FINAL TRANSCRIPT

Glass House Brands Inc.

Fourth Quarter and Full Year 2023 Investor Call

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PRESENTATION

Operator

Good morning, ladies and gentlemen, and thank you for standing by. Welcome to the Glass House Brands Fourth Quarter and Full Year 2023 Investor Call.

I will 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 — VP Investor Relations, Glass House Brands Inc.

Thank you, Julie. Welcome, everyone, to the Glass House Brands Fourth Quarter and Year-end 2023 Conference Call for the period ending December 31, 2023.

I'd like to remind everyone that matters discussed during today's conference call 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 also like to remind everyone that this call is being recorded today, Thursday, March 28, 2024.

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 morning, everyone, and thank you for joining us for today's call.

Before discussing our results, I'd like to refer everyone to our fourth quarter and year-end 2023 press release, where you can review our numbers in more detail.

2023 was a year of remarkable growth for Glass House Brands. As I stated in our last quarterly call, companies and investors continue to manage through tough times in this industry. Whether it is dealing with the high tax burden of 280E, local cannabis taxes, state excise taxes, competition from illicit operators, the large weed deserts in approximately 65 percent of California or, conversely, the oversaturation of stores in much of the 35 percent of the state which allows legal retail, the sad reality is that many of our California peers are struggling to survive. In fact, it is likely that more retailers like MedMen will be shutting their doors and will cause brands and distributors to shutter operations as collateral damage.

Given this dour outlook, we use our vertical integration to navigate sales to the most creditworthy as we balance growing sales with averting losses. I'd like to offer a special tip of the cap to our credit and sales teams, who have worked so well together in making prudent decisions.

I'm proud of our 2023 results, a year in which revenue increased by 89 percent to a record $160.8 million, while adjusted EBITDA reached $24.5 million, and operating cash flow was $23.2 million.

We wrapped up 2024 with a fourth quarter—actually, we wrapped up 2023 with a fourth quarter in which we produced almost 103,500 pounds of biomass, above the high end of our guidance of 100,000 to 102,000 pounds; and also, 37 percent higher than the same quarter last year, with no expansion in cultivation footprint.

We continued to see strong demand in the market and ended the year with finished goods inventory relative to sales of less than two weeks.

Our 2023 results and achievements are all part of a longer journey. Glass House has delivered rapid, sustainable growth since its inception.

Our 2023 revenue is 2.5 times higher than 2021, the year in which we publicly listed, and 2023 gross profit dollars are 5 times higher than 2021.

This growth has brought welcome recognition. In March of 2023, the Financial Times ranked Glass House Brands number 105 out of the 500 fastest-growing US companies in terms of 2018 to 2021 compound average growth rate for revenue.

And this year, we were named to the OTC Best 50 for 2024, an annual ranking based on prior share price performance and growth in trading volume. We are the highest ranked US cannabis company on the list.

I recently spoke at the inaugural Benzinga Cannabis Market Spotlight on California and was asked about my attitude towards a potential rescheduling. I'll repeat my answer here.

Everyone who is in this industry is like a starving person coming through the desert, and then we get a cracker, and we feel like, oh, my, this cracker is amazing, and so we think Schedule III is amazing. So we'll take rescheduling, but the truth is that cannabis really should be and needs to be not just rescheduled, but de-scheduled, because the move to Schedule III does not get anyone released from prison and does not prevent anyone from being put into prison.

We remain optimistic about the potential benefits rescheduling could bring, including the removal of the 280E tax burden, improved access to financial services such as commercial banking and lending, and facilitation of medical research for cannabis.

Meanwhile, I'm frustrated to say that all progress towards legalization has been entirely led by the states. Thank you to those many brave people and legislators who keep moving the ball forward despite the federal government's total dereliction of marijuana reform, despite it being favoured by the overwhelming majority of Americans.

Already this year, lawmakers in New Jersey and Arizona have introduced legislation to authorize interstate marijuana commerce, pending a change in federal policy. If these bills are enacted, New Jersey and Arizona would join three West Coast states, California, Oregon, and Washington, that have already adopted laws allowing their governors to forge agreements to permit interstate marijuana commerce. I applaud this forward thinking by both states and urge the Biden administration to provide full federal legalization in line with the President's campaign promises.

Our business is built to prosper in the state of California, and we are doing that. But we also believe that California is going to be the biggest winner in cannabis around the country and around the globe when we eventually get the chains taken off our wrists and feet. And of course, the real winner will be the patients and consumers who will have the ability to enjoy the best quality marijuana at the lowest prices, just like every other industry in our great country.

Greenhouse 5 began cultivation operations on January 22nd and started the first harvests on March 18th. I'm happy to announce that approximately 700,000 square feet was fully planted on March 19th. We expect to begin generating revenue in the second week of April.

I would like to commend our cultivation team for a job well done. They produced more than 350,000 pounds of wholesale biomass in Greenhouse 6 and our Casitas and Padaro Farms and kept our nursery fully functioning, while they nearly doubled its initial size through a Phase 2 expansion.

The cultivation team accomplished everything at the same time that they also completed the Greenhouse 5 retrofit. This was a significant logistical and operational challenge, and the team rose to it.

Greenhouse 5 is a sister greenhouse to Greenhouse 6 and incorporates everything we have learned to date at the SoCal farm. Greenhouse 5 has better airflow, better climate control, and is more complete than Greenhouse 6 was at start-up. We are excited to put these new tools to work and expect an improved ramp-up versus that of Greenhouse 6.

I'd like to briefly recap key highlights of Glass House's fourth quarter operating results. Mark will also provide additional detail on the numbers.

Consolidated fourth quarter 2023 revenue grew by 35 percent year on year to $40.4 million, exceeding our guidance of $38 million to $40 million.

Gross margin was 45 percent, down 9 percentage points on a sequential basis and up 14 percentage points compared to quarter four of 2022.

The quarter-over-quarter decline in gross margin was mainly due to the anticipated lower mix of flower in wholesale biomass production and sales that we discussed in our third quarter earnings call.

This decreased company gross margin by 5 percentage points and resulted in average selling price of $272 per pound, just above guidance of $270 per pound, but down from the $336 per pound in the third quarter.

Cost per pound was $121, resulting in a second half cost of production of $120 per pound, in line with guidance.

Wholesale gross margin was 49 percent. Additionally, we saw margin deterioration in our Retail business due to intensifying promotional competition, while CPG flipped into a loss at the gross margin level, primarily due to approximately $1.9 million in inventory write-offs, with over half associated with the discontinuing the production of our FIELD and Forbidden Flowers brands.

Adjusted EBITDA was $3.8 million, coming in below the low end of our guidance of $5 million to $7 million. Having said that, this was our fourth straight quarter of positive adjusted EBITDA.

I'm also extremely proud of the team for delivering four straight quarters of positive operating cash flow in 2023, a first for Glass House Brands.

We produced $1.4 million in operating cash flow in the fourth quarter of 2023, well ahead of guidance of negative operating cash flow of $2 million to $5 million.

In summary, Glass House delivered another strong quarter. We could not have done so without the dedicated efforts of the entire team, which I believe is the best collection of agricultural and corporate talent in the industry. More important than that is how the team works together to achieve our common goals.

One thing that many people lose sight of in the cannabis industry is that everything starts with the plant and, as such, it's an agricultural business. Our focus has always been to use the added scale of each new greenhouse to bring our costs down. Since day one, we've been focused on quality and COGS, COGS, COGS.

Also, keep in mind that going into the ramp-up of Greenhouse 5, we didn't have enough biomass to meet our customers' demands. We need more inventory and are very excited to be bringing Greenhouse 5 online.

I would like to tell you about one of the most exciting products we've released in a long time, a product that I believe will allow us to fuel growth by taking share from the illicit market. By most accounts, the illegal cannabis market in California is about $10 billion annually and roughly twice the size of the legal market.

The best way to take share from the illicit market is to provide tested, safe cannabis of higher quality and at a lower price than the illegal market. To do so, we have already begun introducing a low-cost eighth-ounce package of fresh Allswell-branded flower into our stores. And we expect to have the product available at all 10 of our owned retail dispensaries in time for 4/20.

Even after adding local cannabis tax, state sales tax, and state cannabis excise tax, the product will cost the consumer $9.99 or less out the door. And because Allswell is grown at our farm, not only can we assume—or assure consistent quality, freshness, and delivery, we also expect to earn strong profit margins.

This is the next logical step in the evolution of our business model, and I'm excited as we roll it out. Like everything else we do, it is a big win for the California consumer, who can now buy legally grown and tested, high-quality cannabis at or below the price of flower sold by the illicit market.

We are also about to launch another initiative to bring prices down for consumers at our retail stores and ensure we are priced competitively in all the markets we compete in. We're shifting to a strategic pricing model at all Farmacy and Natural Healing Centers retail stores, signifying a fundamental change in our approach to pricing and customer engagement.

Our experience at The Pottery, the store which operates in the most competitive environment of any of our stores, and the store where we first implemented this model in April of 2023, saw revenues and margins initially fall, but foot traffic doubled within six months as consumers responded very favourably, while revenue and gross margin dollar recovered to and surpassed levels that existed before the change.

Each location has its own specific demographic profile, competitive landscape, and base profitability levels, which dictate the pricing strategy we'll employ, and the amount of revenue growth needed to get back to the base level of gross profit.

Good for the consumers has been wonderful for Glass House Brands. As I mentioned before, we are looking to sign management service agreements with other retail dispensary operators in California. This would allow Glass House to fully leverage our existing retail management talent and strong portfolio of brands to create a co-op system where participating stores, large and small, can benefit from a unified marketing strategy, greater bargaining power in purchasing, and a wider selection of products, leading to increased foot traffic and sales. It's a win-win for everyone and especially for the California consumer.

We have decided to overhaul our CPG brand strategy to improve profitability. Glass House Farms, PLUS Products, and Allswell are the key pillars we will focus on going forward, while the Mama Sue's tinctures line covers the elderly pain and sleep management segment.

At this point, we have made a strategic decision to stop production of the Forbidden Flowers and FIELD brands. These were high-quality products that, nonetheless, have not achieved the marketplace acceptance and economics required to merit continued promotion and production.

On a related subject, we are in the process of implementing a SAP-based enterprise resource planning system company-wide, which was designed specifically for cannabis. We expect that analytics provided will facilitate improved costing capability, benefitting both our marketing efforts and, of course, the bottom line. The adoption process is expected to take about a year.

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 I will take your questions. Mr. Mark, over to you.

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

[audio gap] and MD&A, which are reported in US dollars and prepared according to US GAAP. Please note the numbers we are sharing are still preliminary and unaudited at this time and are subject to change.

First off, I want to briefly discuss the restatement we disclosed on March 4, 2024. Importantly, the restatement impacted only our CPG and Retail business units and did not impact our record Q2 or Q3 2023 results, nor our Q4 2023 results, and they have no impact on our guidance as well for 2024.

One aspect of the restatement is focused on how we accounted for the relationship with our former distributor, HERBL, from inception of the agreement through Q1 2023. Our interpretation of the contract with HERBL as a third-party distributor was based on several facts.

When we sold product to HERBL, they took ownership of the product, risk of loss or damage, and the risk associating with selling it and collecting the payments from their customers. After a review, we concluded the appropriate way to account for sales of our brands to our stores through HERBL was as an intercompany transaction because our brands were being supplied to our stores solely through HERBL and no other distributor.

This resulted in a reversal of revenues we had booked for products sold by our CPG unit to HERBL, that were eventually sold to our stores. Additionally, it resulted in a reclassification of delivery expense from cost of goods sold to a reduction in revenue. The net result was a reduction in revenue and a similar reduction in the cost of goods sold, resulting in an immaterial change to gross margin during the restatement periods.

In addition, we restated Q1 2023 impairment expense and Q4 2022 impairment expense, moving $2.6 million of impairment expense from Q1 2023's CPG impairment into Q4 2022, as a result of goodwill impairment analysis performed for December 31, 2022.

We also recognize an additional $2.6 million of impairment expense in Q4 2022 related to additional goodwill identified during the review of allocation of the purchase consideration for our 2022 acquisition. These charges and the changes in timing are non-cash and do not impact the operating cash flow of the Company.

Now briefly recapping our full year 2023 financial highlights.

We reported revenue of $160.8 million, an increase of 89 percent compared to 2022. This was primarily driven by a 155 percent increase in wholesale biomass revenue.

We sold 339,000 pounds of wholesale biomass in 2023 versus 172,400 pounds in 2022, a 97 percent increase. The increase in weight sold was driven by production of almost 357,000 pounds during the year, an increase of 84 percent versus 2022. We also benefitted from a higher average selling price of $312 per pound during 2023, up 43 percent versus 2022.

Gross margin dollars were $81 million, up 291 percent versus $20.7 million in 2022.

Full year gross margin percent was 50 percent compared to 24 percent in 2022. The increase was primarily driven by improvement in wholesale biomass gross margins, which increased from 22 percent in 2022 to 55 percent in 2023. The factors contributing to this improvement were more weight sold, increased average selling price, and a reduction in cost of production to $136 per pound in 2023 from $144 per pound in 2022.

Our efforts to slow growth and operating expenses paid off in 2023, as cash operating expenses, which include impairment charges, depreciation and amortization, and stock compensation, were $55.2 million, increasing by only 19 percent year on year, well short of the 89 percent growth in consolidated revenue.

We generated $24.5 million of adjusted EBITDA in 2023, which translates to a 15 percent adjusted EBITDA margin. This was an improvement of $46.8 million versus 2022's adjusted EBITDA loss of $22.3 million.

Full year 2023 operating cash flow was $23.2 million, a $64 million improvement versus negative $40.8 million in 2022.

Turning now to our fourth quarter results.

Net revenue for the fourth quarter of 2023 was $40.4 million, just above the high end of our guidance of $38 million to $40 million.

Consolidated gross profit was $18 million or 45 percent of net revenue, up from $9.2 million or 31 percent in the fourth quarter of 2022, but down from a record high $26 million or 54 percent in Q3 2023.

General and administrative expenses were $13.3 million in Q4 2023, falling 3 percent from $13.7 million last year, and 13 percent from $15.2 million last quarter. Key factors influencing the decline versus Q3 2023 were a pickup of nearly $1 million due to release of a portion of the bad debt reserves, and $0.6 million decrease in share-based compensation.

Sales and marketing expenses were $0.63 million, down from $0.86 million during the same period last year and up slightly from $0.56 million in Q3.

Professional fees of $1.9 million were relatively unchanged versus $1.9 million in Q4 2022 and were up slightly versus $1.7 million in Q3 2023.

Depreciation and amortization in Q4 2023 were $3.5 million, essentially flat with Q3 and nominally up from $3.4 million in the same period last year.

Adjusted EBITDA was $3.8 million in Q4. The sequential decrease from a record high of $10.7 million in Q3 2023 was primarily due to the weather issues we discussed on our Q3 call, including a combination of unseasonably low sunlight, high humidity, and higher temperatures.

We estimate this reduced adjusted EBITDA by approximately $3.9 million in Q4.

In addition, we also incurred $1.9 million of inventory write-down costs in CPG, with $1.1 million associated with stopping production on our FIELD and Forbidden Flower brands. These are non-cash expenses and mostly associated with in-process inventory we decided it didn't make sense to convert to finished goods.

Now turning to the balance sheet.

We ended the year with $32.5 million in cash compared to $37.9 million at the end of Q3 and $14.1 million at the end of 2022. During the quarter, we spent $6.1 million in CapEx, mainly for Phase 2 expansion at Camarillo.

The Company was able to generate positive operating cash flow of $1.4 million, despite paying out $5.7 million in cash for state and federal income taxes for 2022. Recall that our practice is to pay federal and state income taxes for the prior year in the fourth quarter.

Also, beginning in December, the Company began paying down $625,000 per month on the senior secured loan, in line with the terms of the credit facility.

Our cash balance was supplemented with $2.2 million inflow during the quarter from the second and final close of the $15 million Series D offering.

Now diving a bit deeper into our specific business segments.

The core wholesale bio business brought in $26.8 million in revenue during the quarter, up 71 percent year over year and down 21 percent sequentially. And this growth was with no capacity increase.

Flower as a percent of volume mix for wholesale biomass sales were down 8 percentage points versus both Q3 of this year and Q4 of last year.

If flower's share of total mix had been similar to Q3, average selling price would have reached $313 per pound, revenue would have been $4 million higher than reported, and wholesale biomass gross margins would have reached 55 percent.

During 2023, we saw some high-profile business failures in California with one of the largest distributors, HERBL, and one of the largest e-commerce delivery services, Grassdoor, shutting their doors. We've also seen a prominent retail dispensary chain close all but 2 of its 12 California storefronts due to liquidity issues.

Retail pricing pressure and high competition for shelf space amongst brands has made both the retail and wholesale CPG space challenging, with retailers and branded players continue to experience cash flow and liquidity issues.

Retail and CPG revenue combined was $13.7 million versus guidance of similar to Q3 2023, $14.3 million. It was also down 5 percent versus last year.

Fourth quarter retail revenue was $9.6 million, compared to $10.1 million the previous quarter and $10.6 million in Q4 2022. This reflects the increasing level of price discounting and promotional activity we are seeing in the market. As discussed earlier, we will be price competitive in all markets we compete in.

Please note, comparisons to 2022 are negatively impacted by the change in how excise taxes are paid to the State of California in 2023. In 2022, excise taxes were paid by the distributor to the state and included in retail cost of goods sold and revenue. Starting in 2023, dispensaries were responsible for collecting and paying excise tax to the state and, as a result, were not included in retail results.

The amount of excise tax paid by Glass House for fiscal year 2023 was over $5 million and over $1.2 million for Q4 2023.

Fourth quarter CPG revenue was $4.1 million compared to $4.3 million last quarter.

We remain committed to our policy of selling to dispensaries that are current on payment and to avoid high accounts receivable exposure to any single buyer. And these policies are the key reasons that we have not experienced material accounts receivable payments default.

This is good news for Glass House on the branded front. The combined dollar sales market share of Glass House Farms and Allswell flower rose from 2 percent in Q3 2022 to 3 percent in Q4 2023. In fact, Allswell entered the top 10 list of California flower brands by units sold for the first time ever in Q4 2023, based on Headset estimates.

We continue to see a decline in overall cultivation licences and a shift toward larger players in the spaces.

During the fourth quarter of 2023, the number of active mixed-light outdoor cultivation licences declined by 6 percent, a total of 280 licences leaving the market. We estimate an equivalent of approximately 2 million square feet dropped out of the market in Q4. This is more than the cultivation area of Greenhouse 5 and Greenhouse 6 combined. January and February 2024 saw a decline of only 24 mixed-light and outdoor licences.

We took an impairment charge of $23.8 million for goodwill and $8 million for intangible assets related to our Retail business unit in Q4. Retail has several dispensaries that are underperforming their revenue, income, and cash flow projections. And based on current performance and trajectory, it was necessary to take an impairment charge for goodwill against the purchase price and the value allocated against the licence of these stores.

This is a non-cash charge that did not impact the operating cash flow of the Company in Q4 2023 and that will not impact it in 2024.

Next, I'd like to discuss our tax situation.

We are current on all California-specific cannabis taxes, including local sales and excise tax. We are monitoring the situation in the state regarding the potential delinquency of other retailers who may not be making their excise tax payments or only making partial payments.

It has been our practice to pay federal and state income taxes in the fourth quarter of the year for the prior year, and we plan on maintaining that practice for 2024.

We are also evaluating our tax planning for 2023, and this has resulted in a $4.8 million reduction of our full year 2023 tax provision to $9.3 million. We are planning to use the same approach to request refunds from the State of California that should exceed $1 million.

Please note, this still includes the impact of 280E, and we are watching what is happening in the industry regarding 280E. And because we will not file and pay 2023 federal taxes until later this year, we have time to make adjustments to our strategy.

Finally, we filed for the ERTC during the second half of 2023 and expect to receive a refund of $11.5 million. Until we receive payment, we are not including the amount in our cash planning or guidance.

I'll now provide first quarter 2024 guidance for key operating metrics.

We expect total revenue to be between $28 million and $29 million, roughly a 3 percent growth compared to Q1 '23, at the midpoint of guidance.

Average selling price for wholesale biomass is assumed at $2.80 per pound, which is down 3 percent versus the same quarter last year.

We are producing a higher mix of trim this year versus last year, which is depressing the average selling price slightly versus Q1 last year.

But selling price for flower and smalls is up versus last year, and it's been running slightly above our initial forecast for the quarter. We have seen prices steadily increase since the beginning of Q4 2023, and they have been slightly over $700 per pound since early February.

Q1 '24 production is projected to be at $185 a pound, which is a 5 percent reduction to Q1 last year, based on 60,000 pounds of biomass production, which would be a 25 percent increase versus Q1 last year, with most of the increase coming from trim and smalls.

Retail and CPG revenue is expected to be down slightly from Q4 as we continue to plan for a highly promotional and price-driven retail landscape.

We expect consolidated gross margin to fall sequentially to approximately 40 percent, down verse the Q4 level of 45 percent.

In addition, we expect adjusted EBITDA to be negative $2 million to negative $4 million, and operating cash flow to be negative $3 million to negative $4 million. This is being driven by start-up spending and working capital investment and turning on production of Greenhouse 5.

We expect to end the quarter with a cash balance of approximately $21 million as a result of the negative operating cash flow, CapEx spending of approximately $4 million to complete Phase 2 expansion, our quarterly dividend payment of $1.9 million, and the first full quarter of debt principal payment of $1.9 million.

Given that Greenhouse 5 will have its first full quarter of production and sales in the second quarter, we would like to provide some basic guidance.

We expect record high quarterly revenue in Q2 of $52 million to $54 million, up 86 percent sequentially and 19 percent year on year at the midpoint of guidance.

Production is expected to more than double over Q1 levels to 125,000 to 127,000 pounds due to the new Greenhouse 5 production and improved growing conditions as we move toward the peak summer growing season, while cultivation cost per pound is forecast at $150 per pound, which is up 8 percent to last year.

Greenhouse 5 will be in a start-up mode and producing at about 70 percent of what we expect on a going basis. This will reduce production output and increase cost of production per pound in the second quarter.

We are planning for an average selling price to increase to $350 to $355, but a higher percentage of flower in the production of sales mix, assuming similar pricing what we are currently experiencing during the second half of Q2.

We expect Q2 Retail and CPG revenue to be roughly flat to Q1. We will provide additional guidance regarding Q2 2024 consolidated gross margin, adjusted EBITDA, and operating cash flow when we report our Q1 2024 results in May.

We are also providing initial guidance for some key full year 2024 metrics.

We expect to grow consolidated revenue to $215 million to $220 million in 2024, which is a 35 percent growth at the midpoint of guidance.

Combined with the increase in revenue, we expect adjusted EBITDA to exceed $50 million, and operating cash flow to be in the mid-$30 million range.

Cash flow will grow at a slower rate than adjusted EBITDA due to working capital associated with starting up Greenhouse 5.

Greenhouse 5 will have its greatest impact on revenue, profits, and cash flow in the second half of the year. And we expect wholesale biomass production to rise about 47 percent versus 2023, at the midpoint of guidance, to 520,000 to 530,000 pounds of production; with a cost of $135 per pound, which is roughly flat to our 2023 cost of $136, as initial start-up costs for Greenhouse 5 will bias cost upwards.

We have made a conscious choice of emphasizing increasing production quickly to generate extra revenues and gross margin dollars over a lower full year cost metric. Our long-term cost-of-production target remains to be below $100 per pound.

We expect pricing to largely follow last year's pattern, rising when production is low in the early months of the year, then falling as summer harvest begins to hit the market in Q3.

We typically get higher concentration of flower and smalls as a percent of volume production mix in the second half of the year, which helps offset lower prices.

We project an average selling price of between $315 and $320 per pound for 2024, which is up slightly from the 2023 average selling price of $312.

We expect combined revenues of Retail and CPG to be basically flat compared to last year, as the difficult market conditions for both retail and brands are likely to continue in 2024.

Our strategic pricing plan for the Retail business should result in lower retail revenues in the beginning of the year and, if executed properly, higher foot traffic and a rebound in revenues as the year wears on.

In addition, there is a strong probability of high-profile defaults by retailers and brands, which could change market dynamics for those who survive.

And with that, I will turn it back over to Kyle. Kyle?

Kyle Kazan

Thank you, Mark. Most listeners on this call will know that gaining the release for those incarcerated in federal and state prisons for nonviolent cannabis offences is a cause that I care deeply about. I'm a board member of MISSION [GREEN], which was founded and is run by Weldon Angelos.

Glass House works closely with Weldon to promote his flower brand REEFORM, which works to release, rebuild, and reform the lives of those incarcerated for cannabis offences by working directly with them to assist in their release, as well as to help them rebuild their lives by offering scholarships to Oaksterdam University.

Recently, former heavyweight champion Mike Tyson lent his voice to this cause. In a video for REEFORM, which we helped produce, and which has received more than 1.75 million views, Iron Mike called on President Biden to give clemency to cannabis offenders because, in his words, some people go to prison, get killed, and never come home. Tyson added that people should look into the fact that this is really a mild medicine, and that people are doing murderers' time for it.

We applaud Mr. Tyson for the video and for the letter he subsequently sent to President Biden on February 20th. In his letter, Mr. Tyson referenced a September 2021 letter signed by dozens of artists, athletes, lawmakers, academics, other professionals, and myself, asking the president to issue a general pardon for all federal cannabis offenders.

He added that he joins the Weldon Project, Drake, Killer Mike, T.I., Deion Sanders, and others in a call to end the madness of federal marijuana prohibition. Tyson added, I grew up in tough neighborhoods where people lived in fear of drug warriors, and I've seen the heavy costs paid by the poor and people of colour. It's past time to reconcile with these communities.

Marijuana should not be a crime. The first step is to release the approximately 3,000 people who remain incarcerated in federal prisons by America's war on marijuana and to wipe the slate clean for those convicted of federal marijuana offences.

The letter drew widespread press coverage in media outlets across the nation. Again, I applaud the champ's efforts and fully endorse those sentiments. I highly recommend that listeners take a look at an article written by Michael Ruiz of Fox News after an interview with me on the issue of those in prison for the nonviolent dealing of cannabis.

Simply put, I strongly sympathize with those who are given long sentences in federal and state prisons for typically selling less marijuana than we harvest in one hour. And I must point out that Glass House and all those incarcerated in federal prison sold cannabis as the Schedule I drug that it currently is classified. Please take a moment to ask your federal representatives to push President Biden to use his pardon pen.

I would also like to announce the date for our third annual Investor Sesh, which will be held concurrent with our annual general meeting on June 21st at our SoCal farm. For those shareholders who have not attended in the past, as well as those who joined in either or both of the last two years, I warmly welcome you to come visit our farm in Camarillo and see what the future holds for Glass House. We will be hosting tours of our greenhouses, and you'll be able to see a robust canopy of flowering cannabis in our newly retrofitted Greenhouse 5.

Our executive team will be on hand for the traditional Investor Sesh question-and-answer session with shareholders. Like the Glass House in our name, we believe in transparency and want all of our shareholders to visit to see how we are running our collective company. It is worth the time and the effort.

Lastly, before we take your questions, I would like to invite the institutional investors and sell-side analysts on this call to our first ever Investor and Analyst Day on September 12th. Stay tuned for more details on this event.

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

Q&A

Operator

Thank you. Ladies and gentlemen, should you have a question, please press the *, followed by the 1 on your touch-tone phone. If you'd like to withdraw your question, please press the *, followed by the 2.

Again, to ask a question, please press *, 1. One moment, please, for your first question.

Your first question comes from Mike Regan from Excelsior. Sorry about that. Your line is now open.

Mike Regan — Excelsior Equities

Hi. Thanks, everyone. Quick question. So on Greenhouse 5 being in start-up mode at the 70 percent capacity, can you tell us, I guess, how long it will be in that 70 percent capacity versus full capacity? And sort of what you would need to see to push it up to the 100 percent?

Kyle Kazan

Thanks, Mike. Here, I'll—

Graham Farrar — Co-founder and President, Glass House Brands Inc.

Sure. I can take it—yeah.

Kyle Kazan

—why don't I ask—why don't I ask Graham to enlighten?

Graham Farrar

Hi, Mike. How you doing? Thanks for the call.

So yeah—so a couple of things. One is we started planting in late January, so we're not going to have the full year in there. It sort of takes us about 65 days before we start harvesting. So part of it is just the amount of time that we have. The other is us being conservative. It's a new greenhouse, new facility. As you run through things, you always find a couple things that you need to tune up.

But overall, I'd say our expectations are that Greenhouse 5 should do as well or better than Greenhouse 6. We made a number of improvements in there from the way that we managed the shading to removing gutters to increase airflow and better segmentation of blackout curtains and valves. So we actually expect it to be our most productive greenhouse yet.

I think we probably need a quarter or so. It's nice to see a little bit of each of the seasons. So as we move through the year, each greenhouse really is pretty unique in how it performs. So we'd like to see a bit of the spring, a bit of the summer, and a bit of the winter. But I think the team's pretty well up to speed already, and I'm very optimistic for what we're going to see coming out of there.

Mark Vendetti

So, Mike, Mark Vendetti here.

Just one other point, just from a more longer-term perspective. Greenhouse 5 is about 8 percent bigger than Greenhouse 6. So just on a size basis, we do expect Greenhouse 5 will give us more biomass just because it is 8 percent bigger.

Mike Regan

Got it. Okay. So it's just sort of basically sort of like you said, ramping it up and maybe, I guess, sort of maybe hitting it—it makes sense in terms of you don't want to fully plant it until you actually got it fully dialled in. So I guess it would be a full year of '24 sort of dialling it in, and then '25 would it be when it's sort of going fully forward? Or am I misunderstanding that?

Graham Farrar

Yeah. So just for clarity, Greenhouse 5 is fully planted. Now the greenhouse is completely full. We just tend to be a bit more conservative in the first kind of run through. I don't think it's going to take us a full year until we get it up to speed. You just like to see a few harvests in there so you can make your tuning and adjustments to the automation and make any tweaks to the system.

But I expect the greenhouse to ramp quickly and actually expect it's going to be as good or better than 6 and, as Mark mentioned, it's also about 8 percent larger in total square footage of canopy as well. So we're optimistic and expecting that—expecting it to do very well.

Mike Regan

Got it. Okay. And then in terms of, I guess, shuttering the Forbidden Flowers and FIELD brands, is there any way we can sort of think about the cost savings from that or how that could sort of help margins longer term as, presumably, that was, I guess, losing money if you decided to shut them down? You wouldn't have shut them down if they were doing really well. Right? So any way to think about that in terms of the benefit of that?

Kyle Kazan

So, Mike, just in the fourth quarter, the two brands combined were less than 2 percent of the CPG revenue. So they had become, say, pretty immaterial to the revenue perspective, and they were contributing no gross margin at all to the Company.

So the big issue for us in Q4 is the fact that we, once we decided to stop producing, we just had resin and rosin and other in process we had been keeping until we made the final decision. And as a result, we wrote that off.

So I think the simplest thing to do is basically assume it has—or said another way, if you wanted to understand the impact in our Q4 results, I would just basically go, I'm going to add $1.1 million back for the write-off because, now, that won't happen again, and there'll be no impact for revenue or gross margin in terms of the base business because it wasn't contributing anything.

Mike Regan

I see, guys. So there's sort of going—I guess, moving forward, are there any sort of cost savings? Or is it more redeploying all the resources that were previously working on something contributing no margin to the new Allswell brand that can produce—that is producing more margin? Sort of like is it reallocating resources? Or is it actually sort of reducing resources?

Kyle Kazan

I would—we've seen, as we mentioned, really strong growth with Allswell over the last couple quarters. And so it's going to be more of a, I'm going to say, a reallocation of resources. Particularly, Allswell does both flower and edibles. And our facility where FIELD is made—or was made, was doing the rosin, resin, and edibles as well.

So I just, again—

Mike Regan

Okay.

Kyle Kazan

—just assume it has no—just adjust out the $1.1 million and, really, assume it's got no impact on revenue or gross margin going forward.

The bigger issue is it's, I'm going to say, just a distraction of having two extra brands that weren't contributing to the Company. And now, the focus is really on, again, the three main brands with Mama Sue brand fitting a very specific niche.

Mike Regan

Got it. Great. Thanks a lot. Okay. I'll pass on the—

Graham Farrar

Might be worth, Mike, just to touch real quick on the CPG strategy. And we continue to be long-term believers that cannabis is going to be a CPG product like all the other products out there. So the idea that forever and always it's sold in dedicated dispensaries is not a thesis that we believe in.

We believe it's eventually going to migrate into where you see other things like nicotine and alcohol, things that are highly regulated, that pay taxes, that require licences. And when this develops into a $100 billion business, it's going to be—there's no chance that the 7-Elevens and the grocery stores are not going to want a piece of that. And at that point, brand is—and brand building, particularly brands from California, is going to be extremely valuable. Right?

And so what we've—what we're seeing with Allswell and Glass House combined with some of the most consumed flower in California by units—California, obviously, the largest cannabis and most discerning and most competitive cannabis market in the world. So by focusing in on the big three of Glass House, Allswell, and PLUS allows us to really dive deeper into those brands where we're seeing success.

I think Allswell in particular is noteworthy and important because, both on the edibles and now on the flower side, what you're seeing is that you can—consumers can get quality-tested variety, consistent, fresh product for, essentially, the same price with taxes that they would find for illicit cannabis. And while we certainly don't believe anyone should be arrested for cannabis, we do want to see the illicit market replaced by a safe licensed market.

And we think that our one way to do that is to outcompete it economically on price. And that's what particularly Allswell is showing success of doing, so that's where we want to double down our focus on.

Mike Regan

Yeah. No. That's great. Makes sense to focus everything behind the main brand that's driving the ship. So thanks a lot.

Operator

Your next question comes from Andrew Semple from Echelon Capital Market (sic) [Wealth Partners]. Please go ahead.

Andrew Semple — Echelon Wealth Partners

Hi, there. Good morning. Thanks for taking my questions. First off, the first one would be just on the cost guidance of $135 per pound for the full year of 2024. If I've got my math right, it looks like you're guiding—that suggests an average cost of pound of about $120 in the second half of the year. That would be relatively consistent with where you ended it in the second half of 2023.

So just going forward, I'm just guessing, what are the main drivers that you see to reach your long-term target of $100 per pound cost production, relative to the $120 level you expect to be at the end of this year? And maybe how conservative is that full year cost-per-pound guidance?

Kyle Kazan

So thanks for that. Thanks for the question, Andrew. Appreciate you getting up early. Graham, you want to address that?

Graham Farrar

Yeah. Sure. Yeah. So we've got, actually, quite a few initiatives that we're pretty excited about in terms of cost reduction. Obviously, scale helps. Right? If you think about the fixed costs that we amortize in there, as we produce more pounds on a per-pound basis, those numbers drop naturally because you're doing a better job of amortizing it.

The other thing is we're doing quite a bit on, I'll call it, like automation and efficiency driving. A particular example of there is that we're starting to look into things that you find in other large industries like photo-optical sorting and ways that you can do more effective sorting with less human intervention and, in this case, in a way that's actually more gentle than a person would be, so you end up with a higher quality product as well.

The other part of it is, if you think about the ramp-up, we still, for example, hand trim a large portion of our flower. So as we're increasing capacity by 40 percent, 60 percent, 80 percent, that requires a significant ramp-up, and the team that does that. And one of the things that we factor in is in a trimmer who's been trimming for years is more efficient than someone who just walked in the door. And so as you're ramping up, we tend to de-rate the efficiency of those new additions for a period of time until they get their training, so to speak.

So I think that the $99-a-pound cost target continues to be very much a potential for us. We're starting to build line of sight to the things that we're going to do there. Part of that is increasing the denominator in the number of pounds produced, and then part of that is bringing extra efficiency, and the other part is bringing scale. But I think as we move forward, we continue to be as or even more confident than we have been that that's an achievable target.

Andrew Semple

Great. Great. Glad to hear. Second question would be, as you're approaching the timing of realizing your first harvest from Greenhouse 5, imagine you're already very much engaged with some of your customers there on absorbing that capacity. Do you have any concerns on your ability to fully sell through the incremental production? Given the guidance, it would seem like you're not concerned there, but just want to clarify that.

Graham Farrar

Yeah. Sure. So I mean, one of the things that makes me the most optimistic is the fact that every week, it seems like our sales team is calling, asking when's that first harvest from Greenhouse 5? When's the first harvest from Greenhouse 5? They're actually in an environment right now where they're selling it faster than we can grow it and are excited. I mean, really, they're allocating and to customers, to try to keep them happy at this point, because there's not enough flower supply to go around.

And so as a reminder, and Q1, that's our lowest production part of the year because that's when we get the least amount of sunlight. So these guys are really excited to have the additional volume because it'll allow them to more satisfy their customers and not have to ration them on what they're able to get.

Also, I may have misunderstood you there, but just a point of clarification. We have already had our first harvest from Greenhouse 5. It just happened. The product's actually currently in the dry room and a couple weeks away from being finished with the curing process. And then it will be processed and handed over to the sales team to sell it, and they're chomping at the bit.

So if you look at what has come out of the market in terms of licences, I think as Mark mentioned, we're putting back in with Greenhouse 5, and about 700,000 or so square feet of canopy is actually a very small part of what's left. Even since we started the Greenhouse 5 retrofit project about six months ago, we've seen millions of square feet of cultivation leave the market. We're putting back in several hundred thousand.

So net-net, the supply is actually significantly less than it was when we started the project. And that makes us very comfortable that there's demand for the product that we're going to be producing.

Andrew Semple

Great. Great. And final question, if I may. In the outlook, you're pointing to some significant stress on retailers out there. Obviously, some of those retailers are also pushing your products, probably both—so your CPG products but also, more significantly, the brands that you're powering with your wholesale B2B business. Is there anything Glass House can do to support some of those retailers?

And I think the obvious follow-up question there would be whether you're interested in acquiring some of these potentially distressed retail locations to ensure that there's still adequate distribution in the market?

Kyle Kazan

That's a very good question, Andrew. And I would tell you that, unfortunately, I think that where there's too many stores in the 35 percent of the markets that have retail, I think it's like with MedMen, who had all kinds of money, had all kinds of advantage. I think we're just, unfortunately, going to see some of the retailers go out of business.

Remember we saw HERBL, which was the last—or the largest distributor in the state go out of business. And what we tried to do is we tried to support HERBL all the way until the bitter end and we did it—but we did everything we could smartly to make sure we didn't be part of the collateral damage.

And so when it comes to the retail, we have a very good credit team and a very smart sales team. So we are trying to be as supportive as possible. But at the same time, it is such a difficult market out there that we are just being as careful as we possibly can so that we don't get caught up in losses that might have otherwise been seen.

In regards to buying more stores, we have 10 that we own. I think the best way we can be helpful would be to help stores by taking over management and using a very, very skilled team and buying prowess to help them and maybe get them to profitability. So we're out there talking to folks about managing stores. That's why I think we can best help.

Andrew Semple

Understood.

Graham Farrar

Might be one other—one other note on just the landscape out there. While you are seeing some compression in terms of dollars, there's really not a lot of change in terms of consumption on a unit basis. So people are still out there smoking as much weed as they ever have and, arguably, probably more people smoking weed today than yesterday. And more will smoke tomorrow than today.

So I think what the state could do to help is we need more retail. And as Kyle mentioned, you need retail that's distributed in a way that's accessible, and we need lower taxes. Right now in California, every $3 a consumer spends, about a buck of that goes to taxes. But you're not really seeing consumption drop. There probably is some migration back to the illicit market because of the lack of access and the high taxes, particularly on flower.

And the number one thing that we can do and are doing there is bring high-quality, fresh tested, licensed, legal, and tax-paid flower for a better value than what the illicit market offers. And that's exactly what we're doing with our $9.99 eighth and bringing that to more stores through management, as I think something that would bring the consumer back into the licensed side of the market where we'd all like to see them, really.

Andrew Semple

Understood. And those sound like some sensible strategies to avoid risk back to the Glass House and use of capital. Thanks for taking my questions. I'll get back into queue.

Operator

Your next question comes from Pablo Zuanic from Zuanic & Associates. Please go ahead.

Pablo Zuanic — Zuanic & Associates

Thank you. Good morning, everyone. Look, my question firstly, on the CPG side. Can you clarify a couple of things there? Just a reminder of your wholesale revenue, how much of that is branded and how much is that white label? And how has that evolved over time? And what's the ideal mix, longer term?

And then the second question, if you can just clarify in terms of these new SKUs—I believe you said it's a new brand, $9.99 per eight ounce (sic). I don't know if my Headset numbers are right, but Allswell $9.99, per gram is $2.83. According to Headset, Allswell sells at $2.65, Glass House at $4.27 per gram. So I'm just trying to understand how new is a $9.99 in case the Headset numbers are wrong? Thank you.

Kyle Kazan

So, Pablo, buenos días. Thanks for the question. Mark, do you want to—

Pablo Zuanic

Buenos—

Kyle Kazan

—address that?

Mark Vendetti

Yeah. So I'll take the first part. So we disclose our CPG business and our Wholesale business separately. So the Wholesale business is for sales of our unbranded biomass to, generally, it's other distributors throughout the state, who will then put it into their brands or resell it.

Pablo Zuanic

Mm-hmm.

Mark Vendetti

And so that does not include any revenue for our CPG branded business. We disclosed separately our CPG business, again, which was $4.1 million in the fourth quarter. And that is basically the sales of Glass House Farms, Allswell, and PLUS to distributors and not to our own stores.

Expectation, again, from a guidance perspective is, given the difficulty in the market for CPG or the cannabis consumer market in general, we're assuming CPG is going to be relatively flat for 2024. And we watch the market closely and, again, we see brands leaving, we see retailers having trouble, but we are not going to chase revenue at the expense of not being able to collect the payments or the cash from the sales.

And then the Wholesale revenue, again, that is—if you look at guidance for 2024, I'm going to say all of the increase is really being driven by the incremental production coming on with Greenhouse 5.

And then can you just kind of rephrase the second question again, quickly?

Pablo Zuanic

Yeah. Yeah. I'll rephrase on it. Yeah. Apologies for not having known a difference in terms of your disclosure between wholesale and CPG. I guess I'm going to switch the question. So strategically, I think Kyle said longer term, right, 7-Eleven, retail changes so, maybe, you don't want to be on dispensaries because there's going to be many other retailers. So there, I totally agree, you want to build brands and be CPG.

But by the same token, if that's the way the industry evolves—and I know we're talking very long term, probably—then the advantage of growth of biomass, long term, how does that play into that assumption that the industry looks more and more like CPG? That's why I'm asking the question, in terms of your mix over time on the, what I would call non-retail revenue, how much of that you want to be branded versus what I would call white label or biomass. That's the question. Thanks.

Mark Vendetti

Kyle, do you—yeah. Why don't you address that?

Kyle Kazan

Okay. Pablo, I would tell you that, God, that's a little bit of a crystal ball question. But I think, over time, you'll see brands like almost, I would say, like a Sunkist. You'll see like Driscoll's Strawberries and things like that. CPG will matter, but I don't think you're going to have very many BevMo!s for cannabis in the future.

And ultimately, like cigarettes, like alcohol, you're going to see branded product be the main driver. And I'm hopeful that we won't just be intel inside other people's brands. And so, we've really—

you can see we've focused in on primarily Allswell and Glass House Farms as our two kind of a higher shelf and a lower shelf for value.

And we think that, like, for instance, the $9.99 out the door every day, we really find we think that's going to be a game changer, and we think we will be able to entice people to come from the illicit market to the legal market.

But, yes, it's difficult just because timing is always tough, but we think that if you give the best possible value to consumers, your brands will win. And ultimately, we think Glass House Farms, we think Allswell, and we also think PLUS gummies are priced really, really competitively and are an amazing value. And if it vibes with consumers, then we think those will be big winners.

And I'll tell you, if you look around the country and you compare with all the taxes we have to layer in, in California versus everywhere else, and you just compare what you can get in almost any other state, California is an amazing value. And then when you actually test the product, it just goes through the roof.

So I'm very bullish, long term, that this will vibe well with the consumer. And given the fact that we have three more very large greenhouses that have yet to turn on, we have a very bright future ahead of us when interstate commerce, via through the states or whether it happens federally, happens. But I would tell you, I think we're doing everything we can do to put ourselves in a position to be winners there.

Pablo Zuanic

Understood. Agreed. Yeah. If I may, I want to ask two more. So just to clarify, in terms of, I mean, Allswell, Glass House, of course, more premium for Allswell, lower, more value. In terms of the new brand you are launching at $9.99, is that well below Allswell? I'm just trying to reconcile the metrics I'm looking at here in terms of pricing, if you can just give the range. How much lower is that compared to what Allswell retails right now?

Kyle Kazan

So Allswell is that brand. In our stores, we have gone ahead and lowered the price. Mark, do you want to share the numbers behind it?

Mark Vendetti

So I think, I'll just say in order—if you go into our store, in order to get it under $10 with sales and excise tax, you're going to be paying somewhere around $7.25 retail. If you're going to go to a different dispensary, you're probably going to see it priced, I don't know, 30 percent to 40 percent higher, so significant incentive for you to come into Allswell.

And again, one of the benefits when we sell our brands into our stores is we capture the entire profit, right, that retail would be capturing, where we're relying on our lower cost of production. So our margins for our brands and our stores are significantly higher than the average retail margin we report for the stores.

Pablo Zuanic

Yeah. Of course. And one last one. So we see a lot of California brands selling in other states, either by licensing their brands there, or we've seen some operators buy assets in Michigan and other states and also sell their brands there. How are you thinking about building your presence in other states, either for your brands or in other ways? Or that's just not a priority right now?

Kyle Kazan

So another great question. And we've been approached many, many times to, one, grow Glass House Farms outside the state of California. And thus far, we've just said—we've looked at that as a distraction. And also, we don't think we can grow the fine cannabis that Graham and his team do here in California, outside of the state. At least today, that's our position. I mean, we've been even asked to grow in Europe. So we've stuck, stayed completely focused on California.

In regards to PLUS gummies or maybe a Mama Sue tincture, I would tell you that we've had discussions, and we may have some news coming in the not-too-distant future.

Pablo Zuanic

Thank you.

Kyle Kazan

Thanks, Pablo. Always good to hear your voice and your questions.

Operator

There are no further questions at this time. I will turn the call back over to Kyle Kazan for closing remarks.

Kyle Kazan

Thank you, Operator. And thank you, everyone, for your interest and for joining us on today's earnings call. The team and I greatly appreciate it.

Operator

Ladies and gentlemen, this concludes your conference call for today. We thank you for joining, and you may now disconnect your lines. Thank you.