Call Participants

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Steve West

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Presentation

Operator

Good morning, and welcome to the Acreage Holdings Fourth Quarter 2018 Earnings Conference Call. [Operator Instructions] Please note, this event is being recorded. I'll now turn the conference over to Steven West (sic) [Steve West], Vice President of Investor Relations. Please go ahead, sir.

Steve West

Good morning, everyone, and welcome to the Acreage Holdings Fiscal Fourth Quarter 2018 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. Today's call is being recorded and will be archived for approximately 30 days on our Investor Relations website located at investors.acreageholdings.com.

As a reminder, today's call may contain forward-looking information for purposes of applicable securities laws. These are subject to various risks, uncertainties and other factors that could cause our actual results to differ materially from those forward-looking statements, which include certain material factors and assumptions. Any such statements should be taken in conjunction with cautionary statements in our press release and risk factor discussions and our listing statement on SEDAR. Any forward-looking statements made on this call speak of only as of today, and we assume no obligation to update any of these forward-looking statements or information.

Now for your future scheduling purposes, our fiscal first quarter 2019 earnings are tentatively scheduled to be released after the market close on May 14 with our subsequent earnings call on the morning of May 15, 2019. And with that, I'll now turn the call over to Kevin.

Kevin P. Murphy
Chairman, Founder & CEO

Thank you, Steve, and good morning. I'm very excited to close out the end of our first year as a public company. 2018 was a pivotal year for team Acreage. We aggregated all of our holdings in our current 19 state national footprint, and we accessed the public markets. We finished the year as a dominant player in the U.S. cannabis market, and the work has just begun. Never in the history of this company have I been more optimistic about where we are today and what is in store for us in this upcoming year. We continue to execute on our business strategy of dramatically growing sales, expanding our national footprint and creating unparalleled national brands. Today, we are the largest cannabis company in the U.S. with 19 states. We plan to further solidify our standing with future acquisitions from our M&A pipeline.

Today, we already have access to an estimated total addressable market of more than $14 billion by 2022. Additionally, we have access to a total population of 172 million Americans. This footprint populace encompasses nearly 80% of all Americans where cannabis is legal.

The highlights of our vast footprint that we are most excited about state-by-state are as follows. In Ohio, we have established first-mover dominance capturing tremendous traffic in the seventh largest state in U.S. We're the only vertically integrated operator in the state with a maximum number of 5 dispensary licenses in both a cultivation and processing license. In Florida, the largest medical market in the United States, we have secured what we believe to be the largest indoor growing facility in the state, which will allow us to be the first producers of high-quality flower. This facility is capable of housing 200,000 square feet of indoor canopy along with over 3 acres of planned greenhouse capacity. We are preparing to enter the market with vast quantities of extremely high-quality, mold-free flower.

We are aggressively moving on our Florida retail footprint and have already identified 10 retail locations, which will be anchored by a flagship dispensary in South Beach and expect to have 18 dispensaries in this state by year-end.

In Michigan, we are extremely well-positioned as it transitions to adult use. As a medical state, Michigan had the highest level of consumer adoption of cannabis usage. The structural changes within the state, along with the adoption to the adult use, renders Michigan to be one of the most exciting markets in the country. We have secured 3 dispensary locations with a rich pipeline of additional locations that we are developing.

We have also secured cultivation and processing licenses that George will speak to. Additionally, we have acquired a 30-acre farm in Vassar, where we will have a greenhouse cultivation facility. We continue to acquire properties zoned for dispensary operations to aggressively grow our footprint in this very important state. With the announcement of our first California dispensary in Oakland this morning, we are officially vertically integrated in the largest cannabis market in the world.

This will be the first of many botanist dispensaries in this market for Acreage. In a state that acts as a launchpad for great cannabis brands, we plan to launch a proprietary product this summer that has huge potential to disrupt the vape market by providing a far healthier, non-inhaling alternative while delivering an identical onset experience.

In New Jersey, we are bringing one of the largest cannabis greenhouses in the Northeast online to complement our indoor grow early this summer. This will bring our total capacity in one of the most constrained state markets to nearly 1,200 pounds per month in anticipation of adult use.

In Massachusetts, we have opened gorgeous botanist stores that represent the most innovative store design in cannabis. These company-branded stores are prepared for adult use, and we will be through the conversion process very soon.

We are also supporting 9 additional dispensaries through managed service agreements, further increasing our penetration in the Bay State.

We will also bring form factory to the Massachusetts market, offering the product diversity of the West Coast to the Northeast.

With our dominant position in Maine, we are well positioned for adult use, a transition that takes us from a relatively small market, serving 1.3 million inhabitants, to a high-volume, tourism-based market that attracts over 37 million visitors annually, capable and comparable to the volume traffic of the entire Las Vegas strip without the intense competition.

Speaking of Maine, I would like to speak about our dominance in the Northeast overall. Without question, we have the most extensive portfolio and highest quality assets of any multistate operator in that region. From New York to Maine, our footprint covers every single market with the exception of Vermont. We have a dominant # 1 position with 28 owned or managed dispensary licenses, multiples more than our nearest competitors. No cannabis company in this region is poised to experience the type of growth we are, given the impending legalization that will wash over 43 million people. This represents a larger market in California with a far more attractive competitive profile due to limited licensing in the Northeast.

To illustrate this point, let's look at Connecticut. Arcview projected Connecticut cannabis sales to be $70 million in 2018. Our 3 dispensaries equated to roughly 43% of the state's sales. If Connecticut only doubles in size by converting direct, we're very conservatively looking at 3 dispensaries doing more than $60 million in sales a year.

As we embrace 2019, we will look to capitalize on our expanding 19 state footprint and form factory. We strongly believe that long-term shareholder value creation in cannabis will come in the form of creating lasting national brands. For Acreage, that will manifest itself by building out our own internal house of brands, such as The Botanist and Prime.

We will also offer the opportunity for other brands to benefit from our national footprint and form factory's manufacturing and distribution platform. Cannabis consumers want choice, and we intend to provide it, given our current and growing capabilities.

In 2018, it was a watershed year for the U.S. cannabis industry as billions of dollars were raised to fund future growth for major MSOs. While there is much yet to come this year in the operation space, we believe the next big wave of capital will be to support small, nascent cannabis brands.

The race to be the Coca-Cola of cannabis is just beginning. Soon, a wave of celebrities, including athletes, actors, musicians and even established lifestyle wellness brands, will raise significant capital to market and distribute cannabis-based products. To that end, Acreage is best positioned in the branding race with our internal house of brands and the brands of others with the largest footprint in the U.S. cannabis industry. We are also the only multistate operator that can take a brand national regardless of form through our form factory platform national wholesale and dispensary operations. While Acreage is the largest cannabis operator in the U.S., we will further solidify that standing with future acquisitions from our M&A pipeline. We will concentrate our efforts on Nevada, Arizona and the California retail space.

Additionally, we will look to expand our current footing in important states such as Illinois, Maryland, New Jersey and New York. Our goal is to be the # 1 or #2 operator in every state, where we have or will have operations.

To complement our expanding footprint, our recent form factory acquisition, which is expected to close by the end of the first quarter, will dramatically expand our product capabilities.

Since announcing the acquisition in December, our confidence in adding this manufacturing, processing and co-packing platform has only grown. Our dialogue with major CPG companies as well as regionally dominant cannabis brands has only strengthened our conviction in this high-margin opportunity.

We stand today as the only company in the U.S. that can manufacture FDA-compliant cannabis products in any form and deliver them from Portland, Oregon to Portland, Maine. In fact, we believe the combination of our industry-leading footprint and our unique capabilities in manufacturing will allow us to leverage our platform to generate significant shareholder value over time.

To sum it up, when it comes to long-term brand creation on a national basis, Acreage is positioned as the only multistate operator that can achieve this. We have the largest, most diverse operating footprint by number of states, wholesale capabilities and manufacturing and distribution capabilities in the U.S. cannabis industry today.

As an organization, we focus a fair amount of time and energy on state and federal policy. We continue to be very bullish on the prospects of legalized cannabis in the United States longer term. While I spend significant time discussing the results of the last election season on our third quarter earnings call, the momentum continues to accelerate in Washington on several fronts. New Attorney General, William Barr, has stated he would not enforce federal law regarding cannabis in states where it is legal. In essence, we're reverting back to the call memorandum.

With democrats taking control of the House of Representatives, the House Rules Committee has taken a very positive turn towards introducing pro-cannabis legislation to the floor for an open vote. 11 of the 13 members of the Rules Committee hail from states where cannabis is legal. New Rules Committee Chairman, Jim McGovern, is very supportive of cannabis legalization. But with the House and Senate, banking finance committees are discussing safe banking legislation for a banking reform that would make it much easier and federally legal for U.S. national banks to do business with cannabis operators. It remains to be seen, but the SAFE Banking Bill could also include tax reform and the removal of federal intervention with respect to U.S. investment banks and stock exchanges doing business with U.S. cannabis companies.

Today, the United States Federal Government will allow Canadian cannabis companies access to the U.S. capital markets. In turn, U.S. cannabis companies are not yet allowed to list here in the U.S.. putting every U.S. provider of legal cannabis at a big disadvantage. It is our anticipation that this will change with the implementation of the STATES Act adding thousands of jobs and billions in wages for people in this country. I encourage each of you to let your congressmen and senators know the time is now.

Moving to the state level, recent developments in New Jersey appear to show a deal has finally been reached, and we would expect the state to proceed quickly towards adult use legalization. Connecticut, New York and Illinois also continue to discuss adult use legalization and, more recently, Maryland, Pennsylvania and Rhode Island had begun discussions on the issue.

I would like to add one more thing on this topic. As most of you know, our marketing team in Acreage developed an amazing public service announcement intended to bring awareness to the benefits of medical cannabis entitled, The Time is Now. We hope to debut the PSA during the Super Bowl. Unfortunately, CBS rejected it. While we gain tremendous support from PSA from across the country, it dawned on me, while I was in Davos, Switzerland for the World Economic Forum, just how far behind the U.S. is on the world stage with respect to the medicinal benefits of cannabis. Leading developed nations around the world, including Canada, Israel and Germany, have legalized cannabis in some form, and many others are discussing it, yet the U.S. Reg S speak to the detriment of our overall economic well-being, the creation of jobs and the 23 million veterans in this country, who have been left behind to live a life where the government prefers to prescribe highly addictive opioids for the treatment of pain and PTSD rather than try an all-natural, nonaddictive alternatives in cannabis. The encouraging news is the momentum at both the federal and state level continues to accelerate toward a positive outcome of cannabis legalization. The time is now. I absolutely know full legalization is on the horizon, and there is no better time to take part in this extraordinary period of transition.

With that, I will now turn the call over to George Allen, our company President.

George M. Allen
President

Thank you, Kevin. I'm pleased today to review with you the progress we're making, bringing our operations online and optimizing them to their fullest potential. We have massive expansion programs in each one of our markets. The acceleration we have experienced since our RTO in bringing assets online has been truly monumental, and we have only just begun.

I will talk for a few minutes about the operational progress we're making in the business along with 3 main pillars of our operations. They are retail distribution, branded products and form factory. I will give you developmental milestones that our investors can use to measure our progress in the coming quarters.

First, on retail. During the third -- fourth quarter, we opened 2 Botanist dispensaries, 1 in Buffalo and 1 in Worcester. We finished the year with 19 total dispensaries. On top of that, we have opened 5 dispensaries since the beginning of the year, 2 in New York, 1 in North Dakota and 2 in Ohio. We anticipate that by the end of this quarter, we will open 2 to 3 more, bringing our total for the quarter to 7 or 8 dispensaries, putting that squarely on pace for our target of opening between 30 to 40 for the year.

I will focus on a few key states this quarter, and I will start with Ohio. By the end of the first quarter, our partner on the ground in Ohio will have 3 of their 5 dispensaries open in Ohio, capturing enormous amount of local media attention as their store openings coincide with the opening of the program within that state. They plan to have all 5 stores opened by the summer. Store volumes within Ohio have substantially exceeded our expectations, and I am confident that we are well on our way to building a dominant footprint in that state.

In New York, our store volumes have been lighter than expected. The New York medical program is suffering from a litany of structural issues within the program itself. All across Florida -- I'm sorry, all across New York, the product selection is extremely weak and prices remain the highest in the country. Pricing has been a huge turnoff for many patients within the state, and we have a lot of work to bring them back from the black market, which is estimated to consume, in New York City alone, 77 tons of cannabis annually.

Our strategy to fix this is twofold. Number one, early in Q2, we will be bringing our own products to market at substantially reduced price points versus the wholesalers we are currently sourcing products from. And number two, we are working with the regulators in that state to allow for a much broader product offering, which we hope will include flower. Lastly, while we are discussing New York, I will say that we believe the probability of legalization is contained within the governor's budget due out later this month is approximately 50-50. If that effort fails, legalization is certainly not doomed, but will likely occur some point next year. If the initiative is however successful, we will be investing a lot more capital into that market to make preparations for what will undoubtedly become the second largest market in the country for legal marijuana.

Turning to New Jersey. Our Egg Harbor dispensary is experiencing a very strong ramp in store volumes. We have secured 2 other locations including a boardwalk location in Atlantic City and a location within the Philadelphia MSA. The AC location will have -- we will have online in Q2, and the third location we will expect to be online by the end of the year. We believe that New Jersey is well on track for adult use, and we believe it is highly likely that this program begins sometime early Q3 this year.

On Florida, we closed the Nature's Way license acquisition during the quarter, and we've been making preparations for our entry into the state. As Murph discussed, we have secured both our cultivation facility as well as 10 dispensaries, including a flagship location in Miami. Our strategy in the state, which already has 105 dispensaries, is to differentiate ourselves with products. We're going to do this in 2 ways. Number one, with flower. As Murph discussed, our cultivation facility will give us an advantage as -- a unique advantage in our ability to produce flower. And number 2, brands. Through our acquisition of Form Factory, we plan to bring nationwide brands to Florida that will only be available in our stores. This will bring an unprecedented level of variety to Floridians. We are aiming to launch our business in that market in the fall, and we are building a retail ground team there that we believe is exceptionally talented and familiar with that market.

Lastly, I want to cover Massachusetts. While our Worcester dispensary has been opened since December, we have been delayed in receiving our recreational approval with great frustration from the state. The transition to the CCC in Mass has been challenging to negotiate. We will open a minimum of 4 more dispensaries by the summer in Mass, but we now believe that it won't be until late Q2 until these stores receive recreational approval. We are confident, however, in the demand in the marketplace, and we are more confident than ever in our ability to capture that demand.

To recap, at the end of 2018, there were 3 Botanist dispensaries in operation. As we stand here today, there are now 8 Botanist dispensaries operating across 6 states, and we are just getting started. By the end of 2019, we expect to have 35 to 45 Botanist stores operational from new construction and an additional 10 to 20 remodels and relocations from converting our historical dispensaries.

I will now turn briefly to branded products. We are making progress bringing our internal house of brands' strategy to life. In the second quarter alone, we are launching 3 product families across 9 different states. In New Jersey, New York, Massachusetts and California, we'll be launching a broad suite of products underneath The Botanist brand. We expect to launch anywhere from 8 to 14 skews in each market. We expect The Botanist consumer products system-wide by the end of 2019.

In Massachusetts, New Jersey and California, we will be launching in Q2 our Live Resin project. This is our new premium concentrate brand, which we're now calling Live Resin project. The vision of branding the highest quality concentrates is at its core, and we look to capture the imagination and loyalty of the fastest-growing cannabis segment in vapes.

In Oregon and California, we'll be launching a brand-new product that Murph alluded to that has an enormous potential and a built-on IP that was acquired in the Form Factory acquisition. The product is the first non-Bay product to simulate the onset experience from vaping without the unpleasant experience of inhalation. Stay tuned for more incoming months as we are very excited about these product launches. Our branded product launches are reliant on our cultivation and manufacturing capacity. As such, I will spend a few minutes reviewing our capabilities.

In New York, our facility has been delayed in becoming operational due to both state approval as well as some internal construction challenges. We have a 100,000 square-foot facility with a tremendous amount of inventory that is currently waiting processing. We are extremely well positioned to bring an enormous amount of product to market very quickly at dramatically lower prices. The facility location in Syracuse provides us almost instant expansion potential to nearly 1 million -- I'm sorry, 0.25 million square feet, whereupon adult use gets passed in that state. In California, local permitting has caused delays in bringing our processing capability online, and we now believe that we will receive full approval there within the next 30 days. Our team has a large pipeline of tolling opportunities, in addition to the launch of our own branded products in that market.

In New Jersey, we will have our 100,000 square-foot greenhouse partially completed by mid-summer, by far the largest greenhouse in all of the Northeast. This will complement our existing indoor growth facility.

In Massachusetts, our 40,000 square-foot cultivation facility is currently in operation, and we are undergoing evaluation for our expansion options there.

In Michigan, we're in the process of building out our indoor growth processing facility in Flint, and we should have that done by later this summer. We will complement this with a large-scale outdoor greenhouse in Vassar, which will come online in the fourth quarter.

In Illinois, we are poised to expand our existing indoor growth facility by 80,000 square feet, along with plans to add an additional 40,000 square feet grow in terms of greenhouse.

In Florida, as Murph discussed, we are finalizing the terms of the acquisition of a large industrial property that we believe will allow us extremely swift entry into that market with a massive amount of canopy out of the gate.

In Ohio, the team has broken ground on the Tier 1 cultivation and processing facility that will be online by Q3.

I'm going to spend just a few minutes talking about Form Factory. We expect to close this transaction sometime within the next 30 to 40 days, but preparations are well underway for a nationwide deployment of our strategy. In addition to the dispensary and cultivation processing expansions, our operations team is laser-focused on rolling out Form Factory facilities against our national footprint.

We currently expect to have Form Factory capabilities in 7 states by the end of this year, including 2 facilities in California, 1 in Washington, Oregon, Michigan, New Jersey, Massachusetts and Florida. We could not be more excited about our differentiated Form Factory capabilities to facilitate rapid national launches of our own in-house as well as third-party brands.

With that, I'm going to turn it over to Glen Leibowitz, our CFO.

Glen S. Leibowitz
Chief Financial Officer

Thank you, George, and good morning, everyone. Last night, we reported fourth quarter revenue of $10.5 million, up 380% versus the comparable prior year period of $2.2 million. This increase was primarily a result of new dispensary openings and acquisitions associated with our roll-up.

Moving onto gross profit. Gross profit was $18.9 million. And gross profit, excluding fair value items during the quarter, was $4.4 million, up 431% versus the fourth quarter of 2017. This growth was driven primarily as a result of increased sales of product mix year-over-year. As a percentage of sales, gross margin, excluding fair value items, was 41.8%, a 410 basis point improvement versus the comparable quarter in 2017. This improvement was primarily driven by leveraging on our more efficient operations, our wholesale business coming online in Pennsylvania and a positive product mix.

Our fourth quarter EBITDA was a loss of $213.9 million. When excluding noncash items, such as fair market value adjustments and biological assets and derivatives, and nonrecurring items such as amounts associated with our reverse takeover transaction, our adjusted EBITDA was a loss of $7.1 million.

Turning to our per share amounts. For the fourth quarter, we incurred a loss per share of $2.63. However, when you exclude noncash items, such as fair market value adjustments and nonrecurring expense items associated with our reverse takeover transaction, our adjusted net loss per share was $0.13.

Before moving into the fourth quarter pro forma results, I would like to remind everyone how we define pro forma. Given the ramp-up phase we're going through, we believe our pro forma revenue and adjusted EBITDA results are helpful to analyze the performance of our business in the way management does.

The pro forma metrics include the underlying results of operations from entities we manage and also the timing of acquisitions made during the period presented occurring at the beginning of the quarter or the year. Please see our reconciliation of pro forma revenue and adjusted EBITDA and other non-IFRS measures in our detailed financial presentation on the investor portion of the Acreage website.

Moving on to fourth quarter pro forma results. We recorded pro forma revenue of $22.9 million and a pro forma adjusted EBITDA loss of $7.1 million. At this point in our history, there is no comparison of the pro forma results on a year-over-year basis. We will be able to provide pro forma year-over-year comparison beginning in the fiscal third quarter of 2019.

Looking at the full year 2018, reported revenue was $21.1 million, up 173% versus the full year 2017 reported revenue of $7.7 million. This increase was primarily driven by new dispensary openings and acquisitions. Additionally, our pro forma revenue for the full year 2018 was $77.2 million. Our gross profit was $25.4 million. And additionally, our gross profit, excluding fair value items, was $8.2 million, which is up 175% versus the previous year of $3 million.

Gross margin, excluding fair value items, for the full year of 2018 was 38.7%, a 30 basis point improvement versus the full year 2017. This improvement was primarily driven by the improved leverage of more efficient operations, our wholesale business coming online and favorable product sales mix.

Turning to EBITDA for the full year of 2018. We reported an EBITDA loss of $208.8 million. However, adjusted for one-time noncash, our adjusted EBITDA for the full year 2018 was a loss of only $19.4 million. And finally, our pro forma adjusted EBITDA loss for the full year of 2018 was $9.6 million. I'd like to point out that every state where retail operations had been operational for at least one year generated positive EBITDA on a pro forma adjusted basis for the full year of 2018.

Full year reported net loss per share was $3.30. However, adjusted noncash and nonrecurring items, our full year 2018 adjusted loss per share was only $0.45.

Moving to the balance sheet. We ended the year with a strong balance sheet with over $250 million of cash, cash equivalents and highly liquid investments on hand. During the year, we deployed $240 million in capital to expand our footprint with $202 million related to acquisitions and roll-ups of previous investments, $22 million related to capital expenditures and $15.1 million related to advances to entities we manage to help facilitate their buildouts. In the fourth quarter alone, the total spend was $67 million, of which $46 million was spent on acquisition and roll-ups, $14 million on capital expenditures and $7 million in advances to managed entities.

Before turning the call back over to Kevin, I'd like to briefly comment on fiscal 2019. Given the U.S. cannabis industry is still in its infancy and our business is quite literally changing daily, we will not issue formal financial targets at this time. It is extremely hard to predict what will happen next week, let alone next year, in the cannabis space. That said, I'd like to give some commentary on how we currently believe the year will progress.

Our assumptions for fiscal 2019 have not materially changed, except some increased investments in marketing, operations, finance and compliance capabilities. Two, we expect to have between 50 to 60 dispensaries opened by the end of the year. This implies 30 to 40 new dispensaries opening during 2019, and these openings will be more weighted to the second half of the year. Three, the Form Factory acquisition is planned to be revenue-accretive in 2019 and EBITDA-accretive in 2020.

Speaking about the quarterly cadence, we expect results to accelerate sequentially throughout the year, with the second half of 2019 having revenue and EBITDA contribution more heavily weighted than the first half. That said, we encourage investors to grade us on our progress towards our commitments to build out our existing footprint and acquire new footprint and assets to drive long-term value creation for our investors.

With that, I will turn it over to Kevin for closing comments.

Kevin P. Murphy
Chairman, Founder & CEO

Thank you, Glenn. We are positioning Acreage to be the leader in the U.S. cannabis industry. We remain extremely confident in the future of our business and our ability to execute on our long-term strategic plan. Our top priority is to continue delivering our commitments to create long-term value for our shareholders. In the near term, that entails building out our dispensary portfolio and increasing our cultivation processing infrastructure including Form Factory. We will continue to increase our penetration in existing states, where allowable, by statute and look for opportunities to increase our footprint via acquisitions in important states like Arizona, California, Colorado and Virginia.

As I close today's call, I would like to reiterate my optimism for our business and the industry as a whole. This is the moment in time we have all been waiting for. State-run cannabis businesses being recognized as legitimate enterprises. I believe this is the year it takes place. There is no better time to be in and a U.S. investor. Cannabis is the fastest-growing industry in the United States, and we are now all a part of it. That is why no Acreage management or our employees have sold a single share of stock. We believe in our future, as do more than 500 legacy investors, who joined us pre-RTO, and have only sold a fraction of their shares that have come off lockup in January.
Finally, I would like to thank all of our associates in a rapidly growing Acreage family for your hard work and dedication. Operator, you may now open the lines for Q&A.

Question and Answer

Operator

[Operator Instructions] And the first question comes from Graeme Kreindler with Eight Capital.

Graeme Kreindler
Eight Capital, Research Division

First question here. I just wanted to clarify. I think George mentioned on the call earlier about having 30 to 40 locations opened by the end of 2019, and then Glen mentioned 50 to 60. So is that the distinction there between Botanist-branded location? I just want to clarify the numbers here.

Kevin P. Murphy
Chairman, Founder & CEO

Yes, you got that exactly right.

Graeme Kreindler
Eight Capital, Research Division

Okay, right. Understood. And then moving on to Florida. With the 18 locations planned by the end of the year, can you provide any color about the rollout? I understood you have 10 locations already secured, but when we can expect the store openings to develop over the course of the year.

Kevin P. Murphy
Chairman, Founder & CEO

So we'll start opening stores in -- early in the third quarter, and we've locked down -- as I said, we locked down 10 locations. We're highly confident in our ability to deliver on the 18 this year.

Graeme Kreindler
Eight Capital, Research Division

Okay. And then moving to California now having a retail presence in the state and being vertically integrated there, how important is that retail footprint? And how deep is that expected to get in California over time?

Kevin P. Murphy
Chairman, Founder & CEO

So I'll start with that, and then maybe we can add some color from the team. Thanks, Graeme. So California is a fascinating market, by far the most mature market that we are in. What I will say is we do think about retail in California as being exception-based. Our entry into that market is going to be based on not the availability of dispensaries, but the availability of dispensaries in markets where we think there's a material barrier to entry and where we think we can add something new to what's already existing in the marketplace. I'm very optimistic about the location that we've chosen here in this morning's announcement. But in addition to that, I think we're going to continue to look for other locations in the state. That won't be the sole outlet for our products unlike a state like Florida, where vertical integration is sort of the norm. In that market, it's much more distributed. We're going to be looking for broad-based distribution for our product launches in Q2. That said, we'll use our dispensary in the -- as the ability to learn in the market about products and the customers that are specific to that market. Is that helpful?

Graeme Kreindler
Eight Capital, Research Division

Okay. I'll -- yes, that works. I'll jump back in the queue here.

Operator

And the next question comes from Matt Bottomley with Canaccord Genuity.

Matt Bottomley
Canaccord Genuity Limited, Research Division

I appreciate the additional color on a lot of the stakes in your opening remarks. It look likes in the fourth quarter, you guys closed assets and acquisitions in about 6 states, and you have touched on a number of them. Just wondering what we can expect from a few others that are in that grouping, particularly Michigan, given that there's been some regulatory changes and how that's going to be overseen as well as the Pennsylvania market. Any other color on how you're expecting those to roll out in the next couple of quarters?

Kevin P. Murphy
Chairman, Founder & CEO

So what we -- I could start with Michigan. We're very excited about Michigan. And that state -- as you know, the state has opened it up for licensing for outside parties. We're in the process there, in the queue, but we're very optimistic about our process there. In anticipation of that and in anticipation with the most successful medical market converting to adult use, we are rapidly expanding in that state. So we are actively acquiring real estate in that market as well as bolstering our cultivation and processing capabilities to bring product online. We expect that the second half of this year is going to be very active in that state. Can you repeat the question, Matt, on Pennsylvania? I just want to make sure I got that right.

Matt Bottomley
Canaccord Genuity Limited, Research Division

Yes. No, nothing specific. Just wondering if you can give any more color on how the traction's working in that state and what we can expect into fiscal 2019 with respect to how you're going to carve out position there?

Kevin P. Murphy
Chairman, Founder & CEO

In Pennsylvania, we actually have and had one of the first grow facilities to come online. We have been noted in that state for having the highest quality flower with also the highest THC count, frankly, ever recorded in the U.S. That said, we will look aggressively to expand our retail footprint there in that state, as we -- we'll always try to be vertically integrated.

Matt Bottomley
Canaccord Genuity Limited, Research Division

Okay, great. Maybe just moving to your pro forma bridges. So on the EBITDA bridge, you have a New England adjustment for about $2.6 million. So I know you have a lot of exposure in various states there. Is it fair to say that most or all are EBITDA-positive at the operational level? Or is that 1 or 2 states driving that number?

Glen S. Leibowitz
Chief Financial Officer

Hey, Matt. This is Glen. Yes, good observation. Yes, that is our dispensary locations, particularly in Connecticut, that are driving those. And those are -- as I stated in my prepared comments, those are all positive EBITDA for full year.

Matt Bottomley
Canaccord Genuity Limited, Research Division

Okay, great. And just another housekeeping item on the IFRS versus pro forma. Are there any states that where -- I think we touched on this a bit last quarter, but are there any states that are expected to flip over in 2019, where you'll be able to consolidate that into the statements as opposed to having -- have it as an adjustment?

Glen S. Leibowitz
Chief Financial Officer

Yes. So when you see the transition on the bridge, as the acquisitions have closed, they will definitely migrate into the financial statements. So that would be the Connecticut, Thames Valley is going to migrate into the financials as well as other locations. So as we close deals, you can anticipate New Jersey because the license is anticipated to convert over 1 year from our relationships. So I expect the New Jersey to convert into the financials is a point to consider.

Matt Bottomley
Canaccord Genuity Limited, Research Division

Right. And then just on the other side, are there not states where you were not able to consolidate yet, where you're waiting for regulatory changes? And if so, are those expected to progress as well?

Glen S. Leibowitz
Chief Financial Officer

George is probably in position...

George M. Allen
President

So I think probably -- Ohio probably counts in that, where we haven't closed yet on the final acquisition of that. And that's subject to regulatory approval, although there's a mechanism in the regs to allow that. I think, Matt, why don't we get you back with a more fulsome answer? We want to make we're canvassing the entire portfolio in all 19 states.

Matt Bottomley
Canaccord Genuity Limited, Research Division

Yes, not a problem. And then just very last question for me. Just the fair value adjustment on the derivative liabilities, obviously, this isn't cash-related or related to your fundamentals. But just given the high quantum that was recorded in the period, can you maybe just give a quick, 20- or 30-second overview of exactly what that is? And I'll leave it there.

Glen S. Leibowitz
Chief Financial Officer

Sure. Yes, I'll do my best to educate on IFRS accounting as it relates to these derivatives. So we issued debt security in 2017, which had warrants attached to it. So not only are the warrants having to be remeasured upon the RTO price of $25, but also the convertible note, the optimality of that conversion also has to be marked to market at the time of the RTO. So you have both instruments, the convertible note and warrants, having to step up in value. So we had done a third-party evaluation process as a nonpublic company. But once you have a public mark, we had to recognize the fair value all the way up to the public share price of $25. And the split there is roughly $133 million on the debt and then $22 million on the warrants gets you -- that gets that $155 million noncash charge related to fair market value adjustment on derivatives.

Operator

And the next question comes from Jesse Pytlak with Cormark.

Jesse Pytlak
Cormark Securities Inc., Research Division

Just to look at Massachusetts for a moment here. I think in your prepared comments, you mentioned you have some confidence in adult use licensing in Q2 for the Worcester location. I'm just kind of wondering, what kind of gives you confidence that that's probably the timing for that licensing?

George M. Allen

President

Well, I think the timing for, quite candidly, is well overdue, and we have very, very strong connectivity to that state. And I think -- and that's where we actually have the clarity on the insights from the regulatory standpoint. As noted, the beloved governor of Massachusetts once was Governor Bill Weld. And again, we've got great connectivity to not only the state of Massachusetts, which gives us that comfort, but also great connectivity on a national level.

Kevin P. Murphy
Chairman, Founder & CEO

And I think, Jesse, it's also fair to say that we've been disappointed about this and didn't want to give our investors anything other than something that we felt was a conservative number to hit. So we feel highly confident in our abilities.

Jesse Pytlak
Cormark Securities Inc., Research Division

All right. That's great. And then just with your regular commentary. You'd speak quite a bit about M&A and your M&A pipeline. Just kind of curious, like what's your appetite for some of the larger-platform opportunities that might exist out there that some your competitors seem to be going after versus some of the smaller ones that we -- like what we saw out of you this morning?

Kevin P. Murphy
Chairman, Founder & CEO

Well, I think it's a good question, Jesse. And I think that given that we are the largest in the U.S., you're going to see a number of other MSOs coming together to try to be competitive in that race. But we are very, very active with a significant M&A pipeline, and we evaluate every deal that comes across the transom. I'd also like to note that we've done significant due diligence on many potential deals including most of the large private and public MSOs that have been acquired recently for the past because we do not believe that the deal makes sense for our long-term shareholder value-creation perspective. We could easily make acquisition announcements on LOIs to get on the scorecard, but we owed a much higher standard, where only -- where we really only announce deals that we have definitive agreements on.
So I think at the end of the day, we remain active. You'll see a lot more from us in the upcoming weeks. But the key to our story is, we'll only put our investors' dollars to work on an acquisition, we believe, our shareholders will be rewarded longer term for, frankly, not just for a story today or tomorrow. So I think it's a thoughtful approach to our growth. And that's what's gotten us to 19 states, and that's what I believe will have us in pole position going forward.

Jesse Pytlak
Cormark Securities Inc., Research Division

Okay, great. And then just one last one from me. Switching gears to Form Factory. Can you just remind us just kind of the breadths of relationships they have with third-party brands on the co-packing side of the business and currently how that's been trending, and just any type of contractual ability to take some of those other brands into your other markets?

Kevin P. Murphy
Chairman, Founder & CEO

Yes. I'll speak to that. Thanks, Jess. What I'll say is, first of all, we're really delighted to have the Form Factory team join us. They're a fantastic team, and they're extremely well plugged in with the pipeline of West Coast brands. They're moving their business into California and have had discussions with pretty much every Tier 1 brand that exists in California. But more exciting than that, I will say, is the dialogue that the combination of our announcement with Form Factory has brought to bear with the global CPG industry. And I will say we are having dialogues with a broad selection of players that are very actively interested in getting in the space. And I'm looking forward to delivering announcements to our shareholders in the future that's going to demonstrate that.

Operator

And the next question comes from Russell Stanley with Beacon Securities.

Russell Stanley
Beacon Securities Limited, Research Division

Thanks for the update in particular on Florida. I'm just wondering, you mentioned, of course, products being important there in the -- there's been a lot of coverage, of course, of the pending legalization of smokable products. There's been less, I think, on the edibles front and understanding that they're technically legal, but the regs still actually have to be written. So from your perspective, how much of a priority are edibles at this point?

Glen S. Leibowitz
Chief Financial Officer

Look, when I started, I would say, look, we're very actively thinking that we're very actively focused on bringing a lot of diversity in the market, and much of Form Factory's pipelines are edible derivatives. So I think our view there is that, that market is going to open up more broadly with edibles. And we're building capabilities in that market that are going to allow us to bring a lot of diversity into the dispensary. And as you know, it's vertically integrated in that state. So you have to produce every single product that you sell in your stores. And that's -- being -- sort of being not the first to market at that state, our view is we're going to have to differentiate ourselves with product selection. And that's our plan.

Russell Stanley
Beacon Securities Limited, Research Division

Okay. And just moving onto California, and you talked about looking for additional retail opportunities. I think given the number of municipalities that actually allow locations, how much of a priority, if at all, is delivery in California for you?

Glen S. Leibowitz
Chief Financial Officer

So we're watching delivery evolve in California. I do think it's going to be a really interesting segment. Direct brand to consumer in that state, I think, is a really interesting play to watch and we're spending a lot of time on. I would say that there's a handful of assets out there that we think are -- have got the model right, and we're watching them ramp. I will say that I think there's a tremendous amount of opportunity to get the consumer experience right, and California's probably the place that's going to be the first to market with a successful model. So that's one of the reasons why we're jumping into California retail.

Russell Stanley
Beacon Securities Limited, Research Division

And just one last question for me. On Massachusetts, understanding the delays in -- at the state level, just wondering what your experience has been thus far on just the foot traffic. Are you happy with the volumes that you're seeing in the stores that you do have open?

Kevin P. Murphy
Chairman, Founder & CEO

So from a medical perspective, California -- I'm sorry, from a medical perspective, Massachusetts, it's like every other medical state that experiences a conversion to adult use. The patient counts declined. I will say that we're doing better by far than our fair share with our medical dispensary in that state, but there's just no substitute for the adult use traffic flows. And the adult use traffic flows in that state are unbelievably healthy. And even if you look at -- we're very confident in where our locations are and the consumer choice that exists in those locations. We're going to have no problem delivering extremely healthy performance once we get those stores open.

Operator

And the next question comes from Brett Hundley with Seaport Global.

Luke Michael Perda
Seaport Global Securities LLC, Research Division

This is Luke Perda on for Brett Hundley. First question is, it looks like you had better revenue per store relative to the third quarter, and I'm hoping you can provide some color around what's driving that better per store revenue, and ultimately where that average can ultimately level out over time.

Glen S. Leibowitz
Chief Financial Officer

This is Glen, Brett (sic) [Luke]. Thanks for the question. So just keep in mind, from a financial statement perspective, the entities that we're consolidating as -- from a revenue perspective, would've been Oregon and then a couple of the openings in New York, the Connecticut as well. So the opportunity there is Oregon is slightly flat with Connecticut has been growing. So that's the story sort of from the 2018 perspective. On a go-forward basis, as we open more stores in different locations, we obviously anticipate that, that volume is going to increase and sales are going to grow. So let's just stay tuned on a per store basis.

Luke Michael Perda
Seaport Global Securities LLC, Research Division

Got it. And one more here. How much leverage is available on the G&A line going forward? As you ramp up the store base, does the company have a realistic target for where overall expenses should shake out?

Glen S. Leibowitz
Chief Financial Officer

Generally, from a model perspective, we look to roughly about 25% of sales to be in G&A. So that's how we look at our business, and that's -- i mean, that's still evolving. Obviously, we're in early stages in 2018 and early 2019. But on balance, that's where we plan to be as a percentage of sales.

Operator

And the next question is a follow-up from Graeme Kreindler with Eight Capital.

Graeme Kreindler
Eight Capital, Research Division

Just a quick follow-up here. The facility sizes that were mentioned earlier in the call on the cultivation side, I just want to confirm, is that the total building size? Or is that canopy size?

Kevin P. Murphy
Chairman, Founder & CEO

So most of what we quote is total building size, and we can go through -- we've actually published in the past, I think, at our analyst conference earlier this year, we published canopy size. So it's available and we can get it to you.

Graeme Kreindler
Eight Capital, Research Division

Sure, okay. I'll follow up offline on that. And just one more thing here. In terms of the banking reform that was discussed earlier on the call, do have you any sort of internal projections on how that could affect customer spend or basket size at the store level?

Kevin P. Murphy
Chairman, Founder & CEO

I think it will certainly have an effect on the overall industry. And I think that whether you're a Republican or a Democrat, this is something that you want, safe baking and, frankly, predictable banking. Nobody really needs to have cash outside of the system. But when you can start to use credit cards -- and it's really more mainstream. I think that certainly begets more positive momentum socially overall here in the U.S. We've historically lagged all the other countries as it relates to cannabis reform, but this is the first step we believe. The second step would obviously be the STATES Act, where it would ultimately make cannabis federally legal in the states that are currently engaging in either a medical or recreational markets. So we're really pushing very, very hard for the STATES Act. And I believe that, that takes place certainly sometime this year, if not very, very early next year. So I think it certainly helps a great deal, and it also makes it a lot easier for some of the smaller and midsized players to do business. We currently have banking. Others do not. But I think it certainly levels the playing field and, frankly, we welcome and embrace that.

Glen S. Leibowitz
Chief Financial Officer

Hey, Graeme, I'll only add one thing. And I think you're onto something that Kevin alluded to as well. I think you're definitely onto something. In some of our markets, there are cash-based markets where we take an ATM -- put an ATM in the store and people pay. And in those markets, you're clearly making a decision about how much you want to spend before you're at the checkout counter. And I think there's obviously -- there's some limitations in that model to getting people to add to the basket. So if I had to guess -- and this is just something we as, an industry, are going to learn, but if I had to guess, basket sizes will increase when people can use credit cards.

Operator
And this concludes the question-and-answer session as well as the conference call. Thank you for attending today's presentation. You may now disconnect your lines.