Acreage Holdings

First Quarter 2020 Earnings

June 26, 2020 at 8:30 a.m. Eastern

CORPORATE PARTICIPANTS

Steve West - *Vice President Investor Relations*

Bill Van Faasen - *Interim Chief Executive Officer*

Glen Leibowitz - *Chief Financial Officer*

PRESENTATION

Operator
Good day and welcome to the Acreage Holdings First Quarter 2020 Earnings conference call. All participants will be in listen-only mode. Should you need assistance, please signal a conference specialist by 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 press star then two. Please note today's event is being recorded.

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

Steve West
Good morning, everyone, and welcome to the Acreage Holdings First Quarter conference call. Joining me today are Bill Van Faasen, our Interim Chief Executive Officer, and Glen Leibowitz, our Chief Financial Officer. This call is being recorded and will be archived on our Investor Relations website at investors.acreageholdings.com.

Today's call contains forward-looking statements subject to various risks, uncertainties, and other factors that could cause our actual results to differ materially from those forward-looking statements. Any such statements should be taken in conjunction with cautionary statements in our press release and risk factor discussions in our public filings found on SEDAR and EDGAR as well as our investor website. Any forward-looking statements speak only as of today, and we assume no obligation to update them.

Now, for your future scheduling purposes, our second quarter earnings release is tentatively scheduled to be issued after the market close on August 11th, and our earnings call is tentatively scheduled for the morning of August 12, 2020.

I will now turn the call over to Bill.

Bill Van Faasen
Thank you, Steve, and good morning, everyone. Before starting my prepared remarks, I would like to acknowledge the recent leadership change at Acreage. Kevin Murphy, as you know, is a visionary pioneer for operating legal cannabis businesses and assembled one of the largest portfolios of cannabis licenses in the US, which he ultimately operationalized and took public in 2018. Kevin commented to me privately and to the public many times that he knew one day the company would outgrow him and he would gladly step aside for someone who could take Acreage to the next level. With the recent announcement of the amended agreement with Canopy Growth, we all agreed the time was right to make the change. I would like to publicly thank Kevin for his tireless work ethic and eternal optimism in creating one of the leading legal cannabis companies, not only in the US, but the world.

Having had the privilege of serving on the Board of Directors for Acreage since 2018, I am acutely aware of the issues the company and the industry face today, and I am honored to step in as CEO on an interim basis until the search committee finds a permanent replacement. With that said, I look forward to meeting and talking to our investors and to analysts as well as our employees across the country doing such great work for our patients and customers.

Now, moving on to Acreage's first quarter results. On our last earnings call, we recapped the most challenging year the cannabis industry has ever faced, that is until 2020, which challenged the entire planet with one of the worst pandemics in recent history and took an enormous toll on the entire world in terms of loss of life and economic turmoil. For Acreage, this meant the last nearly four months have been fraught with quarantine, social distancing, and significantly modified operational standards in our dispensaries and cultivation and processing facilities.

Everyone at Acreage stepped up without question and adapted to the new norm while continuing to serve our countless medical patients and customers in a safe and respectful manner. For instance, in New York, arguably the most affected state in the US, we quickly adapted our dispensary operations with the help of state regulators who also quickly adapted the regulations to allow for online ordering, curbside pickup, and at-home delivery all in the span of a few days. We were able to do the same in Florida and all throughout our entire network of dispensaries. Our operations teams working closely with our chief medical officer, government affairs, and compliance and state regulators across the country truly did some amazing work to keep our dispensaries open.

Because virtually every state with legal cannabis programs designated cannabis as essential, the industry was able to continue providing essential products to those in need. To that end, we have experienced delays in some states with respect to awarding new licenses and approvals for zoning and construction such as in Illinois, the transfer of license ownership in states such as New Jersey, Michigan, and likely additional delays to adult-use legalization in states, including Missouri, New York, and Florida.

As I look back on the first half of 2020, the cannabis industry was presented yet another uncontrollable challenge and once again proved its resiliency to quickly adapt to an ever changing regulatory and capital market landscape. I, like so many of you, believe in the staying power of the US cannabis industry and continue to be extremely optimistic about its long-term outlook.

Moving on to our first quarter highlights, combined with our partner in New Jersey, we opened 2 Botanist dispensaries, one each in Florida and New Jersey, and we ended the first quarter with 29 operational dispensaries. Sales at dispensaries opened for more than a year once again showed tremendous growth as our pro forma same-store sales comparisons were up more than 50% driven primarily by transaction growth indicating the core health of our retail business remains very strong. During the quarter and throughout the second quarter, we made significant changes to our operating procedures.

During the first quarter, we continued the rollout of our house of brands across our national footprint. We launched our Botanist branded flower in Illinois, which is receiving very strong consumer reviews. In fact, our Botanist flower tested at 38.7% THC which we believe is the highest THC content flower in the state. Additionally, we launched Botanist branded vape cartridges in all our New York dispensaries.

Greenleaf, our partner in Ohio, began selling Botanist branded flower and edibles in all its dispensaries and the reception by consumers has thus far surpassed our expectations. As is the case in Florida, Pennsylvania, and Illinois we believe we have the highest tested THC content for flower in Ohio. While THC content is not the only factor in determining high-quality flower, we believe it is a strong indicator, and importantly, we believe this is a testament to the amazing capabilities of our Green Team to grow the highest quality flower in every state in which we operate.

We continue to make progress on our *Tweed* launch, as we announced on our last call, *Tweed* branded flowers being sold in Illinois, Maine, Massachusetts, and Oregon. We are beginning the initial phases of launching additional strains throughout these states and later in the year we continue to anticipate launching additional form factors under the *Tweed* name as well as launching *Tweed* into additional states.

We are continuing to make progress in building our wholesale business at an accelerated pace. We ended the first quarter with a reported wholesale revenue mix of 27% which was a significant increase sequentially from our fourth quarter 2019 mix at about 23%. We still have tremendous runway to continue building our wholesale business as we and our partners continue to ramp our efforts in New York, New Jersey, and Ohio later this year as well as expansion plans for our more mature wholesale businesses in Pennsylvania and Illinois.

I would now like to touch on our revised operating strategy to focus on our core and profitable operations. As I discussed in my opening remarks, cannabis continues to be a very dynamic operating environment. This is especially true with respect to capital markets. Long gone are the days of planting flags in as many states as possible with the promise of earning sometime in the future. It is clear from a capital raising standpoint and especially with respect to public cannabis stocks, that investors are demanding profits and margin improvements now. The public markets grow more impatient with each passing day and are clearly rewarding US cannabis operators with concentrated operations that are delivering profits either now or in the very near future.

As such, we pivoted our operating strategy to focus on operations and geographies that offer the quickest path to profitability and long-term upside. This was already contemplated in our 2020 planning process and honestly, the onset of the pandemic which led to the collapse of capital markets accelerated our actions in this regard. We believe this new level of focus on profitable operations will greatly accelerate improvements in our margins and returns, and ultimately, our path to profitability. With this in mind, we took steps to shut down unprofitable operations across our footprint and made significant headcount and spending reductions across the entire P&L. We are currently in active discussions to divest some of our assets which will solidify our core operations and strengthen our balance sheet.

As you would imagine, we will remain focused on New England and the Mid-Atlantic corridor, where we command the dominant position over our peers, and our shareholders stand to benefit the most once states like New Jersey, New York, Connecticut, Maine, and possibly Pennsylvania legalize adult-use in the near to medium term. Divesting unprofitable operations is absolutely the right thing to do to maximize shareholder value. Keep in mind this will negatively impact our revenue shorter term, but we believe the sacrifice to the top line will be more than offset by improved margins and returns in 2020 and beyond.

Before turning the call over to Glen, I would like to touch briefly on the amended agreement with Canopy we announced on Thursday. I will not recap all the details, however, I do want to discuss a couple of items with you.

First, while we had nearly 100% total shareholder support for the original Canopy arrangement, the main pushback we heard from some investors was they believed we kept our upside with a fixed exchange ratio to Canopy Growth's share price upon the triggering event. We felt this new arrangement was the best of both worlds for our shareholders and Acreage.

Assuming Acreage shareholders approve the amended agreement, the new share structure would imply an approximately 137% premium on their investment versus Thursday's close. While this is a lower implied value versus the existing deal today, we can envision a scenario where the floating shares could be worth much more than the fixed shares leading to potentially significant more upside as the floating shares will likely appreciate along with US cannabis assets upon federal permissibility. We believe there is significant upside to the floating shares for shareholders upon the triggering event.

The second issue, are the constant rumors that Canopy wanted out of the deal despite the many public appearances and assurances to the contrary by both Canopy and Acreage. With this renewed focus and the tension between the two companies, I think we can finally put these baseless rumors to rest.

That concludes my prepared remarks. I will now turn the call over to Glen for his financial discussion.

Glen Leibowitz
Thank you, Bill, and good morning everyone. Last night, we reported our first quarter 2020 results. Our reported revenue was $24.2 million or an increase of 88% versus the comparable period in 2019. This increase was primarily driven by the retail dispensary and wholesale business growth, and on a sequential basis, our reported revenues grew 15% versus the fourth quarter of 2019.

As Bill mentioned, our pro forma same-store sale comparisons for the first quarter were more than 50% and driven predominantly by transaction growth across our system. Gross profit was $10 million which increased 87% versus the comparable period in 2019 which was driven primarily by our year-over-year revenue growth. Gross margin was 41.1% which was generally in line with the gross margin on a year-over-year basis and a 400 basis point improvement versus our fourth quarter gross margin of 37.1%.

Moving to our adjusted and pro forma results, our first quarter managed revenue was $37.6 million, up 82% versus the comparable year ago period, and our pro forma revenue was also $37.6 million which was an increase of 65% versus the year ago comparable period. Note, with no current pending M&A transactions, our pro forma and managed revenue are the same. These increases were primarily the result of new dispensary growth, same-store sales growth at existing dispensaries, and an acceleration in the growth of our wholesale business. Geographically, our revenue growth was driven primarily by our Midwest and Mid-Atlantic regions.

Our adjusted EBITDA was a loss of $12.4 million, and our pro forma adjusted EBITDA was a loss of $11.1 million. I am pleased to note our pro forma adjusted EBITDA improved slightly versus the comparable year ago period and improved by more than $7 million or about 40% on a sequential basis versus the fourth quarter.

Moving on to the balance sheet, we entered the quarter with approximately $14 million with cash on hand, and during the quarter we deployed approximately $12 million in cash to some of our MSA Partners. Additionally, we invested about $8 million in capex to build out a dispensary and cultivation footprint.

Before I turn the call back over to Bill for his concluding remarks, I would like to give some color on how we anticipate our second quarter finishing. While it’s not our policy to offer guidance, especially quarterly guidance, given that our second quarter ends in just a few days and we have subsequently announced and made some material changes to our operating plan, I thought it will be helpful to provide some color on a couple of key financial metrics. Please note, we do not plan to offer quarterly insights again in the future.

For the second quarter, we currently anticipate GAAP reported revenues to be flat versus the first quarter. This sequential deceleration is due to closure and divestiture of some unprofitable operations which we previously announced. Additionally, we experienced some initial slowing of sales after the pantry loading we saw at the end of the first quarter related to the COVID-19 quarantine.

Additionally, we anticipate reported GAAP gross margin to be in the range of about 41% to 45%. We believe this is a clear indicator of the continued success of our efforts to grow our wholesale business at an accelerated pace as well as benefits of cost saving initiatives we announced last quarter and shuttering underperforming operations. We expect the improvements in margins and profits to continue longer term. We will give more details when we report our second quarter results in August, but the early indications are showing very positive signs.

That concludes my prepared remarks. I will now turn the call back over to Bill for his concluding comments.

Bill Van Faasen
Thanks, Glen. Before opening the call for questions, I wanted to acknowledge one more item with respect to the amended Canopy arrangement. Given the existing options Acreage in the current capital markets environment, I firmly believe as does our board of directors, this amended agreement is by far the best and most viable option for Acreage, and I strongly encourage all shareholders to vote for the amended agreement at the special shareholder meeting.

Finally, I would like to thank our Acreage associates across the nation for their hard work and unwavering dedication to deliver cannabis to those who need it. With that, I will have the operator open the line for questions.

QUESTIONS AND ANSWERS

Operator
Thank you. We will now begin the question-and-answer session. To ask a question, you may press the star then one on your touchtone phone. If you are using a speakerphone we ask that you please pick up your handset before pressing the keys. To withdraw your question, please press the star then two. Today's first question comes from Aaron Gray with Alliance. Please go ahead.

Aaron Gray
Hi, good morning, and thanks for the questions. First one for me, just want to talk about the Massachusetts market. Thanks for the call that you gave in terms of preliminary 2Q numbers, but I was curious as to that market specifically on the wholesale side what you are seeing there especially as curbside pickup has picked back up whether or not you have seen that kind of trickle back into the wholesale market or some commentary on what you are seeing specifically there. Thank you.

Bill Van Faasen
Glen, do you want to answer that?

Glen Leibowitz
Yes. Aaron, thanks for the question. I can give some context. So, in Massachusetts for us at the moment, we only have the medical dispensary that's open in Worcester. We have been in the application stage to get that to be adult-use. For us, actually, it's been business as usual. We're obviously respectful of the COVID-19 procedures for our patients in that location. So, we are seeing some modest increase as that location continues to stay open and as we see in the normal trend, the longer the stores are open the higher the revenue seems to trend upward.

As far as wholesale, we are seeing some startups again in the wholesale operations. There was a bit of a pause in March and April as a result of COVID-19, but as we have more clarity into the change from an adult-use perspective from the state, we are starting to see that pick up and our phone is ringing once again.

So, I would say you will see maybe consistent with what you have seen in Q1 as far as wholesale sales in Massachusetts, and then our expectation over the next couple of months is to be on the docket from the Cannabis Control Commission. Hopefully, we can get adult-use in the couple of stores that we have been application pending. So, those are on the horizon hopefully for us, and as a result, you'll see our wholesale sales be more focused on our own store to make sure we have adequate supply.

Bill Van Faasen

Aaron, this is Bill. In fact, I think the commission is scheduled to review the balance of our dispensaries in Mass this coming July, next month.

Aaron Gray
Okay, great. Thanks for that color. That's super helpful. Just a second one from me, I know you mentioned a lot of same-store sales increase was driven by transactions versus ticket. It looks like ticket at a $100 per average check was roughly in line a little bit up since the $96 that we saw last year. I was just curious to see what you have seen since COVID in terms of consumption trends for the consumer. Have you seen an increase in average ticket, and if there is any other kind of commentary you could offer in terms of consumer trends that you have seen specifically on since COVID in terms of purchasing habits? That will be helpful. Thank you.

Glen Leibowitz
Sure. I can take that one, Bill. Yes, as we mentioned, it's actually between the medical and adult-use. Same-store comps are roughly about the same on the 50%. Adult-use is slightly higher about 52% versus Q1 '19. What we are seeing as far as trends you saw the slight uptick on the ticket per transaction as well as ticket volumes in those particular stores, and it seems to be a natural trend for us. The longer the store is open, the more awareness that's out in the marketplace, especially as it relates to some of our products having, I think Bill had mentioned it, some of the products have a very high THC content and folks do seek that out, particularly in the certain states where they know that high THC content is available.

So, we are seeing those trends. To be candid, there has not really been a specific product differentiator throughout any of our markets. They all seem to be growing in line. Obviously, the flower seems to be doing well as expected as we launched our Florida location. It's a flower-only that seems to be very welcomed addition to the marketplace. Again, that's a high THC content flower. So, that's sought after in that state. So, generally, I think it's business as usual with growth as long as the stores continue to stay open and just create more customer awareness.

Aaron Gray
Alright, great. Thanks. I will jump back into queue.

Glen Leibowitz
Sure.

Operator
Our next question today comes from Vivien Azer with Cowen. Please go ahead.

Vivien Azer
Hi, thank you. Good morning. Glen, I really appreciate the color on the second quarter. I think that's really helpful given the COVID disruption plus the incremental disruption to your business from some of the necessary decisions that you guys are making.

As I look at consensus estimates though, it seems like there could be a mismatch in terms of external expectations for the back half. Is the Street generally looking for 20% to 30% quarter-over-quarter growth for the remainder of the year after 2Q? Just help us, and I am sure you are not going to specific guidance, so that's not what I am asking for here in terms of the back half, but how should we think about the curve of revenue growth? Really shouldn't it be at a minimum partial overhang on a rolling 4Q basis from those shuttered stores? Thanks.

Glen Leibowitz

Yes, thanks, Vivien for the question. So, there is going to be some expense drag as it relates to some of the stores that we closed and then to the extent that we can transfer those license obviously, those costs will go away. So, we are actively looking and we have been in active discussions on a significant number of those non-core states that we look to divest from. So, that's going to be an opportunity obviously from an operational P&L savings.

As you look at sales growth, what I would focus on is certain assets which we plan to bring online such as our Illinois cultivation from a wholesale perspective. There's a Chicago dispensary that we are targeting in Q4 and then another New Jersey location potentially. So, there is a couple of assets that are going to be available to us in the back half of 2020.

So, from a modeling perspective, I would be relatively, as I mentioned in my comments, relatively flat, but that's showing growth in the existing platform as we divest from these others locations that had been generating revenue. So, that's actually a positive that those same-store sales, as we mentioned, are increasing. Then, with the addition of a couple of more assets in the back half of the year is where we will see the net growth in the business.

Vivien Azer
Got it. That's helpful. Thank you very much for that color. Then, just my follow-up question is on your view of the state level regulatory environment, my sense is that you guys are perhaps a little bit more cautious than some of your peers. I think there has generally been a growing chorus of operators that are increasingly a little bit constructive on state level regulatory change because of economic disruption at the state level and the need for job creation. So, just help us think through where some of that caution is coming from. Thanks.

Glen Leibowitz
Bill, do you want to take that?

Bill Van Faasen
Well, Vivian, this is Bill. I think, candidly, as a company we have probably been guilty, in fact, we have been guilty of being too aggressive in the past about assumptions with regard to regulatory actions with regard to state openings, etc. We are dedicated, going forward, to building plans and expectations that are achievable. So, our assumptions about adult-use in New York, New Jersey, approvals in Mass and so forth are fairly conservative, and I think prospectively we would rather have it that way.

Vivien Azer
No, I appreciate that. I like that approach. Thanks, Bill. Thanks, everybody.

Operator
Our next question comes from Graeme Kreindler with Eight Capital. Please go ahead.

Graeme Kreindler
Hi, good morning, and thank you for taking my questions. I just wanted to start off with the housekeeping matter. With respect to the commentary into Q2 and the locations that were shuttered either permanently or temporarily, are you seeing the effects of that in the pro forma bridge as well, or is all that just strictly within the GAAP reported revenue figure? Thanks.

Glen Leibowitz
Thanks for the question, Graeme. The pro forma items, which historically were Nevada and Rhode Island, we publicly announced that those transactions are now ceased. So, those numbers are no longer presented in the bridge of GAAP financials to the pro formas. As it relates to the managed entities,

actually all of the entities that we manage were not impacted by the shutting of the locations; it's all the owned assets that we had such as publicly announced Maryland and North Dakota. Those were all assets that we owned, which we have closed them currently and then if there is expectation or opportunity to liquidate or divest from those assets we certainly would. So, those will probably come out of the GAAP numbers I think to answer your question.

Graeme Kreindler
Okay, yes. Thank you for the clarification. Then, as a follow-up I guess bridging off your comments about potentially divesting some licenses. Looking at the cash balance at the end of the quarter, I think it's about close to $35 million, about two-thirds, one-third restricted, non-restricted. You also have or expected to get incremental financing coming as part of the amended terms with Canopy, that's going to be earmarked strictly for hemp.

So, I was wondering if you could please provide some color regarding what the plans are to finance the THC business for the remainder of the year. I don't know if you can disclose anything specific in terms of plans for capex, but based on thinning down and refocusing the operations, do you see a need for incremental financing? Are you looking at anything beyond the divestiture of just those licenses? Thank you.

Glen Leibowitz
Yes, thanks for the question, Graeme. So, it's a concert of things which keep me quite busy during the daytime. We have licensed divestitures which we plan to generate cash. We have publicly announced a couple of bridge loans that one is a one-year term convertible note, and then one is a four-month piece of paper. So, we are actively looking to refinance those pieces of paper and set us up on the THC side for a longer-dated financing structure. So, yes, we are actively trying to make sure that we have got the right capital for the business over the next year and a half.

The capex need, just as a high level, we're working on building out, as I mentioned, the Chicago dispensary, this New Jersey dispensary, the third one in the state, and then finishing out the cultivation in Illinois. So, those are our major focus items for 2020 as far as capex needs are, and that number is somewhere in the $25 million neighborhood.

Bill Van Faasen
So, Graeme, this is Bill. I would just add that some of the asset sales that Glen references, although we can't be specific about them right now, produce fairly sizable amounts for us. To the extent we've already announced North Dakota and others pretty small, there are other opportunities that produce sizeable amounts.

Graeme Kreindler
Okay, appreciate the color. Thank you very much.

Operator
Ladies and gentlemen, as a reminder, if you'd like to ask a question, please press star then one. Today's next question comes from Andrew Carter with Stifel. Please go ahead.

Andrew Carter
Hey, thanks. Good morning. I just wanted to step back and think kind of the relationship between you and Canopy. Your long-term role is to build the Canopy brands and products in the US market, and I think you would be ideally positioned given Canopy's ability to launch products into Canada, see what worked, see what failed, and then give you kind of an insight. Canopy is late to market with their products, and it seems like they would be positioned well if Acreage could demonstrate their products in the US.

So, just wanted to understand your tolerance for taking risk on the new products, what your role will be and just what new products, vapes, beverages, etc. you're thinking about launching in the second half and the near-term and how you are positioned to launch those. Thanks.

Bill Van Faasen
Well, Andrew, this is Bill. Let me try at the highest level, and then I will rely on Glen to be a bit more specific. First of all, we are very pleased with the reset relationship with Canopy, and Canopy, ever since David Klein got there post Bruce Linton, has been going through very similar rethinking just as we have been ourselves.

We are very excited about the opportunity to develop an integrated approach to introducing their products alongside ours in the US. We are very pleased that they are excited about having us help brand build the CBD product line throughout the United States. I will be the first to tell you that from my perspective as a new interim CEO all of those plans exactly how we go about executing that agenda are yet to be finalized, but let me assure you that there is a very strong sense of connection between myself and David Klein, our team and the Canopy team, and I'm quite confident that we will develop a very strong integrated thoughtful approach to the pursuit of introducing their products and brands into the US.

Glen Leibowitz
Andrew, Glen. Just to add to that, the major brands of Canopy being Tweed and the Tokyo Smoke dispensary rollouts, those are still the main brands that we look to as we put products on our shelves. So, I think there is going to be some experimental products that are going to ultimately win their way on to our shelves, but we are still leaning in forward with the known brands that have made Canopy what it is. Where we think there is a market opportunity with experimental brands will certainly put those on the shelf and see how they work, but we are definitely fully committed to the existing premium brands that they have been working with.

Andrew Carter
Thanks, all. Thanks for the question. I'll pass it on.

Operator
Our next question today comes from Matt Bottomley with Canaccord Genuity. Please go ahead.

Matt Bottomley
Yes, good morning, everyone. Thanks for taking all the questions. Just wanted to circle back and chat a little bit on the dispensary count, maybe directionally where that's going in the next couple of quarters considering some of the optimizations. You ended the year '19 with 30; I think as of today, it's down to 27.

So, given that there were some openings in the quarter, and I believe there was some commentary historically that you had a good number, I don't know if it's 6 or a dozen that were in the pipeline just waiting approval, just any color on maybe stores that you are able to open, but are choosing not to to preserve capital versus sort of the net closures versus openings you are expecting in the relatively near to medium term here.

Glen Leibowitz
Yes. Thanks for the question, Matt. So I guess, there is a couple of things to talk through. So, we still have two stores up in Massachusetts waiting for regulatory approval. So, those as, Bill mentioned, were hoping for a positive result here in July. I think it's a couple of months process to get through those state and local inspections, so that would be some time, if all things go accurately, sometime October that we

would have, again, if we get approved adult-use and those two other stores and then a medical store in Leominster.

At the moment, there is no additional plans to close any stores that we have. The decisions that we had made to close we made those as a collective, and then the only as an addition for the rest of the year as I mentioned working on the Chicago location retail as well as the New Jersey location. So, beyond that, that's the main focus for the company over the next several months towards the end of the year.

Matt Bottomley
Great, thanks. Just as a follow-up, can you provide any color on what Acreage considers now to be, not limited to a number, but your top-three markets with respect to where you are positioned today? Then also any other commentary on Florida. I know that's a market where there is a lot of retail in the pipeline, so where does that market sit now in your priority list considering it very attractive market, but also very capital intensive?

Glen Leibowitz
Bill, I will open up work with some of the focus and then maybe we can tag team on the Florida.

Bill Van Faasen
Sure, sure.

Glen Leibowitz
So, as you know, Matt, our footprint is heavily focused on New England and Mid-Atlantic. Those continue to be our focus items. Our crown jewels, if you will, are the Pennsylvania wholesale, Connecticut and Illinois we see is a great opportunity for us. The sleepers, again if you get regulatory change, we think the rest of it will fall in place, which is New Jersey and New York, and then ultimately if Connecticut then turns and then Pennsylvania. In Maine, once they reposition on adult-use, we think is a nice opportunity.

So, those states are really the focus item. Ohio, with our partner, is also important to us. We see some really interesting opportunities there as that continues to grow since we have opened most of the stores in October of last year. I think that's going to be also a nice opportunity alongside that Illinois cultivation and potentially the two retail.

The Florida plan currently, we have Spring Hill store open and we are operating cultivation to feed that store. As we all know, it's a vertically integrated state. We have another store in Daytona which is built or almost complete, and I think we are going to be looking to get that opened in the short-term. Beyond that, we are still working on what the strategy will be as it relates to Florida.

Bill Van Faasen
Yes, Matt, I would just add that oftentimes unfortunately reality crashes into desire and reality beats desire. I mean, one of the things that we are guilty of retrospectively is trying to do too much too quickly and too far flung a manner. In that regard, both Michigan and Florida are markets that we desire to be in, but given our need to focus and do a better job of managing and allocating scarce resources both Florida and Michigan require a fair amount of capex that maybe better allocated into other markets for us. So, both those states were under review.

Matt Bottomley
Great. Thanks, Bill.

Operator
Our next question today comes from Glenn Mattson with Ladenburg. Please go ahead.

Glenn Mattson
Hi, thanks for taking the question. So, just building on that last statement, I believe a couple of quarters ago kind of the thought process around Florida was you were slowing down how you are building out your own cultivation and switching over to some methods and techniques that Canopy was using given their expertise. So, can you say you can progress with those plans, and have you been working on building out that cultivation somewhat or is that try out just for a while now? Just some thoughts around that please. Thanks.

Glen Leibowitz
Sorry, Glenn, was it a state specific question, or was that in general on cultivation?

Glenn Mattson
Specifically on Florida. I believe you were talking about revamping the cultivation there, stopping what you had done, implementing methodologies and plans for what Canopy could introduce to you, and use that as your build out in Florida. Just curious if you've gone ahead and built some of the cultivation there if you just kind of put that on hold since then?

Glen Leibowitz
Yes, thanks for clarifying. Currently, we are working on what's called pods. They're basically shipping containers because we have a building in Florida that we have building and construction permits for, but to feed the current footprint, we are using these pods. So, we are growing, cultivating, processing out of these shipping containers.

We are still reassessing the ultimate overall plan and timing as it relates to the cultivation facility, but if and when we do, we would obviously incorporate as with any location in the footprint, we would utilize as much Canopy technology as we can, especially when they have already built it. It's an opportunity for us to utilize that technology and be as efficient as possible.

Glenn Mattson
Thanks. Real quick, I understand the four-month bridge loan was partly necessary as a result of a payment you had to make for New Jersey, I believe that's been communicated. Can you just talk about is there any other those type of one-time payments maybe with some MSA arrangements that you have, anything else like that over the next twelve months or so? The $25 million for capex, was that full year or for the rest of the year, and can you say what capex was in the first quarter? That's it for me. Thanks.

Glen Leibowitz
Yes. S o, I will just take the second question. The capex is planned. That number is for the full year, and we will continue to focus on those states that I mentioned in those specific build-outs. As it relates to—apologies, Glenn, the first part of the question again was.

Glenn Mattson
Were there anymore payments that you need to make for—

Glen Leibowitz
Payments, yes. Yes, so as it relates to the three other MSAs that we have which is Maine, New Hampshire, and Ohio Ohio, there is a pathway for that, and we've already advanced the funds and the capital to that MSA partner. So, it's just a regulatory process to transfer the license. Cultivation and processing, once it's fully built out and passes inspection that would convert to us, so that would move from managed into our consolidated. Then the retail, I think there's 14 months left on the license hold period. Again that's an application process that we have to go through to transfer the license from the

current license holder, but again all those payments have been made. Maine and New Hampshire there is currently no regulatory process to transfer the license from the not-for-profit.

So, at the moment, we would have made all payments that are necessary once we close this New Jersey transaction, which we hope to have them imminently. So, there really isn't much expected additional purchasing to be done on MSAs. There will be additional—apologies, I forgot one other. There is California, which would require potentially some capex or some opex, but we are obligated to fund those which are relatively small on an annual basis.

So, sorry. Longwinded answer. There is a small amount of continued MSA cost as Maine and New Hampshire are self-sufficient and then there is a small amount of CapEx that's needed in Ohio to finish out and then ultimately compare those licenses.

Glenn Mattson
Great, thanks.

Operator
Our next question comes from Pablo Zuanic with Cantor Fitzgerald. Please go ahead.

Pablo Zuanic
Yes, good morning, everyone. Look I want to ask about your hemp CBD business. I mean, to be honest, I was surprised about this $100 million loan from Canopy Growth, I know it's $50 million initially. It's a big amount, right, so can you talk about the plans you have there? Again if there is any way that those proceeds could be used for the THC business, but again, it sounds like a lot of money for something that's still in a very startup mode. Thanks.

Glen Leibowitz
Yes. Bill, why don't I take the initial question and you could go back?

Bill Van Faasen
Sure. Sure.

Glen Leibowitz
So, thanks for the question, Pablo. So, the construct around the starting of the business is an initial $50 million. There are terms on the loan to advance the second $50 million and those are some required EBITDA targets. Therefore, until the business is operational and up and running, the second $50 million won't be advanced, so the current construct of our strategy is initial thoughts are around a store-in-store concept. We're working through which states that's permitted. Certain states, for the most part, don't allow pure CBD products to sit next to the THC products.

So, the first mission is we need to determine, which stores are allowed to handle the products, and secondarily, we would have to establish sort of information barrier, if you will, on those stores. We'd have to have a separate cash register, separate employees. All of the needs of Hempco business would need to be separate and apart from anything we do at THC; this is an investment strictly into Hempco. There will be no sharing of dollars across the Acreage platform and we have to have separate legal entities, separate bank accounts, etc.

The opportunity we see there is Canopy has got a significant operational build-out as it relates to cultivation and processing and has several brands already. We see this as a synergistic opportunity to leverage what they have built and obtain significant margin on the products from our folks up north. So, that's where we see the hemp playing itself out both through our retail distribution and any other connectivity on the wholesale market.

So, that's sort of the drawing board of how we are sketching these opportunities out. I wouldn't rule out maybe there is some existing established hemp businesses or CBD businesses that might come into focus that would make sense to jump start. Obviously, we wouldn't go into cultivation or brands, because we would already have those through Canopy; this would just be more distribution channel and marketing, wholesale as well as the store-in-store concept to move those existing products. So, hopefully that answers the strategy around the Hempco.

Pablo Zuanic
Right.

Bill Van Faasen
Yes, Pablo, this is Bill. I would just add, the CBD market is obviously significant. Nobody has established a dominant or even close to significant position in that marketplace, and clearly nobody has established a brand prominence. So, despite the fact that it's obviously a more mature marketplace than the THC marketplace, it's clearly a marketplace that someone with a brand strategy and someone who has the girth and the capital to build out the brand strategy is going to win in the longer term in this marketplace. Canopy and the Acreage want to do that, and that really is fundamentally what this strategy is all about.

Pablo Zuanic
Got it. That's really helpful. Just it's from a financing point of view, but having that money into your balance sheet doesn't make any difference to your debt covenants, right? I am asking because it's related part D loans in a way maybe that helps, or that's nothing to do with that?

Glen Leibowitz
Sorry. Pablo, when you said debt covenants, which we don't actually have any other—

Pablo Zuanic
Right. Okay, so it's not relevant in that sense. Again, understood, that's helpful. That's good color. Thank you.

Glen Leibowitz
Yes, Acreage has a relatively clean balance sheet on the debt side. We have that one structure which is $22 million and we have this, the convertible note for the $11 [million] which we just completed the end of May, but that's a one-year note that converts and we are looking to see if we can have additional financing to close that out, but there's no senior secured lender on the balance sheet for any significant debt covenant that would be impacted by getting that loan from Canopy.

Pablo Zuanic
Got it. Thank you.

CONCLUSION

Operator
Ladies and gentlemen, this concludes today's question-and-answer session and today's conference call. We thank you all for attending today's presentation. You may now disconnect your lines and have a wonderful day.