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Cresco Labs Inc. CNSX:CL

Earnings Call

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Call Participants

EXECUTIVES

Charles Bachtell
Co-Founder, CEO & Director

Dennis M. Olis
Chief Financial Officer

Gregory Butler
President & Chief Transformation Officer

TJ Cole

ANALYSTS

Aaron Thomas Grey
Alliance Global Partners, Research Division

Frederico Yokota Choucair Gomes
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Nicholas Steven Anderson
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Presentation

Operator

Good day, and welcome to Cresco Labs' Fourth Quarter 2023 Earnings Conference Call. [Operator Instructions]. Please note, this event is being recorded. I would now like to turn the call over to TJ. Cole, Senior Vice President, Corporate Development and Investor Relations for Cresco Labs.

TJ Cole

Thank you. Good morning, and welcome to Cresco Labs' Fourth Quarter 2023 Earnings Conference Call. On the call today, we have Chief Executive Officer and Co-Founder, Charles Bachtell; Chief Financial Officer, Dennis Olis; and our recently appointed President, Greg Butler, who will be available for the Q&A.

Prior to this call, we issued our fourth quarter earnings press release, which has been filed on SEDAR and is available on our Investor Relations website. These preliminary results for the fourth quarter and full year 2023 are provided prior to completion of all internal and external reviews and therefore, are subject to adjustment until the filing of the company's annual financial statements.

We plan to file our corresponding financial statements and MD&A for the quarter and year ended December 31, 2023 on SEDAR and EDGAR.

Certain statements made on today's call may contain forward-looking information within the meaning of applicable Canadian securities legislation as well as within the meaning of the safe harbor provisions of the United States Private Securities Litigation Reform Act of 1995.

These forward-looking statements may include estimates, projections, goals, forecasts or assumptions that are based on current expectations and are not representative of historical facts or information.

Such forward-looking statements represent the company's beliefs regarding future events, plans or objectives, which are inherently uncertain and are subject to a number of risks and uncertainties that may cause the company's actual results or performance to differ materially from such forward-looking statements, including economic conditions and changes in applicable regulations.

Additional information regarding the material factors and assumptions forming the basis of our forward-looking statements and risk factors can be found in our earnings press release and in Cresco Labs filings on SEDAR and with the Securities and Exchange Commission.

Cresco Labs does not undertake any duty to publicly announce the result of any revisions to any of its forward-looking statements or to update or supplement any information provided on today's call.

Please also note that all financial information on today's call is presented in U.S. dollars, and all interim financial information is unaudited. In addition, during today's conference call, Cresco Labs will refer to certain non-GAAP financial measures such as adjusted EBITDA, adjusted gross profit, adjusted gross margin and adjusted SG&A, which should not have any standardized meaning prescribed by GAAP.

Please refer to our earnings press release for the calculation of these measures and a reconciliation to the most directly comparable measures calculated and presented in accordance with GAAP. These non-GAAP financial measures should not be considered superior to, as a substitute for or as an alternative to and should only be considered in conjunction with the GAAP financial measures presented in our financial statements.

With that, I'll turn the call over to Charlie.

Charles Bachtell
Co-Founder, CEO & Director

Good morning, everyone, and thank you for joining us on the call today. We've been talking about our Year of the Core strategy since last March, where we're rationalizing and optimizing everything we do to make

Cresco Labs the strongest company possible, winning within our core markets, core stores, core brands and core products.

This strategy was a decisive reset, designed to focus the business, strengthen the balance sheet and ensure preparedness for future growth. We started seeing the results of the strategy in Q3 with improving margins, profitability and cash flow.

I'm proud to share that our Q4 results capped off the year with not only strong bottom line growth but also margin expansion, nearly doubling our adjusted EBITDA and achieving positive free cash flow for the year. We've set a new standard for ourselves, and we're using these wins to fuel our business and capitalize on the many growth catalysts ahead.

I can't say enough about the Cresco team, who took this focus on the core, embraced it, made it part of our DNA and built a stronger, leaner and more productive Cresco Labs.

In Q4, our financials demonstrated accelerating momentum that will propel us for the quarters to come. Year-over-year, we generated $11 million more in adjusted gross profit on less revenue, significantly improving our gross margin.

Our team removed over $54 million in annualized adjusted SG&A compared to the prior year while driving scale, increasing unit production and retail transactions and also improving the quality of our products, customer experience and operations.

We delivered $55 million in adjusted EBITDA, up $25 million year-over-year, leading to an adjusted EBITDA margin of 29%. And finally, we generated 3x more operating cash flow for the full year.

2023 has improved cash flow is a direct result of our Year of the Core strategy, supported by best-in-class technology, processes and this engaged team that enabled us to do more with less.

Now I'm going to share more on how we're executing to create the strongest and most valuable Cresco Labs for the quarters and years to come.

Number one, we're ensuring we have the most strategic footprint. In 2023, we took a hard look at our footprint to ensure we're making the most of each market's long-term cash flow potential. This meant rationalizing areas of margin dilution in our footprint and doubling down in our core markets.

While this led to some short-term top line decline, it drove significant bottom line improvement and allows us to redeploy resources and capital to our proven markets, driving high returns on investment, increased competitiveness and maximize adult-use unlocks anticipated in these states.

In 2023, we added 16 stores across Florida and Pennsylvania, competitive markets where we've been able to increase market share, widen product distribution and improve operating leverage.

Turning to 2024, all eyes are on Ohio's adult-use program, where we built a rock-solid foundation as one of the leading operators in the state. With our 5 dispensaries driving over 2x their fair share of revenue and a 70,000 square foot cultivation and processing facility, we've completed the bulk of our capital investments.

We continue to make intelligent upgrades to our Ohio infrastructure, leaning on the successful playbook from our other adult-use conversions. We're also closely watching Pennsylvania and Florida's adult-use timeline, making investments ahead of those anticipated conversions, which BDSA expects will represent a combined $4 billion opportunity. We're very well positioned to capitalize on the 3 largest near-term state growth catalyst in the industry.

Number two, we remain the leader in branded wholesale products. The Cresco team is constantly honing our brand-building capabilities, evidenced by the sustained success of our House of Brands, where we're differentiating our products from the competition and giving the consumers what they really want.

For BDSA, we're an industry leader across every product category with top 4 portfolio positions in branded flower, concentrates, vapes and edibles. And once again, in the markets of Illinois, Pennsylvania and Massachusetts, we continue to hold the #1 overall share position.

We continue to deliver best-in-class brand performance because we know what levers to pull. Consumers want high quality and potency, but they're also seeking unique genetics and [terpene] profiles to fit specific uses. In 2023, we launched hundreds of new strains across our core markets.

By 2025, through our in-house breeding program, we plan for half of the products on our wholesale menus to be comprised of exclusive Cresco genetics, further distinguishing our offerings.

We're also putting in the work to continuously enhance our cultivation and automation capabilities, which in the second half of the year resulted in 2.2 million more grams of flower produced on 9% less canopy, a 10% increase in grams per square foot. Even more impressive, we did this without sacrificing quality as we also saw our average potency increase over the same time period.

These capabilities are on full display when you look at our performance in Florida. Since last year, we've more than doubled our flower sales. In the second half of 2023, we increased yield by more than 16% and increased total units packed out by an astonishing 67%.

These efficiencies were all achieved while keeping headcount and COGS flat, leading to improved gross margin and EBITDA margin expansion. We continue to push for higher output without sacrificing quality as we work to meet the ever-growing demand and take full advantage of our retail footprint in the state.

Our House of Brands achieved its leadership status through superior product quality, relentless approach to continuously improving production capabilities and sophisticated market planning, which will allow us to continue winning with independents as new stores open in our existing footprint and as we expand into new markets.

And number three, we built a highly productive retail portfolio in the most strategic states. I'm proud to say that we continue to grow retail revenue and fair share, all while reducing cost and generating greater profit.

Year-over-year, we grew retail sales 3% to $119 million in Q4 and saw retail fair share increase in every market.

We keep expanding our lead by getting existing customers in our doors more frequently and using data-driven price, promotion and assortment strategies to drive significantly higher basket sizes.

During the same period, we decreased total retail SG&A per quarter by almost 11% while seeing an 18% increase in the number of transactions across our network. That is an incredible per store efficiency improvement, thanks in part to in-house technology like our new inventory management processes as well as a shift to more data-driven staffing models.

Lastly, our proprietary e-commerce and loyalty platforms, Sunnyside.shop, have brought us closer to our customers than ever before, with over 275,000 Sunnyside reward members and nearly 80% of all transactions being placed online.

Our online adoption allows us to target customers, tailored experiences and customized offerings that build baskets while delighting shoppers. Our retail footprint consistently outperforms fair share with a highly efficient cost structure that is getting better every quarter. It will continue to be a core growth driver as we open new doors and seize on the adult-use conversion opportunities in front of us.

In closing, 2023 was a critical year for the entire industry, and we used the time wisely to build up our core through disciplined capital allocation, exceptional cultivation and manufacturing capabilities and a highly efficient retail infrastructure. I'm proud to see our strategy bear fruit and establish a new baseline for Cresco Labs.

You can expect to see more of the same from us in 2024, getting more from our core, fortifying our strengths, investing in key capabilities and growth catalysts and prioritizing bottom line growth, profitability and cash flow.

With that, I'll turn it over to Dennis to provide more details on our Q4 performance.

Dennis M. Olis
Chief Financial Officer

Thank you, Charlie, and good morning, everyone. In 2023, we set out to improve cash flow and profitability, and Q4 was a culmination of efficient capital allocation strategies and targeted cost savings initiatives. I'm pleased to share that. Thanks to these efforts, we improved margins across every area of our business, nearly doubled adjusted EBITDA and significantly improved operating cash flow.

In the quarter, we generated $188 million in revenue. This impressive performance is a testament to the entire Cresco team, who leaned into our production, commercial and retail strength to offset over 20% year-over-year price compression in our markets.

With every product being sold at a lower price this year, it has been imperative for us to develop efficiency throughout our business. We've done an exemplary job lowering our cost of goods through increases in yield and new automation that has driven greater output on the same asset base. This has led to an $11 million increase in adjusted gross profit bringing our gross margin to 53%, an 850 basis point increase from Q4 of 2022.

The efficiency gains have extended well beyond the cost of goods sold, increasing profitability both at corporate and at retail. Year-over-year, adjusted SG&A declined by $13.5 million per quarter, which equips up $54 million on an annualized basis. Our Q4 total adjusted SG&A was reduced to $54.5 million or 29% of revenue. Our Q4 adjusted EBITDA was $55 million or 29% of revenue, up 85% year-over-year.

This was a direct result of our better gross margin performance record efficiency improvements across retail, cultivation and manufacturing and a company-wide focus on the Year of the Core. For the full year, we generated $59 million in operating cash flow and $6 million of positive free cash flow.

We spent $4.8 million in CapEx during Q4, bringing the total year-to-date to $55 million. The investments in 2023 were primarily in new stores in Florida and Pennsylvania and incremental improvements to cultivation and production facilities in Massachusetts, Ohio, Florida and Illinois.

Our CapEx spend this year was keenly focused on improving profitability and operating leverage in our core and comes with a high return on invested capital and a quick payback.

In 2024, our CapEx plan is directed at maximizing the upcoming adult-use catalyst in Ohio, Pennsylvania and Florida. As Charlie mentioned, we are built out in Ohio and are planned for a small investment to increase yields and throughput in our other facilities and stores. In Pennsylvania, we are looking to make similar investments and we continue to prepare our second cultivation facility in the state, so it's ready to turn on for adult-use.

Lastly, in Florida, we plan to make significant investments ahead of adult-use, with a focus on expanding our cultivation facility, which will unlock the full potential of our retail footprint, both in today's medical environment as well as in the future adult-use scenario.

Looking ahead, we expect Q1 total revenue to be down in the low single digits, driven by pricing pressure and increased competition in the direct vicinity of our retail locations. This will be partially offset by growth in Florida and Pennsylvania.

We expect Q2 and Q3 to be relatively flat compared to Q1, with the company returning to growth in the fourth quarter, driven by the anticipated conversion to adult-use in Ohio. We expect the adult-use conversions in Ohio, Florida and Pennsylvania to provide meaningful year-over-year growth in both 2025 and 2026. We are targeting to keep gross margins around approximately [50%] in the face of price compression by continuing to drive efficiencies and lower cost of goods.

Absolute SG&A expense should be roughly flat sequentially throughout 2024. Cash flow should see significant improvement year-over-year as we get the full benefit from all the improvements we've made to date. With our very-focused CapEx plan in 2024, built around setting ourselves up for adult-use conversions and the significant improvements in operating cash flow, we expect 2024 to be a record year for operating and free cash flow.

In addition, while we have continued to pay our federal and state taxes on a timely basis, we are actively assessing our tax position and evaluating options for our current and past tax filings. This has the potential to have a material impact on our already-strong cash performance we expect in 2024.

We feel great about where we are and what we were able to accomplish in 2023, and we're setting ourselves up to continue on this path and achieve record cash flow again this year. There's a lot of opportunity ahead, and everything we're doing now is focused on improving efficiency and cash flow so that we're positioned to reinvest in our business with higher paybacks and better returns.

And with that, I'll pass it back to Charlie.

Charles Bachtell
Co-Founder, CEO & Director

There's a saying, most people overestimate what they can achieve in a year and underestimate what they can achieve in 10 years. Well, this is what Cresco team can achieve in just 1 year. I can't wait to see the next 10.

My team and I are continuing to spend a lot of time in D.C. meeting with members of Congress, and we're encouraged by the conversations around rescheduling and safer banking, but we're not waiting on federal reform. We're capitalizing on the incremental changes happening today. Adult-use conversions are coming to some of our highest-revenue and most-profitable markets, and we're uniquely positioned to capture outsized market growth from day 1.

In Pennsylvania, in addition to having one of the largest and most productive retail footprints, we are the #1 producer of branded products, with over 16% market share, with additional capacity ready to turn on.

In Ohio, we continue to improve our leading position with strategic investments, upgrading our facilities and retail footprint, which will grow from 5 to 8 stores in the state upon the launch of the adult-use program. And in Florida, we'll continue to make CapEx investments as we expand our market share.

A multiyear expansion plan is currently underway, which has already enabled us to capture 4% market share, and we will continue to increase cultivation capacity to supply medical patients and in anticipation of an adult-use program.

With over 70% of Americans in favor of full cannabis legalization, this is just the starting point of what will be a long list of tailwinds for this industry, and we'll be ready for it. Everything we did in 2023 was designed to prepare us to take advantage of the monumental opportunities ahead.

We're investing in our largest highest-margin markets, maximizing our upcoming adult-use catalysts, driving operating efficiencies, capitalizing on our brand and winning with independence, expanding our retail and investing in innovation to provide the consumer with the best cannabis experience possible and generating more free cash flow to strengthen our balance sheet.
With that, I'll open the call for questions.

Question and Answer

Operator

[Operator Instructions]. Our first question comes from the line of Aaron Grey with Alliance Global Partners.

Aaron Thomas Grey
Alliance Global Partners, Research Division

First one for me, just in terms of the gross margin improvement, and [that's to that] uptick there to [53%] in the quarter. You spoke to some of the leverage there. I want to speak a little bit more on the go forward then as you spoke to a range around [50%] going forward.

So just as we think about the efficiencies, automation, maybe pricing strategy and then geographic and format mix, how do we think about all the puts and takes that went into the improvement this quarter? And then, how much more of a lever you have going into 2024?

And maybe just putting into about some of the pricing pressure that you mentioned that you anticipate, so how do you think about the puts and takes making sure all those levers will be able to offset the anticipated pricing pressure you expect?

Charles Bachtell
Co-Founder, CEO & Director

Thanks for the question. So I think the results, as we discussed, they reflect a truly disciplined approach to operating the business, focusing on the markets that provide sort of the best economic structures as well as operational structures.

And then, a ton of credit goes to the team that has developed these capabilities throughout the organization that drive efficiencies both in the production side of the business, the retail side of the business, at the headquarters and corporate side of the business; that really result from Cresco being a stronger, leaner, meaner company coming out of '23 and entering into '24.

So as we look at '24 and continue to see sort of where we have opportunities for further improvement, along with the risks associated with continued price compression, that's going to be an ongoing management of the dynamics of this industry.

And again, there's so many components that feed into it. But I can just tell you, the team, the skill sets and the tools and the resources and the approaches that have been developed over the last 9, 12 months to allow us to manage that most effectively, it's just a different -- to different level. So excited about our ability to manage that as we go forward in '24 and beyond.

Dennis M. Olis
Chief Financial Officer

And Aaron, this is Dennis, let me just add on to that. A lot of the actions that we took in the first half of the year that relate to COGS, we capitalize those costs. So those cost reductions are just starting to flow into the P&L in the fourth quarter and beyond. So that's why you saw part of the improvement, a step-function improvement from Q2 to Q3 to Q4.

We also saw a very favorable mix across our geographic locations in Florida and in Pennsylvania, for example, that are high-margin states for us. So we do expect, as I said in my notes -- prepared remarks, to continue to see gross margins in the 50% range for the balance of the year, with the efficiency -- future efficiency gains offsetting some of the price compression that we've been talking about.

Aaron Thomas Grey
Alliance Global Partners, Research Division

Okay. Great. Really appreciate that color there. And then just in terms of the wholesale opportunity that you guys have, specifically maybe more so for Illinois and then New York, how do you think about the potential for a wholesale growth?

You're going to have some third-party stores opening in those states. In Illinois, it seems like the total market hasn't grown as much as we might have anticipated from some of those new [surreal paints] so a little bit more cannibalization than growing the overall pie. So how are you looking at those third-party wholesale opportunities and the ability to then maybe see some growth in that segment line for sales?

Charles Bachtell
Co-Founder, CEO & Director

Aaron, I'll start. So from a wholesale opportunity and especially in those states, Illinois and New York, we see -- we're very bullish on the long-term potential associated with growth in these markets. But like you said, it requires third-party independent stores to open up and for them to be productive. And over the last couple of years, that's been a challenge in Illinois and also in, of course, what we're seeing in New York.

But what I would tell you is our capabilities are there to be able to lean into that and help develop it. And that's what we're really focused on in Illinois and New York, too. But we need to do it in a very efficient, disciplined way especially when they're not our stores, but we're also working on strategies that will help get those stores to not only open but be as productive as we want them to be. We can help with that, too. I don't know, Greg, if you can give additional color?

Gregory Butler
President & Chief Transformation Officer

No. I think, to add on to that is what we're pleased with is in Illinois, we continue to hold above our fair share of our own stores. right? So as the market continues to be fairly concentrated by a couple of retailers, Sunnyside continues to perform incredibly well in the market.

As Charlie said, as we take a longer view and we see more independent operators open those doors, get their business running sort of attracting shoppers, we see a huge potential for our brands in those stores in the quarters to come.

Operator

The next question comes from Frederico Gomes with ATB Capital Markets.

Frederico Yokota Choucair Gomes
ATB Capital Markets Inc., Research Division

First question is just on Pennsylvania. You mentioned some additional investments you're planning there for capacity. Could you provide a little bit more color on maybe what you're seeing in that market in terms of the supply and demand dynamic, the pace of pricing traction happening there? Whether you see improvements this year from a pricing standpoint or some of the other factors impacting your strategy there?

Charles Bachtell
Co-Founder, CEO & Director

This is Charlie. So I'll start it off. Pennsylvania just continues to be a really strong market in its current form. And we're very excited and optimistic about the potential for the adult-use conversion. But in its current form, it's a strong, very productive market compared to other states. I think we've seen a bit more stabilization in that state in recent months. We continue, though, to expect further price compression, especially as we've seen historically.

In anticipation of adult-use launches, there's the potential for increasing capacity to prepare for it from operators in the marketplace. And that's something that we would expect to see in Pennsylvania as that [AU] effort progresses.

But again, a state where we have the leading market share, we compete really well in it on both sides of the aisle, on the retail side and on the wholesale side.

Greg, any additional color on PA?

Gregory Butler
President & Chief Transformation Officer

Other than just the fact that PA is a fairly concentrated retail market with the major MSOs controlling most of the channel, and I think what we're most excited about as we look at state is Charlie's point, we might see some price compression as supply comes on in the medical market.

But the growth catalyst that is Pennsylvania as an adult-use market, is pretty exciting from a financial perspective as we look out over the next couple of years. And our leading market position in Illinois puts us in a really nice place to really take advantage of that catalyst ahead of us.

So maybe some price compression here in the next couple of quarters as supply comes on, but a really nice growth story for the years to come.

Frederico Yokota Choucair Gomes
ATB Capital Markets Inc., Research Division

And then my second question, just on the revenue guide. You mentioned a slight decline in Q1, [amazing] roughly flat in Q2 and Q3. I'm curious, if you could just unpack that a little bit in terms of between wholesale and retail here, do you anticipate any one of those performing a little bit better in terms of growth? Or how should we think about your sales mix here?

Dennis M. Olis
Chief Financial Officer

Yes. Thanks for the question. So as we look into the next year, as we talked about the first quarter, we'll see a slight single-digit decline from Q4 to Q1 and then be flat in Q2 and Q3, and then we'll see a bump-up in Ohio in Q4.

In terms of the split between retail and wholesale, I think you'll see, retail continue to perform strongly across all the different markets. We're seeing a lot of good growth in Florida, in Pennsylvania. Illinois will continue to perform well, but the wholesale market will kind of flatten out over the course of the year. Greg?

Gregory Butler
President & Chief Transformation Officer

And just to add to that, as you think of the next couple of quarters, with Ohio being the first adult-use, retail for us is quite strong in the States. So we think retail is going to come out of the gates really strong in the adult-use market. So it will accelerate.

And then in Pennsylvania, where we have our stores, we think those stores will continue to grow. And as, of course, Florida looks at adult-use sometime down the road here, given that, that is a vertical market, retail will, from a longer-term perspective, represent a higher percentage of our revenue as independent wholesale opportunities continue to expand.

Operator

The next question comes from Luke Hannan with Canaccord.

Luke Hannan
Canaccord Genuity Corp., Research Division

Dennis, you had mentioned in your prepared remarks that you were actively assessing your tax position. That is something that we've heard from other peers within the space. Can you give us a sense of -- I mean, how far along are you in that process? And maybe when we might expect to get more of an update from you guys on that?

Dennis M. Olis
Chief Financial Officer

Yes. I mean we're constantly reviewing our tax position, and we have been for some time. So with the new news that has come up, we'll continue to evaluate it. I'm not going to make any predictions on when we're going to come to a conclusion on that, but we're evaluating whether that applies to us, and we'll do what we think is in the best interest of our company and our shareholders.

Luke Hannan
Canaccord Genuity Corp., Research Division

And then when it comes to the operating cash flow for this quarter, correct me if I'm wrong, but that does include a $50 million tax payment, correct?

Dennis M. Olis
Chief Financial Officer

So in the fourth quarter, there was a $36 million tax payment. There was also a $21 million interest payment that we pay semiannual to satisfy our long-term debt.

Luke Hannan
Canaccord Genuity Corp., Research Division

Got it. Okay. And then on the commentary that you're looking to have half of your product menu be Cresco genetics, Cresco strains, can you give us a sense of one where that level is as of today? And this might be getting too far into the details, but what are the -- I guess, the order of magnitude, what's the difference in unit economics between selling a third-party strain through that platform versus selling your own strain?

Charles Bachtell
Co-Founder, CEO & Director

So this is Charlie. I wouldn't have a perfect answer for you on the percentage that's exclusive genetics currently. There are exclusive genetics in the footprint. But I would say, the new genetic launches that we've done throughout the year are creating the opportunity for us to get that diversity in exclusive crosses and mixes in the years to come and '25 in particular and going forward.

Unit economic-wise, it, of course, depend on the specific strains and products that are made from them as we go forward. But it's more of a general diversity and uniqueness component that goes along with it. Now definitely, unique strains that are outkicked the coverage and are truly unique and more into a higher price point, you'll see a unit economic improvement.

But otherwise, it really is more of a demand standpoint and what the consumer is looking for that we're really excited about and being able to offer unique products and have that make up more than half of our offerings in years ahead. So really excited about that program.

Operator

Our next question comes from Scott Fortune with ROTH MKM.

Nicholas Steven Anderson
ROTH MKM Partners, LLC, Research Division

Yes. This is Nick on for Scott. Congrats on the quarter. First one for me, just on the product mix. I know it differs by state, but can you just give us a general sense of what you saw from the consumer on the quarter? Just any discernible shift in spending behavior and maybe how that impacted your mix between your good, better and best categories?

Charles Bachtell

Co-Founder, CEO & Director

Greg, do you want to start us off with this one?

Gregory Butler
President & Chief Transformation Officer

Not too much of a major change from Q3, Q4. The key themes that we see is value brand, the value segment continues to be strong and growing. Our High Supply brand does very well in that category, and we're pleased to see it continue to take a material share of that segment. So value is in, from a top line perspective, between flower, edibles, vapes, pretty much holding consistent, as you'd expect.

We're pretty excited that we are starting, as we committed to, getting into the pre-roll segment. It's a segment that has been not a focus for us in the past, now a focus for us, and we're very pleased to see how our brands are performing in that segment of flower, and we would expect to see our business continue to perform there as the next couple of quarters come in.

Nicholas Steven Anderson
ROTH MKM Partners, LLC, Research Division

Great. I appreciate that color. And then second one for me, just on Florida, 33 stores now, and you saw solid market share capture in the year. You mentioned adding on the cultivation side. Just curious, how you view your retail footprint and just the capital allocation strategy there, going forward?

Gregory Butler
President & Chief Transformation Officer

Yes, I'll take that to continue. Florida has been a great growth story for us. Q1 is going to look even stronger as we look at some of the data from [Omni] coming out. We're really pleased, the team out in Florida has done a wonderful job of bringing on capacity and quality into the marketplace.

From a store count right now, we have the right number of stores to the current footprint we have in the state, but we are actively looking at how do we expand that footprint in advance for adult-use, which may lead to store expansion at that time. But for right now, our current count is driving really nice economics for us.

Operator

Our next question comes from Ty Collin with Eight Capital.

Ty Collin
Eight Capital, Research Division

First one, just on the guidance here, specifically on the sales guidance for 2024. Just curious, if you could kind of unpack what assumptions you're making about consumer behavior throughout the year? And specifically on price compression, you mentioned it was about 20% across your portfolio in 2024. What's kind of baked into the guidance -- or rather 2023, it was 20%, what's baked into the guidance for 2024?

Dennis M. Olis
Chief Financial Officer

Yes, I'll start. This is Dennis. Thanks for the question, Ty. So as we said, the guidance for 2024 is to have [put some down] a little bit in Q1 and then flat in the second and third quarter. And again, as we talked about, that will be -- some of the growth in retail will be offset by some of the price depressions and so what -- that we see on the wholesale side.

Greg, if you want to kind of build on that?

Gregory Butler
President & Chief Transformation Officer

Yes, as we build our plans, we are planning for price compression across our core markets. I will say, Q1, as we get into this year, is showing not growth, but showing that, that trend line may be stabilizing a bit, which is encouraging.

However, as we've written our plans, we've assumed that there will be price compression, whether that's due to increased retailer competition in the markets like Illinois, whether that's adult use supply coming online early and going into a limited medical market like Ohio and Pennsylvania. In Florida, like there are different catalysts that might continue to push supply into the market, bringing out pricing.

Where we are confident in our plan is if we are wrong in our price compression numbers, that will be a good guide for us because we built our cost structure for the year to assume that we will see continued price compression, which means we're finding ways to take costs out of our business at a faster rate than price.

And we feel good about kind of what we were able to show and to start showing in Q3 what we showed in Q4 and where that's going to play out for the rest of the year.

Ty Collin
Eight Capital, Research Division

Great color. And then as my follow-up, we've heard some of your peers talking about the opportunity to enter into these JV partnerships with social equity licenses as a way to find additional growth and get additional exposure in markets like Illinois, where it might already be at the license cap. Is that something Cresco is looking into in a serious way? And if so, how would you think about the size and nature of that opportunity?

Gregory Butler
President & Chief Transformation Officer

We are not in a position to share too much on any partnership deals. What I would say is we have historically had relationships with joint venture partners and some of our retail doors in the past. It's worked very well for us. So it's something that we are actively exploring. And we know that we can do really well if that's a path that we choose to go down.

Operator

We have no further questions. I'll turn the call back to the management team for any closing comments.

Charles Bachtell
Co-Founder, CEO & Director

I just again want to thank the broader Cresco team here for the way that they embraced the Year of the Core in '23 and really incorporate it into our DNA, going forward. We're excited about the years ahead. Thank you for joining us on the call today, and we'll talk to you in a couple of months.

Operator
Thank you, everyone, for joining us today. This concludes our call, and you may now disconnect your lines.