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# Curaleaf Holdings, Inc. (CURA.CA)

Q4 2019 Earnings Call

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*Executive Chairman, Curaleaf Holdings, Inc.*

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## MANAGEMENT DISCUSSION SECTION

**Operator:** Good afternoon, and welcome to Curaleaf Holdings' Fourth Quarter and Year-End 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 Vice President of Finance and IR, Daniel Foley. Please go ahead.

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**Daniel P. Foley**

*Vice President-Finance & Investor Relations, Curaleaf Holdings, Inc.*

Thank you. Good afternoon, everyone, and welcome to Curaleaf Holdings' fourth quarter and year-end 2019 conference call. Today, I am joined by Boris Jordan, Executive Chairman; Joe Lusardi, Chief Executive Officer; Joe Bayern, President; Neil Davidson, Chief Operating Officer; and Michael Carlotti, Chief Financial Officer.

Earlier today, we issued a press release announcing our results for the fiscal quarter and year ended December 31, 2019 as well as our acquisition of three Arrow Alternative Care dispensaries in Connecticut, and an operational update on coronavirus. These press releases are available on our website under the Investor Relations section and filed with SEDAR.

Before we begin, I would like to remind you that the comments on today's call will include forward-looking statements within the meaning of Canadian and United States securities laws which, by their nature, involve estimates, projections, plans, goals, forecasts, and assumptions including the successful completion of announced acquisitions and coronavirus response updates, and are subject to risks and uncertainties that could

cause actual results or outcomes to differ materially from those expressed in the forward-looking statements on certain material factors or assumptions that were applied in drawing a conclusion or making a forecast in such statements.

These forward-looking statements speak only as of the date of this conference call and should not be relied upon as predictions of future events. We undertake no obligation to update or revise any forward-looking statements whether as a result of new information, future events or otherwise except as required by applicable law.

Additional information about the material factors and assumptions forming the basis of the forward-looking statements and risk factors can be found in the company's filings and press releases on SEDAR and the Canadian Securities Exchange.

During today's conference call, Curaleaf will refer to non-IFRS measures that not have any standardized meaning prescribed by IFRS, such as, adjusted EBITDA, managed revenue and pro forma revenue, the definitions of which may be found in our earnings press release. Please note that all financial information is provided in US dollars unless otherwise indicated.

With that, I'd like to now turn the call over to Executive Chairman, Boris Jordan.

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## **Boris A. Jordan**

*Executive Chairman, Curaleaf Holdings, Inc.*

Thank you, Dan. Thank you, all, for joining our call during this challenging time for our country and the world. Before we begin with our prepared remarks, I would like to recognize and thank the more than 2,200 employees of Curaleaf across the country for their hard work that this team has done together to deliver on our mission of improving the lives of our customers and maintain access to our products.

Over the past several weeks, the entire management team has been focused on taking all the necessary steps to adapt our business in this fast-moving and challenging environment. Later in the call, Joe will go into more detail including the range of new procedures, policies and technologies we have implemented in direct response to the coronavirus. The health and well-being of our employees and our customers is our number one priority.

Given the vertically integrated nature of our business coupled with the overwhelming demand for cannabis, we believe Curaleaf is well-positioned to manage through the current uncertain environment. So far, we have not experienced any significant interruptions in our supply chain. Most importantly, states understand that cannabis is essential to the health and well-being of millions of Americans. In fact, dispensaries in Arizona, Connecticut, Florida, Maryland, New Jersey, New York, Nevada, Massachusetts and California have been allowed to stay open to serve customers and we have seen a significant uptick in demand.

I can't emphasize enough how significant this is. State governments are explicitly recognizing the vital role that cannabis plays in the health and well-being of their citizens and is a significant economic driver to their economies. Therefore, we have been deemed an essential service in almost every state in which we operate. We see this as an enormous validation and legitimization of the industry as cannabis continues to become increasingly mainstream. I'd like to take this opportunity to thank the governors and their hardworking staffs for their leadership and commitment to help ensure that our customers can access the cannabis products they have come to rely on without interruption during this difficult time.

We will continue to take a leadership role on behalf of Curaleaf and the cannabis industry, working closely with the regulators and all the states where we operate. Over the last five years, we have developed close

relationships with our customers by listening to their needs and delivering products that fundamentally change their lives for the better. The largest part of our customer base remains the medical cannabis patients, which continues to grow.

During this difficult time, we have seen increased demand for cannabis, creating a need for innovative and creative solutions from cannabis dispensaries to adapt to the new restrictions that are in place related to the coronavirus situation. We are doing everything in our power to ensure they continue to receive the highest-quality products with the least amount of risk possible.

We would like to thank our patients and customers for their continued support and loyal patronage. And, lastly, I'm confident that we have the resources and leadership to successfully navigate the near-term challenges presented by coronavirus, emerging even stronger and better positioned. Our company has differentiated itself by embracing a disciplined vertical integration strategy, executing on an aggressive, yet focused acquisition plan and delivering operational excellence.

At Curaleaf, we are deeply committed to quality and transparency, while we continue to create innovative new products for our customers. While the coronavirus has created concern and disruption in our daily lives and put significant pressure on the capital markets and share prices, the state of our business and the underlying business fundamentals remain strong.

Our focus in the immediate term is to ensure that we can continue to operate in a way that mitigates and minimizes the risk to our employees and our patients and customers. Over the long term, we will continue to focus on execution, and we remain confident that we are building a company that will deliver strong returns for our shareholders.

Now, I would like to address our balance sheet. Curaleaf is the strongest and most well-capitalized business in the US industry. Thanks to our timely non-dilutive debt deal, we have more than sufficient cash on hand to execute on all our growth plans and acquisitions in 2020. In addition, we have one of the strongest shareholder bases in the industry. This group, which includes me, will always support the growth of Curaleaf and, if necessary, provide additional capital to participate in any attractive opportunities that emerge in the marketplace.

Curaleaf has grown rapidly to become the largest cannabis provider in the United States because we have committed key shareholders who recognize the enormous opportunity that lays ahead. As a group, we'll stand committed to providing up to \$100 million of additional liquidity, should higher return acquisitions or projects present themselves.

The transactions we announced this month in Colorado and Connecticut are examples of our continued commitment to finding growth assets that augment our existing portfolio. BlueKudu, a producer of premium cannabis chocolates and gummies gives us the manufacturing platform to further build the Select brand in Colorado, while the Arrow is the largest dispensary chain in Connecticut with locations in Hartford, Milford and Stamford. We are excited to introduce Select to the mature, but robust Colorado market, and we have already seen a strong reception from discerning Colorado consumers.

Incoming vertical and Connecticut market lets us reach customers directly with our product offerings and helps us achieve maximum operating leverage and a leadership position in another medical state. Curaleaf has consistently been acquiring and developing an unmatched collection of assets. And in calendar 2019 alone, we deployed over \$96 million of capital into the maintenance and expansion of our operations. These investments

have been critical to our organic growth strategies and now these assets are poised for growth and significant cash flow generation this year.

Since our public offering in October 2018, we have successfully closed on and integrated 11 businesses, including Select, which collectively represents 16 dispensaries, 6 cultivation sites, and 15 processing sites. These acquisitions have meaningfully expanded our presence and made us more vertically integrated in key states such as Arizona, California, Oregon, Maryland and Nevada, as we demonstrate the leverage inherent in the business.

Reflecting upon 2019, I am pleased with the progress the company made during a challenging year which included the vape crisis and a few regulatory delays as we worked on expanding access in new as well as existing markets. We have thoughtfully expanded further and faster than almost any cannabis company in the world.

More importantly, we have begun to realize the fruits of our investments. Most of our markets are now generating operating cash flow and, as of February, we have four states already achieving \$50-million-plus in annualized revenue run rates. We are at or near a market-leading position in nine states and it is our goal to be number one in each of our states of operation over time.

At Curaleaf, we have a national footprint, a strong leadership position and a significant scale in most of our markets. This growth was directly reflected in the near tripling of managed revenues of \$251 million in 2019 and marking our first full year of positive adjusted EBITDA reaching over \$26 million. As such, we expect 2020 to be yet another year of growth for Curaleaf. In fact, quarter one of 2020 is shaping up to be a record quarter. We have set into place key organic growth initiatives as well as our recently announced acquisitions for 2020.

That said, while demand in quarter one was increased notably, as we look on to 2020, we will be monitoring this fast-moving environment closely, as well as the overall economic health of the US consumer. Our 2020 strategic plans are supported by an outstanding management team to help achieve our business goals.

The key is continuing to provide customers with outstanding service, quality products, as well as a superior customer dispensary experience. This is a truly unique and dynamic sector as demand far outstrips supply in almost every market in which we operate.

We continue to work on the closing of the Grassroots transaction having cleared HSR. We have submitted documentation with the various state regulators for review and are working to secure final approvals. While coronavirus driven market conditions have created some timing uncertainty, based on unavailability of regulators' time, both Curaleaf and Grassroots remain committed to closing the transaction.

We are also working on converting the non-for-profit entities in Maine and New Jersey to for-profit and have submitted necessary documentation with the state regulators for a review and are working to secure final approvals. The resulting change of ownership will allow for the consolidation of Maine and New Jersey in our financials, thereby limiting the need to report managed revenue and further simplifying the financial reporting.

Estimating the timing of such approvals has recently become more challenging, given staffing levels at the various state agencies and regulators as their short-term priorities shift to the coronavirus concerns. As such, we believe the best way to view our business in the near-term is on a managed revenue basis. This would include results from Curaleaf and Select, from when it was officially acquired on February 1. Neil will discuss our forward outlook in more detail in his section.

I want our investors to note, I continue to be heavily involved in Curaleaf, given my large and long-term investment time horizon. I, the board and the management remain firmly focused on and committed to driving shareholder value. We are focused on maintaining a disciplined capital allocation strategy, which limits capital investments to only high potential return projects which are additive to our already diversified position in the US cannabis market.

As part of our long-term commitment to shareholder value, in January we ensured that certain key shareholders representing 326 million shares agreed to an amended and expanded lockup. This new lockup allows for a more orderly unlock of no more than 5% or an average of approximately 17.2 million shares per quarter beginning March 31, 2020.

Critically, I and several other key shareholders representing 71% of these locked shares have no intention of selling a single share during this important phase of high growth development. I will now turn the call over to Joe Lusardi.

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## Joseph Lusardi

*Chief Executive Officer & Director, Curaleaf Holdings, Inc.*

Thanks, Boris. Echoing the comments from Boris, I would like to recognize our employees for their unwavering commitment to our mission as well as our management team for their leadership, navigating and adapting to the quickly evolving environment. During these extraordinary times, I'm reminded how essential our business is to the lives of our customers and we are dedicated to meeting their needs.

I would also like to thank our customers across the country for their continued support of Curaleaf. Our leadership team is monitoring and flexibly managing through coronavirus-related actions on a daily basis. We are implementing new procedures and practices in coordination with regulators so that we can achieve our mission to fulfill the needs of our customers.

Given the nature of our business, we already have a strong culture of strict sanitation protocols in all our facilities. We have further enhanced our sanitation protocol frequency with standards that go well beyond current regulations including more frequent sanitation and enhanced use of protective equipment including gloves and masks. As this crisis evolves, we are adjusting with it so we can maintain continuity of supply as well as service for our customers. We are confident we will continue to manage our company effectively through the duration of this crisis with the support of regulators, state leadership and our dedicated employee base.

As Boris mentioned, we have been deemed essential service in almost every state we operate, and we have taken steps to protect our company during this crisis. We will continue to work in close collaboration with the regulators as well as state and local governments to fulfill our mission of improving the lives of our customers. We are implementing additional expedited hiring as needed on our facilities. We are continuing with our construction projects which will help us meet higher demand.

Our supply chain is strong. We have equipment, packaging and grow supplies for a 90-day period and continue to collaborate with supplier vendors on creative solutions for future needs. We are adjusting our dispensary schedules to accommodate increased demand and prioritizing medical customers most vulnerable to coronavirus including dedicated senior hours. We are enforcing social distancing, increasing sanitation and hygiene measures and utilizing technology to minimize contact.

Additionally, we are helping to protect the health and well-being of our customers and employees by working to employ curbside delivery, mobile pre-ordering, express pickup and a new wait list ordering technology app. It is

important to note that many of the unique and discrete technologies will become a permanent part of our business. Our banking operations and cash pickup had been uninterrupted.

Leadership during times of adversity is a true test of a company's strength, and I am proud to say that our management teams across the country are stepping up to the challenge. We took steps to enhance our bench strength, and it's paying off.

Recent additions include Joe Bayern, President of Curaleaf Holdings, who joined in December. On February 1, we announced – as part of the closing of that transaction, we enhanced the management team with the addition of Cameron Forni as President of Select, and Jason White in the newly created role of Chief Marketing Officer. At that time, Neil Davidson was promoted to Chief Operating Officer, and Michael Carlotti, a seasoned financial executive, joined as Curaleaf's new CFO. Lastly, Mark Russ joined as Senior Vice President of Sales to oversee national sales of all Curaleaf brands.

Our expanded management team has brought an unmatched level of depth and experience within the cannabis industry. The unique skills are being leveraged on a daily basis to manage through this crisis, all while developing the business for further growth.

2019 was a banner year for Curaleaf. We announced two transformative transactions in Select and Grassroots. We acquired additional operating assets and licenses that more than doubled our footprint and grew our customer base by 366%. We opened our first adult use dispensary in Massachusetts and continue to prudently invest in our capital and key markets.

The fourth quarter was a record quarter for the company as we delivered solid sequential growth, achieved record managed and total revenues as well as the highest adjusted EBITDA in company history. We continue to focus on developing operations in key markets and have already begun to integrate Select. I am highly encouraged by the continued growth of our business which continues to scale each quarter.

For fiscal year 2019, we generated over \$26 million of adjusted EBITDA, demonstrating the operating leverage that exists in our business. We were pleased with the progress we made in 2019 and we believe the earnings power of our operational asset base is just beginning to show its potential.

We were awarded new licenses in important limited-license medial markets. In Utah, we are provisionally awarded a retail and processing license. And in Pennsylvania, we were recently awarded one of the first seven clinical registrant licenses that will allow us to grow, process and distribute medical cannabis through six stores. We look forward to working with the State of Utah and the State of Pennsylvania, as well as our medical partners in Pennsylvania to provide the highest quality care to customers.

Taken together, we believe Curaleaf is the best-positioned company to take advantage of the fast-growing cannabis opportunity in the United States. As our operations continue to scale, key states are now self-supporting and generating increasing amounts of operating cash flow. As such, we remain firmly focused on operational excellence to drive both top and bottom line results in 2020.

Turning to a recap of fourth quarter operations. I would now like to review our significant progress in key states. In Florida, we have been designated as an essential service and continue to serve patients to our free state-wide delivery service at our 28 stores. At each store, we offer express pickup where patients can order online, receive notification when their order is ready then pick up their order at the store only once it's ready for a quick and seamless experience.

We also offer drive-thru service at multiple locations and have prioritize senior citizen hour during the first hour of operation each day. Our two production facilities continue to operate on schedule and we've been able to secure DOH approval for over 40 temporary workers to ensure we will continue to regularly harvest and manufacture medicine for our patients. We continue to see growth in our business in the fourth quarter but remain product constrained as we work to catch up our supply chain through the robust volume demand that exists in the market.

Recently, our cultivation facilities have been able to consistently increase flower supply, driving what we expect to be a record month for our Florida business in March. By this summer, we expect our supply chain will be able to support a larger store count. We have 11 new stores in various stages of development and expect to finish the year with a total of 40 stores open. With this increased cultivation capacity and new wave of stores, Curaleaf will have a presence in every major population center throughout Florida.

With over 320,000 active registered patients in this state and over 10,000 patients a month registering for the program, Florida remains one of the fastest growing medical cannabis markets in the country having nearly doubled in 2019. We are anxiously awaiting the regulations on edibles and look forward to bringing a whole new class of products to the market in 2020. Consumers have shown a strong demand for different form factors and different product concentrations. Accordingly, we are happy to see the legislation to limit THC concentrations recently defeated.

In Massachusetts, medical cannabis has been designated as an essential service and we continue to serve patients at our two medical stores in Hanover and Oxford where we also offer express pickup and a prioritized senior citizen hour each day. While we are disappointed that Massachusetts is now the first and only state that designates licensed adult-use dispensaries as non-essential, compelling us to pause adult-use sales for two weeks, we continue to fight for an essential services designation for adult-use.

Meanwhile, our Webster production facility is operating on schedule with regular harvest. Prior to the current change in adult-use, in January we had opened our second adult-use dispensary and the first on Cape Cod in Provincetown, and in March opened our third adult-use dispensary in Ware, featuring our new enhanced store design, offering a more elevated retail experience.

Coupled with our dispensary in Oxford, the initial results from Massachusetts adult-use locations was promising. We expect this new location will position us well for when these coronavirus-related adult-use restrictions are lifted. We still expect the overall market to grow dramatically this year, and we continue to build out another 50,000 square feet of capacity at Massachusetts to fully realize maximum potential of our business.

We continue to work with regulators to close our transaction with Alternative Therapies Group which for now has been included in managed revenue but ultimately will move to wholesale revenue once we close on the acquisition of ATG's cultivation and processing assets. Needless to say, we remain optimistic about the overall prospects in the adult-use market in 2020.

In New Jersey, our dispensary, the largest on the East Coast, has been designated as an essential service, and we continue to serve patients at our 12,000 square foot store in Bellmawr where we offer a prioritized senior citizen hour at the beginning of each day. At the store, we have also implemented a reservation management app so patients can order online, drive to the store and receive a text message when it's their turn to come in and shop, ensuring a one-on-one interaction and eliminating lines by allowing patients to safely wait for their orders in the confines of their cars. Through this end, we quickly worked with local officials to secure over 50 additional nearby parking spots to better service the increased demand.

New Jersey, once again, produced record quarterly results. During the quarter, we continue to wholesale product and we remain the largest provider by revenue and market share in the state. The team also continued to operate on schedule and even secured final state and local approval late last week to begin cultivation activities in a 7,200 square foot supplemental production building on the Bellmawr campus.

The New Jersey Department of Health also recently approved expedited hiring regulations, which gives us confidence we'll be able to staff our facility as needed for the foreseeable future, so we can continue to meet the needs of our patients.

We continue to monitor the progress of potential adult-use legislation, which is on the 2020 ballot and, given the recent polling, seems to have strong support. In addition, the state continues to improve policies around medical cannabis to benefit residents of the state. In anticipation of increased demand, we have secured a property in Central New Jersey with an existing 100,000 square foot warehouse plus 68 acres of land, which we expect to develop later this year. We are also working hard to secure approvals necessary to open additional dispensaries and to capture the growing demand of the New Jersey market.

Lastly, we are actively working through the process of converting our operation to a for-profit entity and we are working closely with the State of New Jersey to complete that process.

Moving on to New York. We have been designated as an essential service and continue to serve patients. Curaleaf remains 1 of only 10 licensed operators in the state with four stores where we offer a prioritized senior hour at the beginning of each day. We've also implemented a reservation management app and curbside pickup so patients can order ahead, receive confirmation that the order is ready, then pick up their order from a dispensary associate at the door, or curbside of the store once it's ready. We also offer delivery services on certain locations. Additionally, we are offering virtual patient consultations and we continue to operate on schedule at our Ravena production facility.

In the fourth quarter, our four locations achieved 22% market share, double their fair share according to state tax data. We look forward to continuing to build momentum as the program and form factors expand. In fact, our introduction of flower pods to the market beginning of September led to a strong double-digit growth, well in excess of market growth during the fourth quarter.

In February, we launched CuraChews in the market, the first chewable gel product in the State of New York. A legislative debate around adult-use has been kick-started once again in the new year where the governor indicated he is supportive of introducing legislation related to adult-use cannabis. Whether adult-use comes to fruition or not, we remain well-positioned to service the needs of our medical patients in this state and adult-use customer should legislation be enacted.

In Maryland, we continue to serve patients at our stores and have launched a reservation management app and express pickup at each location, with curbside pickup available as well. We also offer prioritized senior citizens hour at the beginning of each day and are operating on schedule at our production facility in Frederick. Regulators in Maryland recently approved expedited hiring regulations which gives us confidence we'll be able to staff our facility as needed.

As one of the only growers in the state operating for four dispensaries, we continue to optimize our business. As we ramp-up, we believe our ability to drive increased and reliable repeat traffic to our dispensaries will allow us to continue to achieve higher wallet share than our peers.

Construction on our new processing and manufacturing operation in Frederick was completed, and we continue to work with regulators on incorporating edibles production. Maryland is a terrific market and we are optimistic that our vertical platform and additional cultivation capacity we plan to bring online will drive significant growth, helping meet demand should adult-use come to Maryland.

Moving on to Connecticut, we have been designated as an essential service and continue to operate on schedule out of our Simsbury production facility. Work has also been completed on our new 50,000-square foot cultivation facility. This dovetails with our recently announced acquisition of Arrow Alternative Care, which will complete our vertical integration in the state. Arrow will be immediately accretive to our margins in the state as we integrate our large cultivation and processing operations with Arrow's outstanding dispensary footprint.

On the legislative front, we believe that we will see growing bipartisan support for adult-use legislation, mirroring the public sentiment. We are optimistic that adult-use cannabis will be a reality in Connecticut within the next 24 months.

In Maine, we have been designated as an essential service and continue to operate our two dispensaries which offer a prioritized hour for senior citizen at the beginning of each day. We are also offering express pick up for patients while continuing to operate on schedule at our two production facilities. We continue to provide management services at the two of the eight existing license holders. We are also working on the process of converting the two non-profit entities to for-profit. The governor signed legislation in June to permit adult-use sales, which are expected to begin this spring.

Curaleaf will use its position in Maine to be a leader in this new program, Maine's strong support for adult cannabis and robust tourist market boding well for growth in 2020. We intend to open four adult-use retail locations and have real estate in development to maximize our footprint early in the program.

In Ohio, we have been designated as an essential service and look forward to receiving final state approval for our recently completed Johnstown cultivation and processing facility. The facility includes the maximum allowable cultivation of 25,000 square feet plus processing square footage that will allow us to deliver nearly 12,000 pounds of flower, bringing a full breadth of products to the market. Ohio's medical cannabis industry is still very nascent, and we are excited about this growth opportunity as Ohio is the nation's 7th most populous state with nearly 12 million residents.

In Pennsylvania, we were awarded one of the first seven clinical registrant licenses and the only one by a multi-state operator, allowing us to open six new dispensaries and 50,000 square feet of cultivation capacity in the state. This award, coupled with our pending Grassroots acquisition, will make Curaleaf a leader in one of the fastest growing medical markets in the nation.

In California, we have been designated as an essential service by the state as well as the local municipalities in which we operate, allowing us to harvest on schedule at our cultivation facility in Salinas and meet our manufacturing targets at the Select processing facility in Sacramento.

In general, this market is one of the most challenged in the country with its robust black market, unfavorable tax regime and struggling dispensary operation. We are addressing this market in a sober, thoughtful manner that recognizes its unique challenges. Operational excellence, disciplined pricing and tight receivables management will be our priorities as we expand the Select family of products to include gummies, live resin and tinctures.

In Nevada, we have been designated as an essential service, though the state has ordered the closure of all dispensaries and only delivery options are currently available at this point. We plan to launch delivery this week while continuing to operate on the plan at our three production facilities in the state.

We closed on the acquisition of Acres cultivation in late 2019 and are working to increase the productivity of those assets, allowing us to backward integrate Select into our supply chain. A renewed emphasis on this wholesale market with the upcoming launch of new Select products, including gummies, live resin and tinctures, will allow us to achieve the full potential of the brand.

In Arizona, we have been designated as an essential service and continue to serve patients at our eight stores where we see continue to see strong revenue growth. We now offer express pickup at all locations and delivery services out of one location. We have also implemented a priority senior citizens hour at the beginning of each day and continue to operate on schedule at our production facilities.

During the fourth quarter, we doubled our canopy in our 100,000-square foot facility in Holbrook with a focus on improving gross margins and free cash flow through increased vertical integration. Arizona continues to be one of the largest cannabis markets in the US, with over 220,000 registered patients, a full 3% of the state's population, and we continue to believe state residents will vote to approve adult-use in 2020.

Select is already a leading vape cartridge brand in Arizona. We plan to further integrate Select in this market, while replicating this profitable business model in other regions. New products, including gummies, live resin and tinctures, will extend brand line up, helping us excite customers with – win additional market share.

In Oregon, as an essential business, we continue to operate our production facility and dispensary, which offers a prioritized senior citizen hour at the beginning of each day. We are focused on backward integrating Select into our established vertical operations with 37,000 square feet of cultivation. Select remains the number one vape brand with around 15% market share and are committed to growing the brand profitability in a way that continues to earn customer and patient trust in Select's home state.

In Colorado, we recently announced the acquisition of BlueKudu, a producer of cannabis chocolates, baked goods and gummies that utilize high-quality ingredients. Upon close, Curaleaf will obtain an 8,500-square foot cultivation processing facility that will support the company's planned expansion of recently acquired Select brand into Colorado. Select was successfully launched there in January, and we view this market as an attractive opportunity to build brand identity and gain market share through a robust dispensary market.

In summary, I am pleased with our progress on positioning as we move through 2020. With the closing of Select and the pending acquisitions of Grassroots, we are poised to deliver strong organic growth in our existing business as well as through acquired assets. We're executing on all fronts by prudently deploying capital in key markets. This is allowing us to grow our cultivation and processing, sales and marketing, and innovative and proprietary R&D to deliver products that resonate with both our patients and lifestyle customers.

We saw the fruits of this investment payoff in several key states as we exited 2019, and firmly believe that our planned investments in 2020, many of which will be completed in the second half of 2020, will yield strong growth both on the top and bottom line.

Now, I'll turn the call over to Neil to review our financials.

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## Neil P. Davidson

*Chief Operating Officer, Curaleaf Holdings, Inc.*

Thank you, Joe, and good afternoon, everyone. Once again, we posted record results for the quarter as we remain focused on driving strong top and bottom line growth that we believe will drive long-term value creation for our shareholders.

In the fourth quarter, we not only posted both record total and managed revenues, but also posted our third consecutive quarter of record positive adjusted EBITDA. Our broad geographic base and product diversity allowed us to deliver these results despite the negative news cycle around vaping and a ban on vape sales in Massachusetts between September 24 and mid-December.

Fourth quarter results were driven by strength in Arizona, Florida, Nevada, New Jersey and New York as we continue to see strong growth in retail operations in these key states. Vertical integration remains a key component to our strategy and we continue to increase cultivation capacity in each of the states of operation in those markets where we continue to see expansion of medical programs and/or ongoing discussions around legalizing adult-use consumption such as Arizona, Florida, New Jersey and New York.

As mentioned in previous calls, while we expect our gross margin from cannabis sales to trend upward, it will continue to fluctuate quarter to quarter based on our investment cycle in processing and cultivation as we continue to expand and bring new facilities online. Over time, we expect this fluctuation to moderate, especially in the second half of 2020, as our investments continue to ramp and the capital intensity of our investments begin to moderate.

As a reminder, managed revenue includes revenues associated with the not-for-profit entities in Maine and New Jersey and ATG. As we convert the not-for-profit entities to for-profit entities in New Jersey and Maine and close on the ATG transaction, this will ultimately negate the need to report managed revenue as they will be included in total revenue in our IFRS financial statements. This will simplify comparisons of our reported results to consensus results, which vary by service as some tabulate total revenue instead of managed revenue.

We closed out 2019 reporting managed revenue of \$251 million for the year, representing 186% growth over 2018. In the fourth quarter, managed revenue more than doubled over last year to a record \$82.1 million and was up 12% quarter-over-quarter. Pro forma revenues for the quarter totaled \$131.3 million. Pro forma growth was driven by top line revenue at Curaleaf and Grassroots, offset somewhat by Select efforts to better manage customer accounts and new product introductions that will position the combined entity for long-term profitable revenue growth.

Total revenue for the fourth quarter of 2019 was a record \$75.5 million, up 22%, demonstrating the strong growth that exists in our core business. A key focus for 2019 was delivering positive adjusted EBITDA. We ended the year with approximately \$26 million in adjusted EBITDA, including \$13.8 million in the fourth quarter alone, compared to a loss of \$1.4 million for the fourth quarter of 2018. The increase year-over-year was primarily due to scaling of operations and higher gross margins across several states, notably in Massachusetts and Florida, offset somewhat by continued investments in key markets where we are expanding capacity to meet demand.

Our retail and wholesale revenue more than doubled to \$57.7 million during the quarter compared to \$23.7 million in the fourth quarter of the previous year. Management fee income more than doubled to \$6.6 million in the quarter versus the comparable prior year period. The increase in retail and wholesale revenue was primarily due to organic growth in Arizona and Florida. Additionally, wholesale revenue increased in Massachusetts as a result of the number of adult use dispensaries increasing.

We grew our retail footprint to 51 dispensaries as of December 31, 2019, up from 36 in the year ago period. As of today, we operate 54 dispensaries which does not include additional dispensaries that are currently operated by pending acquisitions awaiting regulatory approval.

SG&A for the quarter was \$36.2 million compared to \$25.8 million in the prior year period and \$33.5 million in the prior quarter. Adjusted for one-time charges, SG&A for the quarter was \$27.9 million compared to \$25.7 million in the sequential quarter, an increase of \$2.2 million or 9%. As we continue to scale, we expect our SG&A to decline as a percentage of total revenue, resulting in significant operating leverage.

During the quarter, income tax expense was driven by a return to provision adjustment for the 2018 income tax returns and increased deferred tax expense associated with the increase in biological assets.

Net income or net loss attributable to Curaleaf holdings for the fourth quarter of 2019 was \$27.2 million compared to net loss of \$16.5 million in the fourth quarter of 2018. Given the number of non-cash items in our reported net loss, including \$12.7 million of depreciation and amortization and \$5.7 million of share-based compensation along with the change in fair value of biological assets of \$5.5 million, which totaled \$23.9 million for the quarter, including – or as well as \$8.3 million in onetime charges primarily related to increased business development, acquisitions, and financing related activities, we believe adjusted EBITDA is the best measure of our performance.

We have provided a reconciliation of net loss to adjusted EBITDA in our press release this afternoon. Adjusted EBITDA for the fourth quarter of 2019 again was \$13.8 million, an increase of 32% over the third quarter.

Moving on to the balance sheet. As of December 31, 2019, we had \$43.5 million of cash, which did not reflect the net proceeds from the senior secured term loan debt of \$185.7 million we closed in January. With the results announced today, our third consecutive quarter of positive adjusted EBITDA, we remain confident in our financial position and believe we have ample cash on hand to fund our current business for future growth. Furthermore, several of our states continue to generate operating cash flow which paves the way towards generating significant organic cash flow.

Finally, as Boris noted, we have liquidity on standby from our key shareholders to take advantage of current market conditions. Fully diluted shares outstanding at the end of the quarter were \$468.4 million. Please note that we issued approximately 47.5 million shares to Select shareholders upon the closing of the transaction in February 2020.

With respect to guidance, first, we are all in uncharted territory as a result of the coronavirus outbreak. Thus far, the coronavirus outbreak has not materially impacted our business and we continue to maintain continuity of our operations with no disruptions in cultivation and processing.

As you heard from Joe, given our retail operations are predominantly medically focused, we have been designated as essential services in most of the states in which we operate. In fact, we have seen a considerable uptick in the demand for our products, demonstrating the durability of consumer use.

Given uncertainty around the timing of the close with respect to Grassroots, we will no longer guide to pro forma revenues in 2020 and believe managed revenue, which includes both Curaleaf and Select, accurately reflects the current state of our business. As such, we expect to report another quarter of managed revenue for the first quarter of 2020, with revenues which will include two months of Select to be at least \$100 million.

Given uncertainty around the longevity of the outbreak, at this time, we think it would not be prudent for us to issue guidance for the remainder of 2020. We will revisit guidance on future earnings calls, including our first quarter 2020 results call in May, when there is more visibility about any longer-term impacts that coronavirus may have on our business, the economy in general and the consumer.

In closing, I'd like to welcome the Select team, including Cameron and Jason and our new President, Joe Bayern to the Curaleaf team. I would also like to thank Boris and Joe and the board for their confidence in moving me to the role of Chief Operating Officer and welcome our new Chief Financial Officer, Mike Carlotti. I'm truly excited to be working with this incredible team.

With that, I'll turn the call back over to the operator to open the line for questions.

## QUESTION AND ANSWER SECTION

**Operator:** Thank you. We will now begin the question-and-answer session. [Operator Instructions] Our first question today will come from Vivien Azer with Cowen. Please go ahead.

**Vivien Azer**

*Analyst, Cowen & Co. LLC*

Q

Hi. Thank you. Good afternoon. So encouraging that so many of your [ph] business countries (00:42:01) have been designated as essential to the communities, and it seems like you guys have put some really, really good protocols in place. For markets where delivery had already been available, can you guys talk a little bit about any kind of shift that you're seeing in terms of consumer purchase behavior? Like, how much of that revenue was moving to delivery in a way from what historically would have been on premise? Thanks.

**Joseph Lusardi**

*Chief Executive Officer & Director, Curaleaf Holdings, Inc.*

A

Hey, Vivien. This is Joe. So, in Florida and in New York, we offer delivery and we are definitely seeing increased demand for that service and so we're looking to add more vehicles to take advantage of the opportunity. But I would still say the vast majority of our sales are happening at our stores, although they may not be happening in our stores.

As you heard in the call, we're really kind of re-imagining the retail experience in conjunction with regulators so that consumers can do a lot of things that they couldn't do before like order online and pick up at the curb. And I think that – actually, that's proving to be a pretty efficient system and consumers are showing a preference for that. So, that may be something that's part of our future protocols even after we get past the coronavirus. But this is a situation that's evolving rapidly. It's been like, what, two weeks but it feels like a lifetime. So, we'll continue to evolve.

But where we can, we're going to continue to allow people to get their products in any way that's possible. For example, in Nevada, we're launching a delivery service this week as well and we'll start to touch customers through delivery. So that's an example of how we're evolving to meet our customers wherever – however we can.

**Vivien Azer**

*Analyst, Cowen & Co. LLC*

Q

Yeah. That's great. You guys are clearly moving quickly in response to this. It's great to see. I'll just ask one more and get back into the queue. Has there been any discussions with regulators, and I'm thinking about Florida in particular here, on relaxing some of the rules around whether wholesale is permissible or not? It doesn't sound – maybe I should ask the question that you guys have had any disruption in your supply chain from COVID, but I've certainly already seen it on the tobacco side. I'm just wondering whether there is any kind of business continuity planning that the regulators in Florida are like willing to discuss with you guys if one of your competitors for instance has an impact to their supply chain. Thanks.

**Joseph Lusardi**

*Chief Executive Officer & Director, Curaleaf Holdings, Inc.*

A

Yeah. What I would I would say is that's one of the unique strengths of the Curaleaf business overall is that we're vertically integrated and so we're not overly reliant on anybody for our supply chain. And that's proven to be a real strength now in this time of crisis.

With respect to Florida in particular, I would say frankly anything is on the table. The regulators are showing an amazing willingness to look at our business through a new lens and try to support the industry anywhere they can. At the moment, there's no plans for wholesaling in Florida, but I would just say that the critical point is that we're operating where essential and the regulators are working with us so that we can adapt our business and meet the demand. So that generally just bodes well for our company overall.

**Vivien Azer**

*Analyst, Cowen & Co. LLC*

Q

Understood. Thank you very much.

**Joseph Lusardi**

*Chief Executive Officer & Director, Curaleaf Holdings, Inc.*

A

Thank you, Vivian.

**Operator:** Our next question will come from Graeme Kreindler with Eight Capital. Please go ahead.

**Graeme Kreindler**

*Analyst, Eight Capital*

Q

Yeah. Hi. Good afternoon. And thank you for taking my questions here. I just wanted to follow up with respect to – we've seen a number of different reports of record sales being set in the past couple of weeks and you mentioned that the – the robustness of the customer so far. I was just wondering if there were any metrics or further color you could provide on how that looked over the past couple of weeks here. I know you mentioned expecting at least managed revenue of about \$100 million but trying to get a grip on how much of that is organic growth versus how much is coming in on the acquisition side. Thank you.

**Joseph Lusardi**

*Chief Executive Officer & Director, Curaleaf Holdings, Inc.*

A

Yeah. Thanks, Graeme. The one thing I'll say is that I think it's true frankly across the industry that we're seeing an uptick in demand for cannabis. I'll point you to one specific data point which is Florida that publishes weekly data. So, last week in Florida, we dispensed 13 million milligrams of oil and almost 3,000 ounces, which is a

record for Curaleaf, and we've really ramped up our production in Florida to keep putting out that type of product. And so, I think that you'll see – you'll continue to see an increase demand from consumers as we go through the year.

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**Boris A. Jordan**

*Executive Chairman, Curaleaf Holdings, Inc.*

A

And...

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**Graeme Kreindler**

*Analyst, Eight Capital*

Q

Okay.

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**Boris A. Jordan**

*Executive Chairman, Curaleaf Holdings, Inc.*

A

...Graeme, let me be more specific on that for you on that answer. The fact is in a couple of weeks, we'll probably have better data because it's been two weeks. But there is no question that growth accelerated fairly dramatically across the board in all of our states. And I would say that sales are probably up somewhere in the region of 20% of what we probably expected.

And the issues though, however, is you – we – the reason we – we're not guiding at the moment is because every state is different, certain states have limits. So, if you've reached that limit, obviously people are buying so they don't have to go out to the store regularly, so that they try to make one visit, so they're trying to buy more. But there are limits. So, then they do have to come back. We're working with the state in some states to lift those limits.

So, it's sort of ongoing and it's difficult to predict that. But there is no question which has been a real surprise I think to all of us that cannabis is very much a product in demand and people flooded to the stores to get that product at the time that the crisis started.

And we'll see how it progresses over the year and that's why we've decided not to guide at this point in time because we just don't know how the – one, how the coronavirus will continue to develop over the next several months. We're hoping obviously that it will peak and start to come off and we've heard positive news from the president that they're thinking about reopening the economy more after Easter. But it's very difficult to tell at this point in time, but so far, the sales have been robust.

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**Graeme Kreindler**

*Analyst, Eight Capital*

Q

Okay. I appreciate the call there and thank you. I understand the fluid and unprecedented situation, so that was helpful. If I could ask one more question here. With respect to the Nevada market, I know you guys have adapted quickly and are going to be launching the delivery this week. Given the recent closing of the Acres transaction, I was wondering with respect to that market and the closure of casinos and cancellation of various conferences and things like that, do you have any color with respect to how much of the customers in that state were based on tourism or travel, personal or business or otherwise, versus how much are in-state core customers? Thanks.

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**Joseph Lusardi**

*Chief Executive Officer & Director, Curaleaf Holdings, Inc.*

A

Yeah. Graeme, it's quite interesting. In Nevada, our strategy has been maybe a little bit different than some operators in that we really geared operations towards the local market and I think that's proving to be a benefit as the tourism industry dries up in Nevada. What we recognized a while ago was that customer acquisition cost was incredibly high in Nevada. And the reality is you might get that customer once a year or maybe less than that. So we have a very strong local presence in our stores. And so, I think that, with our business in particular, we should be able to maintain a good trajectory.

But there's no question overall the lack of tourism in Nevada will have an impact on the market. It's hard to predict the exact amount without knowing the duration of time. But it's clearly going to be significant.

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**Graeme Kreindler**

*Analyst, Eight Capital*

Q

Understood. Okay. Thank you very much.

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**Operator:** Our next question will come from Matt Bottomley with Canaccord. Please go ahead.

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**Matt Bottomley**

*Analyst, Canaccord Genuity Corp.*

Q

Hi, everyone. Thanks for taking our questions and I hope you and your families are all doing well in these times. Congrats on a strong 2019 overall. I just have a couple of questions on some of the nuances within the quarter. You had mentioned strong growth in sort of your core Curaleaf business as well as Grassroots offset by Select. It does seem that overall the pro forma bridge, which is at \$131 million, is down about \$5 million quarter-over-quarter. So I'm assuming that's on a net-net all because of Select. Is there any color you can give as to how that business line is tracking into 2020 now given some of the challenges last year with vaping?

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**Joseph Lusardi**

*Chief Executive Officer & Director, Curaleaf Holdings, Inc.*

A

Yeah. I mean, I'll try to address that and Neil can chime in with other facts. But what I'll say about Select is that it's pretty obvious that even though it's the leading consumer brand in cannabis last year, it was a vape product, right? And they ran into significant headwinds in California in particular and some of the other markets with the vape crisis.

The good news is twofold. One, we're past that and we're starting to see vape sales pick back up. The other thing we're doing is we're expanding the Select family of products into gummies, tinctures and other form factors. And so, I think the category and that brand in particular will be more immune to shocks like another vape crisis. So I think, generally we're feeling like we're getting Select back on the upswing here in 2020 and extend the brand with new product offerings.

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**Matt Bottomley**

*Analyst, Canaccord Genuity Corp.*

Q

Okay, great. And within that sort of minimum of \$100 million you have for your managed revenues, obviously, there's going to be an extra additional month of Select in there, but is good proportion of that reaccelerated growth again coming from Select or is it more disaggregating that in your whole portfolio?

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**Joseph Lusardi**

*Chief Executive Officer & Director, Curaleaf Holdings, Inc.*

A

Yeah. A lot of the growth we're seeing in this quarter is organic Curaleaf growth. As Boris said, we're seeing a big demand from consumers for our products and we've made significant investments in 2019 that are really paying dividends even in Q1 and will pay further dividends this year. So we've done a lot of work in CapEx and building capacity that that's coming to fruition. As I mentioned earlier, we're starting to see very significant flower harvest coming out of Florida. And so, as we can bring more products to the market, we should see a lot of organic growth.

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**Boris A. Jordan**

*Executive Chairman, Curaleaf Holdings, Inc.*

A

And on the Select issue, Matt, I'd just like to say that we've owned this business now for a little bit over a month and we are making a lot of changes in the business. One, we're integrating it into the Curaleaf infrastructure, so to bring down costs particularly on the cultivation side and the processing side. We're also bringing in a tremendous amount of discipline on pricing and on accounts receivable, things that maybe weren't that great at Select before Curaleaf.

And so, you're going to start seeing acceleration in Select. I think the last week of March is going to be a very big week. We've launched new products for Select in California, and they'll be coming in Nevada, Arizona and Colorado and Michigan and Maryland in April. We've got a whole suite of new products launching in April for Select as well.

So we are really focusing. We've hit the ground running very, very fast. We put new management in charge almost immediately, with Mark Russ coming over to the company to help us in managing the wholesale business. Before that, he ran Red Bull. So he's a guy who really knows how to wholesale.

So we're making a lot of changes over at Select, and we think that the company will do very, very well. And I think we'll start to see accelerated growth in the second quarter of Select. I think, as Joe said, the first quarter is largely going to be organic growth for Curaleaf.

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**Matt Bottomley**

*Analyst, Canaccord Genuity Corp.*

Q

Great. I appreciate that. And if I could just slip one more quick question on COVID, and I know you've talked about that in good depth already. But up here in Canada, the federal government has put in place for a lot of employees that if you choose to stay at home and choose to self-isolate, you're protected from an unemployment standpoint, regardless if you're in essential services or not.

So are there any states where you guys are concerned that as this issue progresses – I understand there's a lot of unknowns – that it will be progressively harder to staff your cultivation production? Or is that something in most of your material markets that doesn't seem to be a concern at this time?

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**Joseph Lusardi**

*Chief Executive Officer & Director, Curaleaf Holdings, Inc.*

A

No, Matt. In fact, I mean, as I said earlier, we're working very closely with the regulators. And in most markets they've approved expedited hiring, so accelerated background checks. And we actually announced this morning that we're hiring across our supply chain. So I think that we'll be able to continue to find manpower to keep everything moving along. So far, all of our production facilities are operating on schedule and we've got a really good supply chain. So I think at the moment, we're feeling pretty good about business continuity.

**Matt Bottomley**

*Analyst, Canaccord Genuity Corp.*

Great, very helpful. Thanks, guys.



**Operator:** Our next question will come from Robert Fagan with GMP Securities. Please go ahead.

**Robert Fagan**

*Analyst, GMP Securities LP*

Thanks for taking my question, guys, and congrats on a great quarter there. Some of the questions I have asked or wanted to ask were asked already. But I thought maybe we could talk a little bit about the trend of improving operating leverage that you guys have delivered on the past few quarters.



And given Neil's comments around kind of like the apex of CapEx spending likely going to occur somewhere midyear, how should we think about your operating leverage benefits going forward into that CapEx cycle and also in light of from the integration with Select and potentially Grassroots in the middle of the year?

**Neil P. Davidson**

*Chief Operating Officer, Curaleaf Holdings, Inc.*

Yeah. I'd say a couple of things on that. First and foremost, I think we've proven that we're pretty prudent in managing our SG&A and particularly expenses. Our SG&A quarter-on-quarter grew about \$2 million. I think one of the things we're obviously focused on is the one-time expenses. A lot of those are associated with the deals we were doing, so those should come down. We'll have some third-party integration costs. But, over time, the one-timer should come down.



With respect to on the margin side, we are building out capacity. So, as you can imagine, while we're building out capacity, we've got to hire, we've got direct costs coming in. So that does have an impact on our overall gross margins prior to commissioning facilities. For example, Ohio, we're working on our approval there, but that took a little bit of a drag on margins. California, we're building capacity. Florida, we're building capacity. And you've picked up on my comment exactly that we think towards the second half of this year that that will moderate as well as our CapEx spend.

**Boris A. Jordan**

*Executive Chairman, Curaleaf Holdings, Inc.*

And I'd like to add to Neil's comment that this is a very different situation, the Canadian situation. Our demand far exceeds the supply available in the market. I think you've seen that in Pennsylvania, in Illinois, in New Jersey, in New York. I mean, across the board in the country, Massachusetts, wholesale prices, retail prices are exorbitantly high. And so, the fact is that unlike the Canadian market, the US market did not overbuild early on. That may mean that there are supply shortages because of that. But, frankly, I don't see the same situation developing here anytime soon where capacity will start to be greater than the demand.



As a matter of fact, we're being very prudent. We're calculating, but we're building large indoor facilities in Florida. We're building very large facilities in New Jersey to meet recreational demand. And we only make those decisions at such time where we are very highly confident that either there will be regulatory change in those markets or that there will be increases in demand by loosening of existing regulation.

And so, that's the way we're approaching it. We're not going out and blanket building across the country where capacity will become a burden on us, rather we're measuring out state by state where we need it. And we're being very measured where we build and how much capital we allocate to that market. But because of that, there will be short-term pressure on margin, but obviously that will change very, very quickly once we reach the peak of our CapEx which end, as Neil said, sometime midyear.

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**Robert Fagan***Analyst, GMP Securities LP*

Q

Great. That's very helpful, Boris. Thank you. And maybe just a quick follow on, on that. In view of the sizeable liquidity position you guys have at your disposal, any chance you can give us like a proportion that may be devoted in future to CapEx versus other, let's say, M&A initiatives or other growth projects?

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**Joseph Lusardi***Chief Executive Officer & Director, Curaleaf Holdings, Inc.*

A

Yeah, Robert, we're all evaluating our capital. I mean, we've got – we did a lot of CapEx work in 2019, so our CapEx needs are actually not terribly huge for 2020. So that allows us some flexibility on how we deploy capital. But as Boris said, we're always trying to look at deploying capital with the highest possible return. And so we'll continue to make those decisions. I think we do that as well as anybody in the industry and so we'll continue to let those factors inform our view of how we allocate our capital.

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**Robert Fagan***Analyst, GMP Securities LP*

Q

Okay. Excellent. Thanks. So, one last quick one on Massachusetts if I could. I know you mentioned about a two-week shutdown period for the recreational dispensaries. What's your view on kind of that being a reasonable timeline? Do you think that can extend quite a bit longer or even if the COVID risk has not completely diminished, would they allow them to reopen with certain protocols, social distancing, whatnot?

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**Joseph Lusardi***Chief Executive Officer & Director, Curaleaf Holdings, Inc.*

A

Yeah. I mean it's hard to predict the future, Robert, but I suspect the governor is going to come under a lot of pressure for that decision. I think, one thing that's interesting here if you look at the City of Denver, the mayor shut down cannabis stores and they quickly reversed course because it was so unpopular. So, we'll see what happens. I think that you're going to see a big outcry from people that use these products. And it's important to highlight that even though they're adult use stores, we believe that about two-thirds of those consumers use the products for actual medical purposes. They just haven't gone through the process of getting a card. So, I think there will be a lot of pressure to open up the stores here pretty quickly.

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**Robert Fagan***Analyst, GMP Securities LP*

Q

Okay. Sounds great. Thanks, again.

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**Operator:** Our next question will come from Aaron Grey with Alliance Global Partners. Please go ahead.

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**Aaron Grey***Analyst, Alliance Global Partners Corp.*

Q

Hi, thanks for the questions. First, on EBITDA. Nice to see the continued margin expansion during the quarter. Is there any color you could provide on EBITDA and how that came out on a pro forma basis?

And then as Acres and Select come into the reported numbers in the first quarter, just how best to think about the potential margin impact, particularly as you look at Select on the wholesale side? Thank you.

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**Neil P. Davidson**

*Chief Operating Officer, Curaleaf Holdings, Inc.*

A

Yeah. So, on the pro forma EBITDA, we don't disclose that number. I will tell you looking forward we've always discussed Select as having lower margins than Curaleaf just given that it was a wholesaler. What attracted us to the Select deal was the fact that we could integrate our cultivation and use a lot of our processing technology to further enhance their margins as well as bring their products across our retail network.

That obviously takes some time to do. So you'll start seeing that margin enhancement in the back half of 2020.

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**Aaron Grey**

*Analyst, Alliance Global Partners Corp.*

Q

Okay. Great. Thank you. And then just one second small one for me. Just with COVID and the fluid situation that we're still in right now and the potential impact on new store openings, is it fair to say that while we're in the situation even if you are getting the essential designation that we might not expect those new store openings kind of come in over the next couple of weeks or maybe months until the situation kind of plays out and that will be more towards the back half of the year as well?

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**Neil P. Davidson**

*Chief Operating Officer, Curaleaf Holdings, Inc.*

A

Yeah. I would say for, at least, and I'll talk from just a construction standpoint. We're on track with it; Joe mentioned we've got 11 stores in Florida which is the largest state. We're looking to open up facilities. We're on track in various stages with those 11 facilities. And frankly, given the demand and the patient base in Florida, I wouldn't see a change in the timing of opening those doors right now.

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**Aaron Grey**

*Analyst, Alliance Global Partners Corp.*

Q

Okay. Great. Thank you.

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**Boris A. Jordan**

*Executive Chairman, Curaleaf Holdings, Inc.*

A

I would also add that Florida has – in some states, construction companies have been told to stop their work. In Florida that hasn't been the case. And so all of our construction operations in Florida continue to be developed.

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**Aaron Grey**

*Analyst, Alliance Global Partners Corp.*

Q

All right. Great. Thanks.

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**Operator:** Our next question will come from Matt McGinley with Needham. Please go ahead.

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**Matthew Robert McGinley**

*Analyst, Needham & Co. LLC*

Q

Thank you. My question is on the unit economics in the present environment. The commentary that you presented and that most people said have been for a universally positive demand over the past couple of weeks as a result of what's going on in the world. But as you stated there is a lot of modifications to operating procedures that you've had to make to keep everyone safe. You alluded to record revenues in the first quarter, but I'm curious if the flip side of that is that there can be a lot of costs that we didn't anticipate and so the flow-through will not be there. Just curious if Mike or Neil have any perspective on what the incremental costs are to operate in the present environment?

**Neil P. Davidson**

*Chief Operating Officer, Curaleaf Holdings, Inc.*

A

Yeah. I would say right now we have a fixed cost in the dispensaries. Joe mentioned delivery, that's a fairly modest cost. I would say the one thing that I would think about is in a lot of our dispensaries we're starting to do curbside, that takes a few more minutes to attend to a patient, but no additional costs given that we already have the fixed cost of the dispensary.

**Matthew Robert McGinley**

*Analyst, Needham & Co. LLC*

Q

So I should see that's a fairly high flow-through then?

**Neil P. Davidson**

*Chief Operating Officer, Curaleaf Holdings, Inc.*

A

Yes.

**Matthew Robert McGinley**

*Analyst, Needham & Co. LLC*

Q

Okay. And on the inventory, we're looking at fourth quarter inventory position that frankly the growth in the inventory in the fourth quarter was modest compared to the revenue growth. But that's three months old at this point. My question is, do you have any – and given the surge in demand, do you feel like you're going to have any depletion issues and did the inventory balances look higher where you sit at presently compared to what they had been in the fourth quarter?

**Neil P. Davidson**

*Chief Operating Officer, Curaleaf Holdings, Inc.*

A

Yeah. I would say we're confident in our supply chain as it currently stands. And just by way of example in March, we had more flower come to market in Florida than we ever have. So, in all of our markets we're highly confident in our supply chain and our vertical integration makes that rather unique.

**Matthew Robert McGinley**

*Analyst, Needham & Co. LLC*

Q

Okay. Great. Thank you.

**Neil P. Davidson**

*Chief Operating Officer, Curaleaf Holdings, Inc.*

A

Thank you.

**Operator:** Our next question will come from Russell Stanley with Beacon Securities. Please go ahead.

**Russell Stanley**

*Analyst, Beacon Securities Ltd.*

Q

Good afternoon. Thanks for taking my questions. Congratulations on Pennsylvania, and the clinical registry program. Just wondering what your buildout plans there are and I guess how they relate to the operations coming over with Grassroots?

**Joseph Lusardi**

*Chief Executive Officer & Director, Curaleaf Holdings, Inc.*

A

Yeah. Thanks, Russell. That was a huge win for Curaleaf and that's been a long time in the making. So, we're very happy to get that award. We've controlled the 50,000 square foot building and we have the plans ready to go. So, we'll begin construction on that immediately and we also have the ability to open up six stores.

We believe based on the current regulations that will dovetail then with like Grassroots already has there making us one of the – the unquestioned leader in that market. So, I think it's complementary in that regard. Obviously, Pennsylvania is a huge demand market. It's one of the fastest growing markets in the country. So, we're really excited about entering that market here hopefully later this year.

**Russell Stanley**

*Analyst, Beacon Securities Ltd.*

Q

Great. And if I could on New Jersey, I think you briefly spoke to working towards approvals on additional dispensaries there. I think you're licensed for two more, can you provide I guess any timelines around when you might see those get opened up?

**Joseph Lusardi**

*Chief Executive Officer & Director, Curaleaf Holdings, Inc.*

A

Well, we're actively working on two sites. We've been doing that for quite a while. Local regulations are difficult to navigate in New Jersey, but we're hopeful that this year we'll be able to open those doors and reach customers in different parts of the state.

**Russell Stanley**

*Analyst, Beacon Securities Ltd.*

Q

Great. And if I could add just one last question with respect to the transaction in Connecticut that you announced earlier today. Can you provide any color on the purchase price and the structure cash in stock? And detail you can help us out with there?

**Neil P. Davidson**

*Chief Operating Officer, Curaleaf Holdings, Inc.*

A

Yeah. We'll be filing our normal monthly report at which time we'll disclose that, but it is a mix of cash and stock.

**Russell Stanley**

*Analyst, Beacon Securities Ltd.*

Q

That's great. Thank you very much.

**Neil P. Davidson**

*Chief Operating Officer, Curaleaf Holdings, Inc.*

Thank you.

A

**Operator:** Our next question will come from Pablo Zuanic with Cantor Fitzgerald. Please go ahead.

**Pablo Zuanic**

*Analyst, Cantor Fitzgerald Securities*

Thank you, and good afternoon, everyone. Look, two quick questions. One, and I'm sorry to harp again on Select. I mean, as per my math, your run rate on Select right now is about \$15 million per quarter run rate compared to about \$35 million before. Can you correct me on that because I'm looking at \$82 million managed revenue in the fourth quarter, right? You have some growth, obviously organic, into the first quarter. You have Acres coming in. So you get to at least \$90 million. So that's \$10 million for Select two months, so \$15 million for the quarter. So if you can comment on that. I understand the exposure to California and vape but seems that revenues there are down more than half.

Q

And the second one is more related to Grassroots. I understand the uncertainty given COVID-19 on the approval process as you explained that. But how far does that stretch? And just remind us about how the share count would change given what the share price is right now, given that there's a part of the deal there that's variable, right? There's a share component that's fixed, and there's a part that's variable. Thank you.

**Neil P. Davidson**

*Chief Operating Officer, Curaleaf Holdings, Inc.*

Yeah. So, with respect to Select, I followed most of your math. So, as we mentioned in Q4, Select was down quarter-over-quarter from Q3. So, because of the vape crisis that was going on in Q4, that was three months. With respect to what we'll report for Q1, that will actually be two months of actual. So, we have seen some pickup in the Select business. We're also in process, as Joe mentioned, of introducing some new products. In fact, a few of those products, particularly in California, are launching this month and then some of those products will launch into April.

A

**Boris A. Jordan**

*Executive Chairman, Curaleaf Holdings, Inc.*

I think also, I'd like to add that in the sector – and when we do our release for the first quarter, we're going to break out retail and wholesale revenue quite openly. So, you'll be able to see Curaleaf and Select, wholesale revenues are going to be as one group and then retail revenue, second group. So, we will be adjusting our accounts to reflect that we have both the large wholesale business now and a large retail business.

A

And as I said I think in the earlier call, revenues will dramatically pick up on the wholesale side over the next two quarters as we integrate Select into the business. But there's no question that there has been a reduction in revenue in the fourth quarter and a little bit in the first quarter as we integrate the business and we focus on its margins and on its receivables. So, Curaleaf has a tremendous amount of discipline on financial controls.

And so, we are focusing on – and California has been a, as Joe said, a difficult state from a AR perspective, i.e. the receivables. Curaleaf is redoing the way we do business in California. We're negotiating with distributors and stores and we're going to change the way Select did the business. And therefore we'll only do business with those people that can pay and pay on time.

And as we spread Select throughout the country, we're already in Colorado, we're already in Michigan, we're already in Maryland. These are all new states that have been launched since Curaleaf took over the Select brand. And so we're not going to have Select divided out as a separate business. It's part of Curaleaf. However, we will divide out wholesale and retail revenues. So, the wholesale and retail business lines will be divided out in our next accounting and as when we do the first quarter in May.

**Pablo Zuanic**

*Analyst, Cantor Fitzgerald Securities*

Q

Thank you. That's very helpful. And on the Grassroots question, I mean, maybe – let me rephrase the question. But if you can just remind us about the math there in terms of how the share count would change given that there's a fixed and variable component. But also if I may add to that question, and correct me if I'm wrong, I see an advantage that that transaction hasn't closed yet because you can do, for example, Pennsylvania, go to a state and apply for new licenses and get the business. But if you already own Grassroots, would you have been able to apply for that? I'm just trying to understand how that plays out in terms of a – the same thing with ATG in Massachusetts. You have business there but then you have ATG. Does that make a difference? Thanks.

**Neil P. Davidson**

*Chief Operating Officer, Curaleaf Holdings, Inc.*

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So, I'll take the front end to that question. There is a fixed share component of 102.8 million shares and then there is a variable share component that's based on \$40 million.

**Boris A. Jordan**

*Executive Chairman, Curaleaf Holdings, Inc.*

A

Yeah. And with respect that the – in the regulatory environment. So, every state is unique in that it has its own set of rules and regulation and license caps. And I think it's important to say in all markets we have to fit inside of those caps. And so – whether we have Grassroots or not, we have to fit inside those caps. In Pennsylvania, specifically, we believe that it's complementary and we can operate both businesses in that state.

**Pablo Zuanic**

*Analyst, Cantor Fitzgerald Securities*

Q

Right. Got it. Thank you.

**Operator:** This will conclude our question-and-answer session as well as today's conference. Thank you for attending today's presentation and you may now disconnect.

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