20-Nov-2019

Harvest Health & Recreation, Inc.

(HARV.CA)

Q3 2019 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Ladies and gentlemen, thank you for standing by, and welcome to the Harvest Health & Recreation Third Quarter 2019 Earnings Call. At this time, all participants are in a listen-only mode. Please be advised that today's call is being recorded. After the speakers' presentation, there will be a question-and-answer session. [Operator Instructions] To allow for as many questions as possible, we ask that you please limit your questions to one question with one related follow-up. [Operator Instructions]

I would now like to hand the conference over to your speaker today, Christine Hersey, Director of Investor Relations for Harvest. Thank you. You may begin.

Christine Hersey
Director, Investor Relations, Harvest Health & Recreation, Inc.

Thank you. Good morning, everyone, and welcome to Harvest third quarter 2019 earnings call. On today's call are Founder and Chief Executive Officer, Steve White; and Chief Financial Officer, Leo Jaschke. Earlier today, we issued a press release announcing our results for the fiscal quarter ended September 30, 2019. The press release is available on the company's website and filed with the Canadian Securities Exchange and SEDAR.

Before we begin, I'd like to remind you that the comments on today's call will include forward-looking statements which, by their nature, involve estimates, projections, goals, forecasts, and assumptions, and are subject to risks and uncertainties that could cause actual results or outcomes to differ materially from those expressed in these forward-looking statements; and certain material factors or assumptions 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 with the Canadian Securities Exchange and SEDAR.

During today's conference call, Harvest will refer to certain non-IFRS measures that do not have any standardized meaning prescribed by IFRS, such as pro forma revenue, EBITDA and adjusted EBITDA, which are defined in the earnings press release we issued earlier today. Reconciliation to IFRS measures are contained in the press release and our filings. Please note all financial information is provided in US dollars unless otherwise indicated.

I'll now turn the call over to Steve White, Harvest's Founder and Chief Executive Officer. Please go ahead.

Steven White

Founder, Chief Executive Officer & Director, Harvest Health & Recreation, Inc.

Good morning, everyone, and thank you for joining us. I'm pleased to have this opportunity to address the investment community. A lot has happened since our last call, but I want to first start by reminding everyone why we're here and what we're trying to accomplish.

In 2011, when I started out in this industry, I believe that my partners and I were pursuing a single state opportunity. And it was challenging. In fact, there were many times when others threw up their hands and ultimately decided that the pursuit was too hard. But we knew that it would be worth the effort, worth the threats of loss of liberty, worth challenges with predatory landlords, and worth all the issues associated with running a capital-intensive business without much access to it.

We were right about the endeavor being worth it, but we're way off about it being a single state opportunity. Welcome to life in cannabis. We've been correct about the important things, underestimated the magnitude of the opportunity in front of us and have sometimes, haven't really anticipated all of the regulatory delays.

Just over one year ago, Harvest completed its RTO and began a new chapter as a publicly traded company. We told everyone that the purpose of going public was to expand our footprint and to do it fast. And we did exactly what we said we would. We added to the footprint and we did it as quickly as possible. It's also fair to say that we've learned a lot in the last year.

To this day, we still find ourselves surprised from time to time. Since our RTO, we've seen delays in closing M&A transactions attributable to a rarely used Department of Justice process. We've seen unanticipated regulatory hurdles in a handful of states and more recently, an interim reversal in sentiment and tightening of capital availability.

On the other hand, we've also seen continued and increased mainstream acceptance of cannabis. We've seen Illinois legislature surprise many and adopt a recreational law set to be implemented on January 1. And we saw the US House of Representatives pass a SAFE Banking Act with a vote that wasn't even close. While delays and temporary setbacks in any new and emerging industry are to be expected, what we have encountered has actually exceeded all reasonable expectations.

While we trailblaze a path forward in oftentimes unchartered territory, we're going to encounter many highs and lows. But as an industry, we're confident that we've passed the tipping point. It's no longer a matter of if but when. So, while the past year has been at times both frustrating and exhilarating, we have not wavered in our core belief in the goodness of cannabis and its ability to transform and impact lives, nor have we lost sight of our vision to build a viable and sustainable cannabis company.

And most importantly, the assets that we have accumulated will, in time, provide returns that will exceed everyone's expectations. Since the beginning, unforeseen impediments to gathering and monetizing assets have always come up, and we expect that that will continue to be true. We have always said that a handful of companies will have the fortitude to push through the turbulence and be eventual winners in the space. Harvest is one of those companies.

In the short term, there will continue to be a lot of chatter about a variety of things and that will remain true right up until it is not true. But the long-term picture continues to crystallize and has never looked better. We've created a company designed to persevere and capitalize on new opportunities as barriers to the industry are removed over time. At its core, Harvest is a company with a long history of successfully identifying opportunistic investments and developing profitable operations. Prior to the RTO, the company was funded with less than $18 million and had a history of profitability.

Although 2019 has been a significant investment year, the company is focused on returning to profitability and leveraging returns from targeted strategic investments to fund growth and expansion. The investments and decisions made in 2019 have set the stage for a return to profitable growth in 2020 and beyond.

We have continued to expand our asset base by winning licenses, entitling us to an additional 32 revenue-generating facilities since the RTO. We've continued converting licenses to operational facilities and we've continued pursuing strategic acquisitions. Recent market conditions highlight the importance of capital to fund ongoing operations and expansion initiatives, and we've been actively pursuing multiple sources of capital including real estate and senior debt financing.

Our balance sheet can support additional leverage given our expectations for performance in 2020. Subsequent to quarter end, we have raised $6.5 million in real estate financing and CAD 62.5 million in short-term secured debt financing. We've also taken measures to address cost. For example, yesterday, we restructured our operations to both rationalize and optimize expenses given the delays that I referenced and to prepare for some significant acquisitions that will add some like-minded people to the Harvest team. This action will reduce ongoing operating expenses by more than $7 million annually.

We also announced this morning that we restructured the deal of CannaPharmacy as it was the one transaction that included meaningful cash consideration. Now, we are only acquiring the cultivation and manufacturing facility in Pennsylvania. Given the overlap of CannaPharmacy assets with existing Harvest and proposed acquisition assets, we prioritized the use of capital focused on the most strategic asset.

Under the revised terms, we expect to pay $8 million in cash followed by, at our option, either contribution in the divestible assets or an additional $7 million in cash and $11 million in notes for that growth facility, amounting to total consideration well below the threshold for Hart-Scott-Rodino Antitrust review and well below the purchase price in the previous agreement.

Our strategy has been to combine organic growth and M&A to build out our asset base and achieve scale in key markets. Recent market developments and tightening capital markets have led us to revisit growth plans and prioritize different investment opportunities. We plan to complete our pending M&A transaction and focus on the capital allocation toward key markets including Arizona, California, Florida, Illinois, Maryland, and Pennsylvania.

We recently announced that both Harvest and Verano have certified substantial compliance with the second request issued by the Department of Justice regarding our proposed acquisition of Verano. This milestone began the 30-day waiting period, which is expected to expire on or around December 4 of this year. Assuming that no additional action is required with the DOJ, we will look forward to completing all necessary items to close the transaction. We believe this business combination will be transformative, and we are very excited to have the Verona team join Harvest.

On October 23, the 30-day waiting period associated with the HSR review for Falcon International transaction expired. Both parties are working to complete necessary items required for the closing of that transaction.

Our pending acquisitions of other deals including assets from Devine Holdings and smaller tuck-in transactions in key states are still in process. Given the complexity of closing transactions and the dependence on satisfying regulatory conditions at both the state and local level, we're no longer providing guidance for the timing of deal completion for M&A transactions.

On a number of occasions in the past year, we've set guidance, provided time lines for various activities including the completion of M&A deals, financing transactions and store openings based on the best available information that we had at that time. Those guidelines have often proven to be too aggressive.

In many instances, we are operating in newly and developing markets where the rules and requirements are being crafted in real time. And given the complexity of each regulated market like visibility, we believe it is not useful to provide guidelines on timing of deals that are predicated upon the completion of regulatory approvals.

But we will always attempt to paint a really clear picture about why we are making the acquisition, details related to the economics, and what processes are required to close that transaction. While we cannot provide a definitive date for completion of our pending M&A transaction, we can outline our plans for 2020.

On a pro forma basis, Harvest expects to be operational in 17 states and territories exiting 2020. We are focused on improving operations across our existing asset base and further penetrating key markets such as Arizona, California, Florida, Illinois, Maryland and Pennsylvania where we can realize significant and expedient returns on invested capital that can then be redeployed into additional markets. This is historically how we've grown as an organization. In our home state of Arizona, we currently operate 11 retail dispensaries, supported by cultivation and processing facilities. Through announced and planned acquisitions, we expect to continue to expand our retail base in Arizona during 2020.

Our current operations in California consist primarily of retail dispensaries stemming from a combination of organic license wins and M&A transactions. We will continue to pursue retail dispensary licenses through both license awards and acquisitions in areas where both the demographics and the competitive landscape support it. The pending acquisition of Falcon International adds cultivation, manufacturing, distribution and popular brands to our current operations in California.

In Florida, we had purposely decelerated the pace of store openings to allow our cultivation facility to ramp enough to provide sufficient product for our existing six open dispensaries. We expect additional product to come online early next year with an anticipated increase in sales beginning in the first quarter of 2020. When we secure additional capital at reasonable terms, we will prioritize further investment in our Florida cultivation and retail operations, particularly in advance of potential development of an adult use market there.

Adult use of cannabis in Illinois begins January 1, 2020, which is 42 days away. Through our pending acquisition of Verano and planned tuck-in retail acquisitions, we expect to have a significant presence in both the wholesale and retail channels there. Verano has consistently been one of the top wholesale operators in the Illinois market and we expect investments in cultivation capacity and retail will contribute significantly to both top line and margin performance.

Harvest currently operates two retail dispensaries in Maryland, with the addition of Your Pharmacy in September. We've also added processing capacity to our cultivation operations there. We plan to increase the total number of dispensaries within the allowable limits and, when capital permits, expand our cultivation capacity there during 2020.

In Pennsylvania, we are currently operating five dispensaries. We've previously announced our settlement agreement with regulators and have since opened an additional four locations. As a reminder, we are permitted to operate up to 15 dispensary locations in Pennsylvania, and our pending acquisition of the 46,800-square foot facility from CannaPharmacy will help support the build out of additional retail locations there in the future. We plan to continue to expand that facility as well.

While it is true that recent market conditions have been difficult for the cannabis industry for a variety of reasons, it also remains true that the core investment thesis for the cannabis industry and for Harvest remains intact. The potential for generating attractive returns and positive outcomes for all stakeholders as prohibition is peeled away is greater today than ever.

Although the direct path to full legalization is unclear, it is certain that a movement towards a legal US cannabis market is underway. We are very optimistic about the trajectory of the industry and the opportunity for Harvest to capitalize on this transformation from illicit markets to regulated mainstream acceptance.

I'd like now to turn the call over to Leo who will discuss our financial results and guidance.

Leo E. Jaschke

Chief Financial Officer, Harvest Health & Recreation, Inc.

Thanks, Steve. For the third quarter, Harvest's standalone revenue was $33.2 million, representing an increase of 25% sequentially and 197% year-over-year. Revenue growth was driven by the addition of new and acquired dispensaries as well as growth in our existing cultivation, manufacturing and retail operations.

Gross margin, before biological asset adjustment improved sequentially to 35%, up from 25.1% during the second quarter. Sequential gross margin improvement was driven by more favorable mix, partially offset by expanded promotional activity. Third quarter adjusted EBITDA, excluding the impact of biological asset adjustments, was minus $10.9 million, a modest improvement compared to second quarter adjusted EBITDA of minus $12.4 million.

We continue to make significant investments during the third quarter as we built our infrastructure, but we have not provided guidance for core Harvest operations for 2019. We do expect continued revenue growth, driven by both additional retail dispensary openings and same-store sales growth as well as EBITDA margin improvement, due in part to the recent overhead adjustments during the fourth quarter.

We ended the quarter with 26 open dispensaries, up from 16 at the end of the second quarter. Subsequent to quarter-end, we have opened an additional 4 retail dispensaries in California and Pennsylvania.

Moving forward, we will no longer be providing guidance on projected store counts for a variety of reasons. First, we believe store count is not the best measure as we focus on profitability. For example, we can open 29 more stores in Florida, but it doesn't make sense to do so until we have access to flour, which is fundamental to profitability. As a reminder, we are in the process of expanding cultivation in Florida.

So, while opening more stores may seem like a measure of success, it really depends on the market and the opportunity costs associated with forgoing other profitable projects. As a company, we do not want to be incentivized to make poor business decisions based or because we are trying to meet guidance or deliver on metrics that may negatively impact profitability. Second, visibility on timing for opening retail locations is heavily dependent upon the timing of regulatory approvals. While we will not be providing guidance on timing of additional retail locations, we will continue to announce the opening of new locations since that demonstrates the conversion of our license portfolio to operational facilities.

Turning to financial metrics, although we've recognized limitation of providing pro forma guidance, we do believe it is informative to frame our outlook on a pro forma basis given the size and scope of our pending acquisitions. As a reminder, pro forma metrics include our completed and publicly announced pending transactions.

Third quarter pro forma revenue was $95 million or $380 million on an annualized basis, up from $78 million or $312 million annualized during the prior quarter. Revenue growth was driven by improved performance of Harvest and pending M&A targets. Given current market conditions, we are adjusting the range of our 2020 pro forma revenue guidance to $700 million to $1 billion; that is from $900 million to $1 billion previously announced.

We have modeled a variety of scenarios based on access to capital and timing of deployment. We are expecting sequential revenue growth in each quarter with pro forma revenue weighted toward the back half of 2020. Given the wide range of possible scenarios for the next year, we are revising 2020 adjusted EBITDA margin guidance to 20% to 30% compared to the prior guidance of 30% to 35%.

We expect adjusted EBITDA margins will improve throughout the year. We believe that EBITDA margins north of 30% are achievable in key markets particularly in early stages of development where supply and demand imbalances exist. Investments in cultivation during the early phases of limited license market development have historically yielded very high returns and short payback periods. We expect margins to vary by market based on regulatory structure, maturity of market, demographics and competitive dynamics.

If we find that additional capital is available at reasonable terms, we may accelerate the pace of our expansion which could result in additional revisions to our expectations. We would specifically target investments in highly margin accretive projects. Depending on the timing of such projects, we could realize additional upside to our 2020 guidance.

As Steve noted at the beginning of the call, 2019 has been a significant investment year for Harvest. The asset base that we have built out since our RTO provides the foundation necessary to return to profitability. We plan to leverage returns from targeted strategic investments to fund future growth and expansion.

With that, let's open the call to questions.

QUESTION AND ANSWER SECTION

Operator: Thank you. At this time, we will open our Q&A session to analysts. [Operator Instructions] Your first question comes from the line of Robert Fagan with GMP Securities. Robert, your line is open.

Robert Fagan
Analyst, GMP Securities LP

Q

Hey, guys. Thanks for taking the questions. I guess, one question is hard to pick, but I guess I'll focus a little bit on the guidance. So, it's not a huge change. I know you're kind of going from midpoint to midpoint, I believe down 10% or $100 million. What's kind of driving that change? Is it the CannaPharmacy restructuring or is it like more capital allocation re-prioritization and in light of the available liquidity to forgo some growth opportunities. Maybe just a bit of color around what's driving the change in the outlook?

Leo E. Jaschke
Chief Financial Officer, Harvest Health & Recreation, Inc.

A

Thanks, Robert. It's a good question. Ultimately, we believe that the change in guidance is ultimately a timing item. So, we believe that we have multiple paths to deploy capital based on the availability of that capital. And so, in 2020, we are picking a larger range based on those various scenarios. We do believe that anything that we have in the queue for deployment is ultimately achievable and would likely happen in 2021 if the cap wasn't available in 2020.

Robert Fagan
Analyst, GMP Securities LP

Q

Okay. And if I can just steal another one, is – I got to ask if you could give us a little bit more detail around the structure of the short term debt funding, maybe the term, what kind of capital costs that's coming at, anything you could share maybe what other options maybe available?

Leo E. Jaschke
Chief Financial Officer, Harvest Health & Recreation, Inc.

A

Yeah. So, we have – so we believe there is multiple sources of data continue to be available to us from a senior lending standpoint. So, just to clarify, so we have – at the end of Q3, we have about $45 million of secured debt based on – our total PP&E has grown to about $140 million. Of that $140 million, roughly $100 million of it is available in terms of buildings and real estates that we believe is deployable. Specifically around the incremental capital, it is senior debt that we brought on and we expect to be able to continue to expand that with our ongoing efforts to find appropriate leverage on our core assets, but also to redeploy moneys that we've invested in real estate.

Robert Fagan
Analyst, GMP Securities LP

Q

Okay. Well, congrats on the nice pickup for the PA assets in the CannaPharmacy's case and I'll get back in queue.

Operator: Your next question comes from the line of Graeme Kreindler with Eight Capital. Graeme, your line is open.

Graeme Kreindler
Analyst, Eight Capital

Q

Hi. Good morning. Thanks for taking my questions. Just wanted to follow up with respect to the pro forma revenue in the quarter, can you give some more details in terms of how much of that pro forma includes acquisitions done in the quarter? And, if we want to look at it on a quarter-over-quarter basis, how much from the previous quarter has now moved into the reported revenue line? Thanks.

Leo E. Jaschke
Chief Financial Officer, Harvest Health & Recreation, Inc.

A

Thank you, Graeme. So, our pro forma revenue, the majority of that is coming from Harvest and our two larger acquisitions; Verano and Falcon. All of those entities have had substantial growth. Harvest was 25% over the previous quarter and the other entities are in line with that. The smaller acquisitions that we have completed, although, we're not going to disclose the amounts, I would say, are substantially less than those three core components.

Graeme Kreindler
Analyst, Eight Capital

Q

Okay. Thanks. And then just as a follow up with respect to the 2019 guidance figure that's put out there, looking at the historical pro forma revenues, those are going to include a portion of CannaPharmacy. So, looking into adding up quarters one to three, it implies I think somewhere around $124 million of pro forma in Q4 to reach that figure. But how should we be thinking about that total annual number now that the CannaPharmacy has been restructured? Thanks.

Leo E. Jaschke
Chief Financial Officer, Harvest Health & Recreation, Inc.

A

Yeah. Great question, Graeme. So, I do want to clarify this. Our pro forma revenue of $95 million based on Q3, that excludes any revenues from CannaPharmacy from the previously assumed retail stores. However, the prior quarters did include that number. We're not going to adjust the prior-quarter disclosures for that. But that being said, if you look at the quarter-over-quarter increase from $78 million to $95 million, it's actually a larger increase, because the Q3 number of $95 million does not include the previously assumed retail revenues from the current CannaPharmacy transaction prior to our recent disclosure of changing that structure.

Graeme Kreindler
Analyst, Eight Capital

Q

Okay. Thanks. I'll get back in the queue. Thank you.

Operator: Your next question comes from the line of Nav Malik with Industrial Alliance. Nav, your line is open.

Nav Malik
Analyst, Industrial Alliance

Q

Yeah. Thanks. Good morning. So I just want to ask on the revenue figure, the $95 million pro forma. I know – I guess you didn't provide the adjusted EBITDA pro forma number. But I guess I'm wondering if that's in line with sort of the 10% kind of guidance for 2019. Would it be in line with that? Or maybe you can give us some color on the pro forma adjusted EBITDA in the quarter.

Leo E. Jaschke
Chief Financial Officer, Harvest Health & Recreation, Inc.

A

Yeah. So, we have not disclosed our pro forma adjusted EBITDA historically and that will continue to be the case. We do believe that our pro forma EBITDA is in line with our 2019 guidance. Ultimately, we look forward to closing these transactions and reporting in our state of results in the future years.

Nav Malik
Analyst, Industrial Alliance

Q

Okay. And then I just want to ask in terms of the capital availability. Is there any – like I guess on the $500 million of convertible debentures, I believe you've drawn one tranche on that. Is there any change or update on the ability to access the additional tranches under that agreement?

Leo E. Jaschke
Chief Financial Officer, Harvest Health & Recreation, Inc.

A

Great question. So, that capital is still available to us. And as we continue to look at all sources of capital, we believe – right now, we're focused more on leveraging our asset portfolio, both the real estate and license value, et cetera, and are seeking to close an additional senior debt. So, it remains available to us, but is currently not our top targeted source of capital.

Nav Malik
Analyst, Industrial Alliance

Q

Okay. Thank you very much.

Operator: Your next question comes from the line of Matt Bottomley with Canaccord Genuity. Matt, your line is open.

Matt Bottomley
Analyst, Canaccord Genuity Corp.

Q

Yeah. Good morning. Just wanted to follow up on something that Graeme was asking, maybe it's just saying it a bit of a different way, so I understand. But your pro forma $95 million for the quarter, can you give any sort of broad range as to what that pro forma number would be if the total original CannaPharmacy asset was included? Is there another $10 million or $15 million we should have expected that has come down? Just trying to line that up with what your 2019 overall guidance is overall.

Leo E. Jaschke
Chief Financial Officer, Harvest Health & Recreation, Inc.

A

Yeah, Matt. I appreciate the question. However, we're very sensitive about disclosing any changes or comparatives on that, because it ultimately would get to disclosing information from companies that are private today, and we have agreements in place that prevent us from doing that.

So, the $95 million is – it includes all publicly disclosed pending acquisitions and also completed acquisitions that we've done year-to-date and it does not include any retail operations from CannaPharmacy.

Matt Bottomley
Analyst, Canaccord Genuity Corp.

Q

Okay. Understood. And a follow up is on the EBITDA line. Maybe it's more of a housekeeping item, but has there been a change in that calculation because it seems that the comparative number is different than last quarter? And I'm just trying to understand what the expectation is going forward as you get closer inflecting to adjusted EBITDA profitability.

Leo E. Jaschke
Chief Financial Officer, Harvest Health & Recreation, Inc.

A

Yeah, Matt. Appreciate you asking that. So, we did change our definition of adjusted EBITDA. Specifically, we are no longer including the results from operations related to the biological assets. When we started reporting post RTO, we were looking at kind of the marketplace and believed that more – it was more consistent than not to include that. I think that evolution has changed in the past year, and I think now that the marketplace is generally focused on looking at adjusted EBITDA excluding those biological assets. So, we have made that change and the comparative for Q3 to prior quarters has been done.

Matt Bottomley
Analyst, Canaccord Genuity Corp.

Q

Okay. Thank you. I'll get back in queue.

Operator: Your next question comes from the line of Russell Stanley with Beacon Securities. Russell, your line is open.

Russell Stanley
Analyst, Beacon Securities Ltd.

Q

Thanks. Good morning. Thanks for taking my questions. First, with respect to the 2020 guidance, I just wanted to clarify. Is that guidance now fully funded or is that – achieving those numbers, does that require some additional external capital? And if so, roughly how much?

Leo E. Jaschke
Chief Financial Officer, Harvest Health & Recreation, Inc.

A

Yeah. Great question, Russell. So, we actually have a range of scenarios for 2020 and that's partly why we expanded the range both on the revenue and on the adjusted EBITDA expectations. We believe we do have sources of capital available to us. And depending on how that capital is deployed will result – we're comfortable that we will be within that range.

Russell Stanley
Analyst, Beacon Securities Ltd.

Q

Okay. And just on the license count, the dispensary license count given the revisions today at the CannaPharmacy agreement and your additional activities since, do you have a revised number? I think you were up around 130 retail licenses before. I know you're not guiding in terms of timelines, but do you have an updated number in terms of how many stores you could theoretically open?

Steven White
Founder, Chief Executive Officer & Director, Harvest Health & Recreation, Inc.

A

Yeah. So, you are correct that the retail licenses that were coming to us by way of the CannaPharmacy transaction are no longer included in our count. However, the counts that we have been providing have been in excess of 130 licenses to open, in excess of 130 retail licenses. Post adjustment to the CannaPharmacy deal, that number still remains correct.

Russell Stanley
Analyst, Beacon Securities Ltd.

Q

Okay. Great. Thank you. I'll get back in the queue.

Steven White
Founder, Chief Executive Officer & Director, Harvest Health & Recreation, Inc.

A

Thank you.

Operator: Your next question comes from the line of Rommel Dionisio with Compass Point. Rommel, your line is open.

Rommel Dionisio
Analyst, Compass Point Research & Trading LLC

Q

Yeah. Thank you. Good morning. Just a question on Verano, actually to the extent that you feel comfortable. Actually, just given the acquisition hasn't closed yet, could you just update us on where they are in terms of the dispensary count in Illinois specifically and where they might be on January 1 and perhaps into early Q1, given that such a momentous event with turning recreational on January 1. And also, is capital somewhat of a constraint in Verano being able to open locations in Illinois? Thanks.

Steven White
Founder, Chief Executive Officer & Director, Harvest Health & Recreation, Inc.

A

So, with respect to Verano, because we have not closed that transaction and because of agreements that we have as part of that transaction, we're limited about what we can say. It is publicly known. We understand that they have two current open stores and the plan in Illinois for the combined entity to operate the maximum number of retail stores in 2020.

Rommel Dionisio
Analyst, Compass Point Research & Trading LLC

Q

Okay. And maybe just a quick follow-up. Steve, you had mentioned a potential adult use in Florida. Could you just maybe expand on that theme? What kind of gives you the confidence to make that prognostication? Thanks.

Steven White
Founder, Chief Executive Officer & Director, Harvest Health & Recreation, Inc.

A

Yeah. We have – in Florida, there are two groups that are – have petitions circulating to add adult use cannabis to the Florida Constitution. The expectation is that one or both of those will require the signatures necessary to be on the ballot. So, the expectation is that Florida will vote on adult use cannabis in a year. It is also possible that the Florida legislature could decide because of the inevitability of that vote to address it in the legislature.

Rommel Dionisio
Analyst, Compass Point Research & Trading LLC

Q

Okay. Very good. Thanks.

Operator: [Operator Instructions] Your next question comes from the line of Jesse Pytlak with Cormark. Jesse, your line is open.

Jesse Pytlak
Analyst, Cormark Securities, Inc.

Q

Hey, good morning. Just hoping you could maybe give a bit more color, insight on kind of these organizational realignment activities. Obviously, you still have a lot of M&A that you need to integrate. So, can you maybe just talk about some of the resources that you have been adding that you now think you can dial back on? And even though you kind of achieve these cost savings, will they just eventually kind of rematerialize as you actually go through 2020 and build out your asset base?

Steven White
Founder, Chief Executive Officer & Director, Harvest Health & Recreation, Inc.

A

Thanks, Jesse. Specifically, if you're talking about the restructuring, we are moving towards a less centralized model to operate the business. So, that means some of the positions that were eliminated are permanent – have been permanently eliminated.

In addition to that, we do have, as everyone is aware, we do have pending acquisitions and we've made it no secret that we are excited about bringing on a lot of the personnel from a couple of our transactions including the Verano one.

So, some of those – in some instances, we made some of those reductions in workforce in order to accommodate an inevitable transition where we bring in some of those people from Verano and from Falcon, but in some instances, positions were eliminated permanently, because we don't need them. In addition, and I guess lastly, we were – we had certain expectations about growth and we were prepared to integrate three significant transactions. When the Department of Justice process took longer than what we expected, we had built up our organization to accommodate those. And so, at this point, we felt it was necessary to right-size and optimize our workforce for what we currently are operating.

Jesse Pytlak
Analyst, Cormark Securities, Inc.

Q

All right. Thank you.

Operator: And your final question in queue comes from the line of Graeme Kreindler with Eight Capital. Graeme, your line is open.

Graeme Kreindler
Analyst, Eight Capital

Q

Yeah. Hi. Thanks for taking the follow-up. I just wanted to ask a question regarding the announced debt financing this morning. If you could disclose what the terms with all-in cost is and what specifically characterizes it as short term in nature, thanks.

Leo E. Jaschke
Chief Financial Officer, Harvest Health & Recreation, Inc.

A

Yeah. So, debt financing is – it's senior secured debt. It's secured by the personal property of the company and its maturity is – the short term is less than 12 months. As a reminder, I do – we are actively pursuing multiple sources of financing that are available to us and expect to have additional announcements around that in the future.

Graeme Kreindler
Analyst, Eight Capital

Q

Can you disclose what the interest rate is on that?

Leo E. Jaschke
Chief Financial Officer, Harvest Health & Recreation, Inc.

A

It's consistent with what we're currently paying on our senior facilities.

Graeme Kreindler
Analyst, Eight Capital

Q

Okay. Thank you.

Operator: Ladies and gentlemen, that concludes today's conference call. On behalf of Harvest Health & Recreation, we thank you for your participation. You may now disconnect.