Acreage Holdings

Q2 2019 Earnings Conference Call

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CORPORATE PARTICIPANTS

Steve West – *Vice President, Investor Relations*

Kevin Murphy – *Chairman and Chief Executive Officer*

Glen Leibowitz – *Chief Financial Officer*

PRESENTATION

Operator

Good morning. Welcome to the Acreage Holdings Second Quarter 2019 Earnings Conference Call. All participants will be in listen-only mode. Should you need assistance, please signal a conference specialist by pressing the star key followed by zero. After today's presentation, there will be an opportunity to ask questions. To ask a question you may press *, then 1 on your touchtone phone. To withdraw a question, please press *, then 2. Please limit yourself to one question and one follow up, then you may return to the question queue. Please note that this event is being recorded.

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

Steve West

Good morning, everyone. Welcome to the Acreage Holdings Fiscal Second Quarter 2019 Conference Call. Joining me today are Kevin Murphy, our Chairman and Chief Executive Officer, 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 in our public filings that can be found on SEDAR and EDGAR, as well as our Investor website. Any forward-looking statements made on this call speak only as of today and we assume no obligation to update any of these forward-looking statements or information.

For your future scheduling purposes, our fiscal third quarter 2019 earnings release is tentatively scheduled to be issued after the market close on November 12th, and our earnings call is tentatively scheduled to be held on the morning on November 13th.

I will now turn the call over to Kevin.

Kevin Murphy

Thank you, Steve. Good morning, everyone.

It's been a productive three months since our last earnings call. Acreage and Canopy received overwhelming shareholder support for the arrangement to bring the largest global cannabis company together with one of the largest U.S. cannabis companies. Both companies received more than 97% shareholder support. We received a final order approving the arrangement from the British Columbia Supreme Court and the arrangement is now closed. Canopy is now legally bound to exercise the option to acquire Acreage, once cannabis is federally permissible in the United States.

Additionally, both the Canopy and Constellation executive teams are fully committed to closing the deal when possible. We closed on Kanna, the previously announced dispensary acquisition in Oakland. And finally, we are working towards closing our Deep Roots acquisition, one of the largest vertically integrated operators in Nevada.

We completed the expansion of our New Jersey cultivation facility and are in the final stages of our Oakland form factory and Massachusetts processing facility. While the number of operational dispensaries did not increase versus the first quarter, construction on four dispensaries was completed. There are now six botanist dispensaries 100% complete while waiting for final regulatory approval before opening for business.

Our historic arrangement with Canopy unlocks significant potential and will help further position Acreage as the leading cannabis provider in the United States. I'm excited to finally share our corporate strategy leveraging Canopy's IP, brand and technology, which we believe creates decisive, competitive advantage over our peers. Our objective remains to be the leader in the U.S. cannabis industry.

Similarly, both Canopy and Constellation aspire to be global leaders, which leads to a natural alignment of individual priorities. The breadth of Canopy's IP allows us to accelerate toward that leadership position at a significant cost advantage versus our U.S. peers. With more than 200 patents on file, a significant and established brand portfolio, and world-class operating procedures, there is no shortage of what we can learn from Canopy.

Let me first start with our dispensaries. In addition to the Botanist, we plan to open Tweed and Tokyo Smoke branded dispensaries going forward. Both Tweed and Tokyo Smoke dispensaries are well received in several countries where Canopy operates. We envision leveraging their power as we expand them across the U.S. We have already begun the process of redesigning dispensaries that are under construction and expect to open the first Tweed dispensaries this year.

Moving on to branded products. On the medical side, we will leverage Canopy's Spectrum Therapeutics. Spectrum Therapeutics is a global medical cannabis brand with a massive database of information and a wide array of product offerings that make this an easy decision. We anticipate a national rollout of Spectrum in 2020.

The adult-use side, we will continue with our current house of brands including Live Resin Project, Natural Wonder, and the Botanist as premium positioned products. In addition, we will add Canopy developed product brand Tweed as a strong, mainstream consumer product line. We are still studying brand positioning, ideal product mix, and logistics, but we expect to rollout Tweed branded products across the United States in 2020.

This brings me to cultivation and processing. At Acreage, one of our key strengths is the quality of our green team. Our lead grower, Philip Hague, is world-renown for his green thumb. Based on our due diligence of Canopy's cultivation processes and systems we are making some design changes to our growth facilities currently under construction. Among other things, these changes include upgrades to our HVAC, lighting, processing, and extraction systems. While this decision may delay construction schedules, we believe this is the right direction for the long-term, as it will position us for greater scale and higher efficiencies in anticipation of the exponential consumer demand that is coming in the cannabis industry.

We are currently exploring leveraging IP from both Canopy and ebbu to implement in the production of our own house of brands as well as products produced with our form factory co-packing capability. It is still early, but initial expectations are that we will benefit greatly from a financial standpoint through learning Canopy's best practices and gaining access to their well-established research and development findings.

While we have done a great deal of work to understand and plan for the utilization of Canopy's technologies, IP, and brands, we will continue to evaluate other aspects of Canopy's ecosystem, such as leveraging their IT systems and architecture, and the potential use of other administrative and back office functions. This will be a continually evolving process with more to come. We have established the foundation of our new strategy and we are executing on that plan.

Let me quickly update you on our product development and brand launches before moving on to our key state updates. As we announced on Monday, Acreage just launched three new product lines that create unique and differentiated brands to address specific consumer segments and form factors. The products are currently available in select markets, including California and Oregon, and expanding across our footprint through the rest of the year.

Natural Wonder, our first brand developed with form factories unique R&D and manufacturing capabilities is a dosable, fast-acting sublingual product. Think of a Binaca breath spray. The product delivers 2.5 milligrams of active cannabinoids per spray and is portable, odorless, and requires no accessories. Its discreet packaging, combined with being a noncombustible product, make it right for both social usage acceptance and as a natural substitution for products that are inhaled.

Live Resin Project, our high-end line of concentrates was developed by our own Bill Fenger, inventor of Live Resin process. Live Resin is a superior form factor and commands a significant price premium at retail. In addition to traditional product forms, we are also very excited by our Live Resin Project vape cartridges, which make consuming Live Resin much more accessible to consumers and we believe will broaden the market for this category.

Our third product line is The Botanist, starting with a line of tinctures that features a polybotanical approach to wellness that combines active cannabinoids with well-established botanicals and herbs from traditional wellness categories. All three new product launches will be supported by local media and in-store activations--a new layer of field marketing professionals to execute our brand strategies in the local markets, and a new dedicated brand team out of our Santa Monica office, which we expect to drive consumer awareness and sales.

We will take an omni channel approach leveraging brick and mortar retail, ecommerce, and home delivery. In California specifically, we are also partnering with a best-in-class distribution and wholesale company to ensure a rapid rollout, data-based category management, and excellent customer service. This is an historic milestone for Acreage and I could not be prouder of everyone's hard work and efforts over the past year to make this a reality.

Moving on to our state level updates, in California our Oakland-based form factory facility is going through final regulatory inspections in preparation for full operations. Upon opening later this year, our Kanna dispensary in Oakland will showcase our own house of brands as well as Canopy's Tweed products in 2020.

In Florida, we hired a new general manager to oversee the build out in operations in that state. We closed on our Sanderson facility and are in construction of our cultivation facilities.

As I mentioned earlier, incorporating some of Canopy's systems and technologies will delay opening the cultivation facility approximately three to six months. Early construction has begun on several dispensaries and we will coordinate their opening with our cultivation facility coming online.

Massachusetts continues to be a significant developing market. There are currently three dispensaries complete and just awaiting regulatory approval to begin operations. Additionally, we are still awaiting final approval to convert our Worcester dispensary from medical to adult use. Finally, our processing facility in Sterling is in final stages of construction and we should be online in the next few months.

In Michigan, we are in the construction process on three dispensaries in Detroit, Bay City, and Battle Creek. We will also incorporate Canopy's technologies and systems into our cultivation and processing facilities, which will soon be under construction.

In New Jersey, our partner has begun the early phase of construction for their Atlantic City dispensary. The new Sewell cultivation facility is completed, and a first harvest is expected in the fourth quarter.

In Ohio, our partner Green Leaf has three dispensaries completed and are awaiting final regulatory approval to open. Green Leaf's two operating dispensaries continue to perform very well. Construction continues on Green Leaf's processing facility and should come online late fourth quarter. Green Leaf has also begun construction on its cultivation facility, which is expected to come online in 2020.

With the excitement around Illinois adult-use legalization in 2020, we are expanding our cultivation facility to more than 20,000 square feet of Canopy with significant room to add capacity in the future. We will also incorporate Canopy's systems and technologies to ensure we are ready for the increased demand as the market continues to grow into a leading adult-use market.

Our cultivation and processing facility in Iowa is in the final phase of construction and we expect the facility to open for business in the fourth quarter.

We continue to significantly increase our capabilities across manufacturing, retail operations and technology by hiring world-class talent from the cannabis industry as well as blue chip corporations across the United States. These new hires include a new chief people officer, a chief information officer, our new senior vice president of manufacturing and distribution, and a new vice president of retail operations. As we transition from a startup to a maturing profitable company, these hires are crucial to bolster our capabilities for greater success.

I would now like to share a quick update on some federal and state policy initiatives as they relate to the cannabis industry. The momentum discussed on previous calls continues with two new cannabis-related bills recently introduced in the House. At the federal level, the Safe Banking Act continues to progress. We expect the House and Senate to take up the matter for a vote later this year.

While previously hopeful an amendment to include capital markets would be added, we no longer believe this is a possibility. However, passage of this bill will be another significant milestone in the journey to federal permissibility, which we still believe will happen in the next 18-to-24 months.

While the positive momentum on States Act continues, there have been some new pieces of legislation introduced including the Moore Act sponsored by Congressman Jerald Nadler. While the new bills could receive a vote and pass the democratically controlled House, the Senate, as constituted, likely will not support these bills. With this as a backdrop, we believe the House passage of the States Act will be likely mid-year 2020 with the Senate following late 2020 or early 2021. As the presidential election draws closer, we expect cannabis will take a more prominent role in debated issues.

Moving on to the state level, as expected on our last call, Illinois Governor Pritzker garnered the necessary votes to approve legalization of adult use cannabis to commence in January 2020, bringing the total number of states and districts to 11 that have been approved for adult use cannabis.

In New York, we now believe Governor Cuomo will lend the necessary support to legalize cannabis for adult use and will introduce it as part of his new budget next year.

While New Jersey remains behind New York in legalizing adult-use cannabis, we are working very closely with legislators and believe they will closely follow New York in their efforts.

That concludes our legislative update. I will now turn the call over to Glen.

Glen Leibowitz
Thank you, Kevin. Good morning, everyone.

Last night we reported our fiscal 2019 second quarter results. Reported revenue was $17.7 million, which was an increase of over 500% versus a comparable period in 2018 and was driven primarily by acquisitions and new dispensary openings.

Gross profit was $14.4 million and gross profit excluding fair value items was $6.8 million, up 472% versus the prior year period. Again, driven primarily by acquisitions and new dispensary openings.

Our gross profit margin, excluding fair value items, was 38.4%, which was 190 basis points lower than the prior year period. The change in margin is driven primarily by bringing online an increased mix of new dispensaries, which are not fully scaled yet. Long term, we expect gross margins will improve as our dispensary base matures, but there will be quarterly volatility in the short-term.

Our second quarter net loss attributable to Acreage was $33.9 million, or $0.40 per share.

I'd like to now discuss our adjusted and pro forma results for the second quarter. Managed revenue was $25.7 million, and our pro forma revenue was $36.6 million, which was up 11% quarter-over-quarter.

I would like to note, our quarter-over-quarter pro forma revenue and pro forma adjusted EBITDA results include activities for locations that have not yet finalized regulatory approval. For instance, operating expenses are being paid by us and our partners in Massachusetts and Ohio, where six dispensaries are 100% complete, but unable to open for business to generate any revenue.

Our adjusted net loss, when excluding certain non-cash and non-recurring items, was $17.1 million or $0.20 per share. Our pro forma adjusted EBITDA was a loss of $12 million, which is a modest decline versus last quarter's pro forma adjusted EBITDA loss of $9.2 million. This quarter-over-quarter increase in loss was primarily the result of regulatory delays in Massachusetts and Ohio.

Highlights from our balance sheet for the second quarter include ending the quarter with $84.5 million in cash and cash equivalents. In the year-to-date, we've deployed nearly $200 million in capital from mergers and acquisitions, including over $100 million in equity and $92 million in cash.

Additionally, year-to-date we have invested $20 million in CapEx for footprint build outs and we've advanced an additional $14.5 million to entities which we have managed services, consulting or other agreements to assist in their footprint build outs.

As Kevin discussed previously, due to our decision in Florida to incorporate Canopy's systems and technologies in our cultivation and processing facilities, we are revising our 2019 operational dispensary target to 35 to 45 versus our previous target of 50 to 60. While this will impact our revenue and EBITDA for 2019, we view this as a modest delay to set us up for long-term success.

I'd like to leave you with one last comment before turning the call back over to Kevin for his closing comments. Yesterday we announced our previously filed $800 million base shelf prospectus was finalized. This filing merely gives us the flexibility to raise money through various means. As I mentioned earlier, Acreage has a significant amount of cash on hand and we currently have no short-term plans to utilize the shelf prospectus to raise capital, but we are planning for an opportunity in the future.

That concludes my financial commentary. I now turn the call back over to Kevin for his closing comments.

Kevin Murphy
Thank you, Glen. Before closing, I want to comment on recent legal and compliance issues that have arisen in the industry. Given the makeup of our board of directors, no company has more reputational risk at stake than Acreage. Having spent nearly 30 years working in the highly regulated capital markets industry, complying with rules and regulations has always been a priority for me and my companies. At Acreage we have assembled a world-class legal and compliance team, including our head of legal compliance who is a former SEC enforcement attorney with more than 30 years of regulatory compliance experience, and our senior deputy general counsel and lead litigator, a former assistant U.S. attorney with significant experience litigating cases on behalf of the U.S. government. This world-class team ensures legal compliance is incorporated into everything we do at Acreage.

And finally, I would like to thank all Acreage associates for your continued hard work and dedication to building out one of the largest and most respected cannabis operations in the United States.

With that, I will have the operator open the line for questions.

QUESTIONS AND ANSWERS

Operator
We will now begin the question-and-answer session. To ask a question, you may press star, then one on your touchtone phone. If you are using a speakerphone, please pick up your handset before pressing the keys. To withdraw your question, please press star, then two. Again, please limit yourself to one question and one follow up and know you may return to the queue. At this time, we will pause momentarily to assemble our roster.

The first question comes from Graeme Kreindler of Eight Capital. Please go ahead.

Graeme Kreindler Hi, good morning. Thanks for taking my questions.

I wanted to follow up with respect to the commentary on the dispensary ramp here and noticing that there are a number of dispensaries that are built. Just wanted to get some more color considering the quarter with no incremental dispensaries. What are the main factors that are holding these various openings up? And also, whether that 35-to-45 number you provided if that’s on a pro forma basis. Thanks.

Kevin Murphy
I would first say that we control all the things that we can control here at our organization. We have six dispensaries that are complete and ready to open, and people hired to service those dispensaries. Unfortunately, there are things out of our control, like regulatory, and we have experienced some delays in both Ohio with our partner in that state, we have a managed services agreement with that group. We also have delays in Massachusetts. Both states have provided significant delays for not only ourselves, but all of our competitors in that state. So unfortunately, where we are on our

timeframe, governments and local governments are on their timeframe. So that unfortunately is where we've run into some delays.

Graeme **Kreindler** Okay, thanks. To follow up there, given the dynamics of the deal with Canopy Growth, can you discuss whether you think there are any other metrics or KPI's or indicators beyond what your investors are looking at traditionally for your peers that you think are relevant or topical in terms of monitoring Acreage's growth and measuring its execution over time?

Glen Leibowitz
So just from a KPI perspective, we're still assessing all the opportunities that we have, whether it's brands or it's technologies. Once we've assessed and determined a rollout timeframe, we'll be able to incorporate those KPI's into our other group of metrics that we're monitoring on a monthly basis. So currently I don't think there's anything we can share at this point.

Operator
The next question comes from Andrew Carter of Stifel. Please go ahead.

Andrew Carter
Thanks. Good morning. So I guess I wanted to kind of circle back on the retail openings. I guess obviously the sector's been difficult really for everyone, so I just kind of want to understand how you're thinking about prioritization of investment. Are there thoughts about selectively going deeper in certain markets or perhaps a different approach to where you're making investments in the value chain? I guess in particular now that you have form factory and you have access to all the Canopy products and know-how, would you consider investments in product development as a likely higher priority versus building out your dispensary footprint?

Kevin Murphy
I think as it relates to priorities, our priority has historically been to grow our footprint to a significant size where we have scale and scope. Today we are in 20 states, whether it's through ownership or managed services, and I believe that is the best first step in developing a national brand. With that, we've now focused a great deal on our house of brands. We will utilize the footprint that we have statewide with the brands that we create and the brands that we can support, and ultimately gives us the greatest opportunity to build a national brand. So, where our priorities would be scale and scope on the cultivation side, we are also refining and coming up with new derivative products for new innovative ways in which to deliver cannabis, but we're also coupling that with our house of brands, where we believe we can set ourselves apart from the rest of the crowd.

So, we're not trying to be the jack of all trades here, but our priority is clearly across the spectrum from seed to dispensary and beyond to brands, and I can tell you that we are hiring key personnel to help manage that process for us and I think we have done an excellent job with it. That, coupled with the additional synergies that Canopy can provide us in all their IP, all of their cannabis know-how and knowledge clearly plays into that. And again, could not be more excited about the relationship that we have with them and we look to really capitalize on that going forward.

Andrew Carter
Sure. I'll just ask one follow up question to something you've alluded to and we've obviously seen a number of press releases of talent joining the team. Where do you think you are right now in terms of your corporate build out and kind of having the executive team in place, if you will? Kind of what innings are we in? Is it largely built out or do we have a lot to go?

Kevin Murphy

I think that we have–thinking about where we started from inception in 2011 with roughly three guys in a garage and then staffing up as we continued to grow our organization, today we have roughly 900+ employees nationwide. People in our business is our most valued commodity. At Acreage, we put our employees first, our customers second, and our investors third. No disrespect, but the fact of the matter is, if we have very happy employees, we're going to have very, very happy customers and that will reflect in the share price, which ultimately will make for very, very happy shareholders.

That said, I do believe we're in, you know, I'm not a baseball guy, but I'll take a crack at it, you know, top of the seventh as it relates to personnel. We are looking for a couple of more key positions. But I do believe with the core group that we have internally here, we can certainly leverage the capabilities that we have nationwide and I think we have probably one of the best organizations. We're obviously biased, because it's our company, but the fact of the matter is, we have been able to recruit from others in the cannabis space as well as from major corporate America focused on the CBG world.

Operator
The next question comes from the line of Matt Bottomley of Canaccord Genuity. Please go ahead.

Matt Bottomley
Good morning, everyone. Just wanted to go back again on the dispensary side of things. Just one clarification point, particularly in the Florida market. So you mentioned that the facility that you're building out is going to likely be leveraging a lot of the Canopy IP and that could potentially delay the project somewhat. Given that that state is mandated to be vertically integrated, I believe you have seven dispensaries under construction, do you plan to still have those opened, obviously pending regulatory approval, this year? Or will any of those seven push out into 2020 in your view?

Kevin Murphy
Thanks for the question. Florida specifically, when you think and compare our systems to Canopy Growth, we realized that they have better design for more efficient operations at a much larger scale. Today Canopy has roughly 4.8 million square feet of Canopy and they've proven that they have not only been able to create a wonderful brand in Canopy and Tweed and Tokyo Smoke, but they've also excelled at expanding greatly in the capacity of the production of cannabis.

That said, we're now incorporating these systems and it has required some design changes in order to differentiate equipment for installation, which thus sets us back a few months in Florida. While this does impact our 2019 financials and our store openings, we believe that it's absolutely the right thing to do for the long-term value creation of our company.

You were absolutely right; it is a vertically integrated marketplace. If we had the opportunity to wholesale from others, we would open our stores much sooner. But to open a store and hire a staff to essentially burn cash that could be going to better use, our view is bringing our production facility and our grow facility online, coinciding that with the openings of our stores, we believe we can hit the ground running in early 2020. Now, again, a change of course, but we manage our business for the long-term, the long game, and it's our practice here not to manage day to day, month to month, so people can mark-to-market their portfolio.

Matt Bottomley
Perfect. Then my follow up is just on the new range of midpoint, let's call it 40 dispensaries by the end of the year, can you give us your most likely candidates as to what states are going to fill those openings, even within a range? And where does the Nevada market fall into that, given that you're able to open another six locations once that deal closes?

Glen Leibowitz
Thanks, Matt. So just high level, if you go back to the six that Kevin mentioned, those are nice to have, but not included in the delta between getting us from 26 to say 40. So that would be, as we mentioned previously, we have the other Nevada dispensary, which we planned to have open by the end of the year. Kevin mentioned we have the four, so potentially in Florida, could be available to us pending production availability. And then you look across all the other states, so we have Michigan, there's three; Illinois, so there's a couple that we're looking at that could be open by the end of the year. Around ten.

Operator
The next question comes from Shane Lidaw of Hedgeys Risk Management. Please go ahead.

Shane Lidaw
Good morning, everyone. Thank you very much for the question.

I just wanted to go back to the Florida market real quick, if you don't mind. I know historically it's been a market dominated by a few players, and now every other [indiscernible] is building out their footprint, so I know it's really for you there as you've spoken about. But can you talk about any noticeable shifts in market dynamics you may have seen from a competitive standpoint? And then also touching on whether you've seen any kind of increased competition for high quality real estate locations and if that's kind of changed your mindset on that at all?

Kevin Murphy
Certainly. We have identified some very high-quality locations for our dispensaries, so we feel very, very comfortable there.

As it relates to competitive landscape, every market that we're in is competitive. So whether we are in Illinois, in California, New York and beyond. Now Florida, yes, it has been dominated by some early movers, which have produced a real advantage. With the size of the state of Florida, let's compare that to say a California or other states where California there may be 5,000-6,000 competitors, Florida has defined their market as a more regulated market and obviously much less competition. That leaves a much fuller plate for us to capitalize on in that state.

Now, we have traded short-term headlines for longer term profitability to do things correctly as it relates to husbanding the cash that we have here and not looking to open stores for the sake of opening stores. So, yes, it will provide us a short-term delay of three to six months. Longer term, as I say, we're in it for the longer game and so, that short-term pain will certainly rear its head in longer term results.

Shane Lidaw
Thank you for that color. Then just turning to your CBD strategy, just wondering if you have any kind of updated thoughts on how you're going to approach this. Obviously, a few recent transactions in that space from some Canadian LPs and U.S. operators as well. Any thoughts on kind of where the FDA's current stance is on that would be really appreciated.

Kevin Murphy
To try to anticipate where the FDA goes is to try to guess the next hit song next year. I'm not sure. And if you know anything about the FDA, I certainly do, having been an investor in my previous life and making bets in healthcare. Some of those companies are worth a lot less because FDA never came around to thinking that what we produce was cool enough to have FDA approval.

But that said, I do think that from our vantage point we play the hand that we're dealt every day. And today the knowns in our organization are 33 states medically, 11 of those states adult use, and we're going to look to capitalize in every which way we can in all of those states. That said, we also have available to us brands of our own, brands of Canopy and brands of others through form factory that we can utilize in those states.

As it relates to the FDA, if and when they come around and think through CBD or even further THC at some point, maybe not in my lifetime, but we'll capitalize on it as well. We've always had the advantage of a first mover, given that we started this organization or I started the organization back in 2011, when cannabis was very unpopular. Today, it's taken us about eight years to be an overnight success and we're going to capitalize again on increasing our footprint both broadly and deeply in the states that we're in and new states to come. But very, very challenging to anticipate where the FDA goes. Almost as challenging as trying to anticipate where local and federal governments are headed.

Operator
The next question comes from Brett Hundley of Seaport Global. Please go ahead.

Luke Perda
This is Luke Perda on for Brett Hundley. Just one for me. Can you talk about your funding status into 2020 and what options you think might be available to add liquidity if required?

Kevin Murphy
I'll let Glen speak specifically to what we believe our funding might be, although we don't necessarily give guidance on that.

One of the reasons why we did the arrangement with Canopy is because we believe, amongst other things--branding, IP, cannabis know-how--we also believe it will afford us cheap capital. Or, the cheapest capital in the business.

Now, historically, U.S. providers of cannabis have relied on the capital markets and they have been very gracious to us. That, as you know, ebbs and flows. Can't anticipate where the market is going to go and whether it's a trade war with China, whether it's an anxiety with North Korea, we have found being a little bit more realistic about capital markets, we know there are going to be opportunities when you can and cannot access capital.

With that said, again, aligning with Canopy and their organization, we believe it's going to lead to cheaper capital, and we won't have to rely as heavily on the capital markets. With that I'll turn it over to Glen and he can elaborate a little bit further on where we are.

Glen Leibowitz
As you can appreciate, our job here as stewards of capital for our shareholders is to really assess where we are not only with share price but with debt markets and what's the best use of our capital structure. So we're looking at all options. As I mentioned during the prepared comments, we have a live shelf, which allows us to issue either equity or debt or other instruments. So we're poised and ready when we need it. Currently we don't need significant amounts of cash as we have on a balance sheet, but we'll look to the capital markets in various ways and being prepared to do that is the first step.

Luke Perda
Great. Thank you.

Operator
The next question comes from Jesse Pytlak of Cormark. Please go ahead.

Jesse Pytlak
Good morning. Kevin, I just want to come back to your commentary on the Safe Banking Act. You seem a little less optimistic on there being a capital markets amendment made. Just kind of want to know what's driving that view.

Kevin Murphy
As I said in one of my previous answers, that trying to anticipate where the FDA is going and where potentially we are headed from a legislative standpoint is anybody's best guess. What I can tell you is, Safe Banking is what we believe to be the first bill that will be passed. It has overwhelming support in the House. We believe enough Republicans care to basically pass a banking–and I think it's going to be, again, sooner than later and probably sooner than the State's Acts or any other act. With that, conservative Republicans are all about safety and they're all about taking cash out of the system. And being a conservative Republican, not necessarily myself, but conservative Republicans also like the fact that they can collect taxes. It's much easier, when you put it in a bank, to collect taxes than from a cash standpoint. So, as it relates to even a conservative Republican, they too can be convinced that the Safe Banking is good policy.

Where I think people will get a little bit off the rails is providing the cannabis industry with the fuel to grow their business exponentially and that would include capital markets. You've seen it debated. I've had an opportunity to see some of the debates–not necessarily this year but last year–that was one of the major concerns that congress people had: is this going to fuel this business? We believe it's the proper thing to do but, again, not optimistic about capital markets.

I also believe that the States Act will follow, and I think it's going to probably be extended to later 2020 or into 2021. The reason for that is, give a politician choice, a lot of times they won't make a choice. You now have States being circulated, the Moore Act circulated, and when you have different senators and congress people looking to sponsor their bills, they're looking to put their own name and their own complexion on this. Democrats want to see more social justice weaved into these acts.

Frankly, Libertarians just want to see it permissible, and Republicans frankly, like the safety components of it, but they're essentially probably the last to come over the chasm in cannabis reforms. So, I think with more bills being circulated, it creates more confusion and difficult to corral everyone behind one or two separate bills. That's where I think we've led to a little bit of delay and I'm probably a little bit more balanced in my enthusiasm for getting it done sooner than later.

If common sense prevailed, and I think that Congress and the Senate got together and said, "How do we move this forward?" I think you'd see it happen much sooner than later.

Jesse Pytlak
Thank you. That's helpful.

Operator
The next question comes from Rommel Dionisio of Compass Point. Please go ahead.

Rommel Dionisio
Thanks very much. Good morning. Question on these plans to introduce some of these well-known Canadian brands to the U.S., I obviously realize the power of bringing number one brands in their respective markets like Tweed or Tokyo Smoke or Spectrum here to the U.S. But just in terms of the profit contribution, I think it's an unique way of asking, are there significant royalty or revenue sharing agreements with Canopy that would cause the contribution from those brands and dispensaries to be

less than homegrown brands like The Botanist? Thanks.

Kevin Murphy
Our arrangement with Canopy, we have access to their brands, their IP, their knowledge in the space. And the good news is, from a fiduciary of capital it costs Acreage zero. Canopy doesn't have the opportunity to charge us for those services, and the simple fact is because at some point in the future, when it is permissible, we will be one. But also, Canopy is avoiding being a participant in the U.S. markets. And if they were to garner any revenue, even a dollar from our organization, that would essentially put them in harm's way to maybe lose a listing and lose a banking relationship.

So, I'm glad you asked the question because it highlights maybe some misunderstanding historically about why we are together, but it leads to having all access to everything that they have helped create, the hundreds of millions of dollars that they have spent on lessons learned, and it has really been for our benefit. That with, again, the access to cheap capital or inexpensive capital, and the fact that we had the very, very good fortune of providing liquidity for our investors in the amount of $300 million, I think makes for a very joyful experience that our shareholders have had with us since they've invested.

Now, the share price is where it is today as other cannabis companies are, frankly, under pressure as well, but where we differentiate ourselves is we're not as reliant on the capital markets and our share price. And I can assure you this, we're not going to use our share price today to use that from an acquisition standpoint, because we believe it is grossly undervalued.

Rommel Dionisio
That's very helpful. Thanks very much.

Operator
The next question comes from Aaron Grey from Alliance Global Partners. Please go ahead.

Aaron Gray.
Thanks for the questions. First question, I just wanted to know just any color you could offer in terms of the [indiscernible] house of brands. And when we think about kind of the medium term kind of a target penetration of mix of know your own brand versus third party brands, and also including those from Canopy. That would be helpful. Thanks.

Kevin Murphy
It's hard to give a mix, as it relates to where we believe that's going to fall out. I can tell you, we've come up with some very innovative not only brands, but delivery mechanisms, such as the Natural Wonder that we spoke about on our call, and that is the sublingual spray, making it bioavailable and very predictable. We believe that's going to be a great seller. But again, we will provide our customers choice. That is critical to our house of brands.

In the United States, the consumer is going to determine which form factor and which brands are going to excel and our job is to provide them as many choices as we can, learning from that feedback as to what their likes and what their dislikes are. Then we capitalize on those brands and fuel those going forward, and maybe modify or discontinue some of the form factors and brands that are not resonating.

Today I don't believe that there's any outstanding or real recognizable brands in the space. There are some very good product offerings that people are starting to identify with. But I think until you have social consumption, until you have real advertising and real CPG companies coming in to this space, I think it's a jump ball for every organization and we're going to look to capitalize on it as early and as efficiently as we can.

Aaron Gray.
Okay, great. Thanks, that's helpful. And then one follow up in terms of your dispensary branding, as you just announced kind of The Botanist brand, kind of Tweed brand and Tokyo Smoke dispensaries, how best to think about how you're going to utilize the different banners as you expand in new markets and also within existing and potential rebannering. Within a certain region or state, would you look to have just one banner or would you be mixing within that as well or just your thought process on that going forward would be helpful.

Kevin Murphy
Again, it's nice to have a blank sheet of paper in which to operate, and that's exactly what we have. Where we continue to talk about all of the positive attributes of what Canopy brings to us, if you think about it, maybe in cannabis timeframe it's a long time, but it really only was a very short period ago that we had 97% approval from our shareholders as did Canopy on this arrangement. It's been a very short period of time.

We believe that Tweed and Tokyo Smoke are tremendous names and recognizable brands that not only we believe we can stand up here in the U.S. to bring more visibility to those, we also have the benefit of those same names being supported in Canada and beyond the U.S. globally.

With that, The Botanist brand, too, has resonated with a lot of our consumers. And rather than change the banners that we currently have in The Botanist, we will assess that some point in the future. The Botanist is a terrific wellness brand and does translate exceedingly well both in adult use markets and in medical markets.

There are also state regulations that prohibit us from using a name that we don't have on our license. So we would stick with those names, i.e., The Botanist, and just not to be disruptive to our business plan. So we will and are continuously focused on the best use of our capital and how we, frankly, spend it going forward. And the bottom line is, from our vantage point, if it's resonating and selling well, we probably will have to think very hard in changing the flag.

Operator
The next question comes from Russell Stanley of Beacon Securities. Please go ahead.

Russell Stanley
Good morning and thanks for taking my question. Relating to, Kevin, your earlier remarks around New Jersey following New York, I'm wondering given some of the local media reports we've seen around New York possibly revisiting adult-use legalization during the next lame duck session. What are your thoughts around probabilities there? It looks as though in those media reports New Jersey could get out in front. Are you doubtful that that will work? Do you still expect New York to get in front of New Jersey?

Kevin Murphy
Back to my default on predicting government is always a tough game to play, but let me take a crack at it, because I guess that's what you guys rely on us to do.

I used to play football for a long time and everybody likes to spike the ball in the end zone, right? So if it's not my idea, it's probably not a great idea. What I do think in the state of New York specifically, Governor Cuomo is ultimately wanting to put this into his 2020 budget and, therefore, frankly I think he's going to get behind adult use. It could come up before that time, and I do think that Governor Murphy, no relation to me, although I do need to go back to ancestry.com, because there may be a link, he too is very, very committed to an adult-use program in New Jersey. He was very, very close to getting it done, but it has fallen short by a couple of votes. So I think it's a dead heat. I'd call for New York first and New Jersey second, but that can certainly flip flop.

Russell Stanley
Great. Just a follow up on that. Given your [indiscernible] for New York and Cuomo likely to include it in the next budget, would you also envision any material expansion of the medical program in New York or do you think the adult-use legalization might just preempt that altogether?

Kevin Murphy
I think they're going to work on dual paths. I know that there is contemplation now expanding the medical program, but I think it may coincide and ultimately be trumped by adult use. So, you may see it move directly to adult use.

I do think New York specifically is weaving healthy dose of social justice into their thinking on adult use before the state. We are advocates for that and we think it's good policy to include disadvantaged communities that frankly have been left behind in capitalizing on cannabis and also have been harmed by cannabis. So we're working very closely with both local governments in New Jersey and New York to make the 1+1 equals 4 or 5, but we are all about inclusion. We want others to participate. We think it provides for good business and we believe more is better, which leads to more normalized use in the state.

Operator
The last question today will come from Glenn Mattson of Ladenburg Thalmann. Please go ahead.

Glenn Mattson
Hi, thanks for taking the question. I realize we're running late, so I'll be quick. Just curious on the Florida revamping of the cultivation facility build out. Is your thought process that you might have kind of retrofit some of the other facilities around the country that you've built based on the Canopy standards?

Then could you just update us on the CapEx outlook for the year? That's it for me. Thanks.

Kevin Murphy
As it relates to technologies that we're looking to put into Florida, that's obviously a direct result of the Canopy relationship. And as we are looking at retrofitting or even building certain facilities such as in Illinois and around the country, those are definitely going to get the look of what Canopy technology has, because we want to take advantage of that. So there will be retrofits.

We need to still think about if it's in place and working, whether we want to disrupt the process flow, so that's still to be determined, but definitely anything that's being built out is going to get the Canopy technology in it.

Then from a CapEx perspective, what you've seen for the second quarter is going to be fairly consistent on a CapEx spend, so I'd consider that to be sort of the standard for the next couple of quarters. Obviously we'll be very mindful of cash on hand and how we use capital in the interim.

CONCLUSION

Operator
This concludes our question-and-answer session and the Acreage Holdings Second Quarter 2019 Earnings Conference call. Thank you for attending today's presentation. You may now disconnect.