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Cresco Labs, Inc. (CL.CA)

Q3 2019 Earnings Call

CORPORATE PARTICIPANTS

Jake Graves

Investor Relations Contact, Cresco Labs, Inc.

Charles Bachtell

Chief Executive Officer & Board Member, Director, Cresco Labs, Inc.

Joseph Caltabiano

President, Board Member, Co-Founder & Director, Cresco Labs, Inc.

Ken Amann

Chief Financial Officer, Cresco Labs, Inc.

OTHER PARTICIPANTS

Derek Dley

Analyst, Canaccord Genuity Corp.

Vivien Azer

Analyst, Cowen & Co. LLC

Russell Stanley

Analyst, Beacon Securities Ltd.

Robert Fagan

Analyst, GMP Securities LP

Jeffrey L. Kratky

Analyst, Piper Jaffray & Co.

Michael S. Lavery

Analyst, Piper Jaffray & Co.

Graeme Kreindler

Analyst, Eight Capital

Matthew Pallotta

Analyst, Echelon Wealth Partners, Inc.

Scott Fortune

Analyst, ROTH Capital Partners LLC

Jesse Pytlak

Analyst, Cormark Securities, Inc.

Alan Brochstein

Analyst, New Cannabis Ventures

MANAGEMENT DISCUSSION SECTION

Operator: Good day and welcome to the Cresco Labs Third Quarter 2019 Conference Call. All participants will be in a listen-only mode. [Operator Instructions] After today's presentation, there will be an opportunity to ask questions. [Operator Instructions] Please note this event is being recorded.

I would now like to turn the conference over to Jake Grave (sic) [Jake Graves] (00:00:33), Investor Relations for Cresco Labs. Please go ahead.

Jake Graves

Investor Relations Contact, Cresco Labs, Inc.

Good afternoon and welcome to Cresco Labs' third quarter 2019 earnings conference call. We look forward to speaking with you today and discussing the great progress we've made as a company. I'm joined on the call today by our Chief Executive Officer and Co-Founder, Charlie Bachtell; our President and Co-Founder Joe Caltabiano; and our Chief Financial Officer, Ken Amann.

Prior to this call, we issued our third quarter 2019 earnings press release for the three and nine months ended September 30, 2019. This document has been filed with SEDAR and is available on our Investor Relations website at investors.crescolabs.com. We plan to file our corresponding interim consolidated financial statements on SEDAR by November 29.

Before we begin our remarks, I'd like to remind everybody that certain statements made on today's call may contain forward-looking information within the meaning of applicable Canadian securities legislation as well as within the meaning of the Safe Harbor provisions of the United States Private Securities Litigation Reform Act of 1995. Such forward-looking statements may include estimates, projections, goals, forecasts, or assumptions, which are based on current expectations and are not representative of historical facts or information.

Such forward-looking statements represent the company's beliefs regarding future events, plans or objectives, which are inherently uncertain and are subject to the number of risks and uncertainties that may cause our actual results or performance to differ materially from such forward-looking statements, including economic conditions and changes in applicable regulations. Additional information about the material factors and assumptions forming the basis for our forward-looking statements and risk factors can be found under Risk Factors in Cresco's 2018 Annual Information Form filed with SEDAR on May 9, 2019 and available at www.sedar.com.

Cresco does not undertake any duty to publicly announce the result of any revisions to any of its forward-looking statements, or to update or supplement any information provided on today's call. In addition, during today's conference call, Cresco will refer to some pro forma and non-IFRS financial measures, such as pro forma revenue, adjusted EBITDA and operational gross profit, which do not have any standardized meaning prescribed by IFRS. We believe these non-IFRS financial measures assist management and investors in understanding and analyzing our business trends and performance.

Please refer to our earnings press release for the calculation of these measures and a reconciliation to the most directly comparable measures calculated and presented in accordance with IFRS. These pro forma and non-IFRS financial measures should not be considered superior to, as a substitute for, or as an alternative to, and should only be considered in conjunction with the IFRS financial measures presented in our financial statements.

Please also note that all financial information on today's call is presented in US dollars, unless otherwise noted and all interim financial information including disclosures for any pending acquisition is unaudited.

And with that, I'll now turn the call over to the CEO, Charlie Bachtell. Charlie, please go ahead.

Charles Bachtell

Chief Executive Officer & Board Member, Director, Cresco Labs, Inc.

Good afternoon, everybody, and thank you for joining us on today's call. On the call today, we'll provide updates on our quarterly results provide some insight on how we see the industry unfolding, how we impact it, take a deeper look at some of the most substantial opportunities for Cresco as we approach the new year and how we are allocating capital towards those opportunities. Joe will then provide some highlights from our operations and pending acquisitions and Ken will discuss our financial results in more detail.

In the current business and capital markets environment, it's more important than ever to be a company with sound fundamentals, a successful business model, a responsible capital agenda and a strong management team with a proven ability to execute. Cresco's mission continues to be to normalize and professionalize the cannabis industry. With the top management team in the industry, we continue to execute at a different level. We get access to markets. We get operational. We get products on the shelves and we get disproportionate market shares. We also manage regulatory challenges at the state and federal level with an unmatched level of success.

We are focused, strategic and deep. We've established proficiency in all four verticals of the value chain which is critical today. But we've effectively prioritized the middle two verticals, branded products and distribution, a business model for consumer verticals that historically has garnered the largest gross margins, the largest EBITDA margins, and premium valuations for shareholders. We've built the most strategic geographic footprint in cannabis and we obtained meaningful material positions in each market.

For Cresco Labs, this approach has garnered consecutive quarters of profitability and we're the only MSO in the industry with a top market share in more than one top-tier state. Allocating shareholder capital is a fundamental responsibility and key to a company's ability to execute. We've focused on developing a superior capital agenda, responsibly accelerating a top-line on an organic basis, managing cost to drive bottom line and executing accretive transactions that build shareholder value. Cresco Labs is committed to this disciplined approach to growing profitably. In Q3, we continue to deliver on these commitments.

Cresco Labs' third quarter revenue was \$36.2 million, representing a 21% increase sequentially from Q2 on an identical asset base. No additional assets were accounted for in this quarter. We saw sequential growth in our consumer products channel at 28% and a 10% increase in revenue from our existing retail channel. We delivered \$11.1 million in adjusted EBITDA or \$3.1 million excluding the net benefits of biological assets, marking another quarter of profitability. In Q3, we increased our revenue mix to 65% wholesale and 35% retail. For our retail locations that have been operational for at least a year, we're pleased to report same store-sales grew at a rate of 62% from Q3 2018.

While we're pleased to see the same-store growth, we're very pleased to see the continued effectiveness of our consumer products channel as we know operating leverage is magnified in this vertical and margins at scale will exceed those seen from the retail vertical. Many now agree that brands in wholesale distribution should be the focus for any successful MSO, but executing on this business model has long been a point of distinction for Cresco Labs.

In addition to the sequential improvements in all material business metrics, in Q3, we became the only MSO in Illinois to have all of their existing cultivation and dispensary licenses approved for adult-use at the state and local level. We completed the DOJ HSR second request for the Origin House transaction in 91 days, just faster than any other cannabis transaction to-date. And subsequently with the Tryke transaction, we became the first cannabis company in 2019 to submit a transaction for DOJ HSR review and not have the DOJ ask for a second request. This is what a strong focus on regulatory compliance and a proven execution looks like, and the benefits of such are truly differentiating.

Now I'd like to turn to a discussion of the key opportunities we see ahead as we prepare to enter 2020. We have consistently stated that our goal is to gain access to states with the most strategic value. And given the current environment, capital allocation had never been more important. The markets where we see the most opportunity have favorable economics for suppliers of consumer products and substantial near-term growth capabilities.

It's pretty simple. These markets marry the greatest opportunity for return on invested capital with the shortest timelines and the highest likelihood of success. Specifically, without a doubt, the single most significant opportunity in front of us today is in Illinois, the sixth largest state in the country with almost 13 million residents and 117 million tourists a year, 58 million to Chicago alone. And in just 35 days, it'll become the largest adult-use market in the Midwest.

On January 1, the state's cannabis market will explode from approximately a \$250 million medical program to a \$2 billion to \$4 billion adult-use market at maturity. Illinois will truly be the first adult-use limited license program. Not only do we currently have the largest market share in the state, but we are positioned to extend this lead in the coming years. We're the only operator in Illinois with three cultivation licenses. There is one peer that has two licenses and all of the other operators only have one.

Now that these cultivation licenses are capped at 210,000 square feet of canopy each, Cresco Labs has the ability to expand our production capacity to 630,000 square feet of canopy which will by law, always be 50% more than the only peer that has two licenses and 200% more than all of the other operators in the state. As Illinois ramps up to 500 retail dispensaries that the law allowed, clearly, we see benefits from having more supply capacity than anyone else in the state.

Our brands are already well established and we expect to continue distributing our products to 100% of the Illinois retail dispensary. Beyond that, we have five dispensaries of our own that will be up and running on January 1 with licenses to open five more doors. We're very proud of our home state for the prudent and responsible way that they've put this legislation into action. We look forward to showing millions of consumers, patients and visitors what normalized and professionalized cannabis looks like.

Pennsylvania presents another outstanding opportunity for Cresco as we move into 2020. Pennsylvania is the fifth largest state in the country with over 13 million residents and has the sixth most populated city with Philadelphia. The medical market opened in early 2018 and already has nearly 200,000 patients making it one of the fastest growing medical markets in the country.

In September, Governor Wolf expressed support for adult-use legislation noting that 68% of the state's population supports legalization as well. Currently, we have the number one market share in the state and we sell Cresco products in every dispensary. The three dispensaries we own in Pennsylvania continue to outperform our expectations and we look forward to opening three more locations in the first half of 2020. With an imbalance, demand and supply ratio, this market had its characteristics that clearly make the allocation of capital prudent.

Now, let's talk about California and the opportunity we see with Origin House post-close. In the world's largest cannabis market owning the largest wholesale distribution network is the way to win meaningful market share. This is a transformational deal for Cresco Labs which we expect will drive top and bottom line growth and put us in position to develop our house of brands into the most influential consumer market.

As enforcement measures and news about illicit products continue to erode the state's illegal cannabis market, the revenue opportunity for the regulated industry becomes even more attractive. As an example of capital stewardship and discipline, we were successfully able to modify the terms of this agreement to ensure that Origin House has a strong balance sheet, substantiated future revenue streams, shored up operational platform and we reduce the overall amount of consideration. We're very excited to be moving forward with this transaction.

In another example of capital stewardship and given these tremendous near-term opportunities in existing Cresco markets, we've made the strategic decision that terminate our agreement to acquire VidaCann. We have a responsibility to effectively manage our cost of capital and to then drive the highest return for our shareholders and we simply believe that this cash can be allocated to markets with superior return profiles.

All operators in our industry will be forced to make tough decisions regarding the optimal allocation of capital. We're fortunate to have built an existing strategic geographic footprint with a long-term strategy in mind. So our decision boil down to time horizon and where we see the most opportunity in 2020. We didn't terminate this transaction lightly and I certainly don't want to give the impression that we don't like the Florida market. However from a return on invested capital perspective and executive and operational bandwidth perspective and a brand building perspective, we feel that investments in the states I've mentioned represent better uses of that capital.

This along with today's announced sale leaseback transaction also allows us to eliminate the perceived overhang related to the cash consideration of this acquisition and further solidify the health of our balance sheet.

We appreciate the relationship we've developed with the VidaCann team and greatly respect the platform that they've built. We will continue to monitor Florida closely for opportunities to enter the market in a capital-efficient manner.

To wrap up, I know I speak on behalf of the entire team when I say that I'm very excited about the future for Cresco. We're executing along our strategy and are positioned perfectly to capitalize on opportunities in 2020 with the hard earned operating leverage we've created. We consistently demonstrate a unique understanding of where this industry is going, provide the thought leadership to guide it there then execute and obtain disproportionate share of the resulting opportunities. Our performance is driven by a best-in-class team that will continue to be the foundation of our long-term success, and I would like to specifically thank our team for getting us to this point.

With that, I'll pass the call to Joe Caltabiano, Co-Founder and President, to provide highlights from our operations and pending M&A.

Joseph Caltabiano

President, Board Member, Co-Founder & Director, Cresco Labs, Inc.

Thanks, Charlie. Now that we've identified the opportunities for return on investment, let's discuss our execution and how we're growing our commanding share in these markets.

In our home state of Illinois, we completed sale-leaseback transactions on two of our three facilities in the state to fund and expand our production capabilities by an additional 205,000 square feet. This will provide us with the largest cultivation footprint in the state. We look to further expand these facilities in the coming year as we expect

demand will outpace supply, much like we've seen in other states that have made the transition to adult-use. On the retail side, we literally won the lottery. We were fortunate to select two of the seven available retail licenses in Chicago's Prestigious Central District, making Cresco Labs the only publicly traded MSO with the ability to open more than one dispensary in East Central neighborhoods.

Adding in, our existing North dispensary just steps from Wrigley Field, we have multiple locations slated at the nexus of where Chicago shops, gathers and lives. We're in the process of updating all of our retail stores under the Sunnyside* brand. We expect our Illinois stores will be rebranded by the end of this year and pending regulatory approval, we expect all of our stores to be updated by the end of Q1 2020. While impending adult-use arrives in 35 days is exciting, the existing medical program continues to scale, growing 90% year-over-year, which further de-risks the investments we're making in Illinois.

Pennsylvania is another priority on our capital agenda. As Charlie mentioned, the medical program is one of the fastest growing, which creates a dynamic supply/demand imbalance. Accordingly, we are growing our Brookfield cultivation facility from 75,000 to 115,000 square feet as we speak. We expect to add a flagship Sunnyside* location in Philadelphia in Q1, which will make it our fourth in the state. We are excited to grow our own footprint in this market as the demand growth continues to exceed expectations.

On October 8, we closed the acquisition of Valley Agriceuticals, granting us one of only 10 vertically integrated licenses in the State of New York. Subsequent to the close, we opened two additional dispensaries, one in Williamsburg, Brooklyn and one in Huntington, Long Island. Both locations serve dense populations, particularly Brooklyn where this is currently one dispensary per 630,000 people. This brings our total dispensary count to four in the state, which is the maximum allowed.

New York is one of the most influential customer markets in the world and we look forward to introducing both our retail and product brands in 2020.

Hope Heal Health, our transaction in Massachusetts, is still pending. The license transfer requires approval from the CCC. We continue to be optimistic for some movement on this before year's end.

In Michigan, we've completed the first phase of our construction on our facility in Marshall. We now await final approval and inspection from the state. On September 16, we announced our signed purchase agreement with Tryke, including the six iconic Reef Dispensaries. Tryke represents a major piece of our strategic footprint. Upon closing, we will immediately have a top three market share in Nevada and a substantial presence in Arizona, with room to grow quickly as we introduce our wholesale model.

In Q3, Tryke generated over \$17 million of revenue with significant earnings. Contributing to these outstanding numbers are the six retail dispensaries located on some of the best corners throughout Nevada and Arizona where they average over 150,000 visitors per month. We fully expect the addition of Tryke will both accelerate our near-term growth trajectory and further advance Cresco Labs towards our goal of being the most important company in the cannabis industry.

Subsequent to the close of Q3, we announced an amendment to our proposed acquisition of Origin House, which we now expect to close in January pending a vote by Origin House shareholders. We introduced Cresco-branded flower to the California market via the Continuum platform at the end of Q2, and we recently launched our largest advertising campaign ever for the Cresco brand. Within the Origin House portfolio are two ultra-premium indoor cultivation sites and additional production facilities to expand our product offerings throughout the state.

Origin House has a lot of human capital in the exact verticals that will generate long-term value in the industry. FloraCal is led by one of the strongest cultivation teams in the industry that consistently outperforms the market on yields and quality metrics. As we transfer this knowledge and operating efficiencies to our other cultivation locations, the benefits are massive. We are very excited to welcome the Origin House team to the Cresco family, and I am very confident that we can do far more together over the next several years than either of us can do alone.

2020 is shaping up to be an amazing year for Cresco from our pending acquisitions to adult-use in Illinois and Michigan, to the rapidly expanding medical markets, to the growing of our brands and sales in California. We look forward to the opportunities we have in front of us.

With that, I'll pass the call to Ken Amann to discuss our financial results and capital markets activity.

Ken Amann

Chief Financial Officer, Cresco Labs, Inc.

Thank you, Joe, and good afternoon, everyone. I'll begin by reviewing the financial highlights from the quarter then provide more context around our capital allocation strategy and balance sheet. Please note that all numbers are stated in US dollars.

Third quarter provided evidence of the organic growth being generated in our core business. We have the most strategic footprint in the cannabis industry focused on high-quality states. As we go deeper into those markets, we drive economies of scale, grow market share and ultimately, increase profitability. In the third quarter, we generated \$36.2 million in revenue, up 184% year-over-year and sequential growth of 21% on identical asset base. This is 100% organic growth from last quarter and includes contribution from 6 of our 11 markets with much more growth being derived in Illinois, Pennsylvania, California. Pro forma revenue increased 48% sequentially to \$73.6 million, a run rate of nearly \$300 million. This includes revenue from our three pending acquisitions of Tryke, Hope Heal Health, Origin House as well as Valley Agriceuticals which we closed in October.

On a consolidated basis, our revenue mix increased to 65% wholesale, 35% retail, up from 62% last quarter. This mix supports our distinction of being the foremost operator in the middle two verticals on the value chain.

The company achieved record operating gross profit during the quarter of \$17.1 million or 47.1% compared to 48.1% in Q2. It is important to note that each of our core markets individually saw sequential increase in operating gross profit, but the slight decline is attributed to a higher revenue mix from California, a state which we are still scaling our operations and we made targeted investments in gross profit. Beyond distribution, we look forward to leveraging Origin House's outstanding cultivation and production capabilities to help drive margins in California to levels that we're seeing in other states where we're vertically integrated.

SG&A excluding non-recurring items and stock-based compensation was \$16.8 million or 46% of revenue compared to approximately \$14 million in Q2. The sequential increase reflects additional head count as we continue to build our infrastructure and make investments aimed at driving brand awareness to gain material market positions. It's important to note that SG&A on an adjusted basis is down as a percent of revenue by 200 basis points and we expect this trend to continue as we leverage our existing infrastructure to scale the business.

We generated solid profitability in Q3 as measured by adjusted EBITDA of \$11.1 million or 31% of revenue compared to \$9.7 million in the prior year period. Excluding the net impact of biological assets, adjusted EBITDA for Q3 was \$3.1 million or 9% of revenue, marking our second consecutive quarter of profitability.

CapEx rose to \$22.4 million from \$16 million in Q2 to fund expansion of our cultivation facilities in Illinois and Pennsylvania. The strategic allocation of capital is critical and we look at going deeper into a state, we consider four things. One, the size of the investment; two, the payback period; three, return on invested capital; and four, how does it further our goal of building our brands. For example, the evaluation process considers the following unit economic models rounded for ease of math. We spend on average \$200 per square foot to expand our indoor cultivation space. Each 1,000 square feet of expansion would cost \$200,000 and that space produces approximately 500 pounds of flower per year. Wholesale flower in Illinois sells for an average of about \$3,500 per pound for total revenue potential \$1.8 million. Assuming a gross profit margin of 50%, a \$200,000 investment would yield \$900,000 or \$4.5 million of incremental profit over five years from 1,000 additional square feet of cultivation. When you extrapolate that across approximately 200,000 square feet of additional cultivation space currently being added in Illinois, the revenue potential is massive.

Turning to the balance sheet, we ended the quarter with \$73.7 million in cash and zero debt. Recall that we closed our original sale-leaseback transaction with IIPR for two of our three Illinois cultivation facilities in Joliet and Kankakee after the close of Q3 for approximately \$46.3 million. As announced earlier today, Cresco entered into a second sale-leaseback agreement with IIPR to sell our Marshall, Michigan and Yellow Springs, Ohio cultivation facilities for nearly \$38 million which includes some funding for tenant improvements as well as other growth initiatives. The agreement is expected to close in December. By taking VidaCann out of the equation and executing on multiple sale-leaseback transactions as part of our strategic capital plan, we have significantly strengthened our balance sheet and overall financial position.

We're also in late stage discussions focused on other non-dilutive sources of capital, including an additional sale-leaseback transaction and senior secured debt to fund our continued growth going into 2020 and beyond. We do so knowing that Cresco Labs is a premier operator in the industry with lots of debt capacity, especially as we continue to scale the company. We will evaluate our financing options to lower our overall cost of capital with our shareholders at top of mind.

Given our strong balance sheet, we will only consider options that clearly reflect the financial strength of the business. Outside of the financials, we've had a very productive second half of the year. As a senior team, we're very pleased with the organic growth we've experienced this quarter and we look forward to the huge opportunities in the year ahead. Our teams have worked diligently to develop the brands that will eventually become nationally recognized. We've gained access to the most important cannabis markets in the industry, and we have transformational M&A deals in the pipeline. We have the right people in place, our strategy set and we cannot be more excited for 2020.

Thank you for your time today. And I'll ask the operator to open the line for questions.

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] Our first question comes from Derek Dley from Canaccord Genuity.

Derek Dley

Analyst, Canaccord Genuity Corp.

Q

Yeah, hi guys. Congrats on a strong quarter.

Charles Bachtell

Chief Executive Officer & Board Member, Director, Cresco Labs, Inc.

A

Thank you.

Derek Dley

Analyst, Canaccord Genuity Corp.

Q

Just wondering in terms of the operational gross profit that you're seeing in some of your more established markets like Illinois and Pennsylvania, Ken, I mean, I think you just mentioned 50%. Is that a number that you're seeing currently in those markets?

Ken Amann

Chief Financial Officer, Cresco Labs, Inc.

A

Yeah, Derek, this is Ken. Thanks for the question. We did record operational gross profit of \$17.1 million that was 47.1% in the quarter. That excludes the net impact of the biological assets. It is important to note that in each of our core markets we did see sequential increase in operating gross profit. This was largely the results of our efforts to drive operational efficiencies that reduced our overall cost per gram quarter-over-quarter.

What I would say is that in Illinois, for example, we did increase our gross profit margins by 400 basis points quarter-over-quarter and another example would be in Arizona we increased that by 900 basis points quarter-over-quarter. What you're seeing there in the slight decline quarter-over-quarter is really attributed to the revenue mix in California where we made some targeted investments in margin to drive brand awareness.

Our investments though are starting to pay off and we've seen significant increase in revenue compared to Q2 in that state. We feel like we've laid the foundation and as additional awareness grows and we begin pushing product through Origin House's Continuum platform, we expect to leverage that volume and drive operational efficiencies which will produce even stronger gross profit margins. As we saw in this past quarter, it can be somewhat mix dependent and in the short-term, we expect so our gross profit margins to leverage as we ramp up our cultivation and production capabilities in Illinois and Pennsylvania. And then longer term, we expect this to be consistent with the CPG category which generates margins of roughly 55%. And then given our focus on the middle two verticals, so really the creation and distribution of brands, we believe that we have the greatest opportunity to create shareholder value which rewards this type of profitability and evaluations, similar to beverage and tobacco.

Derek Dley

Analyst, Canaccord Genuity Corp.

Q

Okay, great. That's extremely helpful. You mentioned as you get cultivation capacity up and running in Pennsylvania and Illinois, you'll be able to scale that gross margin. Can you just give us an update, and maybe this is for Joe or Charlie, just on when you expect that cultivation capacity to come online in Illinois, the incremental capacity?

Charles Bachtell

Chief Executive Officer & Board Member, Director, Cresco Labs, Inc.

A

Sure. Joe will take this.

Joseph Caltabiano

President, Board Member, Co-Founder & Director, Cresco Labs, Inc.

A

Yeah. Hi, Derek, thanks. We are wrapping up the majority of our construction in Illinois as we speak. The bulk of the expansion will be complete and online by the end of December with kind of the finishing of some of the base. It'll be delivered in a staggered period but all of it will be done by January 15 is the target, with the majority delivering in this year in December. In Pennsylvania, there's still some rolling construction going on that will be all wrapped up by the end of January as well. So, we should have the full Illinois and Pennsylvania construction complete no later than January of 2020.

Derek Dley

Analyst, Canaccord Genuity Corp.

Q

Okay, that's great. And I think in the prepared remarks, you said you're continuing to grow your market share in those key states. Can you quantify that?

Joseph Caltabiano

President, Board Member, Co-Founder & Director, Cresco Labs, Inc.

A

Yeah, it's Joe again. So, in Illinois, we are holding steady at about that 25% market share based on capacity, so that we do expect kind of get a lay of the land of some of the other peers in the market, I think we'll be out in front of some of the competitors in the landscape and be able to increase that up, we'd love to try to get it up into that 30% market share like we've seen in the past in Pennsylvania.

Derek Dley

Analyst, Canaccord Genuity Corp.

Q

Okay, great. Charlie, just given the announcement this morning with VidaCann, a couple of questions there. One, if you can disclose, was there a break fee involved in that transaction? And two, are you thinking medium/longer-term, are you comfortable with the current state footprint that you're in?

Charles Bachtell

Chief Executive Officer & Board Member, Director, Cresco Labs, Inc.

A

Yeah. So, there was no break fee. Thanks, Derek. There was no break fee associated with the VidaCann transaction. As far as our state footprint, we like Florida. Florida is a great state. It's just – it's a matter of prioritization, right, timing, capital markets. We'll continue to keep an eye on the state. The state has some upcoming potential volatility as it relates to legislation. There were a couple of bills filed yesterday that might change the look and feel of the Florida program. So, it's something that we'll continue to monitor, but right now I think it's most prudent for us to focus on these states where we have these existing opportunities and to really truly maximize them.

Derek Dley

Analyst, Canaccord Genuity Corp.

Great. Thank you very much.

Q

Charles Bachtell

Chief Executive Officer & Board Member, Director, Cresco Labs, Inc.

Thanks, Derek.

A

Operator: Thank you. Our next question comes from Vivien Azer with Cowen.

Vivien Azer

Analyst, Cowen & Co. LLC

Hi. Good afternoon. So, Charlie, I appreciate your comment just now that you think Florida is a good market. I'd love to just understand kind of how you guys evaluated the opportunity between New York and Florida because I hear you loud and clear like absolutely like from brand building standpoint, New York is critically important, but given your focus on returns and given how small of a market New York is, from a medical standpoint, like how did you guys kind of balance that out because surely as you were thinking about closing New York, I'm sure you will also think about VidaCann simultaneously even though that was a month and a half ago. Thanks.

Q

Charles Bachtell

Chief Executive Officer & Board Member, Director, Cresco Labs, Inc.

Yeah. Thanks, Vivien. So, you know – and it's a great question, both of those markets have their pros and their cons. The New York market is a smaller medical market, but I can tell you I think we see a ton of upside potential and especially with a reinvigorated look and view towards adult-use in a very near future. And so we're bullish on New York and it comes down to your point, the capital allocation associated with it. The VidaCann structure made it just a very difficult transaction for us to close. The structure of that was developed in January really of this year when capital markets were different before Illinois passed an adult-use law, it was really a different scenario. We were able to get what we – at the time was a below market purchase price by being really cash heavy on the consideration and the portion of consideration associated with cash.

A

And fast forward to November of 2019 and the capital markets are very different. And Illinois has a tremendous opportunity in front of us and Pennsylvania has a tremendous opportunity in front of us. And again, specifically as it relates to New York, one of 10 licenses, ramped up efforts and focus on adult-use in the very near term in 2020. And that's all of – and then some – or some of the considerations that we took as we debated which transactions to close on. Primarily VidaCann, the cash component of that consideration was a major driver of the decision.

Vivien Azer

Analyst, Cowen & Co. LLC

That's helpful. That makes sense and certainly very encouraging to hear how optimistic you are about New York. So just as a follow-up to that with the sale-leasebacks in Illinois certainly given kind of the growth you guys want to invest behind in Illinois and Pennsylvania that's quite helpful. As we look beyond Illinois, are there additional opportunities for sale-leasebacks? Thanks.

Q

Charles Bachtell

Chief Executive Officer & Board Member, Director, Cresco Labs, Inc.

And Ken, do you want to take this one?

A

Ken Amann

Chief Financial Officer, Cresco Labs, Inc.

A

Yeah. Hi, Viv. In terms of the sale-leaseback, obviously, this is a great alternative source of capital today. It does allow us to monetize assets from the balance sheet and access capital in non-dilutive fashion and that's really consistent with the messaging that we've had. And actually, we've now executed on two of these in the past 30 days. So, we do like that opportunity.

In terms of the opportunities moving forward, we do have about – although we've monetized a significant amount, we do have about \$100 million of PP&E currently on the balance sheet. The largest opportunity that we would have in that regard is really allowing our cultivation facility in Lincoln, Illinois which is now undergoing a significant expansion. So, certainly more opportunity to focus on those moving forward.

Vivien Azer

Analyst, Cowen & Co. LLC

Q

Very helpful. Thanks, Ken.

Charles Bachtell

Chief Executive Officer & Board Member, Director, Cresco Labs, Inc.

A

Thanks, Vivien. Thank you.

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

Russell Stanley

Analyst, Beacon Securities Ltd.

Q

Good afternoon, guys. Thanks for taking my questions. With respect to Illinois, pardon me, just wondering what you think the timeline is on actually opening doors in those three Chicago area locations in the lottery and what your anticipated timeline is on the fourth and fifth second sale licenses you have?

Charles Bachtell

Chief Executive Officer & Board Member, Director, Cresco Labs, Inc.

A

Thanks, Russ, and Joe will take this one.

Joseph Caltabiano

President, Board Member, Co-Founder & Director, Cresco Labs, Inc.

A

Thanks, Russ. Yeah, it was fun to win the lottery to say the least that was quite an experience. We come from real estate backgrounds and we've been scouting locations for a significant amount of time. We covered the state or the city entirely. So, we had a plan together kind of regardless of where we were selected. Our headquarters are in the Central District, we're very familiar with that area, have a lot of deep relationships in the area. We expect to get those open in Q1. We have a strong real estate and development team that's capable of moving very quickly and continue to work with the city to meet all the requirements to get open as quick as possible. But we think we'll be able to get those open in Q1, towards the end of Q1.

Russell Stanley

Analyst, Beacon Securities Ltd.

Q

And does that timeline include the fourth and fifth second sites as well?

Joseph Caltabiano

President, Board Member, Co-Founder & Director, Cresco Labs, Inc.

A

Yeah, so the fourth and fifth sites are going to be in other areas within Illinois. And we do expect to have all five of those sites open by the end of Q1. Certainly, construction delays occur in the space, but we are foot on the gas and resources dedicated to getting those open. That is a primary focus of a big chunk of our team.

Russell Stanley

Analyst, Beacon Securities Ltd.

Q

Great. And moving on to Pennsylvania, I think you mentioned the fourth dispensary expected to go up now in Q1. I'm just wondering what the timelines are in the fifth and sixth. Should we expect those probably in Q2 then?

Joseph Caltabiano

President, Board Member, Co-Founder & Director, Cresco Labs, Inc.

A

No, same timeline with Q1. Our Philly store, we did hit a little bit of a construction delay there and that pushed that one. We were optimistic to get that open this year but it will bleed into Q1. But the fifth and sixth are also slated to be open in Q1 as well.

Russell Stanley

Analyst, Beacon Securities Ltd.

Q

Great. That's all I have for now. I'll get back in the queue. Thank you.

Charles Bachtell

Chief Executive Officer & Board Member, Director, Cresco Labs, Inc.

A

Thanks, Russ.

Operator: Thank you. Our next question comes from Robert Fagan with GMP Securities.

Robert Fagan

Analyst, GMP Securities LP

Q

Thanks, guys, and congrats on a good quarter. Just wanted to touch on the pro forma revenue numbers, which are pretty strong and just wanted to verify, I mean, you mentioned, I think, Ken, growth of 40% sequentially. So does that include in like Q2 pro forma numbers the contribution from Tryke and I guess, ultimately, what I'm trying to understand here is, what was the main driver of that strong pro forma growth, was Origin House's performance very strong sequentially in Q3?

Charles Bachtell

Chief Executive Officer & Board Member, Director, Cresco Labs, Inc.

A

Thanks, Rob. I'll turn that over to Ken.

Ken Amann

Chief Financial Officer, Cresco Labs, Inc.

A

Hey, Robert, thanks for the question. So, pro forma revenue was nearly \$74 million in the quarter that was up 48% quarter-over-quarter and that does include amounts from three of our pending acquisitions including Tryke, Hope Heal Health and Origin House as well as Valley Ag which we closed in October. The largest component of

the revenue increase quarter-over-quarter was the addition of Tryke which we put into the prepared comments that was about \$17 million of the overall \$37 million of incremental pro forma revenue, if you will.

Robert Fagan

Analyst, GMP Securities LP

Q

Okay. So outside of Tryke, would you be able to give us some color around the growth of maybe Origin House or the assets in Massachusetts?

Ken Amann

Chief Financial Officer, Cresco Labs, Inc.

A

Yeah, unfortunately, Origin House hasn't reported yet, so I can't comment specifically on those. As it relates to the revenue across those other markets, what we're seeing there is that the revenue growth was consistent with the rest of our core business, which was again organic growth only 20%.

Robert Fagan

Analyst, GMP Securities LP

Q

Fair enough. Thought I'd give it a try. Just shifting to capital allocation and Charlie, I think you gave us a great overview of some of the key states which are obvious areas to devote capital. But I just thought maybe if you could give us a little more commentary on Nevada and Arizona with the integration potential of Tryke in your existing operations in Arizona and maybe in particular, what kind of synergies do you expect, and is that also – are those two states also where you see capital being devoted?

Charles Bachtell

Chief Executive Officer & Board Member, Director, Cresco Labs, Inc.

A

Yeah. Thanks, Rob. We like those two markets. Those are two markets, you can look at them from a couple of different perspectives and recognize the value. One, the proximity to even California is a plus. So, when you start to build sort of a regional presence, California, Nevada, Arizona together, that's great. Nevada as a standalone, you're talking about Reno in Las Vegas, two of the most, really the – especially with Vegas, dynamic marketplaces in the industry. And then Arizona, you're still talking about one of, if not the largest remaining medical-only programs with a strong likelihood of moving forward with adult-use in 2020 or near future.

So, we really do like that footprint. We've had the footprint – that part of the footprint for a few quarters now, and just we are not satisfied with the positioning that we had there, so Tryke became almost hand in glove. We were great acquirer for them and they were a great asset for us. And then for us to be able to get through that DOJ submission and be the first company in cannabis to have to submit the qualifying condition and not get a second review without the benefit of federal government closures is telling. And we're proud of it as a team and it is going to make the realization of that transaction move forward faster.

And so, we like the market a lot. We like the transaction a lot. We love the team. We love the asset base. And we're excited to really move forward with true presence in both of those markets. Tryke, depending, is top three in the marketplace in Nevada, the Reef Dispensaries from a revenue standpoint. So, the amount of people that come through those stores, the revenue that they generate, there's very few retail establishments in the industry that have the profile that those Reef Dispensaries do. So, we're really excited about it.

Robert Fagan

Analyst, GMP Securities LP

Q

Great. Well, thanks a lot, guys.

Charles Bachtell

Chief Executive Officer & Board Member, Director, Cresco Labs, Inc.

Thanks, Rob.

A

Ken Amann

Chief Financial Officer, Cresco Labs, Inc.

Thanks, Rob.

A

Operator: Thank you. Our next question comes from Michael Lavery with Piper Jaffray.

Jeffrey L. Kratky

Analyst, Piper Jaffray & Co.

Hi, this is Jeff Kratky on for Michael. Good evening. My first question...

Q

Charles Bachtell

Chief Executive Officer & Board Member, Director, Cresco Labs, Inc.

Hi Jeff.

A

Jeffrey L. Kratky

Analyst, Piper Jaffray & Co.

...how does your CBD strategy with WellBeings change, if at all, in light of the FDA's recent warning letters to companies marketing CBD as a dietary supplement or in food?

Q

Charles Bachtell

Chief Executive Officer & Board Member, Director, Cresco Labs, Inc.

Yeah, Mike (sic) [Jeff] (00:42:27), thanks for the question. This is Charlie, I'll take that. We've always looked at the CBD channel as an incredibly interesting marketing opportunity. It definitely was not to try and become the largest purveyor of CBD products. We think that the ability to reach eyeballs in all 50 states and really grab mindshare before we can reach them as a cannabis – THC-focused cannabis company was a pretty dynamic opportunity. And so we've taken, what I would say is an appropriately cautious approach to making sure that we don't overstep what is currently and specifically sort of addressed and acknowledged as, okay. I've had conversations with your peer set over the last couple of months and I've said repeatedly like, I'm not interested in getting one of those letters and I'm really not.

A

So we still like the channel. We like the opportunity there. I think in the same vein as prioritizing where we're putting resources from not only a capital standpoint, from a bandwidth standpoint as well, we are laser-focused on the core business. But I will say we're very happy that we recently launched the direct-to-consumer aspect of well-being. We're really in the infancy stage of it. We're about 12, 14 days into having a real presence and platform on Google. It is fun and exciting to see traditional business metrics and look at it from the viewpoint of real CPG. Google Analytics will let you figure out if pricing is right, if form is right, if messaging is right. It gives you a lot of very, very valuable feedback that we're really looking forward to exploring further with that opportunity.

Michael S. Lavery

Analyst, Piper Jaffray & Co.

Q

Got it. No, that makes sense. And then a follow-up, could you elaborate on your preparations for recreational cannabis sales in Illinois and how could capital that had once been planned for VidaCann be put?

Charles Bachtell

Chief Executive Officer & Board Member, Director, Cresco Labs, Inc.

Sure. And Joe will take this.

A

Joseph Caltabiano

President, Board Member, Co-Founder & Director, Cresco Labs, Inc.

Sure. Our team both on a cultivation manufacturing side as well as retail side has been planning for an increased medical program in Illinois, first and foremost. So we did have a head start on expanding cultivation, looking at redeveloping our retail and then with the recreational lobbying passed, that certainly accelerated. So our teams have been in place from both the staffing standpoint, from a marketing standpoint, from increased cultivation, construction, et cetera, for a very long period of time. So I feel like we had a head start. We had the capital to deploy. It's in our home state where we've had a very strong market share for – since inception of this program. So certainly having that pride of ownership in our home state has been a top priority and our team really feels it and lives it every day.

A

So from hiring, from re-launching brands, from preparing for automation to help increase the speed that we can get products out, adding on logistics and delivery vehicles, all of those things have been underway, and we're excited to see it all come to fruition in roughly 35 days.

Michael S. Lavery

Analyst, Piper Jaffray & Co.

Got it. All right. Thank you very much.

Q

Charles Bachtell

Chief Executive Officer & Board Member, Director, Cresco Labs, Inc.

Thank you.

A

Operator: Thank you. Our next question comes from Graeme Kreindler with Eight Capital.

Graeme Kreindler

Analyst, Eight Capital

Yeah. Hi. Thanks for taking my questions. Just two quick ones here for me, the first is, of the two sale leasebacks, how much of that is actual cash to be received on the balance sheet and what's the split out of how much of that is going to be the tenant improvements portion of that? Thanks.

Q

Charles Bachtell

Chief Executive Officer & Board Member, Director, Cresco Labs, Inc.

Thanks, Graeme, and Ken will take this.

A

Ken Amann

Chief Financial Officer, Cresco Labs, Inc.

Hey, Graeme. As it relates to the announcement that we made earlier today that sale leaseback for those assets in Marshall, Michigan and also Yellow Springs, Ohio, the split between the cash and the tenant improvements

A

was split pretty much 50/50 down the middle, but either way it's all going to be used for growth initiatives, as it relates to the original [ph] IPR (00:47:01) transaction that we completed about a month back. The total amount of that transaction was about \$46.3 million, however, more of that, the majority of that went back into tenant improvements, then it did cash back into our balance sheet.

Graeme Kreindler

Analyst, Eight Capital

Q

Okay. That's helpful. Thank you. And then, just a follow-up, I know you outlined the timelines earlier on the call with respect to when you're looking to complete most of the cultivation build-out. I was just wondering if you had specific CapEx budget for Illinois and Pennsylvania that you could share and how much has gone to-date and how much is expected remaining to be spent based on the timelines outlined earlier. Thanks.

Ken Amann

Chief Financial Officer, Cresco Labs, Inc.

A

Thanks for the question, Graeme. Our CapEx was elevated a bit in the third quarter, was \$22.4 million overall and that was mainly the result of spend related to our production capabilities in Illinois and Pennsylvania, which are the two states that we feel have superior return profiles. Again, this is about going deeper into our core markets and again consistent with our prior messaging. The PA market is already supply constraint and the transition to adult-use in Illinois is really the most exciting story in cannabis right now. And again, this is our home state where we already have the highest market share. And if our competitors aren't investing in a similar amount of capital for expansion then they're going to miss the significant opportunity. And we look forward to taking even higher market share in those states.

So, again, \$22 million in the quarter and I expect a similar amount in the fourth quarter as well. And then, we'll start to see that decline over time as we move into 2020 and a larger percentage of our CapEx, I expect to come from operating cash flow.

Graeme Kreindler

Analyst, Eight Capital

Q

Okay. Appreciate the color. Thank you very much for that.

Charles Bachtell

Chief Executive Officer & Board Member, Director, Cresco Labs, Inc.

A

Thanks, Graeme.

Operator: Thank you. Our next question will come from Matthew Pallotta with Echelon Wealth Partners.

Matthew Pallotta

Analyst, Echelon Wealth Partners, Inc.

Q

Hi, guys. Thanks for taking my question. Just wondering on Illinois, when you expect the supply from the expansion initiatives to be available or come online and with – how strong the medical markets been there? Are you guys bumping up against supply constraints today without that additional capacity that may cause us to see possibly less of a jump in Q1 with adult-use sales than we might expect just because of those potential supply constraint?

Charles Bachtell

Chief Executive Officer & Board Member, Director, Cresco Labs, Inc.

I think Joe will take that.

A

Joseph Caltabiano

President, Board Member, Co-Founder & Director, Cresco Labs, Inc.

Hey, Matt. So yes, there has been an accelerated growth rate of medical patients in Illinois and there has been bumping up against supply constraints to service even the medical community. The majority of our construction, as I mentioned, does deliver at the end of the year, but we've already had phases start to deliver. So we'll be recognizing product from the expansion starting in December and accelerating every month from that point on. So we will be bumping up into some supply constraints towards the end of this year, but we do expect to work through that coming into the middle of Q1.

A

We also are working with some of our peers in the state to make sure that our retail stores are supplied and we're able to meet the demand that we think is forthcoming.

Matthew Pallotta

Analyst, Echelon Wealth Partners, Inc.

Thanks. And then, quickly, just on the percentage of sales breakdown – I think last quarter, my notes was around 90% from Illinois, Pennsylvania and California. This is on reported revenue not pro forma. I was wondering if you could provide the breakdown of how much of revenue those three states comprise during this quarter and when you expect to see that sort of diversify with Ohio, Michigan and revenue from those states sort of start to pick up relative to the three largest markets that you are at the moment? Thanks.

Q

Charles Bachtell

Chief Executive Officer & Board Member, Director, Cresco Labs, Inc.

Thanks and Ken will take that.

A

Ken Amann

Chief Financial Officer, Cresco Labs, Inc.

Yeah. Thanks for the question, Matthew. In terms of those three core states, Illinois, Pennsylvania and California that did represent over 90% of our overall consumer products revenue again this quarter, however, we're starting to see some positive momentum in other states certainly Arizona, Ohio, the top of list. And as we start to those existing markets start to mature. We expect that to continue to be a larger percentage. You'll see a material shift once we begin to close acquisitions such as Oregon House and Tryke and again taking a much larger market share within those other states.

A

Matthew Pallotta

Analyst, Echelon Wealth Partners, Inc.

All right, thanks Ken.

Q

Operator: Thank you. Our next question will come from Scott Fortune from ROTH Capital Partners.

Scott Fortune

Analyst, ROTH Capital Partners LLC

Q

Congratulations and thank you for the questions. I just have one focus on California. I know you've rolled out a nice marketing campaign being here in California, I'm seeing it, and you're grabbing eyeballs and kind of mindshare here. But just kind of step us through the strategy to grow in California from a distribution, cultivation and kind of retail along with the brand development kind of as you allocate capital to California kind of step us through where you see the growth coming from that side of things? Thanks.

Charles Bachtell

Chief Executive Officer & Board Member, Director, Cresco Labs, Inc.

A

Yeah. Thanks, Scott. Appreciate the comments on the marketing campaign. We've prioritized that State of California. As everybody acknowledges, it's the largest cannabis market in the world. And if you want to be a premier operator and player in this industry, if you want to be top two, you need to have a robust and developed California plant. And Origin House definitely is our vehicle and which we believe gives us the highest likelihood of success in establishing that meaningful and material position in that state.

So I think you'll continue to see us invest in that marketplace, not only from a capital standpoint, but from a resource standpoint. That effort deserves a lot of hands-on and a lot of touch points from leadership in the executive level management bandwidth. We expect to see significant revenue increases as we mature into that marketplace as much as I would like to think the out-of-home has an immediate impact on a market of that size. It takes repeated time, effort and dedication to really substantiate the position. But we're definitely looking forward to it. And we've got a great partnership that we've created with the Origin House team. And it's important for us to note. It's not only just the distribution arm out there which is continuum. The cultivation asset of Origin House which is called FloraCal is one of the premier cultivation operations that we've come across. And they're going to be a great asset not only in California, but they're a great addition to our leadership team across the entire platform. So I think it's a tremendously accretive on many levels and look forward to closing the transaction.

Scott Fortune

Analyst, ROTH Capital Partners LLC

Q

Thanks. Great. Thanks for the color.

Operator: Thank you. Our next question comes from Jesse Pytlak with Cormark.

Jesse Pytlak

Analyst, Cormark Securities, Inc.

Q

Hey, good evening. I just want to come back to a comment Ken made, I think, in his prepared comments that kind of just refer to some transformational M&A still being in the pipeline. Just want to, number one make sure that I did hear that correctly. And if so, can you maybe just elaborate on that just how should we kind of think about that given what happened with VidaCann, just the current funding environment, and then, just kind of the clear focus you guys have on going deeper in your existing markets?

Charles Bachtell

Chief Executive Officer & Board Member, Director, Cresco Labs, Inc.

A

Yeah. Thanks, Jesse. Ken will take that.

Ken Amann

Chief Financial Officer, Cresco Labs, Inc.

A

Hi, Jesse. I guess, what I would say is, with respect to M&A is – with the current 11 state footprint, which we believe is the most strategic amongst our peers that gives us access to about 60% of the overall addressable US market, but our focus right now is about going deeper in our existing states, trying to drive material market share. We'll continue to evaluate strategic M&A opportunities that present attractive financial returns that strengthen our overall competitive advantage, which is really the key to sustainable financial results, but no immediate plans to jump into any large scale M&A transactions at this stage. We'll plan to be more opportunistic as those opportunities present themselves.

Jesse Pytlak

Analyst, Cormark Securities, Inc.

All right. Thank you. That's all for me.

Q

Charles Bachtell

Chief Executive Officer & Board Member, Director, Cresco Labs, Inc.

Thanks, Jesse.

A

Operator: Thank you. And our final question will come from Alan Brochstein with New Cannabis Venture (sic) [New Cannabis Ventures] (00:56:17).

Alan Brochstein

Analyst, New Cannabis Ventures

Hey, Joe, Charlie and Ken, first let me wish you a happy Thanksgiving.

Q

Charles Bachtell

Chief Executive Officer & Board Member, Director, Cresco Labs, Inc.

Likewise. Thanks, Alan.

A

Ken Amann

Chief Financial Officer, Cresco Labs, Inc.

Thanks, Alan.

A

Alan Brochstein

Analyst, New Cannabis Ventures

Just two quick ones. So, first of all congratulations on the sale leasebacks and I just want to verify, your counterparty has kind of a two-tier pricing from what I understand. I think if you could shed some light on two aspects. Number one, the rate if you can hold to that as well as, are there any sort of corporate guarantees involved?

Q

Charles Bachtell

Chief Executive Officer & Board Member, Director, Cresco Labs, Inc.

Thanks, Alan. So, with regard to the specifics of the terms, I think our counterparty will be issuing their own press release on that, but I could tell you that they're right in line with market, what's been disclosed before in this sector and with them, right in line. And I'm sorry, could you repeat part two of the question?

A

Alan Brochstein

Analyst, New Cannabis Ventures

Q

Just corporate guarantees. I don't think that you had a corporate guarantee before. I just want to make sure that you weren't – it's just on the assets and not on the whole corporation?

Charles Bachtell

Chief Executive Officer & Board Member, Director, Cresco Labs, Inc.

A

Correct.

Alan Brochstein

Analyst, New Cannabis Ventures

Q

Okay. And then, my other question is, kind of big picture. I understand that you guys might be opportunistic and that you're focusing on your core markets and I'm just wondering, you guys are better capitalized now than almost all of your peers and I'm wondering if you're starting to see the dynamics within those markets change, if you're actually seeing some of the competitive forces disappear or come to you begging to be bought out.

Charles Bachtell

Chief Executive Officer & Board Member, Director, Cresco Labs, Inc.

A

Thanks, Alan. This is Charlie.

Alan Brochstein

Analyst, New Cannabis Ventures

Q

Sure.

Charles Bachtell

Chief Executive Officer & Board Member, Director, Cresco Labs, Inc.

A

I think, there's – the world has changed, right, from Q1 of 2019 to where we're at today in most respects, the industry is different and the opportunities are different, the access to capital is different and not only did that require – us in our peer set to perform at a certain level and dedicate resources to certain things and make tough decisions. I mean, when you're talking about people and operators that are single-state operators that didn't go public, that don't have even the access to capital. The limited access to capital that's available for the larger – arguably better positioned organizations that creates strain on their operations and on their opportunities. And so, I would say that has our – phone been ringing more often in the last 60 to 90 days? Absolutely. And I think there's also a realization too of single state operators that maybe had visions of growing a footprint and becoming larger players in brands in California that have always adhered to the motto of, build the brand in California and you can take over the world. I think there again realization of the difficulties of managing the regulatory complexity to this industry and especially layering on top capital difficulties of this industry are starting to materialize for them. So yes, long answer to a short answer, yes, it's different.

Alan Brochstein

Analyst, New Cannabis Ventures

Q

All right. Sounds good. Good luck, January 1, guys.

Charles Bachtell

Chief Executive Officer & Board Member, Director, Cresco Labs, Inc.

A

Thanks, Alan.

Ken Amann

Chief Financial Officer, Cresco Labs, Inc.

A

Thanks, Alan.

Operator: Ladies and gentlemen, thank you for participating in today's question and answer session. I would now like to turn the call back over to management for any closing remarks.

Charles Bachtell

Chief Executive Officer & Board Member, Director, Cresco Labs, Inc.

You know, very quickly, just wanted to appreciate – we appreciate you taking the time to get on the call and wanted to wish everybody a very healthy and happy Thanksgiving and holiday season. So thanks everybody.

Ken Amann

Chief Financial Officer, Cresco Labs, Inc.

Thanks.

Joseph Caltabiano

President, Board Member, Co-Founder & Director, Cresco Labs, Inc.

Bye, everyone.

Operator: Ladies and gentlemen, this concludes today's conference call. Thank you for your participation. You may now disconnect.

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