Glass House Brands Inc.(Q3 2024)
November 13, 2024

Corporate Speakers

- John Brebeck; Glass House Brands Inc.; Vice President of 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 Inc.; Co-Founder, President and Board of Director

Participants

- Frederico Gomes; ATB Capital Markets; Analyst
- Luke Hannan; Canaccord Genuity; Analyst
- Michael Regan; Excelsior Equities; Analyst
- Andrew Sample; Ventum Financial; Analyst
- Aaron Grey; Alliance Global Partners; Analyst
- Unidentified Participant; Analyst; Unknown
- Unidentified Participant; Analyst; Unknown

PRESENTATION

Operator^ Good afternoon, ladies and gentlemen, and thank you for standing by. Welcome to the Glass House Brands Third Quarter 2024 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^ Thank you, Operator. Welcome, everyone, to the Glass House Brands third quarter 2024 conference call for the period ending September 30th, 2024. 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 these forward-looking statements. The risk factors that may affect results are detailed in Glass House Brands' periodic filings and registration statements. These documents may be accessed via the SEDAR+ database. I'd also like to remind everyone that this call is being recorded today, Wednesday, November 13th, 2024.

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

Kyle Kazan^ Thanks, John. Good afternoon, everyone, and thank you for joining us for today's call. Before discussing our results, I'll refer everyone to our third quarter 2024 press release where you can review our results in more detail.

During the third quarter, we delivered record-setting results highlighted by a 128% year-over-year increase in cannabis production, a record-low quarterly cultivation cost of $103 per pound, and robust growth in retail and consumer packaged goods. All three business lines, wholesale biomass, retail, and wholesale CPG, achieved positive year-on-year and sequential revenue growth.

We achieved record-breaking results on more than 10 metrics in the third quarter, including consolidated revenue of $64 million, wholesale biomass revenue of $48 million, retail revenue of $11 million, CPG revenue of $4.8 million, the highest number for CPG since the end of our relationship with Herbal, consolidated gross profit of $33 million, wholesale biomass gross profit of $27 million, adjusted EBITDA of $20 million, operating cash flow of $13 million, cost per pound of $103, biomass production of over 232,000 pounds, and biomass sales of over 209,000 pounds. These strong quarterly results once again showcase our team's ability to consistently grow high-quality cannabis at the lowest cost.

In addition, our third quarter results demonstrate the continued effectiveness of our retail dispensary strategic pricing plan. I want to personally thank the entire Glass House family for their determined commitment to excellence in providing our customers with outstanding cannabis products at the best possible value.

As we talked about on our last earnings call, the California cannabis market continues to experience pricing cycles, and given the newness of the legal industry with the overhang of federal illegality, sometimes the swings are extreme.

While seasonality in California is predictable, the heights of the highs and depths of the lows are not. In the third quarter, the low pricing is what I described as destructive, meaning nearly every company which cultivates in the Golden State will have going concern issues.

As we have built a proverbial aircraft carrier, we thrive in both stormy and calm waters. These cycles give us the gift of adversity, which we've always embraced to get stronger in the most competitive legal cannabis market in the world. In fact, we are ceding on this opportunity to continue our expansion and have placed orders for materials for the retrofit of Greenhouse 2.

Pricing has been weaker than we expected during the second half of this year, falling below some of the lowest levels seen in 2022. Subsequently, the third quarter decrease in pricing was due to our sales team continuing to execute our sell at the market pricing strategy. Thanks to our record low cost production and consistent quality, we can do this in a way that few, if any others can't. Mark will discuss this in more detail when providing our fourth quarter guidance.

While we foresee lower prices to continue in the short term, longer term we expect Glass House will benefit as we have in the past where we have emerged even stronger. Consolidation happens in all industries as they begin to mature and the wild price swings are a major part of the path to consolidation.

We're focused on taking advantage of this swing to expand market share. And as such, we are moving ahead aggressively with our expansion plans. We expect to spend $5 million in CapEx related to phase three expansion in the fourth quarter of 2024. This retrofit will include the addition of blackout curtains, shade screens, new gutters, a misting system, CO2 systems, and grow pipes. We are particularly excited because unlike our other greenhouses, Greenhouse 2 has nearly 11,000 lights already installed.

We expect to start generating revenue by the fourth quarter of 2025, production estimated at 275,000 pounds of cannabis in its first full year. Besides the additional production volume, we also expect Greenhouse 2 to grow our highest quality flower and be the most consistent year round thanks to the lights and other cultivation tools that we part of the retrofit. The lights will also mean that its production should be less affected by the seasons and would allow us to take advantage of cyclically higher prices in the front half of the year.

Over the past six months, we've had many conversations with bankers about raising debt and equity capital, and we aim to raise approximately $25 million to fund our phase three expansion. Our focus is on equity issuance, which we previously disclosed, and Mark will discuss these plans in greater detail later in this call.

As there is no immediate need for capital, we will strategically choose the timing. The discussions with providers of capital are ongoing as we look to further strengthen our balance sheet and lower our current cost of capital. Because we can pay existing obligations from our current operating cash flow and have no upcoming debt maturities for more than two years, we're taking our time and choosing the most advantageous, pricing and timing.

Next, I'd like to discuss the work being done by our retail and wholesale CPG teams led by Chief Revenue Officer, Hilal Tabsh. Both teams have produced remarkable results this year, and I tip my cap to Hilal and his team.

In 2024, combined retail and CPG revenue exceeded guidance in every quarter, including the third quarter. Retail Dispensary Strategic Pricing Plan once again helped our stores outperform the broader California market. While the overall market was down 6.4% versus last year per headset data, our retail sales were up 11.5% year over year. This is a massive differential of more than 17 percentage points. I know of no other stores in California which bucked the market trends as much as we have.

Our Allswell brand continues to drive growth and dispensary revenues in our retail stores as well as the broader market. It was a top three brand in unit sales for the second quarter in a row per headset data. This is an amazing achievement considering just 16 months ago, Allswell was the number 21 brand in the state per headset data. Clearly, our farm fresh quality, variety, and $1.99 out-the-door price is resonating with Californians as we are confident it will when we have the ability to sell to consumers across the nation.

Following the footsteps of Allswell flower, the Allswell vape we introduced in May has continued to surpass expectations in its initial launch, rising to the number three selling vape by units in our stores up from number four last quarter. We are looking forward to tracking the growth of both of these products in the coming quarters.

Our stores saw a 32% increase in foot traffic in the third quarter versus the same period last year, and we are attracting a wide range of new customers to our stores. The performance of the strategic pricing plan is solidly meeting our expectations. The primary goal is to drive revenue growth through increased traffic and to keep our existing customers happy while winning the loyalty of a new, larger client base who will be with us for a long time to come.

One of the brightest areas of our 2024 performance is the 9% year-on-year growth in CPG revenues and a significant expansion in CPG gross margin percentage we've seen through the first three quarters of this year. Wholesale CPG cumulative gross profit for the first three quarters of this year reached $3.34 million with a gross margin of 26% compared to $1.6 million and 13% during the same period last year. This doubling of gross margin percentage in a highly competitive market environment was enabled by our decision late last year to concentrate our efforts on our top brands, Glass House Farms, PLUS Gummies, and Allswell.

Another primary factor was cost-saving measures in our CPG supply chain and manufacturing processes. We brought the flower packaging operation in-house into our Lompoc facility, and this has significantly lowered processing costs. We've also reduced packaging SKUs and streamlined our product testing procedures. These adjustments have collectively enhanced operational efficiencies and lowered the overall cost structure, making the company's CPG products more competitive in the market. Lowering costs is truly in our DNA.

During the quarter, our Allswell brand marked a major milestone, surpassing $1 million in single-month wholesale revenues through both our CPG wholesale and retail channels. This powerful performance validates our decision over two years ago to launch Allswell. We believe that the best way to draw customers from the illicit market is to give them better pricing for fresh and tested products.

Before I turn it over to Mark to review our financials, I'd like to talk about our plans for hemp. During our second quarter earnings call, we stated that we were exploring the potential for selling hemp-derived cannabis in markets outside of California. We are tantalized by the idea of selling Glass House and Allswell-branded hemp-derived cannabis to consumers in other states.

Since last quarter, we acquired our hemp license and have begun our initial testing as we now have our first hemp plants growing on site. Based on the current plans, we expect to decide during the second quarter of 2025 whether to move forward with the production of hemp-derived cannabis. Note that our Phase III CapEx spending requirements will remain the same whether or not we choose to pursue our hemp strategy.

We are in dialogue with both potential partners on the commercial sale and distribution of hemp-derived cannabis, as well as with local authorities to stay up to date on new policies. We are watching regulatory developments at the federal level of interest. The 2018 Farm Bill expired on September 30th, and as of now, Congress has not passed a new one. The measures in the bill that allow the sale of cannabis-derived hemp have generally found support in the courts, and we don't expect major changes when the new Farm Bill is passed.

In summary, I am very proud of our entire Glass House Brands family as they succeeded in hitting or beating almost every controllable metric. Market cycles come and go, and when others shrink, we grow as we continue to expand our market share. This is all possible because of the unwavering eye on costs we've had since day one. Where others see challenges, we see opportunities. That's why when things turn, we will be stronger than ever, ready for our aircraft carrier to enjoy some calm seas of higher pricing.

We are in the right place with the right assets and the right team to grow the world's best cannabis for the best price anywhere. Every day as we get closer to federal legalization, we sit prepared to scale in a way that no one else can, with the goal of making Glass House Brands available in every legal market worldwide. I want to thank all of you who have supported us as shareholders. Our entire team is excited about the future and are focused on enhancing the value of your ownership.

With that, I will turn the call over to our CFO, Mark Vendetti.

Mark Vendetti^ Thanks, Kyle, and good afternoon, everyone. As a reminder, the results I'm sharing will be filed today. They can be found in our financial statements and MD&A, which are reported in U.S. dollars and prepared according to U.S. GAAP.

Briefly recapping our third quarter financial highlights, as Kyle mentioned earlier, net revenue for the third quarter of 2024 was $64 million, slightly under our guidance of $65 million to $67 million. This was still a record quarter for us, representing revenue growth of 32% year over year and a sequential increase of 18%. This growth was driven by broad-based strengths. All three of our business segments produced record high quarterly performance, showing positive sequential and year-on-year growth. This was a quarter when our growth engine was hitting on all cylinders.

Third quarter consolidated gross profit was $33.4 million, a single quarter record high compared to $26 million for the year-ago period and $28.7 million in Q2 2024. Gross margin was in line with guidance at 52% and compares to 54% in the third quarter of 2023 and 53% in the second quarter of 2024. An increase in revenue mix from our highest margin businesses, wholesale biomass and retail, and a 7 percentage point increase in CPG wholesale gross margin were positive contributing factors.

Gross profit dollars for the third quarter rose 29% year over year and 17% versus the previous quarter. General and administrative expenses were $14.4 million in Q3 2024, down 5% from $15.2 million last year and down 17% from $17.4 million last quarter. The decrease versus Q2 2024 was mainly due to a reduction in the bonus accrual during the quarter caused by the decrease in our projections for adjusted EBITDA and operating cash flow for the 2024 fiscal year.

Sales and marketing expenses were $0.62 million, up slightly from $0.56 million during the same period last year and down from the $0.68 million in Q2. Professional fees were $0.9 million in Q3 compared to $1.9 million in Q2 2024 and $1.7 million in Q3 2023. The $1 million decrease versus Q2 2024 was primarily due to reduced legal expenditures following the dismissal of the Catalyst lawsuit against Glass House and the withdrawal of our defamation suit against Catalyst.

Depreciation and amortization in Q3 2024 were $3.7 million, consistent with both Q2 and the same period last year. Adjusted EBITDA was a single quarter record high, $20.4 million in Q3, above the high end of our guidance of $18 million to $20 million and considerably higher than the $12.4 million seen in Q2. This was driven by top line growth and healthy gross margin performance across all three of our business lines, as well as a reduction in general and administrative expenses and professional fees versus Q2 2024.

Operating cash flow was a record $13.2 million, but below guidance of $18 million to $20 million and compared to $9.1 million in the year-ago period and $8.9 million in the second quarter of 2024. The majority of the miss compared to guidance is related to an increase in working capital relative to our expectations.

Now turning to the balance sheet. We started the quarter with $25.9 million in cash and restricted cash and ended Q3 with $35.1 million, slightly lower than our guidance of $38 million to $40 million. This was mainly due to the factors discussed earlier in the operating cash flow discussion. In addition, we spent $1.4 million in CapEx in Q3, which was mostly maintenance CapEx at our SoCal farm. The company also paid $1.9 million in preferred stock payments and $1.9 million in principal on the White Hawk loan.

Now diving a bit deeper into specific business segments. The core wholesale biomass business achieved a record high, $47.8 million in revenue during the quarter, accounting for 75% of total revenue. This was up 41% year over year and up 22% sequentially. The 232,300 pounds of biomass produced in Q3 was 128% year on year increase and 55% higher than last quarter. Far outstripping guidance of $185,000 to $195,000 as Greenhouse 5 production continues to exceed our estimates.

Production cost per pound was $103 per pound, well below guidance of $120 per pound for the second half of the year. Of all the metrics we've watched, this is one of our most important and where we believe the long-term focus should be. We were pleased with these results and a clear demonstration of the efficiency of our growing team. This kind of result in only the second full quarter of production at Greenhouse 5 is impressive and a great indication that we are on a path to our long-term target of growing quality cannabis consistently for under $100 a pound.

The average selling price was $229 per pound compared to guidance of $280 to $285 per pound and to $336 per pound in Q3 2023. Our mix sold during the quarter was in the mid-30% range consistent with last quarter and lower than the 40% to 45% range we saw last year.

Regarding market dynamics, our analysis indicates several factors are involved, many of which we believe are part of the pricing cycle Kyle discussed that will likely reverse over time. Harvest data from the California Department of Cannabis Control shows that there was a meaningful year-on-year increase in biomass production at Q2 2024. Some of the growers who kept their licenses may not have fully planted their farms in 2023, and the resulting rebound in prices may have prompted licensed growers to plant more this year than last. Anecdotal comments in the press indicate that the 2024 crop has been strong in the Pacific Northwest and parts of California. Buyers have been affected by the drop in prices and are placing smaller, more frequent orders in an attempt not to get caught holding high inventories in a falling price environment.

Meanwhile, demand has remained strong and our sales team has added several new customers, which bodes well for our ability to continue selling or increase volumes of production. As Kyle mentioned above, we think that many cultivators will find it difficult to continue maintaining their labor force, replanting and upkeep on their facilities at these prices. The previous cycle that started in 2021 contained a drop of over 65% from peak pricing in the first half of 2021 to drop pricing in the second half of 2021. It included a period of 18 months of low pricing before the market rebounded in early 2023. In light of this, we are taking a more cautious approach to pricing for the next few quarters.

We sold more than 209,000 pounds of biomass in Q3, a single-quarter record high and up 180% from last year and 52% compared to Q2. We reported record wholesale biomass gross profit of $27.1 million, topping last quarter's $22.6 million. It represented an increase of 34% compared to last year and 20% sequentially. Wholesale gross margin was 57% compared to 58% in Q2 and 60% in Q3 2022. Despite the drop in prices, wholesale gross margin proved to be resilient thanks to the cost efficiency of our cultivation team.

Retail and CPG revenue combined increased 8% sequentially and 11% year-on-year to $16 million, better than guidance of low single-digit percent growth versus Q2 2024. This reflects the continued success of our retail strategic pricing initiative and consumer demand for our brand. This is also the third straight quarter that retail and CPG revenue have outperformed our guidance, despite the current highly promotional and price-driven retail landscape.

Price compression continues to be a significant factor and competition for shelf space amongst brands in the retail and branded CPG space remains sharp as many retailers and brands continue to face cash flow and liquidity issues. We expect this situation will continue to deteriorate during the balance of the year.

Third quarter retail revenue was $11.2 million compared to $10.9 million in the previous quarter and $10.1 million in Q3 2023. Notably, our most recent store opening occurred in Q2 2023, so the year-on-year sequential growth is on a same-store basis.

Retail gross margin was 44% Q3, down three percentage points from 47% Q2. This is consistent with expectations as the strategic pricing plan we implemented earlier this year will result in downward pressure on our retail dispensary margin. As we stated previously, we expect this trend to continue for at least the remainder of the year.

During Q3, we recognized $6.3 million of non-cash impairment expense related to the carrying value of several of our NHC store licenses. Although we continue to win at retail, our current profitability projections, which are based on the strategic pricing initiative and the difficult California retail market, are below those made at the time of the acquisition approximately two years ago. This decrease in profitability required the impairment.

CPG revenue was $4.8 million, up 20% sequentially, and 11% year-over-year. CPG gross profit was $1.4 million, while gross margin was 29%, which is a post-herbal high and seven percentage points higher than the second quarter gross margin.

One final point regarding the third quarter. After careful analysis, it is our position that we do not owe taxes for the application of Section 288. We have filed our 2023 federal income taxes accordingly. The decision was made after consulting with external tax and legal counsel. This change will result in about $6 million of cash savings in Q4 2024. We will also calculate 2024 federal income taxes using this position and are in the process of analyzing prior year federal tax returns to determine the size of potential 288 tax refunds owed to Glass House for the tax years 2022 and earlier.

Now, I'll provide fourth quarter 2024 guidance for key operating metrics, as well as our outlook for the remainder of the year. The guidance does not contain any impact from potential greenhouse to expansion.

We expect Q4 revenue of $47 million to $49 million, an increase of 19% year-over-year at the midpoint of guidance. We anticipate Q4 biomass production of 160,000 pounds to 165,000 pounds, representing a year-on-year increase of 57% at the midpoint of guidance. This guidance, when added to actual results through the third quarter, implies full year 2024 production of about 605,000 pounds, which is 25,000 pounds higher than the midpoint of our prior guidance. We project that the average selling price for wholesale biomass will be in the range of $195 to $200 per pound.

Flower pricing has been weaker than expected since the second half of Q2 and has fallen below the lowest level seen in 2022 and 2023. We think the current level of flower pricing is at an economically unsustainable level for many growers, and we expect to see a round of consolidation in the next 12 to 18 months, similar to what we saw in the previous cycle.

Q4 '24 cost of production is projected at $125 per pound, compared to $121 per pound in Q4 2023. Our prior guidance for cost of production was $120 per pound for the second half of 2024. Based off Q3 results and Q4 guidance, our new second half guidance is approximately $112 per pound, a reduction of $8 per pound versus our previous guidance. We project that combined Q4 retail and CPG revenue will remain flat versus Q3, as we continue to expect a highly promotional and price-driven retail landscape.

We expect consolidated gross margin percent to be in the high 30s versus 52% in Q3 and 45% in the same period last year. This is mainly due to the lower ASP in our whole-sale biomass segment. We projected adjusted EBITDA will be $3 million to $5 million versus $3.8 million in Q4 last year, and that operating cash flow will be break-even to -$1 million versus positive $1.4 million last year. This will result in an expected cash balance of about $28 million at year-end, excluding Phase 3 expansion CapEx, or $23 million, including Phase 3. This guidance does not include the $11.5 million employee retention tax credit payments we expect to begin receiving later this year and in 2025. CapEx is projected to be approximately $6 million, with $5 million to be spent on Phase 3 expansion and the remainder on maintenance CapEx. We will also make $1.9 million in dividend payments and $1.9 million in debt amortization payments.

Before I turn it back to Kyle, I'd like to shed more light on our funding plans. We announced today that we have entered into an equity distribution agreement with ATB Securities and Canaccord Genuity that will allow us to raise up to $25 million through open market sales of common equity via an at-the-market distribution program, also known as an ATM program.

Primary uses of net proceeds from the ATM program will be Phase 3 expansion and/or general corporate purposes. The launch of this program is subject to the approval of Cboe Canada, the delivery of customary closing deliverables, and the filing of a prospective supplement to the company's base shelf perspective dated May 16, 2024, all of which we expect to complete soon.

As Kyle mentioned above, and as our Q3 ending cash balance of $35 million indicates, We do not have an immediate need for additional cash. This will allow us to use the ATM program with discretion pending market conditions. For more detail on our ATM program, I encourage investors to read our Q3 press release, which was issued prior to our call. With that, I will turn it back over to Kyle.

Kyle Kazan^ Thank you, Mark. I have a few final remarks before we begin the question and answer session. As a company, Glass House is committed to supporting cannabis reform, including helping to secure the release of people who are wasting away in federal prison for nonviolent marijuana offenses. We continue to seek progress on cannabis reform, both at the state level and federal level.

There was good news in some recent state elections to legalize adult recreational use of cannabis. In Nebraska, voters approved two measures to legalize medical cannabis by a more than two-thirds margin. However, a legal challenge has been made in regards to whether there were enough legal signatures required to get the measure on the ballot. While there is a chance that the result could be voided, a supermajority of Nebraskans want the plant legalized.

In Florida, even though Amendment 3 did not meet the very high bar of 60% required to amend the state constitution, it was still a clear step forward for cannabis legalization, garnering almost 56% approval, which is the highest approval rating in an official ballot for the legalization of recreational cannabis in a southern state to date.

56% to 44% in conservative red Florida is a testament to how mainstream the desire for freedom for adults to be able to legally consume cannabis has become. In addition to a strong showing in the polls, Amendment 3 also enjoyed President-elect Trump's support. It is hard to imagine that President-elect Trump would support the right of Floridians to legalize cannabis, but not convey those same rights to the citizens of the other 49 states. I want to personally commend Kim Rivers, the chairwoman and CEO of Trulieve, who courageously decided to invest a reported $140 million to move freedom and legalization forward.

Regarding the recent presidential election, our team was confident going into the balloting that no matter which candidate won, cannabis reform at the federal level was set to improve. With President Trump's election victory and his upcoming return to the White House, we are hopeful he will act on his campaign statements in support of federal cannabis reform.

In September, he said that he supported federal legalization to remove restrictions on banking services for state legal marijuana businesses, as well as the rescheduling of cannabis under the Federal Controlled Substances Act. President Trump also signaled he would support states having the right to legalize recreational cannabis use. Now, with the presidential election behind us, we expect him to honor his statements and by doing so, help cannabis reform move forward at an accelerated rate.

Aside from his comments, while made on the campaign trail, there are legitimate reasons to believe President Trump will follow through. He surrounded himself with some cannabis supporters who helped him win back the White House. Elon Musk was heavily involved in his campaign and is a cannabis enthusiast, having famously smoked live on the Joe Rogan podcast. Mr. Rogan, who hosted President Trump a week before the election, believes marijuana should be legalized and has openly opposed the war on drugs. Robert F. Kennedy Jr., who seems likely to get a senior health policy-related role in the new administration, tweeted during the 2024 election, "Legalizing marijuana won't just get people out of jail and back to work, it can actually help solve America's drug addiction problems." Finally, Congressman Thomas Massie of Kentucky, rumored to be in line for a senior position in the Department of Agriculture, voted for SAFE several times, is pro-limited government and pro-Hemp.

President Trump in his first term pardoned Weldon Angelos, along with some other individuals for nonviolent cannabis convictions. As President Biden will be thinking of his legacy, along with whether to pardon his own son, it is our hope that he considers the parents and families of the approximate 3,000 federal prisoners jailed for nonviolent cannabis offenses. We join Weldon in Mission [Green] in calling for the President to pardon people, and not turkeys this Thanksgiving.

We challenge President Trump in his second term to right the wrongs of the war on drugs. On November 1st, the DEA Chief Administrative Law Judge John Mulrooney issued a preliminary order delaying the formal hearing on rescheduling finding fault to DEA's list of witnesses. He further ordered that by 2 p.m. on November 12th, disadvantaged parties need to provide additional information showing that they are sufficiently adversely affected or aggrieved by the proposed scheduling to qualify as an interested person.

The ALJ ordered that the preliminary hearing proceedings will go ahead as scheduled on December 2nd, but no testimony or evidence will be allowed. Instead, the disadvantaged parties must come prepared with their January to February 2025 availability for the formal hearing on the merits of their claims. Given the bureaucratic intrigues that exist within our nation's capital, it is difficult to parse what this means. However, we believe that any progress is better than no progress.

Paul Armentano, Deputy Director for NORML, noted that while the administrative process is cumbersome, the burden now falls on the opponents to argue against rescheduling, a task that may prove impossible based on the fact that Schedule III does not increase accessibility. He asserted common sense and evidence will ultimately trump ideology. We agree with him and hope the bureaucrats in Washington will take note of a recent NORML poll that found more than 60% of Canadians approve of the legalization of cannabis nearly six years after the 2018 decision to make it legal.

I would also strongly urge the President, legislators, and civil servants in Washington to take note of the fact that 92% of the public comments during the DEA comment period supported rescheduling and 70% supported removing cannabis from the Controlled Substance Act completely. Let's face it. Most people today see cannabis as another product, like alcohol, that should be legally available to adult users, and more importantly, as a better plant-based medicine than pharmaceuticals.

Lastly, before we take your questions, I'd like to share my thoughts on our first-ever Analyst and Institutional Investor Day, which was held on September 12 at our SoCal farm.

It was an interactive day of informative sessions capped off by a tour of our facilities that focused on the quality and efficiency we've built into our cultivation process in terms of hardware and SOPs. We were joined by longtime shareholders, those who became shareholders more recently, and a who's who of top cannabis industry analysts from the sell side, broker, and community. The feedback we've received following the event has been overwhelmingly positive, and I'd like to offer a hearty thank you to all who joined and to the Glass House family who made the event such a resounding success.

Additionally, we leaned on our vertical integration and held our inaugural Budtender Sesh for many of our dispensary teammates at the SoCal farm on the two days preceding Analyst Day. As we've experienced with our investor events, there's a huge before and after effect for all who visit the heartbeat of our company, the SoCal farm. Our Budtenders felt the farm's historic experience and were energized and imbued with a heightened sense of mission following the visit. They enjoyed the opportunity to view the farm's scale and to see the systems and tools that drive both its amazing quality and cost advantage.

I'd like to thank our SoCal Farmily, aka the cultivation team, plus the retail team led by Jen Barry and the marketing team led by Josh Karchmer for making Budtender Sesh such a special event which brought our Glass House Brands family together.

With that, I'll hand the call back to the operator for questions. Operator?

QUESTIONS AND ANSWERS

Operator^ Thank you. We will now begin the question and answer session.

(Operator Instructions)

Our first question comes from the line of Federico Gomes with ATB Capital Markets. Your line is open.

Frederico Gomes^ Hi, good evening. Thanks for taking my questions. Congrats on the performance of the quarter during a tough environment in California. My first question is on that in terms of the pricing that you're seeing. I know that you mentioned the cycle there in 2021. I'm just curious, in the past, what's the bottom-up pricing that you've seen? Just trying to gauge in terms of how low can we get here.

Secondly, you mentioned consolidation in that market and you think that's unsustainable. Are you seeing bankruptcies happening and are you seeing these competitors cutting down on supply? Thanks.

Kyle Kazan^ Thanks, Federico. Let me ask Graham, do you want to field that one?

Graham Farrar^ Sure. Thanks, Federico. I appreciate it. Thanks for the congrats and the question.

I think the good thing on this is that this is a cycle that we've seen multiple times before. If you think back in history, the last significant downturn we saw was right about the same time that we were beginning the conversion of our SoCal farm. We've been through the process of knowing what it looks like when it seems like the worst thing in the world is to bring more supply on, but we've got a history of trying to zig when others are zagging because we know that these are cycles and we know that it takes time to bring on additional supply.

By the time the supply is ready, a lot of times these cycles have played through, which is exactly what happened with the first phase of our SoCal farm. And then we were able to bring on the additional Greenhouse 5 and put that into the market as well. So the pricing that we're seeing now is probably as bad as what we saw in the depths of the last cycle. But the impact of that was that we saw massive attrition, upwards of 40% in the total cultivation licenses in the state. And then we used that vacuum, if you think of it like that, to launch Greenhouse 5 into.

So I think we're probably going to see something similar to that. If you look back, that was a 12 to 18 months cycle. If you think about what we're doing with our next expansion, that's approximately a 12 month retrofit, and then planting and then harvest it. So the timing lines up again, I think, pretty well to be bringing that production online as we see the vacuum fill and the destruction from what we believe is happening now.

There's very few folks out there that can operate at this level of pricing and the quality that we have. We continue to focus on what we do, which is grow the most best weed for the least amount of money, which makes the best value for the consumers. And I think that is always a winning solution. So the rest of the market can figure out what it does after our product clears.

Kyle Kazan^ And one more thing, Federico. What I would tell you is, as I said in the call earlier, we do have our hemp license or growing hemp plants. So that is a very high possibility that we are pivoting our next greenhouse into that where we expect pricing to be a lot different than where California cannabis is. Just to clarify on that, we've got a hemp license and our first hemp plant is growing as well. So the testing process on that is well underway, as we've mentioned before. One of the things we're always trying to do is maximize our optionality. There's nothing that we need to do any different than the greenhouses.

So right now we're testing hemp. We're also retrofitting that greenhouse as soon as we have the pathway. Our preference would be to be growing hemp and selling it to the rest of the countries who clearly want it. Florida is an example, right? They have said what they want over there is hemp. And we'd love to grow and ship them some California hemp to feed their market.

Frederico Gomes^ Perfect. Thanks for that. And I guess second question, just to follow up on the hemp side of things, in terms of pricing in that market, how much better is it compared to what you're seeing in the cannabis market in California?

Graham Farrar^ So the hemp market is bifurcated. There's two different areas out there, similar to cannabis, right? There's the direct-to-consumer, where we would be very excited to be able to participate because the pricing that we see, particularly if we're shipping it directly, would be fantastic margins for us. There's also the wholesale or the bulk side, again, similar to what we see in cannabis. And the pricing, as Kyle, I think, mentioned, we're having conversations with folks out there. The pricing we see is very appealing to us, particularly coming through the lens of California. It's higher in all the other states that we look at than what we have here in California, in some cases, significantly higher.

Frederico Gomes^ Thank you very much.

Operator^ Our next question comes from the line of Luke Hannan with Canaccord Genuity. Your line is open.

Luke Hannan^ Thanks. Good afternoon, everyone. Maybe we'll continue on the hemp discussion. So if we think about where you are now, as far as doing your homework, examining the landscape, I imagine you guys are pretty far along on that front. But what exactly, I guess, what milestones or what boxes are you looking to check between now and Q2 that will tip you over the edge of deciding, yes, we will proceed with entering the hemp-derived cannabis market or maybe not going through with that? Is it checking to see whether pricing holds, whether the legislative landscape changes? What exactly are you looking for there?

Kyle Kazan^ So, number one, thank you for the question. Good to connect, as always. I think it's a little bit all of the above. The biggest thing to us is, you know, when we turn on a new greenhouse, we bring on many thousands of pounds of biomass. So we just want to make sure that we've got the right channels. And a lot of the hemp out there is not California hemp. So even if we don't get a California bump, we're fine. But certainly a California bump would be wonderful.

And yes, we're obviously watching legislatively. I mean, as you probably can imagine, Twitter is going crazy about, you know, a Gaetz memo coming out soon enough. And who knows, maybe we'll be able to ship cannabis legally instead of even screwing around with hemp-derived cannabis.

Luke Hannan^ Got it. Thanks.

Graham Farrar^ Yes, I think, you know, one other thing to add to that is, again, you know, our skill is growing the cannabis plant consistently at scale with incredible efficiency. And that really, you know, it's equally applicable on whether the plant doesn't know if you're calling it hemp or cannabis, right? And so as we look into that, the things that we do are things that most others in the hemp market do not, right? So talking about testing for pesticide, talking about testing for microbials, things like that is all standard and basically in our DNA and doesn't happen out there.

And also, as Kyle mentioned, there's only one California. And for most people, just like they don't have a favorite, you know, non-Mexican tequila brand or when they think about wine, they think about Napa before New Jersey. When people think about cannabis, be that hemp or marijuana, they think about California. And so we do believe that that appellation would carry a premium and that our skill set would make us the most efficient, highest quality, most consistent large-scale producer of hemp anywhere in the country.

Luke Hannan^ That makes sense. Thanks. And then for my follow-up here, then I'll pass the line. And this one's probably for Mark. So you mentioned there was $6 million of cash savings from 280E in Q4. What exactly is included in that? Is that just the savings from as it relates to the 2023 taxes? Is there something else in there? And then also, what's your initial view, if you can give one, on potential 280E refunds related to your past tax returns?

Mark Vendetti^ So the $6 million is just the simple way to think about it. It's just the difference between what we're going to end up paying in taxes. So we're still going to end up paying a little bit of taxes in Q4 and what we would have paid if we hadn't made the adjustment or said we're no longer subject to 280E. So that's just that one single item.

We don't have an exact number yet of 2022 and earlier. It's not going to be a huge number just because the profitability profile of the company improved significantly in 2023. But it's something we're working on. So probably a couple million dollars.

Luke Hannan^ Got it. Okay. Thank you very much.

Operator^ Next question comes from the line of Mike Regan with Excelsior Equities. Your line is open.

Michael Regan^ Hi. Thanks for taking the question. So in terms of just looking at the past, this prologue, back in 2021, I think your pricing bottomed at about $176 a pound, the realized pricing. And then it still rebounded pretty quickly, I think in 3Q - in like 2Q and 3Q, it was back to sort of the 300-ish level, ‘22. So are you - I guess you can help us understand a little more color on what you're seeing and/or the differences in what you're seeing in terms of the supply dynamics of then versus now. It sounds like it's sort of similar. So I'm just wondering how fast you think that pricing can change and the supply and the demand can sort of react.

Kyle Kazan^ Hey, Mike. Good to hear your voice. Let me hand that over to Dr. Graham Farrar.

Graham Farrar^ Hey, Mike. Thanks a lot for the question and for joining the call. So one of the indicators we look at is licensing. Licensing is a lagging indicator. Licenses in California are 12 months, so you don't necessarily know if something's online, whether it's A, being used, and B, when it expires, that doesn't mean that they turned it off the day before. It could have, you know, in theory, it could have been - I mean, it was 11-1/2 months ago that they quit using it and it expired.

So last time we saw similar pricing, we saw a pretty drastic reduction in licenses, which then led to a pretty quick rebound. Hard to say exactly what the pace is going to be here. So on the theory that hope is not a strategy, I think we're going to take a pretty conservative footing going forward until we actually start to see the market dynamics shift.

But I think, you know, the key thing is we're not seeing a reduction in demand, right? This is not demand destruction. This was, you know, perhaps a good season in NorCal and Oregon, and we know those markets are porous. We've heard Oregon farmers and NorCal farmers talking about 20% increase in yield. That's, in some cases, backed up by data from the DCC that shows more product. Potentially that's farms that lost their license, that didn't actually start - stop producing, that are, you know, inverting and their license counts have been fairly flat. So we haven't started to see the turn, but this is also a fairly recent change, right? I mean, things were basically going according to our forecast all the way up through the first half of Q2, right?

So really we're talking about, you know, a few months now that we saw pricing go down earlier and sharper. We always predict lower pricing in the second half of the year because of increased supply. This beat our forecast by a few months and has dipped below our forecast. But you know, whether that's the extra crop, whether that's inversion, whether that's maybe licenses that were active but not being fully utilized, that given the strong pricing at the end of 2023 and in particular in the beginning of 2024, which is the spring season for planting, people may have saw, you know, the $600, $700 price and say, hey, instead of planting two acres, I'm going to plant 10, right.

I don't think that they're going to come back around and want to do that again in this pricing. So, in some ways, long-term low pricing - we either live in a world where we get to make outsized margins because of our efficiency, or we live in a world where not a lot of people can sustain and it clears the deck and creates the space and the vacuum for us to expand. At the end of the day, this has really kind of always been our thesis, that we were going to be able to consolidate the market. And pain is a piece of consolidation because that's what helped clear the decks for us to be able to bring further supply from Glass House into the market to satisfy that continuing existing.

And in California's case, growing demand, there are still more units being sold in California over time than there have historically. Even if pricing's down, again, not beneficial for the consumer because that allows more access and really plays to Glass House's strength.

Kyle Kazan^ And piggybacking on that, the biggest difference, Mike, between now and then would be that we have a durable competitive advantage because we just hit $103 a pound. We were not there in 2021, so we really built the aircraft carrier. And now it's like, even with the pricing, we know it's going to rebound. And that's why we're continuing to grow in the face of it.

Michael Regan^ Great. And then just quickly, Mark, on the 280E, I presume we'll start to see a uncertain tax liability for that, or did your consultants and lawyers have a different opinion on that potential future liability when you stop paying the taxes?

Mark Vendetti^ I'm sorry. I missed the very beginning of that, Mike.

Michael Regan^ Oh, so in terms of arguing you don't need to pay 280E taxes anymore, other cannabis companies have made that decision, incur what's called an uncertain tax liability, saying we don't know if the IRS will agree with us. So I presume you also have a similar uncertain tax liability going forward?

Mark Vendetti^ Yes, you'll see that in our balance sheet under other - I think it's non-current liabilities. So you'll see an increase of about $13 million between this quarter and the prior quarter, and it's all - the majority of it's all related to our adoption of 280E for both 2023 and the current tax year 2024.

Michael Regan^ Got it. Okay, great.

Graham Farrar^ One other quick note. I want to follow up on - because Kyle mentioned the $103 durable competitive advantage there. Just a reminder, that applies 100%, and would actually likely be even lower if we were growing hemp right now, right? So the ability to take that skill and move it over is something that would apply even more on that side of the market.

Operator^ Our next question comes from the line of Andrew Semple with Ventum Financial. Your line is open.

Andrew Sample^ Hi there. Good afternoon, and thanks for taking my questions here. First off, just wanted to ask on the production guidance for Q4, you know, seemingly indicating maybe a bit smaller year-over-year gains. Those are pretty significant, but smaller year-over-year gains for Q4 than we saw in Q3. Could you maybe talk through some of the production dynamics that you're expecting to see in the fourth quarter?

Graham Farrar^ Yes, so I can take that one. So the way that I would think about that as you're evaluating is I would look at more like a first half/second half, so obviously we're reporting in quarters, but think about those things as being fairly connected. So the significant production beat in Q3 then kind of connects in with Q4. And in this case, we forecasted a smaller Q3 than we had on the assumption that the influx of production out of the new greenhouses - don't forget the first time that we've been through a season with Greenhouse 5 in the mix now, that's just our second full quarter - knowing that Q3 is seasonally the largest quarter that we have and the ability for processing to keep up with that production.

The processing team did a phenomenal job. They were able to move faster than we forecasted, and we were able to convert more of those pounds into finished goods in Q3 than we expected. So between the two, it shifted the balance a bit between Q3 and Q4. Going forward, I would expect Q3 to be the largest single quarter and have a delta between them just because seasonally that's what drives it.

As we bring on Greenhouse 2, one of the exciting things in there is the greenhouse two has supplemental lights. And so the benefit of that is a couple fold. One is that we can smooth our production - or I should say we can increase our production versus not having supplemental lights. And additionally, the supplemental lights are not seasonal, which means the production in the front half of the year when pricing tends to be the best, but production is the lowest, it will help bring those quarters up, which will allow us to take better advantage of that stronger front half pricing.

And then as we head into the winter, which starts to happen in the production, the tail end of Q4, it'll also help bring up that shoulder season as well. So we would expect to see production improve and also stabilize and be more consistent throughout the year, which will help take out some of the quarter to quarter changes and make it a bit more consistent and predictable.

Andrew Sample^ Great. That's helpful. And then maybe just in terms of the pricing this quarter, maybe just to dig into that a little bit, did the mix between cannabis flower and trim have any meaningful impact on reported pricing? Or is that entirely just driven by the market environments for cannabis products within the quarter?

Graham Farrar^ So there was some impact from that. I think the good news and what we did is that we were able to increase our flower, our smalls, and our trim components of what we produced above what we expected to. The increases didn't come in a - it wasn’t 20% higher, for example, on each of the categories. So we did see increases across all of them. So all good news there.

The trim did increase more as a percentage relative to some of the other categories, which increases biomass, but does have the effect of diluting ASP a little bit, obviously, because trim sells for a significant 1/20th the cost of a flower in some cases. So that does bring the ASP down a little bit, but it does ramp up the total pounds so that we're making more revenue overall.

Andrew Sample^ Understood. That's helpful. Congrats again on the strong operating metrics. I'll get back into queue.

Operator^ Next question comes from the line of Aaron Grey with Alliance Global Partners. Your line is open.

Aaron Grey^ Hi. Good evening and thank you for the questions. I wanted to piggyback off that last one a little bit more specifically on flower. A key thing for you guys is relative pricing and quality. So any color you could provide on key KPI metrics, whether it's THC or terpene that you're seeing with flower, how that's improved, and then how it compares to the broader market? Obviously, there's been pricing pressure that you experienced, but it seems you guys do a really good job of still being able to sell your products. So just better understanding the dynamics of what you're seeing out there as you're looking to sell your products. If the price comes down but apple's apple basis, you guys have the better product for various KPIs versus some of the other competitors out there. So just understanding those broader dynamics would be helpful. Thank you.

Kyle Kazan^ So thanks, Aaron. I appreciate it. Just one correction before I hand over to Graham to answer that question. It's afternoon, buddy. It's 3 p.m.

Graham Farrar^ All right. Good question, Aaron. I would say it's still an area that is tough to put objective metrics on, right? We still await the one spectator score in cannabis. So a lot of it comes down to the preferences of buyers, which you have almost as many of as you have individuals.

On the CPG side, I would say somewhat unfortunately, it's still largely driven off of potency, percentage THC, which is not a - it's no better metric to use for picking your cannabis than alcohol by volume is for picking your wine or beer. But it is what consumers still tend to do. Our brand standards for, you know, Glass House are in the 25 range, slightly lower for Allswell. But we consistently deliver on those. And, you know, you can - the results there speak for themselves, particularly on Allswell where we can see, you know, I forget the exact numbers, but, you know, number 22 to number two or so in very short order. And so it's clearly resonating the value that we're bringing to the market on the CPG side.

On the wholesale side, the single biggest decider is oftentimes the color. The market loves purple over there. And as much as we can bring that, the better. Otherwise, you know, it's this bud structure, it's trichome density, it's the nose, it's, you know, it's a pretty subjective bunch of traits out there. We've got some great growers who really love weed and have been doing this for a long time so - and some great salespeople who do the same.

We've been investing more and more in expanding our genetic library or our strain variety. So, you know, one of the things we've been doing over the last, you know, 9 to 12 months is doubling down on the R&D to bring more new product to market because the variety is something that we see our sales team uses that as a selling tool. And also the cannabis market kind of in a fast fashion sense tends to have a preference for towards things that they haven't seen or haven't seen in a while in some cases. Sometimes the legacies come back, but it really is a pretty subjective - it's kind of like, you know, good weed when you see it.

Aaron Grey^ I appreciate that color. That's helpful there. And second question for me, just on the CPG side, Allswell, the $10 out the door and then the potential of partnering with other retailers from a managed services perspective, just any update on that potential retail partnerships, and then how that, you know, initiative has been trending specifically? Thank you.

Kyle Kazan^ Yes, nothing to announce yet, but I would tell you we're having some very positive ongoing communication. So I would just tell you to stand by, especially when you saw the results that we were able to put up, which was almost 18% between the California market and our uptick.

So I would tell you that and then the fact that we are, you know, promising any of those clients that they'll have that 999 out the door. So I would say stand by, but I think some good news may be coming in the not too distant future.

Aaron Grey^ Okay, great. Keeping an eye for that. Thank you very much. I'll jump back into the queue.

Operator^ Next question comes from the line of [Adam Bauer]. Your line is open.

Unidentified Participant^ Hey, guys. Great to hear your voices and thanks so much for the quality update. I'm just curious to ask a little bit more about the whole 280E thing, and I'm curious your thoughts on taking the approach that you're taking now and what drove you to make that decision at this point. Thanks a lot.

Kyle Kazan^ Hey, Adam. Great to hear your voice. Love that you've been a very long-time investor with us from the very early days. So looking forward to seeing you hopefully at Investor Sesh if you can make time out of your busy schedule. Let me hand it over to our CFO, Mark.

Mark Vendetti^ Hey, Adam. So we've been - you know, as the year unfolded, we've been watching what's been going on with the news out of Washington and what other companies were doing. And we, you know, during Q3 had a couple conversations with tax counsel and doing additional research given where the government has been with some of their laws with, you know, the Farm Bill in 280 - the Farm Bill in 2018 and what HHS started in 2023. We believe we have a position that allows us to say 280E is not applicable to us. And, you know, we filed our taxes in that direction. You know, and I'm sure our approach is pretty consistent with what many of the others in cannabis have done.

I don't want to get into the specific kind of legal approaches we've taken on that, but we think we have a good position. And given, you know, I'm going to say a lot of the positive favorable news that's coming out of Washington, at least we think there's a lot of positive news. We think it's the right approach at this point in time.

So savings again for 2023 are about 6 million bucks in terms of what we are paying versus what we would have paid. And we'll continue the process, and we'll just see where it ends up going.

Unidentified Participant^ Great. Thank you. I guess that's my follow-up question also is just, I mean, you've spoken to it a little bit, but reading the tea leaves in terms of what the new administration's position on this would be, I'm not sure I'm quite as sanguine as - I mean, obviously Trump's position in the Florida ballot question was favorable. I don't think of him as being particularly pro-cannabis, but you guys are obviously watching that in a more fine-grained way than I am. But you seem to have more optimism than I do that maybe there is a thaw coming at the federal level. Can you speak to that any more while I got you?

Kyle Kazan^ Absolutely, Adam. From our discussions we've had with people that are very close to Donald Trump, I mean, I would tell you that I would never expect President Trump to spark up in the White House because that's not his deal. But they've made it crystal clear that he is kind of looking - he sees this as a states' rights issue. And given his vocal support of Amendment 3, it would seem logical that he would want the other 49 states to enjoy that same right. And then he just has proposed Matt Gaetz as Attorney General. That's the first time probably since our founding fathers that we had an Attorney General that was for cannabis.

So we are, I mean, I would just say we're excited. But since we've been in this a long time, we'd also have to say cautiously optimistic. How's that?

Unidentified Participant^ Sure. Understood. Okay. Thanks so much. Best of luck going forward. Thank you guys.

Kyle Kazan^ Thanks, Adam.

Operator^ And our last question comes from the line of [Howard Penny]. Your line is open.

Unidentified Participant^ I don't think there's a more pro-cannabis choice for the DOJ than Matt Gaetz, but what do I know?

I have a question about hemp because I do think that's a huge opportunity for you. When we think - if you decide in the second quarter of 2025 to go down the hemp road, what form factors will you be shipping to Florida per se, Florida as you're going to ship to Florida? And is it the Glass House brand you're shipping? Just help think sort of the next evolution, once you've made that decision, you're going to do hemp. What does that look like?

Kyle Kazan^ So thanks for that good question, Howard. I think right now, the way we're looking at it, it would be flower. And we think our differentiator is that it would be a Glass House Farms and likely Allswell, just like we have here in California. And again, nothing's finalized, but we're thinking doing the exact same kind of testing that we do here. So people know they're getting that clean California tested product.

We certainly could look at all that trim that we're going to be throwing off and making that into distillate or resin and also putting that to hemp-derived cannabis vape pen. Right now, I think our focus is much more towards just let's get flower right and get that going and after, you know - should we get that done, then I don't think it'd be hard for us to pivot to other products we have here and just make it hemp-derived cannabis.

As Graham said, you literally have to tell the plant, okay, today you're hemp. You know, today you're cannabis, because it's the exact same plant.

(CROSSTALK)

Unidentified Participant^ Yes, I think to add to that...

Graham Farrar^ Sorry, I'm sorry. I just - quick addition, right. I think flower is probably the most interesting. Pre-rolls would be next, vape pens, and then edibles. You know, likely there's two components to that, right? There's the growing and shipping of it, and then there's the branded side. So probably the somewhat shorter path would be doing what we do today where we grow flower and/or, you know, material for pre-rolls and do it as a, I'll call it white label or bulk version.

The second piece of that would be taking what we do and then putting it into a farm bill compliant, Allswell, Glass House, et cetera. So I think all of the above is interesting to us and our skill sets apply and give us a strategic advantage to all the above things there.

There may be - there's slightly different regulations on each of those. So we're really, as you mentioned, like we got - Greenhouse 2 is currently licensed for hemp. That is what the license on it is for today. We have our first initial testing runs of hemp plants growing. We're going through the process. We're watching the regulatory framework both on the state, State of California level, the other states in the country level, and at the federal level, you know, around the politics. I think generally would feel some optimism on the way things are evolving and some of the people getting put in place for the future there and looking at them as more limited government, less regulations, business friendly and things like that.

So, you know, the dream is that we could grow farm bill compliant, Allswell, ship it direct to consumer and keep the mark. I mean, when we do that in our stores with cannabis, with all the taxes and with all the licensing, our margins are upward of 60%. So if we could bring that to bear in the hemp space, it would be really awesome. But of course, we would only do that if we can check all the boxes and do it in a completely compliant way.

(CROSSTALK)

Kyle Kazan^ And just real quick - as a quick little follow up - sorry about that. You know, when we're dealing with the lowest price of cannabis in the country, and we're still making margins, you can imagine how tantalized we are when we look at hemp and we don't see anywhere shape or form that that's anywhere close to $190 a pound. So that obviously just jumps off the page for us.

Unidentified Participant^ That was going to be my expression, Graham. But I think you answered it. So you might build the capability to do direct to consumer as opposed to shipping it and putting it on shelves and selling it off in stores?

Graham Farrar^ Some of the things that are most exciting about hemp are actually external from the hemp, right? Shipping through USPS is allowed with Farm Bill compliant hemp. Taking credit cards, which we can't do in dispensaries, is allowed with Farm Bill compliant hemp. Having an e-commerce store is allowed with Farm Bill compliant hemp. Advertising is allowed with Farm Bill compliant hemp, right? Like, these are all things that every other business in the world doesn't even take, you know - they don't even think to say thank you for. But in the market, in the world that we live in, the licensed cannabis, we can't do any of them, right?

So all those doors open up once you're operating with something on a federal level, never mind the 7,000 hemp dispensaries in Texas, you know, that's 7x the dispensaries that we have here in California. So there's lots of things that are exciting - totally exciting, totally separate, and in addition to the ability to grow the plant as well as we do and be able to do with less taxes and regulations than with a licensed product.

Unidentified Participant^ I'd rather see Glass House on Instagram than Cheech and Chong. Thanks for answering the question.

Graham Farrar^ We're with you.

Operator^ Ladies and gentlemen, there are no further questions at this time. I'll turn the call over to Mr. Kazan for any closing remarks. Please proceed, sir.

Kyle Kazan^ Thank you to all that listened in and those great questions. There's going to be some Twitter spaces and some other things between Marc Cohodes and Aaron Edelheit. And so please check your local Twitter listings and look forward to your questions there.

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