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Earnings Call

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CALL PARTICIPANTS	2
PRESENTATION	3
QUESTION AND ANSWER	7

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Presentation

Operator

Good day, and welcome to the Cresco Labs First Quarter 2024 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 of Cresco Labs. TJ, please go ahead.

TJ Cole

Thank you. Good morning, and welcome to Cresco Labs First Quarter 2024 Earnings Conference Call. On the call today, we have Chief Executive Officer and Co-Founder, Charles Bachtell; Chief Financial Officer, Dennis Olis; and President, Greg Butler, who will be available for Q&A.

Prior to this call, we issued our first quarter earnings press release, which has been filed on SEDAR and is available on our Investor Relations website. These preliminary results for the first quarter 2024 are provided prior to completion of all internal and external reviews and, therefore, are subject to adjustment until the filing of the company's quarterly financial statements. We plan to file our corresponding financial statements and MD&A for the quarter ended March 31, 2024, on SEDAR and EDGAR later this week.

Before we begin, I want to remind you that statements made on today's call may contain forward-looking information. Actual results may differ materially. The risks, uncertainties and other factors that could influence actual results are described in our earnings press release and in the MD&A filed with the securities regulators. This call also contains non-GAAP measures, also outlined in our earnings press release and in the MD&A filed with the securities regulators. Please also note that all financial information on today's call is presented in U.S. dollars, and all interim financial information is unaudited.

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. It is a historic time for the industry with the anticipated reclassification of cannabis to a Schedule 3 substance. We see this as the first federal reform domino to fall that will likely have substantial impacts on cannabis reform in the future. It will open the door to more research, impact legislative opinion and is a significant step toward eliminating the crushing tax penalties imposed on the cannabis industry.

We're excited about what the potential shift could mean for the cannabis stakeholders and Cresco shareholders, especially in combination with all of the hard work by the team to improve profitability over the last year. Our Q1 results demonstrate our business' growing momentum and continued focus on our core and profitability. Year-over-year, we generated a 580 basis point improvement in gross profit margin, proving that our efforts to restructure and prioritize investments across our core markets continue to drive outsized returns.

Our team moved approximately $65 million in annualized adjusted SG&A compared to the prior year while growing more cannabis, selling more units, handling more retail transactions, launching fresh innovations and building new technologies. We delivered $53 million in adjusted EBITDA, up $24 million year-over-year and net income before taxes of $16 million. And finally, we generated $36 million in operating cash flow, $33 million more than a year ago, further strengthening our balance sheet position and giving us greater firepower to redeploy towards strategic growth opportunities. Cresco Labs is stronger, leaner and more productive than ever and we're using this energy to fuel our business and take full advantage of the major state and federal catalysts ahead of us.

Now I'm going to share more on how we're executing to create the strongest and most valuable Cresco Labs for the years to come. Number one, we're ensuring we have the most strategic footprint. In 2024,

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we're throwing our full weight behind the imminent and potential adult-use catalysts coming within our existing footprint. This means strategically building on our leading positions in Ohio, Pennsylvania and Florida.

In our nearest term catalyst, Ohio, our teams are ready for the adult-use rollout, which as of Monday's exciting news, is set to formally kick off in June. We have been making strategic improvements to our dispensaries to ensure we can handle the increased traffic with the same level of service that has made our dispensaries some of the most productive in the state. At the same time, we continue to make cost-effective upgrades to our production facility to maximize yields and product throughput.

Over the past year in Florida, we've made strategic investments towards efficiency gains at our Indian town facility, upgrades that are paying dividends and having a ripple effect across the entire value chain. In Q1, nearly every KPI is up, including yields, potency, customer growth and ticket growth. With an over 100% increase in quarterly revenue and nearly doubling our market share versus a year ago, we're winning in all areas through best-in-class vertical integration.

Our retail operating model was on full display for 420 with our Florida stores managing record-breaking traffic and patient throughput designed to scale up as we shift into adult-use. In Pennsylvania, we're well positioned to maximize the potential adult-use opportunity with the #1 brand in market share and leading retail coverage. In Q1, we launched our high-dose Troches format, further establishing our leading portfolio of brands.

We're also making strategic investments to expand both our facility network and store footprint to support the anticipated market conversion. Ohio, Florida and Pennsylvania represent the 3 largest state growth catalysts in the industry. We're taking meaningful steps in making smart investments to ensure we capture outsized share and generate significant operating leverage and free cash flow in these markets, while also closely evaluating recently launched adult-use markets like New Jersey and Maryland. Thanks to our focus on operating cash flow, we can strategically take on new adult-use markets at the right time and invest in accretive opportunities and incremental growth catalysts in the coming years.

Number two, we remain the leader in branded wholesale products. Our House of Brands continues to deliver on its promise of high-quality and high-value products for every consumer occasion. We continue to hold the #1 overall share position in Illinois, Pennsylvania and Massachusetts. And per BDSA, we have top portfolio positions nationally and branded flower, concentrates, vapes and edibles. We're constantly evaluating our portfolio to ensure we're delivering best-in-class brand performance.

One example is our revamped approach to the pre-roll category. In Illinois, we've already driven an 800 basis point improvement in our pre-rolled market share year-over-year. We're building capabilities to address any gaps in our offerings and using automation and leading capabilities to deliver high-quality, profitable products. This mindset extends beyond our product portfolio with the entire Cresco team sharing in the relentless pursuit of improvement across every step of the value chain.

Our brand strength also facilitates winning relationships with non-MSO or independent dispensaries, which will continue leaning into this year. Across the 3 markets where we hold #1 share positions, we saw an average year-over-year revenue growth of approximately 25% from independents in Q1. This is a clear sign that when dispensaries are prioritizing product velocity and gross profit impact, Cresco Labs products deliver unparalleled value.

And number three, we're building a highly productive retail portfolio in the most strategic states. We reached some exciting retail milestones in Q1. Notably, we've increased our retail fair share year-over-year across every market. In Illinois and Ohio, our stores have reached 2x the state's average stores monthly sales. In Florida, according to state provided data, we've doubled our market share position year-over-year.

These are impressive feats across highly competitive and MSO concentrated markets that showcase our ability to leverage verticality, optimize our assortment to reflect consumer trends and ultimately drive more revenue into higher profitable goods. In Q1, we increased trip frequency by 3% and grams sold per ticket by 11% compared to the prior year. For our most valuable customers, we increased trip frequency

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by over 10% during that same period. This growth is possible because of the many things that we do differently in retail that make Sunnyside uniquely Sunnyside.

Our investment in tech capabilities is allowing our team to accomplish incredible things. We had a remarkable 420 this year, where our teams managed 19,000 online orders, a single-day record of 25 orders per minute. On a day when consumers buy a lot of cannabis, our technology enabled them to buy even more.

Our e-commerce platform, sunnyside.shop drives consumer behavior, leading them to build baskets that were $20 higher on average when compared to both in-store shopping and other online ordering tools. This considerable bump isn't unique to 420. Our capabilities and data-driven understanding of our consumers creates a clear differentiated advantage.

Our retail footprint is built on a base of technologies and repeatable operating procedures that we've continuously advanced over the last 3 years. It consistently outperforms fair share with a highly efficient cost structure that gets better every quarter.

In closing, last year was about building a rock-solid foundation, and this year is about leveraging that strength to take full advantage of the many transformational catalysts and growth on the horizon. I'm so proud of how the Cresco team has taken all of the learnings from the Year of the Core, internalize them as part of our DNA and continues to work towards generating significant free cash flow and profitability.

With that, I'll turn it over to Dennis to provide more details on our Q1 performance.

Dennis M. Olis
Chief Financial Officer

Thank you, Charlie, and good morning, everyone. Our continued focus on efficient capital allocation and targeted cost savings initiatives led to significant improvements that have carried over into 2024. These efforts culminated in another strong quarter of improved profitability, cash generation and the strengthening of our balance sheet, all in the face of over 11% price compression across our footprint.

In the quarter, we generated $184 million in revenue, essentially flat year-over-year adjusted for purposeful reductions. Our team has done a fantastic job of finding and removing costs at every stage of our cultivation, production and distribution supply chain. This has led to an increase in adjusted gross profit, bringing our operating gross margin to 51.5%, a 580 basis point increase from Q1 2023.

As planned, steps we took last year have continued to bear fruit. Year-over-year adjusted SG&A declined by $16.1 million to $51.7 million. That's 28% of revenue improved from 35% in Q1 of 2023. This is even more impressive when you account for the 7 dispensaries we added over the same period. We believe we have room for additional operating leverage as well, and we're starting to realize those benefits as we capitalize on adult-use conversions.

Our Q1 adjusted EBITDA was $53 million or 29% of revenue, up 82% year-over-year. Going forward, operating leverage will be the main driver of adjusted EBITDA margin improvement. Our cost structure can support significantly higher revenues in states like Ohio, Pennsylvania and Florida, and we are expecting much of that gross profit growth to drop to the bottom line.

For Q1, we generated $36 million in operating cash flow and $33 million of positive free cash flow over 10x higher than the prior year. Our unrelenting focus on cash generation is not only reflected in our cash flow statement, but also our balance sheet, where in Q1, we recognized a sequential reduction in inventory of $9 million while reducing our AP and accrued expenses by $17 million. We've shortened our cash conversion cycle time by 8% since last year through improved accounts receivable collections and inventory management.

We spent $3.8 million in CapEx during Q1 focused on cultivation improvements in Ohio and improvements to our manufacturing in Florida and Massachusetts. We expect to spend $50 million to $70 million for the full year, inclusive of our upgrades to our Ohio cultivation and production facility as well as expansion in Pennsylvania and Florida in advance of adult-use.

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Looking ahead through 2024, we are maintaining the expectations we set on our Q4 call, where we expect Q2 and Q3 revenue to be relatively flat compared to Q1. We are taking a measured approach to earlier-than-expected start date for adult use in Ohio and expect growth to be stronger in the fourth quarter as the program gets off the ground. 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 50% and believe that it is achievable throughout 2024. As we've stated previously, we will experience fluctuations from quarter-to-quarter due to continued price pressures, revenue composition by state and portfolio mix. For the full year, operating cash flow will be significantly higher than last year. We plan to make our interest payments in Q2 and Q4, which will lower cash flow in those quarters.

Regarding our tax position, we are in the process of filing protective claims for 2020 through 2022 to allow us to file amended returns at a later date. We are exploring options to amend our tax position for the 2023 tax year and will provide more color on our Q2 earnings call in advance of our extended filing date. Should we amend our position on 280E, it would have an approximate $70 million impact on our cash flow for the full year of 2024.

2024 is off to a great start. We are carrying forward the efficiency gains we made last year, converting that improved cash structure into free cash flow that only has room to grow.

With that, I'll pass it back to Charlie.

Charles Bachtell
Co-Founder, CEO & Director

We are optimistic about the momentum behind cannabis reform and the development of a responsible, respectable and robust industry. Eliminating 280E in the heavy tax burden weighing on all cannabis companies will unlock access to capital and create new opportunities for innovation and expansion.

In the interim, we continue to run the business as efficiently as possible while accelerating our core by investing in the largest, highest-margin markets, maximizing upcoming adult-use catalysts, driving operating efficiencies, continuing to capitalize on consumers love for our brands, expanding 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.

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Question and Answer

Operator

[Operator Instructions] And our first question comes from Aaron Grey from Alliance Global Partners.

Aaron Thomas Grey
Alliance Global Partners, Research Division

So first question for me. I want to talk on Ohio. You got some encouraging news earlier this week with the start. You mentioned some things in your prepared remarks how you guys are ready to go. Just wanted some more specifics there. You spoke to retail, and getting set there, I imagine that more POS is out the door, but could you speak to it from an inventory perspective?

How well positioned are you guys? And do you believe the industry is to make sure the stores are well inventoried just given the short time frame from when we knew adult-use would be starting, just being confirmed this week for next month? And then also just in terms of some of the CapEx investments for Ohio, how should we think about the timing and expansion from when that could come online to help with the adult-use market?

Charles Bachtell
Co-Founder, CEO & Director

So yes, really excited about the update coming out of Ohio earlier this week. It's one of those things that's great. It's great news to see any adult-use transition move ahead of schedule. But to your point, to your question, that comes with its own potential challenges, too. So we've been working on AU preparedness like everybody in the market. We have been investing in the stores to make sure that they can handily increased volume that adult use is going to bring.

But moving the date up of expected launch a few months will inevitably come with potential for supply shortages. I think when the law was passed through the ballot initiative last November, at that point, in Q4, very beginning in Q1, people are developing their CapEx and supply plans for that launch date. So it's the good news of moving up the launch date, but anticipating that there could be some supply shortages in the state.

Dennis M. Olis
Chief Financial Officer

And then, Aaron, this is Dennis. So a couple of things. From an inventory perspective, we will see a slight increase in our inventory balance. We've done a great job of managing our overall balance the last couple of quarters. I do expect that to increase slightly into Q2 and beyond as we start to build up some inventory in advance of AU in Ohio.

As far as the CapEx goes at the Ohio site, most of that investment has been made already. There is a little bit of investment CapEx required for some of the stores to expand the stores to allow for AU volume that's going to go through those stores. But the bulk of the inventory -- or the CapEx investments already been made.

Aaron Thomas Grey
Alliance Global Partners, Research Division

Okay. Great. I appreciate that color there. And then just, again, if I could, on your prepared remarks in terms of the operating cash flow, specifically tax. Appreciate some of the color you mentioned as you guys value your position. But could you just clarify for the quarter, you mentioned interest payments in 2Q and 4Q. So as of today, did you guys have any type of tax payable buildup? Or are you guys still waiting until you get further clarity from your loads in terms of how you're going to evaluate 280E treatment now before you decide or not to make the payments meant for this year?

Dennis M. Olis

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Chief Financial Officer

Yes. Our tax position hasn't changed. We did file an extended return. So we will pay -- planning right now to pay the taxes in late Q3. That would -- for 2023, that's something that we're currently evaluating, looking at our tax position and the appropriateness of 280E for 2023. So we'll come back to you in Q2 with those answers. In terms of payments of taxes in the quarter, really nothing significant in the quarter, some catch-up for some NCI payments. We will make -- we did make a Q2 payment for some -- to close out our 2022 federal taxes.

Operator

And our next question comes from Frederico Gomes from ATB Capital Markets.

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

Congrats on the quarter. First question is on Florida. Obviously, you have been performing really well there, strong gains in volume share. So -- and just can you speak to that in terms of how much more can you extract from your current footprint? And maybe provide a bit more color on your expansion plans in the state ahead of the vote coming in November, how much do you expect to invest there before you have a result from the election or [indiscernible] are just waiting for that or going to be investing ahead of that? So any color there?

Charles Bachtell
Co-Founder, CEO & Director

Sure. So yes, we're cautiously optimistic about Florida. We're part of the initiative down there to help ensure that, that ballot initiative is successful. The great thing for us, when we look at Florida is it's an execution game, right. With that forced vertical integration structure that you have down there, it really rewards organizations that execute because you have to be able to grow it, you have to be able to manufacture products. You have to be able to open retail stores. You have to be able to service consumers.

You can't rely on third parties at all down there. So with us being able to prove that we can execute operationally down in Florida, in the medical structure, it's really encouraging for us to move forward with a more incremental growth and expansion strategy that will be appropriate for a medical program ongoing or adult-use should that be successful come November.

So that's sort of how the outline of our CapEx and growth strategy is in Florida is we've got an incremental opportunity to take advantage of the execution that we've shown we can follow through with in the medical-only market and that will also benefit us as adult-use comes online post November, which will, of course, launch a Phase 2 of our expansion plan in the event that, that's successful.

But yes, we really like the way that the team is performing down there and congratulations to them for great last few quarters.

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

Great. And then my second question is just -- you mentioned potentially entering new states, Maryland, New Jersey, as two of those states that you might be looking at. So how are you seeing the M&A pipeline at this point in terms of valuations and opportunities to enter those markets? And how soon something like that could happen?

Charles Bachtell
Co-Founder, CEO & Director

Sure. So fortunately, we've got these phenomenal growth catalysts in the footprint already. So priority one is making sure that we're prepared. The teams are prepared. We're prepared as an organization to execute on those opportunities that are already within the footprint. It gives us an opportunity to be very

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strategic and opportunistic when we're evaluating anything that comes, whether it's New Jersey, Maryland or other good states that have good structures and provide stable economics.

So we're going to be selective. We're going to make sure that we're smart in the way that we approach any new state because we've got phenomenal opportunity in the footprint already. Anything else that we...

Gregory Butler
President & Chief Transformation Officer

Just to add to that, I think, back to your original question, too, as we focus investment, putting investment in states like Florida, where independent on whether a state medical use, Florida will continue to be a growth story for us. And so before even entering a new state, continuing to capitalize on the growth that we can do in states like Florida, we'll see in Ohio and setting ourselves up for Pennsylvania is priority one.

Operator

And our next question comes from Luke Hannan from Canaccord Genuity.

Luke Hannan
Canaccord Genuity Corp., Research Division

I think I heard you correctly there in mentioning that price compression was roughly 11% across your footprint during the quarter. Can you share -- was it more pronounced in certain states versus others during the quarter? And then what are you seeing so far quarter-to-date, just not necessarily from a price compression perspective, but also from a consumer behavior perspective, specifically how responsive consumers are to price being a factor for driving purchase or perhaps other tactics as well?

Charles Bachtell
Co-Founder, CEO & Director

Sure. Greg is going to answer that.

Gregory Butler
President & Chief Transformation Officer

So you're obviously correct. As we see pricing, if you look at 2 years ago, we saw pricing declines continuing to about down 20%. Over the last year, pricing declines have been down about 11%, it's been a much slowing flow. As we see Q1 across most of our markets, there's signs of stabilization. There is a couple of markets where we're seeing some slight continuation of decline being other markets like Florida, we're actually seeing some improvement in the trend.

So as we go into Q1 and Q2, I think we'll see that trend continue. Ohio will likely be one that's going to be interesting to watch. Right now, we're seeing some positive pricing, as you always see before an adult-use conversion. You also see prices move up in adult-use conversion, but then settle back down as the market continues to stabilize as supply comes online. So I think overall, what we're seeing in our market is pricing is stabilizing.

We're not on that minus declining trend, but watch Ohio. I think we'll see it go up and then come back down.

Luke Hannan
Canaccord Genuity Corp., Research Division

Got it. That makes sense. And then, Charlie, maybe this one is for you. You've seen multiple markets now that have gone from medical to recreational markets over the last few years, both within your footprint? And then beyond it. So when it comes to both Ohio in the near term and then perhaps Florida and Pennsylvania longer term, what's in terms of your approach, your strategy to these conversions has changed, I guess, after watching those -- the past conversions take place beyond just, of course, investing in capacity or expanding your product assortment?

Charles Bachtell

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Co-Founder, CEO & Director

Yes. No, it's a great question because we have. We've been through a few of them. We've seen even more over the last few years, and they do follow similar paths and you want to learn from your experiences. So being ready for it operationally. That's one of the things I'm excited about as we look at what's going on in Ohio. Our team's ability to prepare the Ohio team for what they're about to see is just different than it has been in other markets that we've been a part of with a matter of first impression for us.

So I'm excited for the team to be a part of an AU launch, an AU conversion, and I'm really excited to see how they handle it because they're going to be much better prepared than we have been in prior examples. But that's why I also cautioned the excitement about the accelerated launch time line in Ohio. Internally, we kind of referred to it, it's the excitement about when you're -- when you're traveling and your flight arrives 45 minutes early, but then you sit on the tarmac for 30 minutes because the gate isn't ready.

And I would expect that to be a bit of the case in Ohio. It's going to be supply constrained. There's going to be some learning curves for other operators that haven't been part of conversions before. So you build that into your operational plans as well. So I think, look, we're just excited about being ready for these conversions and these catalysts that are in our footprint, and we're more prepared than ever to take the most advantage of them as possible. And I think Greg got some additional info.

Gregory Butler
President & Chief Transformation Officer

Then the only thing we add as we look at forecast, everything we see in a conversion is that you will see some massive unit growth in volume, and then it stabilizes. You also see pricing, as we talked just a couple of minutes ago about pricing improvements and then usually walks it back. So making sure that your operating leverage stays efficient during this growth period because we always see a stabilization post a couple of months after.

And the opportunity for us to get in, conversions create tremendous excitement for shoppers to get into stores and really getting them signed up on our loyalty platforms, our platforms to build that sticky relationship is the other priority for us.

Luke Hannan
Canaccord Genuity Corp., Research Division

Great. That makes sense. Last one for me, and then I'll pass it along. Dennis, I think I heard you correctly that you said you had filed protected claims for the 2020 to 2022 returns and then you quantified the potential tailwind for operating cash flow in the year from -- should you change your stance? Or there should be a favorable ruling rather when it comes to your 2023 return. But can you quantify what would be the cash flow tailwind for the 2020 to 2022 returns?

Dennis M. Olis
Chief Financial Officer

Yes, we've -- thanks for the question. We will -- we will be filing protective claims through '20 through to 2022. We're building up the position paper to support that position. As far as the impact going back to couple of years, we've said it's roughly $70 million a year. So the potential opportunity is roughly $210 million if we were to go back and look at years 2020 through 2022.

Operator

Our next question comes from Pablo Zuanic from Zuanic & Associates.

Pablo Ernesto Zuanic
Zuanic & Associates

Charlie, I was asking Ohio also, but first, maybe as Chairman of the National Cannabis Roundtable, what's your view on the fact that the proposed draft ruling it's not yet on the OMB website? Is it because it's

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going through a different process? Because it's like 93 or 94 rulings, they are still under review from various agencies. Is it a different process? Or is it that the DOJ has not sent to the OMB yet, and that's why it's not on the dashboard?

Charles Bachtell
Co-Founder, CEO & Director

Sure. Pablo, what I would say here as it relates to rescheduling is, I think all of us would be best served by being patient until the notice of a proposed rule making is actually published. And I think that's going to happen in the near future. And I think it will answer a lot of questions on time line, on next steps and should address any of the kind of speculation or concern or discussions that we're having about process and procedure to date.

So I would just say, let's wait till the notice of proposed rulemaking is issued, and I think that will answer a lot of questions for us.

Pablo Ernesto Zuanic
Zuanic & Associates

Right. And then just a follow-up on Ohio. I hear you on the nice surprise that things are happening earlier than expected. But I had heard, what I thought that Ohio was very particular in the sense that when you were given a license for cultivation, you were supposed to fully build whatever license you were giving for.

So from other people, I heard that the state was actually more prepared in terms of capacity ahead of -- but I guess that was the wrong information. But again, I feel like the way the plan worked was that people were supposed to build whatever they were given for. So if you can give some thoughts on that.

And then related to that, if you can comment in terms of your own capacity expansion plans or addition there? Are we talking about doubling, tripling your capacity to serve the market, if you were not ready for it? And the last one, and I'm sorry, so many, do we have line of sight in terms of how many stores the state will have by end of 2025? I heard from some people 350 stores. Any thoughts on that?

Charles Bachtell
Co-Founder, CEO & Director

Sure. And just to clarify, I don't think anybody is necessarily unprepared to meet the obligations to move forward that would have been set forth by the state. Again, there's been a fully functioning and fairly mature medical program in place for a while. It's just look any expansion upon that, above and beyond it. This law was only passed in November.

So the ability for anybody to build, and I think it's fair to say that in November of 2023, not many cannabis companies are building on spec that a law would change. So I think the ability to service the significant increase in expected volume in the state of Ohio, just realistically, the CapEx and the expansion plans needed to go from medical to adult use in the doubling, tripling whatever it may be, it's going to take more time than 9 to 10 months. But what was the next part of that question, sorry, Pablo?

Pablo Ernesto Zuanic
Zuanic & Associates

Yes, the last one, quantify in terms of your own capacity. Are you doubling, tripling, quadrupling? Just a sense. And then last one, if I may, again, do you have -- do we have an idea of how many stores the state is going to license? I'm hearing 350, whether that's right in total?

Charles Bachtell
Co-Founder, CEO & Director

Sure. So as it relates to our production, we've been doing incremental CapEx investments there to get more juice from the squeeze. I would say, again, taking a phased approach to capital allocation to that market. Larger potential expansion plans. And again, this is similar to our understanding of the market

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as a whole, really wanted to see how the AU launch process and the approval process at the state level proceeded.

Again, we're all very happy that it looks like a good guy all around where it moves forward faster than expectations. But there was quite a bit of risk when that ballot initiative was actually approved in the November election cycle. There was opposition in the legislature and there were expected significant opposition to push back to the law. So again, I think that is going to impact the further expansion plans for everybody.

And then as far as the total number of dispensaries that could be expected by the end of '25, we think the dispensary amount doubled year-over-year to where we're at now compared to where we were at a year ago. There's additional opportunities for -- there's additional opportunities for licenses to become operational. But I don't know the total number by the end of 2025, it would be pure speculation at this point.

Operator

Our next question comes from Scott Fortune from ROTH MKM.

Nicholas Steven Anderson
ROTH MKM Partners, LLC, Research Division

This is Nick on for Scott. Congrats on the quarter here. First one for me, just on the product mix. You have a leading portfolio in concentrate, and you hear at the top end several other categories. Just curious what you've seen from the consumer in terms of preference as these categories evolve? Has there been any discernible shift in category demand and just how you think product mix will evolve over the course of the year here?

Charles Bachtell
Co-Founder, CEO & Director

Greg will take that.

Gregory Butler
President & Chief Transformation Officer

Scott, we're very proud of where we are sitting with our portfolio. As you mentioned, our brands tend to be at the top of every state we operate in. I think in trends in our portfolio, what we're seeing, and this is pretty consistent with what we're seeing across categories is you are continuing to see a bifurcation between value brands and premium, higher-priced brands.

If you look in our business, by supply continues to be a growth driver for us, which we're pleased to add to that, but then we're also seeing growth at the higher-level brand that has some unique like FloraCal or Khalifa Kush, which we have partnership with in states that are continuing to drive and earn a significant price premium.

So I think one thing we're seeing is that the consumer is smart, they will seek out value from the right product, but they are willing to pay a premium for products they think are differentiated and worth the price, which is encouraging for us. That's a typical consumer good industry. Regarding high-level shifts between categories between flower and concentrates, edibles and vapes, not a ton of movement we're seeing at the macro level within our portfolio, as we talked about earlier in our remarks, pre-rolls for us.

We've got back in the pre-rolls segment we're very pleased with how we're continuing to perform in that segment. We think there's much more room for us to grow in the segment both in the value and the premium component. So overall, happy with where we are. But I think from a big, big macro shift perspective, not much we expect to change as we look out 3 to 4 quarters.

Nicholas Steven Anderson
ROTH MKM Partners, LLC, Research Division

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Great. I appreciate that color. And then second one for me, just on the wholesale side. You've been a leader there. The industry has been talking about partnerships with social equity and maybe other license holders. Just curious how you view that model and the potential economics of these partnerships? And just your sense on how you plan to drive wholesale growth with these new states and dispensaries coming online here?

Gregory Butler
President & Chief Transformation Officer

While I continue with this and then Charlie will add to it as we go. As we look to new states, obviously, some of the social equity licenses and dispensaries and the independent dispensaries are very important, very important for the industry because it will help drive growth in communities that are underserved today with where the current legacy operators sit with their stores.

But they also provide competitive opportunities where they're not a vertical channel. So for us, we look at that as a huge opportunity, and we know we have some of the best products with some of the highest velocities. And so getting into those shelves and letting the best brand win is an opportunity that we think we're best positioned for Cresco.

As we think of brands and partnerships, we do have a number of brands that we partner with through licensing agreements. How we think about that is state by state, but it also is part of the broader equation, which is, are we creating the best possible product for the consumer. And so if we can do that with our own brands, we certainly will. And if there's partners out there that we think offer something that's distinctive to our portfolio, is margin accretive to our portfolio into [lights] consumer, it's something we'll certainly be open to do and to continue to expand because we think that there's ample room for us to continue to grow different products and forms that are really focused on meeting consumer needs.

Charles Bachtell
Co-Founder, CEO & Director

Yes. Only thing I would add is just talking about partnership at the broadest level, not just at the brand level. I do think whether it's social equity licensees or any other types of new licensees or independent licensees, there's an opportunity there to create win-win-win scenarios. The sector has its challenges to operators, whether it's access to capital, cost to capital, developing capabilities.

And I think we're at a stage in the development of the sector where the experienced operator like the Cresco Labs has a lot to offer and contribute to create win-win-win scenarios for those new, smaller operators for us as an organization and for the state programs. These state programs want all of these licensed operators up and running and being successful. And I think there's, in the broadest sense of the term partnership, there's opportunities there for us to be contributors and beneficiaries.

Operator

[Operator Instructions] And our next question comes from Gerald Pascarelli from Wedbush Securities.

Gerald John Pascarelli
Wedbush Securities Inc., Research Division

Great. I just had one on SG&A. Understanding that you've kind of been progressing on improving this line item really since the back half of the year. I think it still came in a little better than expected this quarter, and it sounds like from your prepared remarks that it's going to sustain. So would love some more color just on the drivers behind the lower levels of SG&A this quarter.

And then from a cadence perspective, not looking for guidance or anything, but is it fair to assume that this will continue to improve sequentially as we progress throughout the year?

Dennis M. Olis
Chief Financial Officer

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Gerald, thanks for the question. This is Dennis. So from an SG&A perspective, we've done a lot of work. We started it last year when we were talking about the Year of the Core and really trying to run our -- a lot of our corporate operations as efficiently as we could and looking for opportunities to get synergies across the businesses and across the functions.

So what you saw really started last year in the second half of the year was that concerted effort to really look for opportunities to become more efficient. We've done that. We're continuing to examine everything. So what you saw in Q1 was really a continuation of actions that we took in late Q4 and in early Q1. So again, we're happy with where we're at today. We'll continue to look at every opportunity to reduce costs where it makes sense.

And again, the fact that we're still able to perform at the levels we are as a credit to the entire organization. When I look forward at SG&A expense, where there's opportunities to continue to look for some synergies, there will be some increases as we add some new stores that we're going to be adding throughout the portfolio in advance of AU, there's going to be some head count that we're going to have to add in our retail stores in Ohio to handle the volume that we're going to see.

So we're going to try to offset those growth catalysts with additional savings opportunities and look to be relatively flat through the balance of the year.

Operator

And that was all, no questions. I will hand back over to Charlie for final remarks.

Charles Bachtell
Co-Founder, CEO & Director

I just want to thank everybody for joining the call today and again extend a giant thank you to the broader Cresco team. As we saw here with announcements in the quarter and momentum at a federal level, the impact that we're having on the industry is immense and you're firing on all cylinders, and it's showing in the results.

So thank you, Cresco team. Thank you, everybody, for joining the call today, and we'll talk to you next quarter. Bye-bye.

Operator
And this concludes today's call. Thank you for joining. You may now disconnect your lines.

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