

Acreage Holdings

3rd Quarter 2018 Earnings Conference Call

November 29, 2018 at 5:30 p.m. Eastern

CORPORATE PARTICIPANTS

Steve West – *Vice President of Investor Relations*

Kevin Murphy – *Founder, Chairman, Chief Executive Officer*

George Allen – *President*

Glen Leibowitz – *Chief Financial Officer*

PRESENTATION

Operator

Good day and welcome to the Acreage Holdings Third Quarter 2018 Earnings Conference call. All participants will be in a listen-only mode. Should you need assistance, please signal a conference specialist by pressing the star key followed by zero. After today's presentation, there will be an opportunity to ask questions. To ask a question, you may press star then one on your touchtone phone. To withdraw your question, please star then two. Please note that this event is being recorded.

I would now like to turn the conference over to Steve West, Vice President of Investor Relations. Please go ahead sir.

Steve West

Good evening, everyone and welcome to the Acreage Holdings Third Quarter 2018 Earnings Conference Call. On the call with me today are Kevin Murphy, our Founder, Chairman and Chief Executive Officer; George Allen, our President; and Glen Leibowitz, our Chief Financial Officer.

Before we get started, I'd like to note that today's call is being recorded and archived for approximately 30 days on our investor relations website, located at investors.acreageholding.com. As a reminder, our discussion today may include statements containing forward-looking information for purposes of applicable Securities laws. These forward-looking statements are subject to various risks and uncertainties and other factors that could cause our actual results to differ materially from those forward-looking statements. Certain material factors and assumptions were considered and any such statements should be taken in conjunction with cautionary statements in our earnings release and risk factor discussions in our listing statement on Cedar [ph] dated November 14th 2018. Any forward-looking statements made on this call speak only as of today and we assume no obligation to update any of these forward-looking statements or information.

Our prepared remarks reference non-IFRS financial measures in order to provide greater transparency regarding our business and financial results. Any non-IFRS financial measures presented should not be considered to be an alternative to financial measures required by the FRS and are unlikely to be comparable to non-IFRS financial measures provided by other companies. Any non-IFRS financial measures referenced on this call are reconciled to the most directly comparable IFRS measures in our detailed presentation of Acreage Holdings fiscal third quarter results, which can be viewed on our investor relations website at investors.acreageholdings.com.

With that, I will now turn the call over to Kevin. Kevin?

Kevin Murphy

Thank you, Steve, and good afternoon everyone. I'm very excited to provide our first update to investors and analysts as a public company. First, we successfully listed on the Canadian Securities Exchange two weeks ago. We are now officially, a publicly traded company trading under the ticker ACRG.U. We worked very hard this past year to prepare ourselves for a robust 2019 and 2020 growth strategy. We have completed the role of our minority interest in each of our states. In terms of our footprint expansion, we recently closed on the acquisition of assets in Michigan, a very important state in which we intend on being vertically integrated.

Additionally, we acquired one of 22 cultivation processing licenses in Illinois, one a dispensary license in North Dakota and a cultivation and processing license in Oklahoma. In aggregate, this expansion increases our current footprint to 18 States, the largest in the United States covering 165 million people or approximately 52% of all Americans. We have also made major strides in securing some of our most

valuable intellectual property. We have acquired the rights to the life's work of our own head of cultivation, Phillip Hague, who for the past 20 years has catalogued the largest and most valuable collection of cannabis genetics in the world. Procuring his critical and fundamental IP, we will further achieve our mission of creating the highest quality products and therefore, the most trusted brand in the industry.

I would like to turn now to the national political front. We've long said, it's not a matter of if but when with respect to national legalization of cannabis in the United States. I believe this past election season was a wakeup call to Capitol Hill. We saw three more states pass or expand their legal cannabis programs. Former Attorney General Jeff Sessions, who as you recall, rescinded the Cole memorandum earlier this year, resigned from his post. House Rules Committee chairman, Pete Sessions was defeated in his reelection bid and the Democrats took control of the House of Representatives. Additionally, President Trump has openly stated his support for a States' Rights bill. I believe that within a year, Congress will pass legislation recognizing States Rights, leading the way to national legalization of cannabis and importantly, favorable banking and tax reform for the entire industry.

The Federal government still lists cannabis as an illegal, Schedule I drug, yet 94% of Americans support the legalization of medical cannabis and 33 states plus the District of Columbia, have legalized some form of cannabis. Recent developments in New York, Connecticut, New Jersey, and Illinois, all point to adult use transitions in the near future. This is an encouraging sign as we hold licenses in all four of those states. The States' Rights bill, in our view, combined with banking and tax reform, will lead to an unparalleled growth boom for the industry and ultimately increased asset valuations. Cannabis sits at the juncture of commerce and policy, and with our industry-leading footprint and unmatched political access, we believe Acreage is best positioned to take advantage of this moment of transformation. This will allow us to execute at scale, on our long-term vision of building out our national portfolio of consumer cannabis brands and retail dispensaries for all of our shareholders.

Before turning it over to George, I'd like to reiterate my excitement for the future of cannabis and specifically Acreage Holdings. With our current national footprint and robust balance sheet, we are best positioned to capitalize on a once-in-a-lifetime opportunity and I am honored to do it on behalf of all of you, our valued shareholders.

With that, I will turn it over to George. George?

George Allen

Thank you, Kevin. I just want to say, I echo your excitement enthusiasm for the future. I'd like to invite our partners to understand how our current business priorities stack up. Functionally, we break our imperatives into four categories. Number one, to drive operational excellence in innovation into this new exciting category. Number two, to expand our geographic footprint. Number three, to create the first enduring national cannabis brands. Number four, to work with regulators and legislators alike to ensure orderly implementation and expansion of local cannabis programs that allow for safe access to all. I will touch on each one briefly.

Number one—operational excellence. As Kevin discussed, we have continued building out what is currently the largest footprint in the United States in terms of states where we are licensed. We are now in 18 states and that number will continue to grow. That's important because we firmly believe that US cannabis size does really matter. Our scale affords us many advantages, most notably, the ability to build trusted national brands. We are preparing our operations for a cannabis marketplace that is going to be competitive and will offer consumers a wide variety of trusted, consistent and doseable products.

Our scale also enables us to attract the best and brightest professionals, both the best in breed in cannabis as well as seasoned professionals from other industries who are attracted to the career

opportunity we are uniquely positioned to provide. As it relates to expertise, we are so proud of the team that we have assembled at Acreage. Our green team includes legendary cultivation and processing pros and combined with the power of our brands and marketing teams, many of whom come from the spirits and beer industries. We have assembled some amazing operators to ensure we can execute on our strategy.

Another key addition is our Chief Operating Officer, Bob Daino, who came to us from a heritage at General Electric and spent time working under Jack Welch learning the famed Six Sigma discipline. Bob and his team are not just executing a plan. They're doing so in accordance with the tenants of top Fortune 100 companies. That includes instituting consistent best practices across our network in the areas of manufacturing, training, and staff management to identifying significant cost savings we are delivering in many areas.

Of course, helping Kevin, Glen, Bob and me, and the rest of our management team is an extraordinary Board of Directors. While we have certainly enjoyed enormous spikes in visibility and credibility when announcing the additions of former speaker, John Boehner; former Canadian Prime Minister, Brian Mulroney; former Massachusetts Governor, Bill Weld, and our other distinguished Board members, the underlying strategy for building the Board as we have, runs much deeper. It's really about the connectivity that each member brings and their ability to get certain things done with one phone call that might otherwise take months. We are so grateful to have them on our side and we are already seeing this strategy pay great dividends.

Turning to number two—expanding footprint. Our quest for scale at Acreage is driven by the synergies that we believe are inherent to a national footprint as it pertains to building brands, driving innovation and earning consumer trust in this transformative shift in consumer behavior. We are often asked if we will gain future operating licenses in existing and future states by winning new licenses or acquiring them. The short answer, is we're going to do both. We are adept at winning licenses and we have proven our success at doing that. We also look to M&A as a compelling mechanism for expansion and shareholder-valued creation.

We are actively engaged in expanding our retail footprint, manufacturing capacity and product innovation. Many teammates have come to Acreage originally as cannabis entrepreneurs and they have continued their success, but are now wearing Acreage jerseys. Inside Acreage, we built a disciplined and expansive corporate development team that is committed to shareholder value creation and efficiency. The cannabis market remains one of the most inefficient transaction marketplaces in the country and we will continue to pursue accretive opportunities that satisfy or accelerate our business objectives.

Turning to number three—create enduring national cannabis brands. Our mission and long-term strategy at Acreage revolves around developing national consumer and retail brands in cannabis that deliver a trusted, consistent and elevated experience regardless of geography. I often say that Coke would not be Coke today if it tasted different in Georgia than it did in New Jersey. The same is true for cannabis brands in the future. What consumers will tolerate today in terms of variability and quality and efficacy due to the novelty of a purchasing experience will not suffice in the future. Our vertically integrated footprint and standardized scaled operations will ensure that our products in Portland, Oregon will be the same as Portland, Maine.

In order to bring these products to market, we've assembled the best talent from big alcohol to develop and market our in-house brands. Harris Damashek, our CMO, comes from AB-InBev in their disruptive growth group. Our head of Product Development has a long tenure from Diageo managing such iconic spirits brands such as Johnnie Walker and Crown Royal. To bring our house of brand strategy to life, our product and marketing teams are in full development mode on several in-house brands. Prime, our

medically focused brand is already in Pennsylvania and performing well. Superflux will be an exciting, dynamic lifestyle brand appealing to mainstream customers. We also have two super-premium brands in development working with our green team to create the most exciting elevated expressions of cannabis flower and concentrates in the world. We see brands and distributions as highly symbiotic, each requires the other to succeed. Given our footprint, we are building up the first national dispensary brand underneath The Botanist flag in addition to a line of Botanist-branded products. Our teams are working day and night to roll out new stores as we speak. We believe, unlike most dispensaries, our Botanist brand will effectively be able to serve medical and adult-use customers.

We just launched our first Botanist in the third quarter in Baltimore and subsequently opened our second in Buffalo, New York. Every new dispensary we build going forward will be branded as The Botanist and over the next couple of years, we will model our entire footprint using the brand, The Botanist. While it is early in the process, I'm very encouraged by the initial results we are seeing with our first two Botanist dispensaries.

Turning to my last point, number four, working with regulators—nearly every cannabis market is actively engaged in transformative policy change. This can mean the implementation of newly approved medical marijuana programs in Iowa, the transition to an adult-use market in New York and New Jersey, or the implementation of a product in testing standards in Massachusetts, California or Oregon. While we welcome broad-based participation in this exciting new economy, we are cognizant of the fact that the industry will benefit from an orderly expansion that ensures quality, testing, consistency, and safety. The industry, simply cannot afford setbacks that come from reckless behavior.

As an industry leader, we have found that regulars [ph] have welcomed our feedback and we bear a responsibility to share our insights in a way that can benefit the industry, patients and customers alike. Our government affairs team is led by Nick Ed, a highly accomplished former Navy Seal that has spent the last handful of years advocating on behalf of veterans and the extensive hypocrisy that surrounds their access to cannabis as a patient group in dire need.

With that, I'll conclude. I look forward to reporting our success to you along these four vectors. I am truly grateful for the team that has joined us in this endeavor and I assure you they are all 100% aligned with your objectives as investors. I'm going to now turn it over to Glen who will take you through our key financials.

Glen Leibowitz

Thank you, George, and good afternoon everyone. Starting with our year-to-date 2018 IFRS revenue, we have generated \$10.6 million or a 91% increase from our year-to-date 2017. This revenue increase was a result of the 2018 acquisitions of Connecticut dispensaries as well as our Pennsylvania cultivation facilities starting its production.

Additional positive impacts to our IFRS revenue was related to the growth year-on-year sales in our Oregon dispensaries which was an increase of 21%. Our year-to-date 2018 pro forma revenue was \$54.3 million, which was driven by \$37 million of revenue from our newly acquired entities prior to the acquisition date, as well as \$6.6 million of managed revenue from entities in Maine and New Hampshire. Please see our reconciliation of pro forma revenue and other non-IFRS measures in our financial release published and included in our investor portion on the Acreage website. Additionally, we have published an investor presentation which can also be found on the Acreage website.

Turning to EBITDA for the nine months ended September 2018, Acreage had a positive \$5.2 million of EBITDA. This was driven by one-time gains of \$23.1 million from the acquisition of our New York operations, Prime Wellness of Connecticut and our Maine and New Hampshire management companies.

I would like to point out that our Connecticut and Pennsylvania operations contributed positive EBITDA for the nine months ended September 2018. Our net loss for the nine months ended September 30, 2018 was \$2.1 million compared to a net loss of \$2.9 million for the same period in 2017.

In addition to the factors I discussed above, our net loss includes interest expense of \$5.2 million for the year to date 2018, which is related to our convertible notes and seller notes from our acquisitions. It should be noted that this interest expense ceased as the notes were converted to equity and the seller paper was paid effective with our public listing on the Canadian Stock Exchange on November 15th.

Looking to our financial position as of September 30th, Acreage had a very strong balance sheet with \$74 million of cash. We successfully deployed \$164 million across our growing platform either in M&A or capital expenditures. Our continued expansion is a result of our investment into our business with approximately \$148 million related to acquisitions primarily for rolled up entities as referred to in our listing statement, which is publically available; additional investments of \$7.8 million of capital expenditures for our nationwide footprint expansion, as well as investments in the form of loans amounting \$7.9 million into entities that we manage.

With that, I will turn it back to Kevin for a closing comment.

Kevin Murphy

Thanks, Glen. I want to close by thanking all our associates who have worked unbelievably hard over the past year. While we had a vision to create the leading cannabis company in the US, it would not have been possible without all of their dedication and hard work. I would also like to thank all of our shareholders who have been supportive of us the past few years. Without your trust and support, none of this would have been possible. I look forward to catching up with you over the coming months as we continue to update you on our progress.

In conclusion, 2018 was all about building the foundation. We are now at the precipice of greatness in this amazing industry. 2019 and 2020 are going to be about executing on the hard work that's taken place over past eight years for the benefit of all our shareholders.

I want to thank you all again and operator, you may now open up the line to Q&A.

QUESTIONS AND ANSWERS

Operator

Thank you. We will now begin the question and answer session. If you are using a speakerphone, please pick up your handset to provide optimum sound quality. At this time, we will pause momentarily to assemble our roster.

Our first question comes from Russell Stanley with Beacon Securities. Please, go ahead with your questions.

Russell Stanley

Good afternoon, everybody.

Kevin Murphy

Hi, Russell.

Russell Stanley

First question if I could on Massachusetts, can you tell us how you're tracking on dispensary openings

and as a follow-up, how you're proceeding with licensing and local approvals for adult use there?

Kevin Murphy

It's a great question, Russell. Massachusetts has obviously been a fair amount in the news lately. We're actively watching progress there. We're very close to opening up our first Worcester dispensary. That should be open in the next couple of weeks. We had our walkthrough with the inspector last week and we feel pretty good about where we stand. Now, that market there—there is a queue for getting approved for adult use, and so we'll be coming online in that market in two stages, likely the next couple of weeks for medical and then, hopefully adult use probably four to five weeks after that. So, we feel pretty good and we see an acceleration in Massachusetts. We also have a handful of dispensaries following right behind that one that should be opening up this winter.

Russell Stanley

Excellent. Thanks for that color. If I could move onto Florida. Are you still on track to close that acquisition in January and, on a related matter, do you still need state approval for that transaction?

Kevin Murphy

So, that transaction is subject to state approval and we're going through that. We don't see any obstacles there at all, and we are on track to close that in January. In advance of that closing in January, we're actively working on securing locations so we're not waiting to get the licenses before we get to work.

Russell Stanley

Excellent. I don't suppose you could share with us how many leases you may have already signed?

Kevin Murphy

No, we haven't disclosed and it's probably not going to be a metric we're going to go through in the future, but we'll walk you through our successes as we lock down dispensary openings.

Russell Stanley

Great. If I could sneak in one more and I'll get back in the queue. Shifting to New York—congrats on getting the first dispensary opening in Buffalo. I'm wondering what your timelines are on the additional dispensaries there.

Kevin Murphy

So, again, we're hoping to get all four of our dispensaries open by this winter. We're actively focused on each one of them right now and it's going to be close by the end of the year, but we're actively focused on this, this winter.

Russell Stanley

Excellent. That's great. That's all I have for now. Thanks very much and congrats on the progress.

Kevin Murphy

Yes, thank you so much.

Operator

The next question comes from Matt Bottomley with Canaccord Genuity. Please go ahead with your question.

Matt Bottomley

Thanks, good afternoon everyone and congrats on your call here.

Kevin Murphy

Thanks, Matt.

Matt Bottomley

Yes, so maybe I just wanted to get a little more of color in California, obviously the largest individual market opportunity as you move towards getting your Oakland processing facility up and running and at full steam into that market. What's the best way in your view to carve out market share in a state that is really is disaggregated and there's a lot of different ways you can try and play it? I'm just curious on your view of that market overall in terms of gaining momentum there.

Kevin Murphy

Well, California's a fascinating market for us. Number one, we think it's a Petri dish where the successful brands are going to be successful in California and really take shape for the rest of the country. It's the largest testing ground we have for cannabis and probably the most discerning customer with have for cannabis. So, we're actively focused on using our production capabilities in California to track and to watch brand production. We'll be in the process of producing not only our brands in California, but third-party brands and we're using that insight that we get from third-party brands to inform our strategies as to how we roll out brands nationwide. If you will, I think in its best, the business plan in California is to use it as a catching net for successful brands and to you use those brands to go nationwide.

Matt Bottomley

Great, appreciate that, and then just moving to a couple of states you closed recently in Q4 here. Michigan and Illinois—so, two states obviously coming out of the midterms. Michigan had some very positive news there and it looks like Illinois might have some near term rec [ph] optionality as well. Does that change your strategy in terms of how you're going to deploy capital or potentially build out your presence in those two states in particular?

Kevin Murphy

So, I think we've always been committed to those states, but just specifically on each one of them. I think they're each exciting in their own right. Michigan's going through a transformation in that state where they're basically professionalizing the cannabis industry and they're opening up licenses to a statewide licensing regime. We partnered up with a team there that we think is exceptionally well-positioned not only on securing site locations, but also in developing the relationships that we think are going to make that state very successful.

Illinois has had a slow pace account creep lately. Illinois has made successful endeavors in opening it up to opioid usage and we think that that is going on its own cause a natural lift in patient count in that state. In addition to that, we're very optimistic that Pritzker is going to change policy in that state in the near future and allow adult use. We're positioned, I believe, well for that, but we're going to continue to invest more capital into both of those markets.

We think they're both extremely exciting markets with a lot of upside potential.

Matt Bottomley

Great, and if I could just tack on maybe, New Jersey as well with respect to the potential timing. I know there's a lot of unknowns with respect to the rec market coming on line, but how do you view that market evolving in 2019?

Kevin Murphy

Well, from having watched Massachusetts, I would generally say it's a bad business to try to predict the

timing of an adult-use transition. It does appear that there is consensus right now largely between the legislature and New Jersey and the governor around adult use and we feel pretty good about that happening. I cannot give you a sense as to timing. I will tell you that we were working extremely hard on additional locations within that state and we should have some good news in the near future to report. We think we're exceptionally well-positioned with our footprint in the southern part of that state and are very optimistic about the way the current bill appears to roll out for the existing license holders.

Matt Bottomley

Great. Thanks a lot guys. I'll leave it there. Just a housekeeping item on my end. I'm just wondering if any of the entities that are currently being classified under managed entities and not hitting your IFRS numbers, are you expecting any of those over the next twelve months to transition where you're able to bring it into the top line or should we consider those states sort of constant going forward with respect to how they're going to be reported?

Kevin Murphy

No, Matt that's a great question and I'll give you specifically, New Jersey—the bill that's on the table on the table right now and New Jersey does account for transitioning to a for-profit and that's a transition that we will engage in. So, absolutely over time.

Matt Bottomley

Okay.

Kevin Murphy

We anticipate that most states will make that transition.

Matt Bottomley

Okay, thanks again, congrats.

Operator

The next question comes from Andrew Carter with Stifel. Please, go ahead with your question.

Andrew Carter

Good afternoon. Congratulations, of course, on the listing. I just wanted to return to some of the questions about Florida. You're going from plans starting at zero and you've acquired [ph] there and you have a pretty robust kind of pipeline there or robust build out plan there. Could you talk about how that market's going to support, because everyone has a pretty robust pipeline there. How are they going to support that? Will the extra dispensaries increase awareness? Could you just help us understand that?

Kevin Murphy

Well, honestly, I appreciate the question and where it comes from. That said, we've spent a lot of time on this exact topic, and one of the most encouraging facts around cannabis is the fact that the more availability of cannabis there is, the non-linear relationship with the actual amount of consumption. So, there is definitely a tipping point that exists in the psyche of the average consumer. The more they see it on the commute home, the more billboards they see, the more willingness they are to try out cannabis and that actually is really manifested in some of the data you see that's out there right now.

You look at states like Arizona, Rhode Island, and Michigan, places that had what's known as an early caregiver market. In those markets, you saw per capita consumption in medical markets that really rivals California's adult-use market. So, our view is that cannabis actually, thus far, is nowhere near—and Florida doesn't jeopardize it—it's nowhere near a saturation point in terms of availability. I think that all it's doing is educating the consumer as to the use cases and getting over whatever obstruction there was

around consumption.

Andrew Carter

Got it. Second question—you mentioned one of the markets in there. As you're thinking about some of the white space areas in the US that you're thinking about, some of the M&A targets out there—can you talk about what you see as the M&A opportunity specific like Arizona, Nevada, even California? And, what those conversations are like, especially now with the public currency?

Kevin Murphy

Alright, look what I'll tell is that we're not going to tell you exactly where we're going to go next, because that's a little bit dangerous, but I will tell you we're actually looking at all the markets that you mentioned, plus adding more depth to the markets that we're currently in. I think, it's fair to say that we have the opportunity to look at a lot of assets. Our phone rings with many local operators who are trying to figure out how to participate in what has been a nationalization of cannabis and we were trying to create a platform here that people want to participate in. So, I'm optimistic about our entry into those markets and others but as for timing, I'm not going to be specific.

Andrew Carter

Understood. Thanks, I'll pass it on.

CONCLUSION

Operator

And, at this time, I'm seeing no further questions. This concludes the question and answer session, thus concluding the conference. Thank you for attending today's presentation. You may now disconnect.