanks, George, appreciate the color on that.

Then last question for me, can you provide a little bit of color on your comments that you saw improvement in March already being felt? Seasonality, are we seeing a recovery kind of in seasonality markets like Florida and Arizona, or are you seeing that across the board kind of going forward with these states, with all the states you're positioned in here?

George Archos

March was significantly strong than Jan/Feb. I mean, a very strong run rate coming out of March, continued into April. We see good margin improvement throughout the year, as well as top-line improvement. Again, that's coming off of an extremely soft Jan/Feb, which I think everyone saw across the country. We're excited about the back half of the year. And with New Jersey launching, obviously that's a game-changer for us, something we've all been waiting for, for quite some time. It's been better than expected, which we're obviously very excited about.

Scott Fortune

Thanks. I will jump back in queue.

Operator

Thank you.

The next question we have from the line of Russell Stanley of Beacon Securities. Your line is now open, you may ask your question.

Russell Stanley

Good morning, and thanks for taking my question.

Just wanted to follow-up, George, on your comments around Illinois. I guess, can you elaborate on what your latest assumptions are, or planning is, around when those additional retailers, since (inaudible) issue and the legal battles are borderline impossible to predict. But I guess, how are you thinking about that now, and maybe, how has your thinking changed over the last three to six months given the developments or lack of development on the legal battles? Thanks.

George Archos

Unfortunately, apparently with this new lawsuit, this thing could get dragged out quite some time, so we're anticipating pretty flat sales in Illinois here moving forward until these new stores open. But I don't think anything's going to happen there until next year. It might be a little bit of a flat patch for us in this state. We're just going to be ready for it. We'll continue to reach out to the social equity partners and make sure that they're ready to open their stores whenever that does happen and build those relationships, but right now I don't have a crystal ball on that one. We thought we were going to have some clarity here in March, and it's only getting worse, to be perfectly honest.

Russell Stanley

Got it, thanks for that.

Maybe if I could just on the Capex outlook, if I heard it correctly, you're looking at $185 million to $250 million. Is that $250 million, and if so, that's a relatively wide range. Just wondering if you can give us a sense as to what the drivers might be behind getting to the upper end of that range. Thanks.

Brett Summerer

Sure, so the… Oh, go ahead.

George Archos

Sure. I mean, it's really timeline. We're building on the facility in Connecticut, we're building out our brand new facility in Pennsylvania, brand new facility in Florida, retail locations across multiple states, expansion in Ohio, expansion in Maryland. If we hit the upper end, I mean, we've done a great job, and if the supply chain hasn't affected us and these facilities of being built quickly, if we hit the lower end, they should be pushed into next year. That's really what's happening.

Russell Stanley

Got it.

George Archos

(Multiple speakers). If Goodness Growth closes earlier in Q4, we'll have significant construction going on there in New York and in Minnesota, so it's all a timeline thing.

Russell Stanley

Excellent. Thanks a lot. I'll get back in the queue.

Operator

Thank you.

We have the next question comes from the line of Andrew Semple of Echelon Capital Markets. Your line is now open, you may ask your question.

Andrew Semple

Hi there, good morning.

First question here, just want to go back to the margins, more specifically the gross margins, which came in a fair bit in Q4. Just want to go back to some of the largest drivers behind the gross margins within the fourth quarter, which of those might be expected to persist into Q1. And just on the comment on the numerous facility expansions underway, whether that had any impact on production or the margin profile, given all the expansions currently underway.

Brett Summerer

Sure. On an apples-to-apples basis, Q4, Q3 margins, the two biggest drivers are the discounting we talked about. Q4, the holiday discounting is very different than it is at any other time of the year. Again, we follow the market in that regard to make sure that we compete, but we don't discount as heavily as others. You should see that as being very seasonal in nature.

Then the other driver would be the Illinois items that we talked about before, and that, as we've said, we're coming out of that. Both of those items should be resolved and on their way in Q1.

Andrew Semple

Great. Just my next question here on adult use sales in New Jersey, just wondering if you had any surprises in the first week of the program, whether demand came in above expectations there. Then secondly, perhaps if you could maybe clarify the timeline that you expect to convert the Neptune Township store to adult use?

George Archos

Andrew, the biggest surprise is them turning it on in one week. I mean, after waiting for so much time and then they say, "Okay, let's find our way in one week", there's a lot of work that needs to go into that: product labeling change, SKU counts change, etc. But nonetheless, we were very excited about it and we made it happen. Teams were coming in from across the country, (inaudible) them in New Jersey, making sure that we executed. We did a great job and that's exactly what happened, and it will only get better as time goes on. We'll continue to introduce new SKUs, we'll bring on more people online in New Jersey, creating local jobs there for the community.

That was all great. As far as sales go, it couldn't be better, right? Right now it's just all about efficiency and throughput, which we're known to be very good at, and that's what's happening. A lot of bright smiles and happy faces in New Jersey as we gear up adult use there. We anticipate more and more people to come. As happens in most markets, even though there's a lot of media and a lot of press around New Jersey adult use launch, like other markets, people still don't know about it, right? We anticipate this to get bigger and bigger day over day, month over month, and we'll be ready for it.

Neptune, we should hopefully have a start in June. We have to get a permission hearing. We did pass zoning, but there's a couple hurdles to cross there in that community, but it will happen. It's not an if; it's just a when. Hopefully the end of May, if not by end of June, we should be open there. Then obviously, we're very excited about that store on the Jersey Shore.

Andrew Semple

Great. Thank you very much.

George Archos

Thank you.

Operator

Thank you.

We have the next question, comes from the line of Kenric Tyghe of ATB Capital Markets. Your line is now open, you may ask your question.

Kenric Tyghe

Thank you, and good morning.

George, just with respect to your first quarter guide, the mid-single-digit decrease, is that fairly broad-based on all of the macro and related pressures that we're all too familiar with at this point, or is it a little more concentrated perhaps in select markets?

If there is a concentration, could you sort of speak to what the pressures specific to those markets are?

George Archos

It's more on the macro side. You'll see (audio interference) every market, it wasn't just a specific market. If it was, obviously we would let you know about it, but this is across the country. Again, same thing for March. The take-up was across the country, which is exciting for us, so this is more of a broader trend than it is a specific thing to Verano.

Kenric Tyghe

Great, thanks, just wanted to cross-reference that.

Then just a further question, on the re-org, can you speak to and provide any color around the dislocation that that caused and created in-quarter, and then the flip side of that being what maybe sort of strategic rationale or expected benefits are as we look to 2022 and beyond. Clearly, these weren't decisions made or taken lightly and you expect them to have a pretty healthy payback here. Any additional color there would be useful.

George Archos

Can you clarify the first part there? I didn't catch exactly what you said, Kenric.

Kenric Tyghe

Sorry, George.

On your re-org and the like that you undertook in Q4 as sort of the repositioning and brand changes, etc. Those were, one assumes, were disruptive or created some dislocations. Can you sort of speak to what that dislocation was in-quarter or the cost in-quarter, then also sort of the benefits and merits you expect to play out from the new structure with the regional setup, etc.?

George Archos

I mean, the rebranding of products was something we started earlier in 2021. It takes quite some time to get everything approved by every regulatory body and every state, etc., but we'll be rolling out those new brands this year. As far as dislocation, there really wasn't much. Eventually, something, you have to gear up, you have to build up inventory, get everything in, there's been supply chain issues all over the place, so there's some build-up of inventory in Q4 which had to happen in order for these launches to occur this year.

We also, on the supply chain side, we brought in quite a bit of inventory on the construction side, and on packaging, and on everything that we had, just because there's so many issues across the board. We stored up quite a bit in 2021 so we don't have too many issues in 2022. But that's just getting ahead of the curve, which is what we're known for, and again, that's just operational efficiencies.

Kenric Tyghe

Fair enough, thank you, and I'll get back in queue.

Operator

Thank you.

We have the next question, comes from the line of Matt Bottomley of Canaccord Genuity. Your line is now open, you may ask your question.

Matt Bottomley

Yes, good morning, thanks for taking all these questions.

Just wanted to go back to the margin profile again. I know you guys have talked about this a little bit in your prepared remarks and in the Q&A. Understanding that there was some pricing pressures, one-time SG&A, etc. Maybe another way just to look at it, I'm curious, is, are you able to provide us any quantification of how much just the change in accounting treatment changed the profiles on a sequential basis?

You had mentioned there was some accounting for amortization that went into cost of goods sold, as well as just the differences in your Adjusted EBITDA calculation under U.S. GAAP. I'm just trying to carve out things that are non-fundamental or related to the business at all, versus some of those other factors you mentioned.

Brett Summerer

Yes, sure. I mean, if you think about our EBITDA margin profile, all the things that we talked about are essentially eliminated anyway, because it's depreciation adjustments and stuff like that. From an EBITDA margin perspective, very, very minimal impact.

From a gross margin perspective, it's these step-ups and stuff, which is out of our numbers in Q4, so in both cases it's kind of a non-issue from that perspective. If anything, we're seeing the strength and the lack of discounting and whatnot in Q1, which should be a good place.

Matt Bottomley

Okay, understood. Then just wanted to touch on your capital positioning, so just given a lot of the initiatives you guys have, that sort of wide range you gave for the Capex, and the unknowns of when things might turn on or things might get approved, just your existing capital partner that you have in terms of the upside that you've done in your credit facility, the sufficiency of that, just given where the equity markets are internally and want to tap that anytime soon.

Just your level of comfort for these initiatives and your ability to secure capital. going forward.

Brett Summerer

Sure. We're a very high cash flow business, right? In the industry, there's only a few people that are fully free cash flow positive. We're one of them. From a capital perspective, we don't need a partner for that. Our partnership comes in to keep our M&A optionality open and available for us.

Matt Bottomley

Okay, thanks, guys.

Brett Summerer

Thanks, Matt.

Operator

Thank you.

We have the next question, comes from the line of Spencer Hanus of Wolfe Research. Your line is now open, you may ask your question.

Spencer Hanus

Good morning.

If I could shift back to New Jersey for a moment, can you just comment on the transactions and tickets that you guys have seen in the first six days? Then, how much volume do you think you'll be able to push through your stores in the state?

George Archos

Both great questions, but we haven't seen enough transactions to really comment on basket size yet and numbers. We'll talk about that more on the Q1 call, but right now we want to keep that kind of to ourselves. Not enough information…

Spencer Hanus

Got it.

George Archos

… (multiple speakers) here to give that.

Spencer Hanus

Got it, totally makes sense.

Then, what are you seeing from a pricing standpoint to start 2022? Has there been any change from the pressure that you initially saw in 4Q, and then any comments on what you're seeing in Florida and Pennsylvania, from a pricing standpoint, just given the importance of mix for you guys?

George Archos

We haven't dropped pricing anywhere. The only thing that we've really done is introduce a new tier of product at a different price point, but our premium line has stayed strong in every market that we're in. We're not looking at dropping our prices, because our quality is there, and the demand is there for that higher-end brand. We're just introducing the mid-tier price category, and it's going very well, and we'll roll that out in multiple states throughout this year.

At some point in time, we'll roll out a low-value brand, just to make sure we're deploying the good, better, best strategy, which is something we talked about last year, and now we'll slowly make that happen. But it won't be a national rollout; it'll be market by market, based on our analysis and needs.

Brett Summerer

Yes, and I'll just add to that. We also have lower—as we've talked about a few times already, we're going to have seasonally lower discounting because we're not in a holiday season.

Spencer Hanus

Yes. Got it, thank you.

Operator

Thank you.

There are no further questions at this time. I would now like to turn the conference back over to George Archos, CEO and Founder.

Mr. Archos?

George Archos

Thank you, everyone. We look forward to revisiting on May 25.

Operator

Thank you.

Ladies and gentlemen, this concludes today's conference call. Thank you all for participating.