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Verano Holdings Corp. (VRNO.CA)

Q1 2023 Earnings Call

CORPORATE PARTICIPANTS

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Darren H. Weiss
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OTHER PARTICIPANTS

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Andrew Semple
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Matt Bottomley
Analyst, Canaccord Genuity Corp.

MANAGEMENT DISCUSSION SECTION

Operator: Good morning, and welcome to the Verano Holdings Corp. First Quarter 2023 Earnings Conference Call. Today's conference is being recorded. All lines have been placed on mute to prevent any background noise. After the speakers' remarks, there will be a question-and-answer session. [Operator Instructions]

At this time, I would like to turn the conference over to Julianna Paterra, Vice President of Investor Relations. Please go ahead.

Julianna Florence Paterra

Vice President-Investor Relations, Verano Holdings Corp.

Thank you, and good morning, everyone. Welcome to Verano's first quarter 2023 earnings conference call. I am joined today by George Archos, Chief Executive Officer and Founder; Brett Summerer, Chief Financial Officer; Darren Weiss, Chief Operating Officer; and Aaron Miles, Chief Investment Officer.

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 for the quarter-ended March 31, 2023.

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 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 as a substitute for GAAP financial measures. These non-GAAP financial 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.

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

George Archos

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

Good morning, everyone. I am pleased to report results for another strong quarter, which were in line with our internal expectations. This morning, I will cover the first quarter in more detail and provide an update on our progress towards our free cash flow guidance. I'll then pass it to Brett for a detailed financial review before I conclude with an outlook for the remainder of the year.

First quarter 2023 revenue was $227 million, representing 12% year-over-year growth and slight sequential growth. Adjusted EBITDA margin came in at 31% and notably we generated positive free cash flow for the quarter. In an industry that uniquely faces a multitude of challenges, we remain very optimistic, especially given this quarter's performance. Top-line came in a bit higher than we anticipated as the first quarter is usually softer than the fourth quarter due to seasonality. We've seen steady performance from our portfolio and anticipate seeing upside from new adult-use markets along with the opportunity for deeper penetration and increased market share in existing markets. Near-term, we maintain our excitement about the Connecticut market as a leading producer in our adult-use program and look forward to adult-use sales commencing in Maryland in July.

On that note, we were extremely pleased to see Governor Moore of Maryland officially signed adult-use legislation into law. We have been preparing for this moment since entering the market in 2017, including optimizing our footprint and expanding our suite of offerings to meet a variety of consumer tastes and preferences. Our efforts have been worthwhile, as sequentially, we grew net wholesale revenue by 11% in the first quarter in Maryland. Verano is no stranger to the introduction of an adult-use program to an existing medical market and after being through this many times before, most recently in Connecticut just months ago, we are ready and excited for what we expect to be a robust program launch. We continue to lead the way with a CPG brand performance in Connecticut and are pleased to see steady and robust demand several months after adult-use sales commenced. Retail sales remain strong, with sales trending modestly upward since legalization in January. At the moment, we have one adult-use location as our second medical-only location is awaiting zoning approval. Additionally, we anticipate opening our six social equity joint venture dispensaries over the course of the second half of 2023, including our first store within the next 60 days. This expanded footprint will provide the opportunity to increase vertical mix in the state, while also supporting social equity efforts in Connecticut.

In Florida, we recently took the number two spot in the state in terms of ounces of smokeable products sold, while also preserving the pricing integrity of our catalog, a reflection of our higher quality all indoor grown flower. We now have 66 MÜV dispensaries across the state and with a few more planned openings for the year, we anticipate continuing to strengthen our foothold in this medical market in advance of a potential adult-use ballot initiative. We are hopeful the current adult-use initiative will make the 2024 ballot as we believe that Florida offers the largest opportunity of the states contemplating adult-use legalization.

Lastly, in Illinois, as we discussed on the last call, we are optimizing Canadian production and in order to appropriately meet demand. This decision is driven in large part by the slower than anticipated pace of new dispensary openings. Despite these delays, we continue our efforts to streamline operations, increase yields, and introduce new brand and products. For example, in the first quarter, we increased our yields by 23%, along with increasing finished dry grams per employee by 40% versus the prior year. And then the retail side, although sales were roughly flat versus the prior year, we increased dollars per labor hour by nearly 40%, even in a depressed pricing environment.

Separately, as none of our retail locations are near the Missouri border, our stores have been largely unaffected by Missouri's recently launched adult-use program. As previously discussed, we are tireless in our pursuit of operational excellence. In the first quarter, we increased the sale of Verano products at the retail level by 150% year-over-year and increased dollars per terminal by 63% year-over-year. We are proud of the progress we continue to make and look forward towards further improvements that better enable us to serve our markets.

Turning to cash flow. We are reiterating our $50 million to $75 million free cash flow guidance range as well as tightening the range of our CapEx guidance to $35 million to $50 million. With over $8 million in free cash flow for the quarter, we anticipate free cash flow to accelerate over the course of the year. We feel our operations are stronger than ever with a $17 million in cash flow generated from operations after slightly decreasing our taxes payable balance while also servicing other cash obligations.

As we mentioned in the fourth quarter call, we continue to evaluate production and inventory levels to ensure we are appropriately supplying our markets. As a result, we expect fluctuations in our gross margins throughout the year. Ultimately, we view inventory rightsizing as a positive for the business as it aligns with our goal of appropriately deploying cash. Though this will also impact adjusted EBITDA margins in the short-term, this is the right move to build cash reserves and focus on free cash flow generation. I will now pass it to Brett to review our results in further detail before I provide commentary regarding my outlook for the year.

Brett Summerer

Chief Financial Officer, Verano Holdings Corp.

Thanks, George. I'm very pleased to report strong results for the quarter. First quarter 2023 revenue was $227 million, up 12% compared to the first quarter last year, driven primarily by strength from retail and wholesale adult-use sales in New Jersey and Connecticut, slightly offset by retail declines in Pennsylvania. Sequentially, revenue was up 1%, despite significantly lower discounting. On a gross revenue basis, excluding inter-segment eliminations, 70% was derived from the retail side of the business and 30% from the wholesale side of the business.

Gross profit for the quarter was $109 million or 48% of revenue. On an adjusted basis, generally excluding depreciation, amortization and stock-based compensation, this was 57%, an improvement of about 1% versus the fourth quarter of 2022, driven by the decreased discounting offset by seven days of inventory reduction. Our sell through remains high at about 46% for the quarter, excluding Florida, Arkansas, and Michigan, as we did not wholesale in those markets.

SG&A expenses were $75 million for the quarter or 33% of revenue. On an adjusted basis, generally excluding depreciation, amortization and stock-based compensation, this was 26% of revenue, an improvement of nearly 1% versus the fourth quarter, driven by decreased professional fees and marketing expenses. On an adjusted basis versus the prior year, this is an improvement of 2% due to rightsizing our staffing levels. We expect adjusted SG&A to remain in the 26% to 28% range for the foreseeable future. We had a net loss for the quarter of $9 million and adjusted EBITDA of $71 million or 31% of revenue for the first quarter, down $8 million or 4 percentage points versus the fourth quarter. However, keep in mind that we had the ERC credit last quarter, which provided a benefit of $11 million or 5% of EBITDA, so we are performing better now than we were in Q4.

Turning to the balance sheet and cash flows, we ended the quarter with $95 million in cash and cash equivalents. Cash flow from operations for the quarter was $17 million, even while decreasing our taxes payable balance to $248 million. It's worth pointing out that, unlike many in our peer set, Verano has had positive operating cash flow every quarter since we went public. This is our ninth quarter in a row of positive operating cash flow, which includes six quarters of positive free cash flow as well. Regarding taxes payable, we anticipate our tax payable balance to remain around $250 million throughout the year. CapEx spend for the first quarter was $9 million as some projects from the fourth quarter trickled into the New Year. Lastly, we decreased acquisition consideration payable balances by $3 million. Additionally, the majority of the remaining balance was paid in early April, leaving us with de minimis outstanding.

I think it's important to note that we have maintained one of the strongest balance sheets in the industry and we further committed to strengthening it through the course of the year, which was highlighted in this quarter's performance. Looking ahead, we plan to build our cash balance throughout the year and we're very comfortable with where we stand today. This is a very strong start for 2023 and I look forward to building out the space throughout the remainder of the year. I'm excited about the opportunities that are in front of us and remain focused on growing the business in the year ahead.

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

George Archos

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

Thank you, Brett. Although new measures have been introduced at the federal level, as I've said, we never manage the company based on legislative assumptions. We will continue to focus on the business and things in our control while monitoring government actions to make sure we are in a position to take advantage of opportunities that may arise. In the meantime, we continue to operate in a punitive environment that is hindered by government inaction, including the application of Section 280E to the cannabis industry, which requires us to pay an estimate of greater than $100 million of excess income tax liability for 2022. As a result of the outdated treatment of cannabis at the federal level, we have limited options to manage our banking needs and are forced to take on debt at rates much higher than we think our risk profile warrants. We are extremely proud of what we have been able to accomplish given these draconian restrictions, but there is no telling what we can achieve once we see meaningful legislative change. Despite continued government setbacks, we are managing to not only survive but thrive.

Looking ahead, we are very optimistic, given movements in key states, as well as conversations around meaningful reform at the federal level, which continues to have bipartisan support. We have strong foothold in Ohio, Pennsylvania and Florida, all of which are showing positive momentum towards adult-use legalization. This aligns with our strategy of building a strong presence at medical markets, so that we are well positioned at the onset of adult-use sales. We have successfully done this in Illinois, New Jersey, Connecticut, Nevada, and soon in Maryland. In addition to legalization efforts at the state level, we are seeing progress towards decoupling the application of Section 280E under federal and state tax laws.

Just this week, the New Jersey governor signed a bill unburdening our industry from the onerous impacts of Section 280E at the state level. As we discussed in our last call, New Jersey is among our top three contributors to both retail and wholesale revenue. So, we expect an immediate positive impact to our bottom line from this move. Additionally, Connecticut has recently signaled its intent to decouple Section 280E and legislation filed on

Monday. It's inspiring to see states such as New Jersey and Connecticut take this bold step to support one of the fastest growing industries in this nation and I hope to see similar courageous actions by leaders across additional states.

Regarding the remainder of 2023, I want to echo my sentiments from our last call. We continue to view this year very positively. We are evaluating a number of M&A opportunities some in new markets and some deepening our reach in current markets. To reiterate, we remain very selective in evaluating assets to best ensure accretion to our portfolio, especially in light of decreased valuations. We are very excited about Verano's future and the portfolio that we are building.

And with that, operator, you can open it up for Q&A.

QUESTION AND ANSWER SECTION

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

Remington Smith
Analyst, A.G.P. / Alliance Global Partners

Q

Hi. Good morning. Thank you for the question. It's Remy Smith on for Aaron Grey. My first question is in regards to Connecticut. So, it looks to be a nice state driver for you in Q. Can we speak to your outlook on the market in 2023, you believe there will be additional wholesale opportunities in the market, additional stores opening? And what are you seeing in terms of supply from operators in the market?

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

A

Good morning, Aaron (sic) [Remy] (00:15:30). Thank you for the question. We have a positive outlook in Connecticut. We believe there will be additional wholesale opportunities as retail stores continue to open throughout the state. We also believe that we have some additional vertical integration there as we open our additional six wholesale stores or our six retail stores with the social equity joint ventures. So, we're excited about that entire market. I think the retail stores will start coming online pretty soon here, and it's a good opportunity for us.

Remington Smith
Analyst, A.G.P. / Alliance Global Partners

Q

Great. Thank you. And then my second question, I mean in regards to your gross margin, your inventory levels, so it's nice to see the sequential gross margin improvement as you work through inventory. I know you spoke a little bit in your opening remarks, how it might still fluctuate a little bit in 2023. But could you just speak a little bit more now to your comfortability with your inventory levels? And then just in terms of the mix with those reduction efforts specifically in this quarter more towards pushing the levels of your value price savvy brand or were they – as the inventory is being brought down via other methods?

Brett Summerer
Chief Financial Officer, Verano Holdings Corp.

A

Sure. So, the overall reduction is across the board. We just want to make sure that we're operating at the leanest level of inventory we can to supply the business. We're targeting about 90 days down from the 117 days again at the quarter-end. We were hoping to get that done in the first half of the year, this year, so it would have an impact Q1, Q2, but our inventory reduction in Q1 wasn't quite at the level that we were expecting. So, we do expect maybe that trails on into Q3 or so. But overall, yeah, down to 90 days from 117 days, and it will continue to impact margins until then. But I think outside of that, you're still going to see our margins in that 59 to 61 sort of percent range. It's been the last five quarters in a row.

Remington Smith
Analyst, A.G.P. / Alliance Global Partners

Q

Great. Thank you.

Operator: Your next question comes from the line of Scott Fortune with Roth MKM.

Scott Fortune
Analyst, ROTH Capital Partners LLC

Q

Yeah. Good morning. Thanks for the questions here. Just want to provide a little color on kind of future growth opportunities looking into 2024, although that's a ways out. But just wanted to weigh your $35 million to $50 million in CapEx projects in 2023. With these new adult-use states ramping, you've mentioned Connecticut and New Jersey, and we know Maryland coming on in July. But just want to get a sense of the new growth opportunities Verano is evaluating here going forward in light of prudently allocating your key capital? And then, I have a follow on with the M&A kind of that.

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

A

Yeah. Good morning. I mean, we're always looking at, like you just said, M&A opportunities across the country. We have opportunities to go deeper into some of our markets and we're also looking at some new markets as well. We are poised for growth in Pennsylvania, Ohio and Florida. We think those markets could be transitioned to adult-use. So that takes a lot of preparation. So, we are focused on those markets and we have Maryland coming online in July, which you just mentioned, exciting for us, legacy market. We have four retail stores there, a sizable cultivation, and we have decent market share there that will continue to increase as we transition over to adult-use. And Connecticut, there's still plenty of opportunity. There's wholesale opportunity there. There's additional retail stores that will be opening. So, we're excited about what's in our portfolio and very excited about what's to come. Times like this bring opportunities to companies like ours that are strong and we foresee some very good opportunities here in the next couple of years. There are so many more markets that are transitioning to adult-use, new markets coming online with medical, we're applying for new licenses as well. So, there's a lot of opportunity in cannabis.

Aaron Miles
Chief Investment Officer, Verano Holdings Corp.

A

Hi, Scott. This is Aaron. I'll just add one quick point here, you do see a trend in the market where people are pulling back on spend on a necessity and we're pulling back on spend to George's point, because the growth that we see ahead of us in certain markets is slowing. So, we've appropriately built out our footprint and I think our CapEx is following the view we have on the growth potential in certain markets.

Scott Fortune
Analyst, ROTH Capital Partners LLC

Q

Yeah. I appreciate the color. And just to follow on, kind of maybe, can you characterize the opportunity in Maryland, that state opportunity? Do you see that similar to other states that you've seen in the past that converge? I know you have a [indiscernible] (00:19:42) for retail there, but it sounds like it's going to be a good wholesale opportunity for you and not much talk has come about on Ohio, which is kind of your sense of the Ohio opportunity and where you are as far as the build out in Ohio there?

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

A

So how we're kept on build out, we just added an additional 3,000 square feet. We'll look to add an additional 3,000 square feet here as time goes on, and depending on how the rules pan out, we have an opportunity to sizably increase that facility. Maryland, we think the opportunity is pretty strong. It is a legacy market that has been around there for quite some time, but the medical market has been declining here the past couple of years and in anticipation of adult-use. So, we think this could be a pretty good jump for us on the wholesale side and on the retail side.

Scott Fortune
Analyst, ROTH Capital Partners LLC

Q

I appreciate the color. I will jump back in the queue. Thanks.

Operator: Your next question comes from Donangelo Volpe with Beacon Securities.

Donangelo Volpe
Analyst, Beacon Securities

Q

Hey, good morning. And thank you for taking my question. And apologies if you guys have already covered this. But regarding Illinois, what is your latest view on how many new stores might open this year? On the March call, you guys predicted 35 to 45, but noted that the rollout is off to a slower start. Is that 35 to 45 new store openings estimates still intact?

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

A

I think 25 to 30 is probably a better number at this point. We're just seeing a lot of like as and everywhere else, we're seeing issues of zoning and stores actually getting open. So, I think that's probably a pretty good estimate. That being said, if there are groups that have been ready to go with zoning, it could jump higher, which would be obviously a benefit to us and a benefit to the market overall.

Donangelo Volpe
Analyst, Beacon Securities

Q

Okay. Thank you for the color on that. And then I guess just a follow up question to that is beyond access to capital, what are the primary bottlenecks to getting these new stores open?

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

A

Zoning is always the biggest bottleneck, right. It takes time to convince a municipality to add an adult-use store to their city. And then outside of that, you don't want to be stuck in an industrial area. So, convincing them to get into a retail area, finding a location, then permitting, et cetera. You're dealing with municipalities that have never dealt with cannabis before, so they want to go through security. It's a long, arduous process and depending on the state that you're in, it can take quite some time.

Donangelo Volpe
Analyst, Beacon Securities Q

Okay. Thank you for the color. I'll hop back into the queue.

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

Thank you.

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

Andrew Semple
Analyst, Echelon Capital Markets Q

Hi, there. Good morning. Congrats on the solid Q1 results. First off, I just want to confirm the quarterly cash flow dynamics, believe it's Q2 that we typically see a larger pay down of the tax liability or the tax payable. Any idea what we should be penciling into our models for Q2 and in terms of paying that down?

Brett Summerer
Chief Financial Officer, Verano Holdings Corp. A

So, I think in Q2 we're largely going to be consistent with where we were in Q1. We have a philosophy that we talked about before that we pay state on time. We pay the federal with 12 months to 18 months after filing and we plan to keep on top of that. But from an outflows perspective, Q1 should look a whole lot like Q2. Q3 and Q4, a little bit different. Mostly because there's no state tax payments in Q4, in general, just the way that they do their – the way they do their estimated payments. So, you'll see some favorability in Q4, and obviously less in Q3, but that's kind of the cadence.

Andrew Semple
Analyst, Echelon Capital Markets Q

Right. That's helpful. And my second question, in the prepared remarks, there's the comments on sales coming in slightly above your internal expectations for Q1. But in response to an earlier question, you also noted that inventory reduction was not progressing quite as fast as anticipated. I'm just trying to reconcile those two comments. And where I'm arriving is was cultivation yields higher in the first quarter than you were planning for? And if that was the case, would you be thinking about potentially curtailing some grow rooms temporarily in order to reach your targeted inventory levels?

Brett Summerer
Chief Financial Officer, Verano Holdings Corp. A

Sure. So, I'll tell a little bit about the financials. And I'll let Darren here talk about what we're doing on the inventory side from an operations perspective. But from a financial perspective, the top-line growing and the inventory levels, they're not really tied, right. To a certain degree, you can sell all you want, and it won't really matter from an inventory perspective until you get kind of into the margin. So, I think we're comfortable with where we are. In terms of the reductions that we're going through. I think we do intend to...

[Technical Difficulty] (00:24:29-00:25:00).

A

Hey, this is Jacob on the backup line. I think the main line went out. We're going to get everyone in the backup room real quick.

Brett Summerer
Chief Financial Officer, Verano Holdings Corp.

A

I apologize. I don't know where I cut off on that. But just from an inventory perspective, as we make changes to our plans, it does take a little bit of time to play itself out. And the other thing is, with rising costs, the amount of dollars and inventory per plant goes up a bit. So, those are two kind of factors that play into it, but...

[Technical Difficulty] (00:25:35-00:26:18)

Operator: This is the operator. One moment. We are having technical difficulties.

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

A

Apologies, everyone. We got disconnected. Brett, do you want to continue?

Brett Summerer
Chief Financial Officer, Verano Holdings Corp.

A

Actually, Darren I was just finishing up, I think we're...

Darren H. Weiss
Secretary & Chief Operating Officer, Verano Holdings Corp.

A

And one last one [indiscernible] (00:28:33) inventory questions. We do apologize we had some technical difficulty still...

Andrew Semple
Analyst, Echelon Capital Markets

Q

Okay.

Darren H. Weiss
Secretary & Chief Operating Officer, Verano Holdings Corp.

A

I don't know what you guys [indiscernible] (00:28:41).

Brett Summerer
Chief Financial Officer, Verano Holdings Corp.

A

Sure. So big picture inventory, it's coming down. We're still targeting the 30 days. It doesn't necessarily tie into our sales, right. Our sales can fluctuate quite a bit. Again to the point that we have 117 days of sales, we did absolutely nothing. We still have 117 days – we had almost half year of operational inventory sitting there ready to be done. In terms of the pace at which we're doing it, plants are living creatures. Therefore there's the timing that we can't always manage to the same degree that we'd like, but that makes it a little bit volatile. But we still have overall plans. We put those in place, I believe that's it. And Darren, if you want to...

Darren H. Weiss
Secretary & Chief Operating Officer, Verano Holdings Corp.

A

Yeah. No. I was just going to add, Andrew, that we continue to evaluate cultivation capacity to ensure that we are optimize and rightsize given current market dynamics. And as you alluded to in your question, we have also been successful in increasing our outputs and efficiencies, both in terms of units per head, units per labor hour, as well as grams per square foot, grams per plant, which obviously are metrics that we track pretty closely. So, as we become more efficient, as we rightsize our operations, it obviously has an impact on inventory and the timing of that impact as Brett alluded to, depends very much upon the plant lifecycle. So, we anticipate that trend continuing, as we mentioned.

Andrew Semple
Analyst, Echelon Capital Markets

Q

Great. Glad we found you guys again and thanks very much for taking my questions. [indiscernible] (00:30:17).

Darren H. Weiss
Secretary & Chief Operating Officer, Verano Holdings Corp.

A

Thanks, Andrew.

Operator: [Operator Instructions] Your next question comes from Matt Bottomley with Canaccord Genuity.

Matt Bottomley
Analyst, Canaccord Genuity Corp.

Q

Good morning, everyone. Hope everyone is doing well. I just wanted to go back to some of your comments, George. You talked about kind of the cadence of the federal versus state cash tax payments and sort of when there is some volatility in that. But maybe just a broader picture for the full year. Can you give us an indication in order to hit $50 million to $75 million of free cash flow guidance for the year? What's the range of cash taxes and interest – cash interest payments that are likely to be paid that would afford you the ability to still hit that range?

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

A

Sure. So, I think the easiest way to think about it is, we've guided and we made comments in the [indiscernible] (00:31:04) about a $250 million outstanding tax balance between both state and federal. And if you think about our income tax accrual or income tax expense that you see in the P&L, it's in that $100 million sort of range. So, I think those two things give you the numbers you're looking for [ph] your remodeling the other (00:31:25).

Matt Bottomley
Analyst, Canaccord Genuity Corp.

Q

Got it. Okay. Thank you. And then the other question, I have is just more on from an operational front in New Jersey. So, it looks like you guys continue to outperform into the Q1 numbers that we can kind of see through BDSA and some of these other sources. But Q1 does look like it's sequentially lower from what I can tell and I know that's typical seasonality. But obviously, New Jersey is a bit of more of a growth market compared to most right now. So if you can just give any commentary, is there any pricing pressure you're seeing? Is it limited retail stores right now that is sort of potentially slowing growth into the next couple of quarters or months? Any sort of outlook commentary you're able to provide on New Jersey just given we're sort of going into the second full year would be helpful.

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

A

I think Q1 is more based on seasonality. I mean it's Northeast where you have most – a lot of the people leaving the state for the winter. So, we're looking at it more in that way. We're also waiting for additional retail stores, so we think there could be some wholesale opportunities through the state. But again, it takes a long time to get retail stores open. So, we're still excited about New Jersey and we haven't seen any pricing pressure yet.

Brett Summerer
Chief Financial Officer, Verano Holdings Corp.

A

Yeah. And what I would say that to – just continue to keep in mind that our gross margins are always in that 59% to 61% has been there for five quarters, but pricing pressure has absolutely happened over the last five quarters, and we continue to keep our margins. So, our rigor on cost control are matching a price decline. This – it continues. So, even if the top-line is moving in a certain direction, it's not changed our margin.

Darren H. Weiss
Secretary & Chief Operating Officer, Verano Holdings Corp.

A

Yeah, let me just add. Matt, this is Darren speaking that the other dimension to this is just the fact that we are continuing to see the implications operators coming on line with additional capacity. As George said, we are – we have high hopes for the market. And the other piece I would just add as well is that we have been successful in making the price points in New Jersey market and don't anticipate given our market position having to move substantially off of those.

Matt Bottomley
Analyst, Canaccord Genuity Corp.

Q

Okay. Got it. Thanks for all that.

Operator: With no further questions, I would like to turn the call back over to George Archos, CEO and Founder for closing remarks.

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

Thank you, everyone, for your time today and we'll see you in the next quarter.

Operator: This concludes today's conference. Thank you for your participation. You may now disconnect.