



Acreage

H O L D I N G S

2019 ICR Conference Presentation Transcript
Date: January 14, 2019

<<Raphael Gross, Analyst, ICR, LLC>>

We're going to get started with our next presenting company. Good afternoon, it's Raphael Gross with ICR's Better Living Practice. I am pleased to present our next company, Acreage Holdings. Acreage is the largest vertically-integrated multi-state owner of cannabis licenses and assets in the U.S. with operating licenses in 19 states, serving a population of more than 172 million Americans and estimated 2022 total addressable market of approximately \$14 billion in the legal cannabis sales.

Acreage's executive team has comprised of long-term professionals for major corporations such as AB-InBev, GE, and Diageo. So, board has also represented well its former speaker of the house, John Boehner; former Massachusetts Governor, Bill Weld; and former Canadian Prime Minister, Brian Mulroney. George Allen, President of the company is here to represent Acreage Holdings. He himself has an extensive background in private equity and in corporate development, including a Goldman Sachs and Warburg Pincus. George?

<<George Allen, President>>

Good afternoon and thank you for having us. Much appreciated. My name is George Allen, and I'm the President of Acreage Holdings. I'm grateful for the opportunity today to be speaking with you. I want to review a couple of things if possible when we get the clicker here.

Today, Acreage is licensed in 19 states and our presence in those states ranges from active operations serving patients and customers to construction and development teams, actively working to bring those businesses online. We're currently generating revenues in 13 different states. A number that I anticipate will change by the end of the month with the opening of our first two dispensaries in Ohio. Collectively, our licenses cover 54% of the American population and reflect a total addressable market of over \$13 billion according to Arcview.

I'd like to walk you through our journey as a company, as I believe it is informative to both our success into understanding our near-term objectives as a company. Indeed, much has changed since the last year when we were here presenting at the conference, including explosive growth for ourselves as well as for the industry.

Acreage was formed in 2011 as High Street Capital Partners by our Founder and CEO, Kevin Murphy. In the earliest days of cannabis, the market – the medical markets on East Coast represented a compelling opportunity to bring low-cost alternative medicine to populations in need. The industry was capital-intensive and required substantial investment. The limited licenses in these markets made them compelling even under the very limited parameters of the programs within the states themselves.

In order to gain access to these programs, it required partnering with local entrepreneurs, who had relevant opportunities and access within those states to get the licenses. After his first investment in this space in 2011, Kevin expanded within the adjacent markets in the Northeast and by the end of 2016, had a massive minority portfolio of 11 states. When I joined in 2017, Kevin outlined his ambitions to roll up all of these assets into one operating business. We recruited a world-class operating team as well as created one platform for all of the investments to roll up into one company. That brings us to where we are today.

We are transitioning into three functional lines of business that are integrated across state borders. We're rebranding and relocating our dispensaries in order to maintain our competitiveness and respond to the change in market dynamics as we transitioned to an adult use paradigm.

With the acquisition of Form Factory, we are engaged in the nationwide launch of our manufacturing services business, our world-class team from the alcohol industry is also deeply engaged in the product formation and brands. I will go into more detail in all of these momentarily.

Let's review our three functional lines of business. The first is our retail dispensary chain known as the Botanist. Now, the Botanist is currently live in three states for us, and we're rolling it across our entire footprint over time.

Second, is our team recruited from the alcohol industry is focused on building the branded products in the cannabis space. Some of our brands are outlined here and I will go into further detail in a minute. But we believe that cannabis will follow the path of its sister industries within the alcohol and CPG industries such that branding and marketing will be the most critical defense against commoditization. Cannabis represents a tremendous opportunity as marketers – given for marketers to create brands and we think brands are truly where all the value will reside in cannabis over the long run.

Lastly, we are building a manufacturing and distribution services businesses, which is aimed at giving access to our licensed manufacturing and distribution footprint to other brands. More on that in a minute. Spending a little more time on our retail footprint, we highlight here our retail store concept, which is known as the Botanist. Our marketing team spent six months actively reviewing all the dispensaries out there in the marketplace and what they came up with was Botanist. The store that is already attracting discerning customer intention in the market.

We have the plans to retrofit our existing dispensaries to The Botanist concept, but this will take time, because in addition to retrofitting the store, we're also going to relocate several our

dispensaries to make them more appropriate for adult use. The heart of any retail strategy is location. Securing locations for cannabis dispensaries can be particularly challenging given the hesitation that many communities have to embrace cannabis locally. This is something that we have a dedicated team on and are focused on day to day. We believe that our skills securing prime locations is a core part of our differentiation as well as an experience that creates education and convenience for the customer.

Now, this slide outlines our retail rollout and where we stand now relative to where our expectations are at the end of the year relative to where our licenses are. As you can see, we currently have 19 dispensaries live. We should have 55 open by the end of the year against the total footprint right now under license of 79 retail dispensaries. Now, we're constantly growing our retail footprint by acquisition as well as by applying for new licenses in the marketplace.

Moving to our branded products line of business. We're actively working to build our house of brands. Some of our brands are expansive; include many SKUs, whereas others are intended to be more limited in nature. There's a huge difference between brands and labels in the marketplace that I'm going to spend a moment on. Consumers assign a value to brands, whereas labels represent the absence of any affinity or ability to command a premium over the underlying commodity. Cannabis today is filled mostly with labels, very few brands. We think that's going to change over the next couple of years. I put more faith in our marketing and product team than I do in any single brand that exists today. We'll talk about their efforts in a second.

The Botanist brand is intended to be a cannabis extension for consumers, who favor botanicals and speaks that language. It is our house brand native to our dispensaries. Superflux on the other hand is a lifestyle brand that we developed to address the generation of populace that has become accustomed to cannabis and is comfortable sharing their choice in cannabis with their peers. It is a lifestyle affinity brand and we will roll it out in our adult use markets.

Prime on the other hand is our deep medical brand. We deployed Prime and we expect it to speak the same language that medical practitioners use when they prescribe cannabis to their patients. We use Prime in mostly our medical markets and it is intended to be the first step that people use when they take cannabis.

On the other hand, Kind Bill is our niche brand specifically targeting Live Resin products and extraction techniques coveted by connoisseurs. It is branded Kind Bill after our Head of Extraction, Bill Fenger, who with his team invented Live Resin extraction. Bill is a tremendous asset to us as his reputation is second to none within the industry.

And lastly, The Hague, The Hague is our high-end flower brand, really designed around our Head of Cultivation, a gentleman named Phillip Hague, who has a premier reputation as a cultivator in America.

Onto our manufacturing distribution services business. This slide here is intended to show you where we stand in terms of rolling out our assets either in process online or in construction. These are services that we provide to third parties as well as to our own branded products business to bring products to market in a safe and efficient manner. We are actively investing in

our footprint and the page here outlines the operational status of all the facilities. The object here is to develop processing capabilities in each of our markets such that we can create consistent products. Coke would not be coke if it didn't taste the same in New Jersey as it did in New York. And cannabis presents an interesting opportunity or an interesting challenge for operators in that you have to create your products using entirely separate feedstock in each one of your markets. And that requires massive amounts of coordination in terms of raw materials and goods.

We take this manufacturing fabric and we turn it loose, and this is really what differentiates from our peers in the industry. With the acquisition of Form Factory, we're allowing other people to rent our rails so to speak. The idea is that we let people produce products in our facilities nationwide; it makes Acreage Holdings a one stop shop for anybody, who wants to create a brand in cannabis. The question you may ask is why would we open up the largest footprint in the United States of America to others?

And the answer is really twofold. Number one, cannabis is going to be absolutely massive. Vivien Azer recently said that cannabis is likely to be an \$80 billion industry by the year 2030. This is going to attract a huge amount of capital attention. And number two is that brands are the logical repository of value in all of cannabis, just like they are in all of CPG. It's not hard to imagine the cultivation gets commoditized over time. It's also not hard to imagine if you've ever been in the line in Las Vegas waiting for a taxi cab to a dispensary that retail dispensaries can get commoditized. But the brands – brands have the protective value of consumer affinity and that's where we believe most of the attention will reside in cannabis going forward.

So what we've done is we've created – we've created the footprint, they'll allow anybody to access cannabis. Advertisers have only begun to tell us how to think about cannabis. They only have begun to tell us how we should be thinking about ourselves in our choice of what cannabis products we use. So, our opportunity here is to give brands and potential new entrant brands into cannabis the ability to ride on our rails and create products for nationwide distribution. If you have a brand that you want to take to market, we're all yours. Show us your marketing plan and show us your activation for that brand.

Additionally, we're working on R&D. Our job is to develop the technology and the science around brands or around products that will allow consumers to continue to evolve how they use cannabis. Cannabis is far different and more complicated than alcohol, and it comes in many different form factors, and we've only begun to touch the form factors that we believe are going to resonate with consumers over time. So, our job is to create and innovate the products and bring them the brands and allow them to activate those products.

With that, I want to thank you. My name is George Allen. We are acreage holdings and that is our plan to build the dominant business in cannabis.