FINAL TRANSCRIPT

Glass House Brands Inc.

Fourth Quarter and Full Year 2022 Investor Call

Event Date/Time: March 13, 2023 — 5:00 p.m. E.T.

Length: 83 minutes

CORPORATE PARTICIPANTS

John Brebeck
Glass House Brands Inc. — Vice President, Investor Relations

Kyle Kazan
Glass House Brands Inc. — Co-founder, Chairman, and Chief Executive Officer

Mark Vendetti
Glass House Brands Inc. — Chief Financial Officer

Graham Farrar
Glass House Brands — Co-founder, President & Board Director

CONFERENCE CALL PARTICIPANTS

Bobby Burleson
Canaccord — Analyst

Jonathan DeCourcey
BTIG — Analyst

Aaron Edelheit
Mindset Capital — Analyst

Ed Stein
Private Investor

Mike Regan
Excelsior Equities — Analyst

PRESENTATION

Operator

Good afternoon, ladies and gentlemen, and thank you for standing by. Welcome to the Glass House Brands Fourth Quarter and Full Year 2022 Investor Call.

I would now like to turn the conference over to Mr. John Brebeck, Glass House Brands' Vice President of Investor Relations.

Please go ahead, sir.

John Brebeck — Vice President, Investor Relations, Glass House Brands Inc.

Thank you, JP. I'd like to welcome everyone to the Glass House Brands fourth quarter 2022 conference call for the three-month period ending December 31, 2022.

Listeners are reminded that certain matters discussed in today's conference call, or answers that may be given to questions asked, could constitute forward-looking statements that are subject to the risks and uncertainties relating to Glass House Brands' future financial or business performance.

Actual results could differ materially from those anticipated in those forward-looking statements.

The risk factors that may affect results are detailed in Glass House Brands' periodic filings and registration statement. These documents may be accessed via the SEDAR database.

I'd like to remind everyone that this call is being recorded today, Monday, March 13, 2023.

And I would now like to introduce Mr. Kyle Kazan, Co-founder, Chairman, and Chief Executive Officer of Glass House Brands.

Kyle, over to you.

Kyle Kazan — Co-founder, Chairman, and Chief Executive Officer, Glass House Brands Inc.

Thank you, John. Good afternoon, everyone, and thank you for joining us for today's call.

I'd like to give a special hello to my teammates at Glass House Brands who make great things happen seven days a week, the long-time investors who trust us when we funded our start-up operations through a series of private equity funds, and investors who joined after Glass House went public. We thank you all for your trust and commitment.

2022 was a year of tremendous progress for Glass House Brands, and I'm incredibly proud of our team. Over the past several quarters, we've demonstrated the enormous potential of our marquee asset, the SoCal greenhouse, that is 5.5 million square feet in size, with 841,000 square feet currently dedicated to flowering and 420,000 square feet dedicated to nursery operations that support all three of our farms, as well as third-party clone and teen sales.

This farm puts us firmly in the pole position to be the leader not just in California, the Mecca of cannabis, but the entire US, enabling us to consistently produce top-quality cannabis in a highly efficient, low cost, and profitable manner.

Almost two weeks ago, we announced the intent to turn on an additional greenhouse at our SoCal Farm capable of producing 250,000 pounds of biomass annually when fully operational. Given that our current annual capacity across all three farms is approximately 300,000 pounds, this would represent a more than 80 percent increase in production capability.

Before we turned on Phase I of our SoCal Farm, we were frequently asked if we thought the new output would crash pricing, and if we could produce quality flower consistently at that scale.

In the third quarter, our first full quarter of production at SoCal, we produced and sold almost 75,000 pounds, supplying all of our own CPG brands, as well as third-party brands and clients throughout the state.

Pricing, which had collapsed in the third quarter of 2021, well before we bought—well before we brought on the SoCal capacity, remained so low during this period that it was destructive to almost all cultivators in the state.

Even so, the third quarter demonstrated and the fourth quarter reinforced, the competitive power of the SoCal Farm, powering a rise in our gross margin for wholesale biomass to 43 percent in the fourth quarter, up from 36 percent in the third quarter. This was up from an adjusted 5 percent in the second quarter, before start-up costs from the Phase I expansion at the SoCal Farm.

Our decision to expand capacity at this time is motivated by supply/demand fundamentals, cultivation licensing trends, our production cost, and of course pricing.

Using 250,000 pounds of biomass at an average sales price of $275 per pound adds $68.75 million of gross revenue and when multiplied by the gross margin from the fourth quarter of 43 percent, it equals $30 million in additional gross margin dollars.

We estimate that it will cost approximately $10 million to fund this expansion, and we are considering a number of options to fund it. Given the scale of the expansion and the margins the SoCal Farm's producing, we expect to be able to complete the funding rapidly, with little to no dilution to common shareholders, and to pay the funds back quickly.

As you can imagine, my interests are aligned with the common shareholders, and I'm sensitive to dilution.

We don't know of any other company in the California cannabis industry that can turn on an idle cultivation asset in the current market environment and expect it to produce an attractive ROI, but we can.

As the co-founder and a major shareholder in this company, this more than anything is what makes me excited about the future of Glass House. And it is especially gratifying to see current market conditions validate our build for the long-term strategy.

Since the time we brought the SoCal Farm online, my fellow co-founder, Graham Farrar, has consistently observed that we've been able to sell every pound we've produced.

As we closed out 2022 and moved into 2023, demand for our biomass continued to accelerate to a point where we sell our product much faster than we can grow it, as evidenced by our very low inventory on hand.

We frequently finish weeks with inventory that represents less than one week of wholesale biomass sales and are increasingly getting calls from brands and buyers who have seen their traditional sources of supply unable to satisfy their needs.

With the unusually stormy weather conditions experienced in California over the past two months, supply has been constrained even further. Meanwhile, we have seen a sustained and steady rise in pricing since prices bottomed in July and August.

As recently as late last year, discussions of wholesale flower pricing rising above $600 seemed optimistic. Yet this February, 47 percent of our flower sold for $600 or more versus less than 1 percent in the fourth quarter.

We now estimate that our average selling price for biomass in the first quarter of 2023 will be $275 a pound, up from $236 a pound in the fourth quarter of 2022, and $204 in the third quarter of 2022.

Since we announced our plan to move ahead with further expansion of production at the SoCal Farm, the most common question investors have asked is prices may be rebounding now, but what if they start falling again?

Well, thanks to our record-low cost of production in the fourth quarter of $127 a pound, even if prices fall, we'll be well positioned to have a positive gross margin in wholesale biomass under almost any scenario. And with our low-cost structure, we can weather price swings even when others can't.

We are focused on maintaining the highest-quality flower with the lowest-cost structure in the industry to maximize our cash flow over the long term, and we believe that the events of the past two years have validated this approach.

Since the beginning of July 2022 through the end of February, the number of cultivation licences in the State of California has dropped by over 1,200, which we estimate is an 11.7 million square foot, or a 13 percent decrease in acreage under cultivation.

After bringing on an additional 1 million square feet of greenhouse footprint in late 2023, we will still only have a cannabis cultivation greenhouse footprint of 1.7 million square feet at the SoCal Farm.

To put this in perspective, more than two whole SoCal Farms could fit into the acreage that has fallen out of production since the start of July of last year.

If you pause to think about that for a moment, perhaps you'll better understand why, as leader of this company, I will look at all measures possible to increase our capacity as soon as possible, taking into account the funds, senior management, and skilled labour resources at our disposal. While from some perspectives, it would be tempting to turn on the whole facility at once, we will move as fast as we reasonably can, taking into account all factors necessary.

Coach John Woodman's famous saying aptly applies to my thinking here: be quick but don't hurry.

The power of our economic model is underappreciated, in my view. So far, we have spent $93 million in cash to purchase the property and another $33 million in CapEx for a total cash outlay of $126 million.

Now consider that in the fourth quarter of 2022, the gross profit on our wholesale biomass business was $6.7 million, or nearly $27 million if we annualize this number with no seasonal adjustment. This $27 million would represent a 21 percent cash-on-cash return on the $126 million we have already invested in the property. And since the $93 million is a sunk cost, the cash-on-cash return should dramatically increase as we turn on the 80 percent of the farm which is not yet growing cannabis.

The key takeaway is that we have a proven highly leverageable asset capable of generating asymmetric rates of return as we scale. At full capacity, simply extrapolating our fourth quarter results would produce annual gross profit in excess of $150 million, and that presumes prices stay at fourth quarter levels, which are below current market levels and, in my opinion, the pricing is still destructive. Therefore, we are confident that our returns will increase dramatically as cannabis production from our SoCal Farm increases.

If one considers the recent increase in pricing, returns would be amplified considerably. One can only imagine using California's pricing as the national standard which, in my view, is inevitable.

While industry conditions remain challenging, the trends we've been seeing over the past few months make me optimistic about the outlook for 2023. The lack of action by the US Congress at the end of 2022 was a disappointment for the entire US cannabis industry, yet it gives us the continued benefit of a landscape with the majority of capital sources sidelined.

The sale of cannabis is now legal in 39 states and the District of Columbia for medicinal purposes and in 21 states for recreational use. In a recent article, the Cannabis Business Times projected that four more states are likely to approve rec use in 2023, and an additional three states may also approve.

Cannabis legal reform has always been led by the states, and we are closely watching state-level efforts to legalize interstate trade in cannabis. For example, top officials from the California Department of Cannabis Control sent an eight-page letter to the Office of Attorney General, Rob Bonta, on January 27th, laying out the legal argument for how California could sidestep federal obstacles, if state officials decide to allow exports of cannabis across state lines. We are strongly in favour of such efforts and believe Mr. Bonta's decision will be favourable.

That said, we focus on what we can control and until the government catches up to the will of its electorate, we will act strategically and take advantage of the benefits of federal recalcitrance.

I am pleased with our fourth quarter results and am proud of our team as Glass House hit or exceeded our fourth quarter guidance.

We hit a new record in the fourth quarter with revenues of $32.2 million, above the top end of our guidance of $30 million to $32 million. Fourth quarter revenues were up 75 percent versus a year ago and 14 percent above the third quarter.

Cost per equivalent dried pound of production fell to a record low, which was 24 percent lower, year over year, and a 5 percent reduction from the third quarter to $127 per pound, versus guidance of $135 per pound.

Gross margin reached 32 percent in the fourth quarter, in line with our guidance from the third quarter results call, while fourth quarter biomass production rose 153 percent versus last year, to over 75,000 pounds, and also above third quarter levels in only our second full quarter of operations at the SoCal Farm.

Wholesale biomass revenues accounted for over 48 percent of total revenue and was up 140 percent, year over year, and 12 percent sequentially, to $15.6 million.

Average selling price in the fourth quarter was $236 a pound, which is up 29 percent versus a year ago and up 16 percent compared to the third quarter.

This enabled an expansion in wholesale biomass gross margin to 43 percent in the fourth quarter, 7 percentage points higher than the third quarter.

Retail was the biggest contributor to growth in the fourth quarter versus the third quarter, as we benefitted from a full quarter of results at the four dispensaries we acquired during the third quarter.

We also opened up a new pharmacy location in Isla Vista late in December and expect this to be a strong performer going forward, given its high desirable location near University of California at Santa Barbara.

In early January, we opened the new pharmacy location in Santa Ynez. Both stores are in single-licence municipalities, in line with our strategy of operating in limited licence locations. And these two stores have already created a buzz in a market which has otherwise been characterized by lackluster performance.

Our retail business was a strong contributor to revenue growth in the fourth quarter, as retail sales grew 106 percent, year over year, and 64 percent, quarter on quarter, to $10.6 million. And we generated strong margins, 42 percent in the fourth quarter, up from 41 percent in the third quarter.

CPG results in the fourth quarter fell 11 percent, quarter on quarter, to $6 million with a negative 15 percent gross margin. However, trade sales, which are sales into dispensaries and are therefore a more immediate metric for evaluating the health of our brand, increased 6 percent quarter on quarter.

This illustrates that we've created positive momentum in this business in recent months. As you may recall, our CPG business started the year with the two weakest quarters we've experienced in the past two years. Inflation was already hitting consumer spending hard, starting at the end of the first quarter, and the problem was compounded by the fact that we did not manage our inventory levels effectively. We did not have the right strains on the shelves to satisfy customer demand, leading to the need to heavily discount product in the second quarter.

For the entire first half, we saw revenues of only $8.9 million, down 25 percent year over year. We fixed the inventory and strain issues moving into the second half. And currently, 90 percent of inventory is less than three months old, compared to 60 percent of inventory over three months old, and 40 percent over six months old in April of last year.

The financial impact has been tangible, as evidenced by the decrease in discounting from 35 percent in the second quarter to only 17 percent in the second half of the year.

CPG sales bounced back in the second half, up 55 percent over the first half, and up 1 percent year on year. Keep in mind that we added PLUS Products to our CPG portfolio in May, so the plus 1 percent year-over-year performance speaks to the difficult operating environment in 2023, as well as better alignment of our CPG business to consumer needs and market trends.

The operating environment for brands, and even dispensaries, is extremely difficult, as can be observed from the share price performance of our brand and retail-centric peers in the California market. Burdened with high taxes and a weakened consumer, there are very few retail chains that are profitable, and many have severely weakened balance sheets.

Investors should take the current brand rankings published by any third-party research firm with a grain of salt, as many dispensaries are not paying their bills on time, and all branded players are facing a daily decision of whether or not to sell to dispensaries that have a compromised ability to pay.

Furthermore, the worst is likely yet to come. Due to changes in California state law implemented in January of this year, dispensaries are now liable to pay the excise tax that was once paid to the state by the distributors. Dispensaries using the cash from the excise tax as working capital instead of preparing a reserve will face a reckoning when the taxes come due.

To illustrate, based on data from our distributor, roughly 35 percent of their retail customers are currently on some degree of credit hold. And at times this year, the number was up to 85 percent of retail accounts which were on hold. Yes, 85 percent.

Many brands may find it increasingly difficult to get paid for product, and these same brands are fighting for shelf space with no ability to raise product prices, while getting squeezed by rising wholesale biomass prices. At some point, the merry-go-round will have to stop, and some players will be forced to exit the market, as has been happening on the cultivation side.

For our part, we work closely with our distributor and are comfortable with their decision not to blindly play the market share game. So while we may take a hit in the market share rankings, I am steadfast in my decision to focus only on the retailers who can pay their bills.

Also, due to our vertically integrated model, our CPG business has a leg up on many of its peers, as we sell biomass to our brand at our cost which, as discussed earlier, is well below current wholesale prices.

There are many positive signs of success in our branded business. First, we relaunched our PLUS edibles in the fourth quarter with a new SKU mix, improved flavour formulations, and bold new packaging. Customer and budtender response has been tremendous. We look forward to what this brand can do in the coming quarters.

Meanwhile, the introduction of the Allswell line of attractively priced flower and edible products has provided a boost for both our flower and edibles businesses. For example, according to Headset data, Glass House Farms' flower market share bottomed in August and September and has been gradually trending up since then, ending the year at 2.1 percent in the month of December. Meanwhile, Allswell steadily climbed the ranks within flower brands and finished December with a 0.5 percent share of the market, providing a nice bump to Glass House Brands' overall share of the very large flower market.

We are cautiously optimistic about the outlook for all three of our marquee brands, Glass House Farms, PLUS, and Allswell in 2023.

From a fundraising standpoint, we completed a Series B preferred round, closing on a $7 million of the—the final $7 million of the $50 million issue in early December. In total, the Series B round brought in $26.5 million of new capital. Finally, due to strong investor demand, we raised another $4.7 million of capital from a Series C preferred round, which closed in late December.

We feel very good about our financial position and expect to a free—to achieve free cash flow-positive operations, excluding expansion CapEx for the SoCal Farm during the second quarter of 2023, if we expand using capital in the second quarter. This is one quarter earlier than our guidance from our third quarter call.

Given the recent bank run on Silicon Valley Bank, I'd like to say a few words about our banking relationship.

We welcome Sunday's joint statement by the Department of Treasury, Federal Reserve, and FDIC, in which they pledged to fully protect all depositors in both Silicon Valley Bank of Santa Clara, California, and Signature Bank of New York, New York. This will allow business to operate and prevent contagion from spreading to other banks.

Over the weekend, we spoke with senior management at East West Bank, the bank where we hold our deposits. And we will take this opportunity to communicate why we feel very secure working with them.

On Thursday, the bank proactively sent a letter to its customers, and some key excerpts are East West's deposit base is very granular, with over 500,000 deposit accounts and an average account size of under $100,000. Deposits are well diversified across all 120 brick-and-mortar branches and office locations. Their top 10 depositors account for only 3 percent of total deposits. They have no exposure to cryptocurrency. The bank earned $1.1 billion in 2022 and expects 2023 to be better. And their quarter four 2022 ROA was 2.08 percent, versus 0.74 percent for large banks and 1.30 percent for regional smaller banks.

In summary, 2022 was a year in which we delivered on key strategic priorities and created a strong foundation for future growth. Our fourth quarter results, like the third quarter, demonstrates a durable competitive advantage of our model, which combines innovation and operational excellence at tremendous scale, enabling us to harvest high-quality, sun-grown cannabis in high volumes at the lowest possible cost.

In 2023, we expect to see a major inflection in our financial performance, including continued growth, along with sharply improving profitability and cash flows, all of which should drive significant value for our shareholders.

And we are thankful for our decision to build a vertically integrated company so that we could accelerate in areas experiencing opportunities and break in areas of distress. That optionality in a brand-new industry is a key driver of our success.

Before I hand over to Mark, I'd like to extend a warm invitation to all shareholders to join Glass House Brands' Investor Sesh 2023, where investors can tour our unicorn greenhouse facility, ask questions directly to Graham and I, along with the rest of our talented C-suite, and join our annual general shareholder meeting. There will be exclusive merchandise and Glass House Brands products, food, and an investor relations booth. Last year's event was the highlight of our corporate calendar and was attended by more than 150 people.

I look forward to welcoming our shareholders to the event again this year. It will be held on Friday, June 23rd at 9 a.m. Our transparency by personally meeting and providing tours to our investors is reflected in our company name and is another area of pride. Please, join us in Southern California if you can.

With that, I'll turn the call over to Mark Vendetti, our Chief Financial Officer, to discuss our financial results for the quarter in detail, following which, Co-founder and President, Graham Farrar, Mark, and myself, will take your questions.

Hello, Mark.

Mark Vendetti — Chief Financial Officer, Glass House Brands Inc.

Thanks, Kyle, and good afternoon, everyone. As a reminder, the results I will be sharing today are preliminary. They can be found in our financial statements and MD&A, which are reported in US dollars and prepared in US GAAP. We expect these documents to be filed by March 31st.

Total revenue for the fourth quarter of 2022 was $32.2 million, above the high end of our revised Q4 guidance of $31 million to $32 million. This represented 75 percent growth versus last year and a 14 percent increase versus the third quarter, driven by continued gains in wholesale, as well as a significant increase in retail.

This was the second full quarter of production at our SoCal Farm and the result was a 150 percent increase in output versus last year. Wholesale biomass revenues approached $16 million, an increase of 140 percent year on year and 12 percent quarter on quarter.

Growth in retail reflected our expanding store base, including a full quarter of operations for the four dispensaries we acquired during the third quarter.

We sold over 66,000 pounds in the fourth quarter, down slightly from the third quarter, which is consistent with our prior guidance, but up 184 percent versus the same period last year.

Importantly, we delivered a 43 percent gross margin in wholesale during the fourth quarter, a 7 percentage point improvement from the third quarter, despite very difficult market conditions underscoring the tremendous power of our scale and focus on operational excellence.

Over the past six months since we started producing at our SoCal Farm, our wholesale gross margin has improved significantly, going from an adjusted 5 percent in the second quarter to 43 percent we just reported for Q4.

Prices on a blended basis—price per pound blended across flower, smalls, and trims—reached $236 per pound, up 16 percent versus the third quarter.

Our cost per equivalent dry pound of production continued to trend lower and was down 5 percent versus the third quarter to $127.

As a reminder, the cultivation tax was eliminated effective July 1, 2022. For ease of comparison and to ensure consistency, I've removed the impact of cultivation tax on both revenue and cost of sales from prior periods.

Data from Headset shows the retail environment for the California market remained challenging in the fourth quarter, with the total market down 8 percent versus Q4 last year. Flower sales declined 18 percent year on year, while pre-rolls substantially outperformed the market, rising 5 percent.

Flower plus pre-rolls combined was down 12 percent year over year in Q4. Vape and edibles were both flat year over year, continuing to outperform the overall market.

On a sequential basis overall, our California market sales fell 1 percent in Q4. In addition to challenging industry dynamics, we feel the fourth quarter continued to be negatively impacted by macro factors, particularly inflation pressuring consumer behaviour.

Moving on to retail for the fourth quarter. Our retail footprint consisted of more pharmacy dispensaries, including three that have been open all of 2021 and one in Isla Vista that opened in mid-December, plus the four dispensaries that we acquired during Q3, including The Pottery and the three Natural Healing Center locations.

Fourth quarter retail sales of nearly $11 million were up 106 percent year over year and 64 percent sequentially, primarily reflecting a full quarter contribution from the acquired locations, along with a couple of weeks' results from the recent opening in Isla Vista. Altogether, these five new stores contributed $6 million in sales during the quarter.

On a same-store sales basis, total Q4 revenues reached $4.6 million, down 11 percent year over year and 3 percent sequentially. This is slightly behind the overall cannabis market trend in the state.

Looking forward, 2023 retail sales should continue to show strong year-over-year growth as we get a full calendar year's contribution from Isla Vista pharmacy and nearly a full year's contribution from pharmacy Santa Ynez, which opened in early January.

Furthermore, we expect to open the NHC Turlock location during the second quarter, bringing our total number of operating dispensaries to 10.

Turning to our CPG business. Fourth quarter sales were $6 million, down 24 percent sequentially and 11 percent year on year. Over half of the sequential decline was the result of the initial PLUS order in the third quarter to build inventory at our distributor when we moved PLUS to it. This resulted in about a $0.9 million decline in Q4 compared to Q3.

Although we have been able to reduce the level of discounting relative to the front half of the year, it still remains high with discounts as a percent of gross sales at 19 percent in Q4. The level of discounting was driven by the relaunch of PLUS edibles and the introduction of Allswell.

In addition, we are seeing declines on Glass House Farms, driven in part by declines in the flower segment of the market.

Moving to gross margin, where we continue to be very pleased with our progress. Please note, we began reporting our gross margin by business line in the first quarter of 2022.

Gross margin in the fourth quarter of 2022 was $10.2 million, or 32 percent of revenue, versus $8.7 million or 31 percent of revenue in the third quarter of 2022. This is the highest gross margin percent since Q2 2021, the last quarter before our wholesale prices began their large decline.

In the second half of 2022, which were the first two quarters of the SoCal Phase I commercial operation, Glass House gross profit from wholesale biomass sales were almost $12 million, exceeding the previous 10 quarters combined.

Gross margin of 43 percent for our wholesale biomass business was the highest since Q2 of 2021, when the average selling price was $341 per pound, or 44 percent above fourth quarter 2022.

As discussed earlier, the margin improvement was driven by record low cost of production, combined with an average selling price increase in Q4 versus Q3 of 16 percent.

Retail gross margin was another positive in the fourth quarter, as it improved 1 percentage point sequentially to 42 percent, reflecting the higher margins from the acquired Natural Healing Center stores.

And CPG gross margin was negative 15 percent versus positive 14 percent in Q3. The gross margin was negatively impacted by the relaunch of PLUS, as there was a write-off of inventory relating to old PLUS product and an incremental manufacturing expense related to the start-up costing $800,000 during the quarter.

In addition, we have been aggressively promoting the Allswell brand to increase distribution.

For the front half of 2023, we expect CPG gross margins to improve to the high single-digit range, but remain challenged.

General and admin expenses were $13.9 million for the fourth quarter compared to $11.5 million in Q3. The $2.5 million increase was primarily attributable to growth of our retail footprint, which increased SG&A by $1.1 million; higher stock-based compensation expense of $0.8 million; bad debt of $0.4 million related to PLUS receivables moved from their distributor prior to the acquisition to our distributor; and higher expenses related to cannabis business licences.

Sales and marketing expenses were $0.9 million, up 7 percent to Q3 2022, driven entirely by our growing retail footprint. It is worth noting here that Q4 2022 marketing expenses fell 27 percent year over year, despite the 75 percent growth in our top line versus Q4 of last year.

Professional fees were $1.9 million, down $1 million, or 34 percent from Q3 2022, driven by a reduction in legal fees.

Depreciation and amortization in Q4 2022 was $3.4 million, which was flat to Q3.

We define adjusted EBITDA as earnings before interest, taxes, depreciation, and amortization, adjusted for transaction costs, restructuring costs, share-based compensation, and other non-cash operating costs. Adjusted EBITDA slightly improved versus Q3 as a result of higher sales and gross margin.

Please note the adjusted EBITDA results do not exclude the incremental costs associated with the PLUS relaunch, or the bad debt expense associated with the PLUS distributor move.

We ended the quarter with $14.1 million in cash, including $3 million of restricted cash, which compares to $17.5 million of cash at the end of Q3 2022.

Cash used in operations was $9.2 million, which was $1 million worse than Q3. Within the quarter, the Company made $3.9 million of payments for income taxes at the state and federal level that didn't occur in Q3.

During the quarter, we also extended additional credit terms to our distributor, which reduced operating cash flow by $1.5 million and incurred roughly $0.8 million of expenses associated with the PLUS relaunch.

Capital spending was $4.1 million in Q4 compared to $3.2 million in Q3. An additional $2.5 million of CapEx, which was not forecast, was needed at Camarillo to move the project forward toward completion. And the remainder was spent to complete the majority of the store build-out for the Isla Vista and Santa Ynez dispensary.

The Company raised another $12.5 million in capital in the fourth quarter for a total of $31 million new capital raised in the Series B and Series C preferred stock offerings combined. This was offset by $1.1 million paid into preferred dividends.

The Series B offering was fully subscribed at $50 million and closed in early December, raising $26.5 million in new capital.

In addition, due to excess investor demand, we raised $4.7 million of additional capital from selling Series C preferred shares, which are junior to Series B, but with otherwise identical terms.

The proceeds from recent financings further strengthen our balance sheet, helping us to fund operations until we generate positive free cash flow in the second quarter.

Please note, our Series B and Series C preferred equity is broken out on the balance sheet separately. At the end of the quarter, their total was $56.5 million, slightly higher than the total $54.7 million nominal amount of the two issues, as it includes accrued dividends through the end of the quarter.

Shareholder equity fell by $9.1 million, primarily as a result of the $9.8 million net loss in the quarter.

On to the outlook for 2023. Based on the strength of fourth quarter results and current trends, we remain confident in the trajectory of our business and that our ending cash of $14.1 million provides sufficient liquidity to execute our business strategy and deliver against our free cash flow goals.

Because of the confidence we have in our business, we paid our 2021 federal and state taxes of $3.9 million in Q4, and believe we are among a handful of cannabis companies that have been consistently paying their tax liabilities.

With the new dispensary CapEx complete and additional CapEx spend at the SoCal Farm during Q4, the cash burn related to CapEx spending will drop significantly in 2023. With that as background, we are providing the following guidance for 2023.

First and most importantly, we are accelerating our cash flow guidance of positive free cash flow, excluding expansion CapEx at the SoCal Farm, from the third quarter of 2023 to the second quarter of 2023.

We also expect to achieve positive adjusted EBITDA in Q2 and maintain it for the remainder of the year.

We are being aided by the improved wholesale pricing we are seeing in Q1 and assume it will remain steady for the balance of the year.

For the first quarter, we expect revenue to be between $27 million and $29 million. This is approximately a 100 percent increase for revenue versus Q1 2022 and a 13 percent sequential decline versus Q4 2022.

The decline is being driven by the seasonal reduction in production of biomass due to lower sunlight levels in Q1 relative to Q4 and our assumption CPG sales will decline up to 20 percent due to the continued difficult retail environment and shipping holds being placed on nonpaying retailers.

Our average selling price for wholesale biomass is assumed at $275 per pound, based on trends through the early part of March. We expect gross margins to improve slightly from Q4 levels at 32 percent, despite the lower seasonal production and cultivation and our Q1 ’23 cost of production at $200 a pound, based on 45,000 pounds of biomass production.

Please note, Q1 is seasonally our highest-cost quarter of the year. The $200 per pound, a 16 percent reduction from Q1 2022, and 45,000 pounds produced is a 169 percent increase versus Q1 2022.

In addition, we expect adjusted EBITDA to improve from Q4, but to be slightly negative. Our ending cash balance for Q1 ’23 is forecast to be $12.5 million.

We are maintaining our revenue guidance of $160 million for 2023, but shifting sales between segments. As a result of the higher pricing in biomass wholesale and slightly higher production, we are increasing wholesale revenue from $60 million to $85 million.

We expect the average selling price to increase from Q1 through the remainder of the year, as the mix of flower produced during the year increases with the average price to $300 per pound for the fiscal year. Recall, our lowest percent of flower produced occurs in the first quarter of the year and increases as the weather improves during the second half of the year.

Offsetting the increase, we are reducing CPG revenue to $25 million from $35 million, which takes into account the difficult retail landscape we have discussed during the call. We expect we will be dealing with significant retailer distress and continued high levels of retail account shipping holds during the year.

In addition, we are reducing our retail guidance to $50 million from $65 million, as a result of the change in how excise tax is collected and the difficult retail market. Effective January 1, 2023, retailers are now responsible for collecting and remitting excise tax to the state. This duty previously belonged to the distributors.

With this change, the cost of inventory to retailers is reduced by the amount of the excise tax and, as a result, it is no longer included in the revenue that is charged to consumers that—but is charged to consumers as a tax. This does not change the total gross margin dollars collected, but reduces inventory cost and revenue by the same amount and results in a higher gross margin by about 10 percentage points.

Finally, for the fiscal year, we expect to produce 310,000 pounds of biomass with a cost of production below $130 per pound for the fiscal year. We had originally provided annual guidance for our three farms of 270 pounds of—270,000 pounds of biomass, but with the additional experience, we're now comfortable increasing our output. This represents an increase of 62 percent versus 2022 production, a reduction in cost of 9 percent, based on $130 per pound for the fiscal year.

In the second half of 2023, we anticipate the cost of production will be below $110 per pound. This will be the first time period we lapped SoCal production from 2022, and our projected cost of production is a 15 percent decrease versus the same period in 2022. We are making good progress toward our long-term target of $100 per pound.

One final note on guidance. The additional greenhouse capacity Kyle discussed is not included in any of the guidance provided.

With that, I will turn the call back to Kyle.

Kyle Kazan

Thanks, Mark. I would like to take this opportunity to update you on our latest efforts to push for the release of those serving prison time for nonviolent cannabis convictions in both state and federal prison. We were thrilled by the announcement on February 3rd that MISSION [GREEN], led by criminal justice advocate Weldon Angelos, helped to secure the release of Luke Scarmazzo from prison. Luke served almost 15 years of a 22-year federal sentence for lawfully operating a state-compliant medical cannabis dispensary from 2004 to 2006 in Modesto, California.

In granting compassion release to Scarmazzo, US District Court Judge, Dale A. Drozd cited extraordinary and compelling circumstances in support of his ruling, including the fact that the legal landscape around federal enforcement has changed in California, in the same time since many of the alleged offences were committed.

Drozd also acknowledged the issue of sentencing disparity with similar cases, along with numerous other factors, that support his decision, including time served, good behaviour, employment, volunteer work, and educational pursuits during his imprisonment, job offers, family support, and lack of danger to the community. This was long overdue for Luke and his family, and also for Weldon, who had made getting Luke released a personal mission after meeting while serving cannabis prison sentences together.

Luke's story is truly an inspiration to many of us in the cannabis industry. But mostly, we are just happy to see him come home to spend time with his family and to have the freedom to enjoy life's mundane pleasures, such as eating at Pizza Hut and choosing amongst the thousands of items available at his neighbourhood grocery store, instead of being limited to the unappetizing menu at the prison mess hall.

While President Biden's Department of Justice did not help in Luke's release, the opportunity is immediate to do the right thing and live up to his promise to both pardon the prisoners with simple pen strokes and decriminalize this plant.

People are still going to prison in the United States. And we must end the duality of the law where many profit, including many of you who are listening to this call, and others suffer, including those that are sitting in prison.

The majority of Americans want the war on cannabis to end. I plan on continuing to speak out as much as possible, to hold President Biden to his promise, and will continue to proudly serve as a board member of MISSION [GREEN].

Please consider calling or emailing the President, demanding he release all those serving prison time for nonviolent cannabis convictions, immediately, as his staff tracks the inbounds. Every call and email helps in the mission.

With that, let me turn it back to the Operator for your questions, everyone.

Q&A

Operator

Thank you. Ladies and gentlemen, we will now conduct the question-and-answer session. If you have a question, please press *, followed by the number 1 on your touch-tone phone. You will hear a one-tone prompt acknowledging your request.

Your first question comes from the line of Bobby Burleson from Canaccord. Your line is now open.

Bobby Burleson — Canaccord

Hi, Glass House team. Congratulations on awesome results and a great outlook.

Kyle Kazan

Thank you.

Bobby Burleson

So yeah. So just, yeah, sorry about the background noise if you guys hear anything. But just curious, there's obviously an extinction event that continues to unfold in cultivation. You guys are there to kind of benefit, longer term, and we're seeing it now, even. What do you think the lag is for what we might see in retail? And then maybe even with some of the other CPG that you guys compete against, where you might be able to come in and start taking share, but with confidence that you'll get paid, et cetera?

Kyle Kazan

So, Bobby, one, nice to hear your voice. Hope you're doing well. Those are great questions. When it comes to, as investors, and even as us running the business, timing is always the most difficult thing to predict. And so, happily, since we're vertically integrated, as I mentioned, we can accelerate where there's big opportunity, which right now is in wholesale. We can sort of tap on the brakes so that we're not in the business of giving away our cannabis, meaning that if we deliver to a store and they can't pay, that's unfortunately revenue lost.

So I would tell you I think 2023 is going to be a shakeout year here in California, and so I would hope that we start seeing kind of the upswing by the end of the year, but we'll have to see. Some of that's going to depend on what the state does. If people don't—if retail decides not to pay their excise tax, and there's no ramifications, then I would say my time frame would have to be delayed.

So some of this is going to be third-party control that we have to watch.

Bobby Burleson

Understood. Just—

Graham Farrar — Co-founder, President & Board Director, Glass House Brands

But, Bobby, just maybe to add to that—

Bobby Burleson

Yeah. Go ahead.

Graham Farrar

—just one note, right, is a reminder that California, in today's climate, is still a $5 billion legal cannabis market. Right? So totally agree with everything Kyle said, that we think it's going to be a shakeout. For context, there's 77,000 places that you can buy a cocktail in California. There's 1,000 places that you can buy a joint. Right? And of those, 400 or so are actually paying on time. But if you play it all the way to the extreme, right, everyone goes away except for one group, that group sells $5 billion worth of cannabis. Right?

So obviously, that's not going to be happen. But could it be 10, could it be 15, could it be 20? Quite possibly. And it's still—that $5 billion pot is going to be divided up, 20 people left and they're all selling $250 million a year of licensed cannabis. It's a pretty good market.

And I think—and again, as Kyle mentioned—the ability for us to be in all those markets and pull the levers to go where the opportunities are, whether that's retail expansion when that time comes, CPG expansion, wholesale expansion. Right? Like you think back, and it wasn't that long ago that people were looking at us like we were insane for talking about bringing more capacity into the cultivation side of the market.

Now that's—there's a shifting perspective on that and likewise for retail and for CPG. The time isn't to start investing when the opportunity's in front of you; it's when you think it's coming, and that's what we're working hard to be really good at.

Bobby Burleson

Understood. Thank you for that additional colour there. Curious on the flower dynamics just in the market. Is that, I think 18 percent decline you guys talked about—is that because that segment's more exposed to maybe some of the fire sale activity that might be happening with cultivators that are going under? Is it just a matter of time until that kind of rights itself? Or do you see something more long term that's happening in terms of consumer preferences?

Graham Farrar

I don't think consumption's changing materially. I think what you're seeing is that cultivation was on the forefront of that kind of—that rationalization. Right? So we've long said that we thought prices were destructively low, meaning that the pricing was at a level that was unsustainable for, frankly, maybe everyone kind of but us and that, that was eventually going to reconcile itself. And so I think what you're seeing is that you're seeing the capacity leave. Right? And those licences are actually—they're annual licences here in California. So they're a lagging indicator on what's actually leaving.

So for example, in February, 51 percent of the licences that were scheduled to renew in February didn't. Right? Now that doesn't mean they stopped in February. Like Cresco, when they closed down their greenhouse in California, I think they quit in April. Their licence didn't actually expire until December. Right? So there's a lot of that kind of capacity that's leaving because, frankly, people don't keep growing a crop that's worth less than it costs them to grow it.

And so I think we're not seeing a change in consumption; we're seeing the change in supply. And you're going to see the market kind of re-rationalize until costs—what you can sell it for is above the marginal cost of production for enough producers to supply the demand in the market.

So I think we're seeing that in cultivation. I think that's going to pass through, and you're going to see it in CPG when they're—there's a lot of brands that were based off of the assumptions you could buy sub-cost—sub-production cost flower to be in—and that is eventually going to go away because it's not sustainable. And you're going to see—

Bobby Burleson

Sure.

Graham Farrar

—those brands basically squeezed on both sides, cost of goods, as well as retailers paying. And we think that'll open the doors up for us a bit.

Bobby Burleson

Sure. Okay. Great. And then just the last one, quickly, in terms of the kind of price assumptions you guys have baked into your outlook. At what point in the year do you think we can revisit what's happening in the wholesale market and see how conservative those assumptions are? It feels like there's a rebound in pricing, if you take into account seasonality and other things you guys might know about the supply/demand dynamic. Should we be looking at sometime early summer to maybe see whether or not that's conservative?

Kyle Kazan

So why don't we hand that to Mark?

Mark Vendetti

So I think what we've seen, really, since July is every month, cultivation licences have left the market. And they actually accelerated in February, and just kind of halfway through March, and they're still leaving the market.

So I do not think we'll see any downward-pricing pressure for the next few months, as we continue to expect people to leave. And so, as long as new licences don't come back, I think pricing will maintain at least where it's gotten to now. Maybe, in the third quarter, we see a little downward pressure, as we start to see some incremental capacity come back into the market due to seasonality. But again, I think, right now, it's tied really to what's going on with licences. And as long as new licences don't come back in, I think we're fine. And if they continue to go down, we may see continued upward pricing movement.

I don't know, Graham, if you have something more to add?

Graham Farrar

Yeah. I think that's pretty spot on. And maybe, it's a question, Bobby, that we've gotten quite a bit. Right? So I think we're happy with the current price action, and we think it's going to kind of persist in this range for awhile.

I would also maybe talk about how we kind of view this just a little bit, right, which is that we didn't have a crystal ball. We didn't know when or the time or the magnitude. But this is essentially playing out the way that we kind of expected it to at some point. Right?

And I think our belief is that we've got an understanding of the California market in a way that most other operators, who aren't living and breathing this every day, can have. Kyle and I were both born here and raised in California. I've been in this market for 25 years. California has a lot of upside, but it's definitely not a market for tourists.

So I think what we've been going through over the last couple years, taking our medicine, right, is something that we think the rest of the country is going to go through—in some cases, has already started to go through—so the future of the rest of the country looks a lot like our—California, it's often referred to as commoditization. I think a better name for it is probably normalization, and there's not a lot of crops out there that are $3,000 a pound. So we don't think that those kinds of numbers are the right long-term balance point, and it's part of the reason for our focus on our costs.

We also don't think it's normal for crops to been grown in unsuitable climates and warehouses with fossil fuel, as to replace the sunshine and the air you breathe. Right? We believe that cannabis comes from California, growing plants where they like to grow, is an unbeatable combination, best quality, best price for consumers, lowest impact on the environment. Right? I mean, we hear about stuff in other—good and maybe not so good weed within other markets costs $75 an eighth, it blows our mind because we can get—if only there was a place where great cannabis with good prices existed. We thought look at California. So that's where we think these are going to come from.

But fundamentally—actually, this is from Andrew Carnegie, a podcast that Aaron turned us onto—is the most interesting thing is how efficiently—and this is his quote—and how well you make something. That’s more interesting than how much money you made because the money you make is a temporary result, whereas the cost and the quality are the permanent result.

So there’s really only two things that matter, cost and quality. Our goal is to be not particularly wrapped up in the prices at any particular moment, but be so far on the left-hand side of the cost curve and so high up on the quality, that we’re in an intersection that’s very hard to compete with in any cost environment.

So I think we’ll see probably three cycles that this is going to go through: the lean times, those prices that we’ve been going through, it’s painful for us, it’s fatal for others; expansion, which is maybe what we’re getting ready to enter, where we see price stabilization, and we’ll expand to take over the territory left by others; and then on with the fun times, when prices appreciate, and we’re able to kind of leverage that low-cost basis to fortify gains and enter new categories. We’re not going to go over and over it again, so.

And I think Kyle and my goal, or all’s our goal we process is to make the most consumed cannabis on the planet, and we think that combination of the best quality at the lowest cost of anywhere, and then, when the time is right, just turn the dial in a way you know the operator can on the scale side, is really the winning formula for us.

Bobby Burleson

Great. Thank you. Appreciate it.

Operator

Your next question comes from the line of Jon DeCourcey for BTIG. Your line is now open.

Jonathan DeCourcey — BTIG

Hello and congratulations again. First question is just to touch on the expansion project that you guys announced a couple weeks ago. Do you have a little bit more colour on timing of that expansion project? And when should that really contribute to results next year?

Kyle Kazan

Thanks for the call—or the question, Jon. I would say the main reason why I want to throw with the numbers we're seeing, so that the market could see what that project looks like and how much revenue and gross margin it's going to throw off. Right now, we're exploring a number of different ways to do it.

I would tell you that our plans are to have plants in the ground or in the greenhouse by the end of the year. So we would say that we'd like to get this rolling within the next couple of months, if that gives you some insight.

Mark Vendetti

Yeah. And, Jon, we did not—the guidance we provided does not have any of this in the numbers. So with the timing Kyle mentioned, the ability to impact revenue in 2023 is very low likelihood and most likely would be Q1 of 2024. It really will depend when we break ground.

The good news is the greenhouse we're focused on in is very much like the greenhouse we're already in. And so from that perspective, we understand the environment and we know how to build it out and retrofit it pretty quickly.

Jonathan DeCourcey

Okay. From kind of getting to the construction, planting phase, to full contribution and similar cost of production, is that a quarter? Or two quarters? What kind of lag are we thinking—is kind of the norm there based on your prior build-out experience?

Graham Farrar

I can take that one. I mean, typically, I think the retrofit we'd look at in a couple quarters kind of duration to actually do the work and get the greenhouse ready. And then you got to plant the crops and then you've got to harvest them and process them and sell them. So add another three months or so kind of time frame, another quarter, for that to happen.

I do think that—and we won't start off perfect in there. But it's very different than the last—when we did this the first time. The nursery that we've had, we've already built that out to support the facility. So we don't need to change—we don't need to invest either CapEx, or really change the operation there; it's just a scale thing. The drying and curing rooms are built with the capacity to handle this. So again, we don't need to build that again. It's just going to be slotting it into the operations that are already happening.

So I think we'll be able to kind of put this in at a—it'll catch up to what's currently operating pretty quickly because it's really going to be very similar, just at an increased scale.

Jonathan DeCourcey

Regarding the improved pricing in the fourth quarter and can you—have you guys handicapped it in any way? The price improvement you guys achieved on the basis of better-quality flower now in the cycle and better-quality product that you're producing at the greenhouse versus just less competition in the market and just better pricing in general, is there—what's kind of the trade-off there?

Kyle Kazan

I think it's been—

Graham Farrar

Yeah. So obviously—yeah. Go ahead, Kyle.

Kyle Kazan

Hey, I'd say it's a combination of both. Graham, go ahead.

Graham Farrar

Yeah. Yeah. I agree with Kyle 100 percent. Was going to say, it's hard because there's not—we don't have transparent markets and things like that. There's no Kelley Blue Book of cannabis out there. But from what we can see, it's both. We're definitely, the market is kind of rationalizing itself. But also from we can see for the flower out there, we tend to trade towards the higher end of the price spectrum, which we attribute to our quality, consistency, and ability to deliver in a way that not everybody else can.

Jonathan DeCourcey

Can you touch on the weather that everybody in Southern California has been having? And California more broadly? And what your expectation is that that's going to do to some of the outdoor product that would otherwise come online in the spring and summer?

Kyle Kazan

Sorry, Jon. We can't hear you.

Graham Farrar

Yeah—

Kyle Kazan

The rain is pounding us right now.

Graham Farrar

Yeah—

Kyle Kazan

It is like a 20-year rain. But, Graham, can you give him the 1 percent less—1 percent less yield discussion?

Graham Farrar

Yeah. Sure. So I think towards the end of December or early January, we've had this five weeks of continuous rain in California. The plus side is that we needed that water, so it's refilled reservoirs and snowpacks across the state. That's the good side of it.

The downside of it is that it did significantly lower what's already the seasonally lowest light-time of the year. And as Kyle mentioned, we are sun-grown, so 1 percent more light is basically 1 percent more yield. It's a pretty linear line. And so that lack of light across the state—not just us, of course—reduces yield.

Now the beautiful thing is we are a greenhouse, right, and so as opposed to a lot of folks out there, our plants never got rained on. The wind never blew on them. Mud, snow, which is better, never fell on them. They're actually within a pretty great climate, just with less light than you would normally have.

So I think, at this stage, we're probably going to start seeing some reductions, particularly in the outdoor and full-term planting in NorCal, if this continues. You're heading into the time where people would be planting for their either June or October harvest. So from what I'm hearing, that's presenting a road block to some folks.

But obviously, what comes next, we don't know, but it looks like it's going to continue to be pretty wet. And for us, it's a minor annoyance. For others, it can knock out an entire crop. It's, again, part of the reason we enjoy the controlled environment agriculture within a greenhouse. We can dance with Mother Nature, but still supplement her and polish her to get the best possible result without a lot of cost, to answer the question.

Jonathan DeCourcey

Thank you.

Kyle Kazan

Thanks, Jon.

Operator

Your next question comes from the line of Aaron Edelheit from Mindset Capital. Your line is now open.

Aaron Edelheit — Mindset Capital

Hey, guys. I wanted to ask a question about a quote I saw in your press release that I liked, which is that you're increasingly getting calls from brands and buyers who have seen their traditional sources of supply unable to satisfy their needs.

And I wondered if you could give just a little more colour on that in that you're basically just taking market share and more and more people are either deciding not to grow their own cannabis and choose you as a supplier. The way I've been thinking about it is you could basically be the contract supplier for many brands. And I'm wondering if you could just give some more colour to that comment?

Kyle Kazan

Aaron, I would tell you—number one, thanks for the question—and it was almost like, hey, Mikey, he likes it, that you liked something in our press release. We certainly appreciate that.

I will tell you, it's strange when you look at some of the different dynamics as part of that quote. I have people reaching out to me that I know that are—someone on LinkedIn will see—will be looking at me because they know Glass House, they know we grow, and they'll say I'll pay you if you can get Kyle to sell me some trim. Like that has not happened ever. So right now, there is a massive supply/demand component that has now flipped where there's just massive demand and not nearly enough supply. So that's what I would say.

I know Graham is closer to it, so I'll ask Graham to kind of get in a little bit deeper into it. But I'm just telling you, Aaron, I probably had six calls last week that were just out of the blue coming to me, and that doesn't usually happen.

Graham Farrar

Yeah. I would say, echoing from what Kyle said, you can at this point in time maybe steal it in the market. Right? I mean, there's people coming out of the woodwork that haven't heard from for years. We hear quite a bit of anecdotal information around suppliers up and down the state and even, frankly, into other markets on the West Coast, Oregon and Washington, that inventories are low there as well.

And there's a handful of tangible examples that we could point to at this point. I mean, I know one new buyer that we picked up used to run a farm in Salinas. They closed down their farm. They want to keep their branding going. They're down here, shopping with us. I mean, obviously, our opinion is that we should be the—we can grow a higher quality at a lower cost than anybody else, so we should be the supplier for all these brands and kind of enable the brand-heavy, asset-light transition, and there's some things that point to that starting to happen.

So we're certainly seeing folks that we've never heard from before that are knocking on the door and looking for supply. And there's frankly not a lot out there, so another piece that we mentioned in there, right, with 2 million square feet, roughly, of footprint, we finished many weeks with almost bare shelves. And that's been—we haven't seen that in a while, hence the excitement around being able to be one of the first ones to pivot into that demand by bringing on the next greenhouse.

Kyle Kazan

And, Aaron, as you can imagine—

Aaron Edelheit

Great—

Kyle Kazan

—it's painful to be at the SoCal facility with 80 percent of that facility growing tomatoes and cucumbers when you know the demand is just incredible right now. But at the end of the day, in case people start going, oh, my god, is Glass House going to miss it, we're completely focused in on COGS. It's what we can control. And the price swings that happen in these markets, they happen.

And as long as we're profitable, then we'll really enjoy when those swings are up, and we'll be able to make money when the swings are down.

Aaron Edelheit

Well, I wanted to ask, my second question was specifically about the 80 percent that is not being used. It's one of, I think, the key points for the Company is that you're only at 20 percent capacity utilization. And I want to make sure that I understand the math from your commentary and from what you said on the call, that it will take about $10 million of expansion CapEx to turn on Phase II.

And if you assume a lower biomass price, $275, than what you're forecasting for this year—I believe you're forecasting $300 now—then that would—that $10 million investment would bring you $30 million in—obviously, it would take—we would see it next year. But you spend $10 million this year, assuming that prices fell from this year, you would see a $30 million gross margin. And I wanted to make sure that I understood that, one.

And two, I have to assume that there's not much in terms of SG&A that, that Phase II would bring on. And so, would that $30 million just basically fall to the bottom line? And is that how we should think about kind of everything sort of there, is that for another $10 million—so could I add up all the phases together and get another $40 million or $50 million and do the same math exercise?

Kyle Kazan

Let me let Mark handle that, Aaron. But yes, the numbers you're saying are pretty damn tantalizing.

Mark?

Mark Vendetti

Yeah. So, Aaron, for the first, this incremental greenhouse, you've nailed the numbers. I mean, the SG&A is remarkably low to run the wholesale operation. It's precision, from a cash conversion perspective. And with the build-out of Phase I, the only new CapEx is really in this greenhouse because the existing nursery, it can accommodate the incremental greenhouse, plus the packhouse capacity we have can support the incremental greenhouse. So it's a real easy decision to look to add the capacity because, truly, it is $10 million of CapEx working capital buried within that.

Each additional addition will have to be evaluated because we may need to bring in some additional infrastructure on top of it, but it's still going to be extremely efficient and have great gross margin.

Aaron Edelheit

And I just wanted to just make sure there's no like real additional SG&A when you—

Mark Vendetti

No.

Aaron Edelheit

—turn on Phase II?

Mark Vendetti

No. I mean, you know what? Maybe hiring one or two people in sales, but it's minor, relative to $68 million in revenue.

Aaron Edelheit

Got it. Thank you.

Kyle Kazan

And this is—Aaron, I think—

Aaron Edelheit

Thanks, guys—

Graham Farrar

—this is one of—this is one of the real powers of that greenhouse. Right? Like we've talked about it a little bit before. Right? If you go and compare it to other—you'd have to buy 50 of the biggest farms in Santa Barbara—I mean, in California, just to equal that. Right? You look at other operators in multiple states, and we can take everything they have in 20 different states and combine it together, and that farm is still twice as big. Right?

Like you don't need a new security director. Right? You don't need a new safety guy. You don't need like all of these things, the infrastructure, on the people side, the organizational side are there. Right? You flesh out, you get another grower, you have a few more folks in the greenhouse; as Mark mentioned, another couple sales people. But like that's—the structure is built, so now you're just going to turn the dial with very flat operational expense changes as you go forward. It's really all just going to be in the COGS, which we're working on pushing lower, and the rest of the support structure is there and kind of ready for it.

Aaron Edelheit

Great. Thanks so much.

Operator

Your next question comes from the line of Ed Stein, private investor. Your line is now open.

Ed Stein — Private Investor,

Hey, guys. I had all my questions answered already. Just congratulations on everything you're doing and keep up the good work.

Kyle Kazan

Ed, it's been a long time since we've spoken. Does that mean that you're going to buy me a sandwich at Katz's Deli next time I'm in New York?

Ed Stein

Well, since I'm not in New York anymore, it's going to be hard to do. If you come down to Naples, Florida or up to Vermont, I'll buy you a sandwich, but those are your two choices now.

Kyle Kazan

Okay. We'll be calibrating that.

Ed Stein

It has been a long time, Kyle. It's too bad. We'll have to get together soon.

Kyle Kazan

I like it. Thank you, Ed.

Ed Stein

Okay.

Mark Vendetti

Yeah. Thanks for the congrats, Ed. Appreciate it.

Operator

Your next question comes from the line of Mike Regan from Excelsior Equities. Your line is now open.

Mike Regan — Excelsior Equities

Hey, guys. Thanks for the question. Just two quick questions. One, following up on what Aaron was asking about the incremental in the greenhouse. So basically, the existing nursery and drying room, that obviously can support one more room. Like, is there any way to think about how much of the entire greenhouse it could? Like if you add 2 million, 3 million, 4 million, the full 5.5 million without sort of any incremental spend on those other infrastructure portions?

Graham Farrar

Kyle, you want to answer that?

Kyle Kazan

The nursery—yeah. The nursery should be pretty set for, really, the entire facility, is our expectation. The drying and curing and processing space, what we have will support the next greenhouse here. Eventually, we will need additional capacity on that side as we bring on more greenhouses. So there will be some cost there, but I think a lot of what we've got in the CapEx is already in there and ready for this expansion.

This, of course, was always the plan on some schedule. So it's not a surprise that we're doing it. And we're just trying to be efficient with the capital and the timing and the operational side of things. So I think we should be in a pretty good position.

And maybe the easiest way to think of it is the cost per square metre for expansion should go down from where we started in Phase I, across the board. So we'd expect to be able to do it at a more efficient pace because we've got—the property's already fenced, for example. It's already got an odour control system. It's already got the nursery built out. So while we will need more things, a lot of this stuff, you don't need a second fence when we take on the next greenhouse, so. That stuff is already there and in place.

Mike Regan

No. That makes sense. It was smart to do it once and effectively overbuild for room one, but have it fit for rooms four through five, so.

And then there's more of—I guess sort of just a question on California. With the licensed capacity going down 13 percent, where are you—like from your perspective, where is that capacity going? Is it truly just shutting down forever? Is it being mothballed? Is it just going into the illicit market, where, fine, we didn't pay the licence, but we're still selling lots of weeds. Like, what are you seeing on those—on that exit of capacity?

Kyle Kazan

It would force us to speculate because we don’t go out there to those greenhouses. We do know that when you make a decision not to renew a licence, it’s quite a big decision because you have to go through most of the same hoops, which are significant here in California to turn that back on, and you have to write a big check.

So whether they just say, hey, I’m going to grow another crop, I’m going to let it go fallow, or whether I’m just going to grow without a licence and send in the illicit market, we don’t know, but we know they can’t play in the growing legal market, at least for the time being.

And the other thing to consider is that is a trailing indicator. So if someone turned it off six months ago, we won’t know about it until six more months, since those licences are annual.

Graham Farrar

So a great example of that is last summer, Cresco put out an announcement that it was exiting the state, I think, in June or July, and their licences actually didn’t expire, I think, until December or January. So if you look at the licence count, they show up still active, but there’s no one producing.

And a different way to look at this is over the last, I’m going to say six or so months, if you look at the number of licences up for renewal, the actual renewal rate has been closer to 60 percent. So I would expect the true number of active—I’m going to say actively producing licences—is a lot smaller than the number of active licences being recorded.

It’s just difficult to figure out if, as Kyle said, once they surrender their licence, if they decide they’re going to go to the illicit market and continue to cultivate cannabis but try to sell it illegally.

Mike Regan

Yeah. Exactly. That’s what I was asking you. I thought maybe you’d have a better idea than I. So that’s what I’m trying to figure out, where the—if it’s still sort of feeding into the illicit market, or. Obviously, Cresco’s not, but—least I hope not. I doubt they are but—

Graham Farrar

It'd be—it'd be pretty risky, in my opinion, right, because if you just think of the logistics of that, right, like a number of—a lot of the farms, right, I mean, NorCal is a particularly good place to hide and grow.

But once you become a licensed farm, you're everything but hidden. Right? You've got the sheriff there, the county there, the regional water quality and fish and wildlife, fire department. Right? Like you have 13 different flags with 13 different agencies on here's where I'm growing. Right?

Now to just let your licence go away and think that nobody from the state is going to come and say, hey, this licence expired, let's go make sure that there's not currently operating, like that's a pretty—I don't think it'd be very smart, right, because you now are no longer hidden, and you're not licensed. You kind of put yourself in the worst of both worlds.

So I'd be surprised if those expired licensed farms keep hammering away or, if they do, that they don't do it for long.

Mike Regan

That's great. Okay. Well, thanks a lot.

Kyle Kazan

Thanks, Mike.

Operator

There are no further questions at this time, Mr. Kyle Kazan, please continue.

Kyle Kazan

Thanks, JP. In closing, I'd like to welcome you to visit our redesigned website at www.glasshousebrands.com. It is designed to better reflect our mission of delivering the good of cannabis for the good of the people, striving every day to deliver the best value to our customers and also to make lives brighter by harnessing the extraordinary power of the cannabis plant.

The new website has a brighter and greener feel to it, and we hope you will find it easier and more enjoyable to navigate. It's been a long time in the making, and we thank Hugh Carter and his team at Nimble Communications. This is an unpaid-for plug for the excellent work they've done in helping us bring it to fruition. As always, we welcome your feedback and comments.

Thank you for joining us to discuss our fourth quarter results. We remain focused on the opportunities ahead and look forward to updating you on our next call. Thank you, everybody.

Operator

Ladies and gentlemen, this concludes today's conference call. Thank you for your participation. You may now disconnect.