**Glass House Brands Inc.(Q1 2025 Earnings)**

**May 13, 2025**

**Corporate Speakers:**

- Kyle Kazan; Glass House Brands; Co-Founder, Chairman & Chief Executive Officer
- Mark Vendetti; Glass House Brands; Chief Financial Officer
- Graham Farrar; Glass House Brands; Co-Founder & President

**Participants:**

- Frederico Gomes; ATB Capital; Analyst
- Luke Hannan; Canaccord Genuity; Analyst
- Andrew Semple; Ventum Financial; Analyst
- Marc Cohodes; Alder Lane; Analyst

## PRESENTATION

Operator^ Good afternoon, ladies and gentlemen. Welcome to the Glass House Brands First Quarter 2025 Earnings Call.

Matters discussed during today's conference call may 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 the results are detailed in Glass House Brands' periodic filing and registration statement. This document may be accessed via SEDAR+ database. I'd also like to remind everyone that this call is being recorded today, Tuesday, May 13, 2025.

On today's call we have Kyle Kazan, co-Founder, Chairman, and Chief Executive Officer of Glass House Brands, and Chief Financial Officer, Mark Vendetti. Following prepared remarks, management will open up the call to analyst questions. Also joining for question is Graham Farrar, co-Founder and President. And with that, I turn the call over to Kyle Kazan. Please go ahead.

Kyle Kazan^ Good afternoon. Thank you, Operator, and to all of you for joining today's call. For greater detail on results, please refer to our first quarter 2025 press release and financial filing.

I'd like to start by discussing the wild pricing rise for publicly traded cannabis companies in recent years. Statements and rumors, or lack thereof, have led to rises and more often falls for stocks, which is amazingly frustrating.

I remain steadfast in the belief that it is not if but when the cannabis industry becomes America's next massive normalized industry, and I'm excited to participate along with investors in the corresponding reward that that change will bring.

I am encouraged by the recent rhetoric out of Washington, and I'm hopeful that comments from the acting DEA administrator about rescheduling last month are indicative of long-anticipated progress to come later this year.

With that said, I also take great comfort in the knowledge that because of our steadfast commitment to execution and low-cost production, along with the continued grit and effort shown daily by the entire team at Glass House, we are a company that does not require federal legalization for survival.

I consider my teammates to be the best in the cannabis industry, and despite ever-present and evolving challenges, we continue to successfully execute on both reported results and the progression of long-term strategic plans.

One comparison which I heard is the online legalized gambling industry, which for years was treated as quasi-legal to criminal. Companies like FanDuel and DraftKings played in the shadows competing with the illicit bookmakers who had been around for generations, many of which were run by organized crime and or the mafia.

Investments in these companies were seen as risky and were largely done through private equity until seemingly overnight the industry became legitimate and is everywhere including commercials on television and social media.

And the companies now are regulated, worth billions of dollars, and their employees and customers benefit and are protected by a legal market, not to mention that the government now collects taxes and the illicit market is largely out of business. Much like alcohol, the prohibition was lifted in 1933. I strongly believe our industry, cannabis, is on deck and next up. Now for the results.

Our first quarter exceeded expectations and our guidance targets across an array of key deliverables including biomass production, revenue, gross profit, adjusted EBITDA, and period-ending cash.

Outperformance occurred despite an unplanned transition to a new distributor relationship, which resulted in a modest one-time drag on results and a continuation of challenging California pricing conditions with wholesale prices down 18% year-over-year. We will elaborate further on the distributor change later in this call.

First quarter revenue was $45 million, up 49% year-on-year, while down 16% quarter-over-quarter. Quarter one is traditionally the weakest seasonal quarter and the sequential decline from the fourth quarter to the first quarter of 16% compares to a 26% drop in the equivalent period of 2024.

Our strong year-over-year revenue growth, meanwhile, is largely attributed to a full period contribution from Greenhouse 5, where commercial operations began last January, but we did not realize revenue until the second quarter along with continued retail strength.

Retail revenue remarkably increased 19% year-over-year in the first quarter, while over the same period, California headset data shows state retail sales declined 13%. That is a jaw-dropping 32% variance for our stores. I take my hat off to our retail team for their amazing execution.

Importantly, with our dispensary footprint held at 10 stores, retail strength comes on same-store sales and reflects our entire team's strong performance all the way from the farm to the stores.

We continue to reap the benefit of the strategic pricing initiatives that we began implementing last year, highlighted by our everyday out-the-door price of $9.99 including tax, for a farm-fresh eighth of an ounce of our Allswell flower.

The first quarter of 2025 was the fifth quarter in a row with same-store sales growth for our retail stores on an annualized basis, which is a notable achievement given the challenging conditions in the Golden State.

By all accounts, our public comparisons outside of California and our peers in-state have experienced declining metrics during that time. We continue to prove that execution in even a mature low-price environment is possible.

On the cultivation side, we produced nearly 153,000 pounds of biomass in the quarter. This was 6,500 pounds ahead of the high end of our guidance range and up from 61,000 pounds in the comparable period last year. Cost of our production was $108 per pound, reflecting a substantial improvement compared to $182 last year and $110 in the fourth quarter as we continue marching towards our $100 per pound target.

As discussed on our fourth quarter call we have implemented improved cultivation practices, which allows us to sell trim material that would have previously been disposed of. This enables more pounds of production at a lower cost. This does have the effect of lowering our average sales price as the additional material is predominantly trim, which garners lower sales price.

But the extra pounds and the lower cogs more than offset this reduction, resulting in increased gross margin. This can be seen in our expanded margin percentage year-over-year, despite price compression in the broader market. Low-cost capabilities while maintaining the highest quality of California-grown cannabis is our unique advantage.

Today this is what separates and sustains us in the market, and this core competency will gain even greater importance amidst continuing California pricing pressure and with regulators still expected to impose an expanded excise tax on California retail sales this summer.

Tomorrow, it will allow us to enjoy one of the highest, if not the highest, margins in the industry. We vehemently disagree with this punitive tax burden on legal operators and consumers at a time when companies are failing and jobs are being lost. This added tax from the legal and regulated market directly benefits the cartels who not only do not pay taxes but supply the streets with untested and often dangerous products.

The anticipated tax increase, which raises the state excise tax on retail dollars spent from 15% to 19%, is likely to push many more consumers into illicit purchases, and in our view, authorities would be far better served by reducing the excise tax from current levels to instead grow the legal and regulated industry. This will ultimately raise the amount of taxes collected as more people enjoy safe and regulated products.

We continue to make our case in Sacramento alongside other legal operators. While Glass House will continue to thrive in either outcome, given our low-cost model, we strongly argue that the legal and regulated market is much better for society and a rising tide floats all boats.

If the regulators fail to halt the pending gift to the cartels, we will comply as required and will remain one of the state's largest cannabis taxpayers.

Adding to the local headwinds, as everyone on this call is acutely aware, there are pressing concerns related to the broader economy. We are following those trends closely. Economists are forecasting tighter consumer wallets due to higher prices and potential unemployment spikes ahead.

We are fortunate to be largely immune from import costs in our business, however, consumer wallet pressure will likely lead to further reduction of ASPs and consumer basket size in the months and quarters ahead. This is a trend that we have seen throughout much of last year, but fortunately, we remain uniquely capable of withstanding and succeeding in this type of environment due to our scale, critical integration, and low cost of goods sold.

In fact, Glass House was recently named to the Financial Times list of America's fastest growing companies 2025 based on growth achieved between 2020 and 2023, also known as a time when California cannabis operating conditions were deemed to be completely untenable for legal public operators.

We intend to maintain this momentum even amidst further tightening. Turning to our CPG business, revenue declined 5% quarter over quarter from the record fourth quarter results, but increased 12% versus the first quarter of 2024. CPG results were impacted by a distributor change late in the quarter.

In March, we transitioned from Alchemist to a new distribution partner as Alchemist went into receivership. The change led to a roughly $500,000 loss to revenues and cash collections as well as a modest drag on overall margins for the period. If not for the change, CPG results would have been largely flat quarter over quarter.

The first quarter impact was modest compared to the potential losses from a prolonged disruption and the fact that the transition was accomplished so quickly and smoothly is a testament to the strength and grit of our operations team under the very capable leadership of Chief Revenue Officer Hilal Tabsh. That we can pivot so quickly also speaks to our leading position in the California marketplace.

Our customers ensured that they would not be without Glass House products. We expect to see modest to no further impact from this transition in the second quarter and moving forward.

As this was the second time that the third-party distributor we were contracted with went into receivership and shortly thereafter ceased operations, we've taken steps each time to minimize future issues.

For both CPG and within our stores, consumer demand is robust for our branded products as our Allswell and Glass House brands resonate with consumers but both continue to gain share in the California market according to Headset. We continue to prioritize focus on both of these as our core brands along with PLUS.

For PLUS, we recently announced a licensing partnership with Eaze to launch Plus Cannabis Gummies in dispensaries in the state of Florida. Eaze is a trusted partner and we are thrilled to introduce our Plus Gummies to consumers outside of California for the first time and to now share them with the more than 900,000 medical patients in Florida. Entry into Florida also aligns with our long-term commitment to deliver premium cannabis products to new markets.

Along this line, we will continue to consider additional collaborative licensing opportunities moving forward. Beyond the reported results, the first quarter saw important progress achieved on longer-term initiatives that we are confident ensure future growth opportunities and financial stability for the company.

Progress includes the continuation of our Phase three expansion of the SoCal Farm. As previously discussed, we are pursuing cannabis in Greenhouse 2.

We are on track to generate initial revenues prior to year-end with a full year's contribution anticipated in 2026. Greenhouse 2's incremental production contribution is estimated to be 275,000 pounds in its first full year of operation, giving us a significant growth driver for next year's results while consolidated annual capacity at that time will be more than 1 million pounds of biomass.

As we previously discussed, Greenhouse two is equipped with supplemental lighting made up of over 11,000 high-pressure sodium lights, adding indoor lights to the full-spectrum light from the sun shining in our greenhouse, making it possible to produce even higher quality flower, higher yield per square foot, and more consistent production throughout the year.

I believe that combining the sun, which is the best phospholite on the planet, with HPS lights, that we will grow the highest grade of this plant. We expect the impact of seasonal weather changes to be significantly mitigated and believe the higher quality flower output mentioned should support higher pricing.

As a reminder, the power needed for this lighting will be generated cleanly on-site via our three co-gen facilities and solar panels at modest additional cost. Meanwhile, I'm pleased to share an update to our hemp strategy. As discussed on our prior earnings call we began growing hemp on an R&D basis in the first quarter.

We are pleased with results and remain confident that there is a great opportunity to grow and sell 2018 U.S. Farm Bill compliant hemp to compliant states, which is our stated goal. The rest of the country wants California weed, and that includes hemp.

We are ready to progress with the next stage of development of our hemp strategy and will commence the buildout for commercial hemp production at one of our vacant greenhouses before the end of the quarter with the aim of generating initial hemp revenues this year.

Ultimately, with a full CapEx buildout, we believe one greenhouse can generate 240,000 pounds or more annually. Assuming a price of $900 per pound and adjusting for mix, we believe that output would garner $72 million of top-line revenue at a 66% gross margin, given lower cost of production due to limited compliance costs.

But for this initial build, we decided to prioritize cost and time which will give us a more modest initial scale and spend with an anticipated annual revenue contribution of approximately $33 million beginning next year. Required capital investment will be roughly $3 million spent this year.

As we progress with commercial operations, we maintain optionality to further enhance the initial greenhouse build, as well as retrofit and develop other greenhouses for additional near-term hemp production. Each of our six existing greenhouses offers a nearly identical footprint, and after this build, only one more remains vacant, which could be retrofitted in 2026.

Even on only the initial buildout, the scale of revenue contribution represents a significantly larger hemp exposure than that of any other public company.

Importantly, this comes without our deviating from the legacy greenhouse for competency of growing low-cost cannabis or sacrificing anything from the existing business.

On our last earnings call we announced a collaboration with the University of California at Berkeley to explore hemp-related research including novel medicinal product development, identification improvement of hemp genetics, market analysis, supply chain sustainability, and AI automation for cultivation and production.

This collaboration also aims to evaluate data-driven and evidence-based approaches to hemp policy and regulation with the aim of reducing uncertainty for California hemp growers. To our knowledge, this is the first collaboration of its kind in the industry, and we are very excited to work with UC Berkeley as we continue to evaluate our long-term hemp strategy.

We are also in talks with the DCC and Governor Newsom’s office as the state needs to mirror its definition of hemp-derived cannabis with the federal governments under the 2018 Farm Bill.

Doing so would offer a huge opportunity to California’s agriculture industry and give cannabis growers who are forced to close their doors due to compressed pricing the chance to pivot to selling hemp via interstate commerce. California growers can and should win nationally, and the export of hemp presents a real opportunity for job creation and tax generation.

Finally, before I turn the call over to Mark Vendetti, our Chief Financial Officer, I want to talk briefly about the steps we took during the first quarter to strengthen our balance sheet.

In March, we secured a new $50 million senior secured credit facility. This facility has strengthened our balance sheet, significantly improved our cash flow, and has pushed out the maturity of our senior secured debt into 2030. The transaction was completed at attractive terms. This includes a fixed rate of 8.58% for the five-year term, a rate which is on par with non-cannabis businesses.

We are committed to taking additional paths to best promote the interests of shareholders and improve our capital structure. Refinancing our high interest rate Series B and C preferred equity is a key priority for the coming months.

The primary goal, as always, will be to work with existing investors to restructure their positions. These individuals have long been advocates for and partners to the company, and we would like them to participate and be rewarded with our long-term success.

With that said, we have also been diligent and are confident that additional sources of capital can be made available to replace these positions as needed.

We are an attractive investment and lending partner amidst the current economic and cannabis landscape. 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. Mark?

Mark Vendetti^ Thank you, Kyle. And good afternoon, everyone. Q1 revenue of $45 million was up 49% year-on-year and represents growth in all three business segments including exceptional 78% growth in wholesale biomass revenue. We benefited from a full quarter of contribution from Greenhouse five versus last year when commercial operation began in January.

We produced 153,000 pounds of biomass in Q1, surpassing our guidance of 144,000 pounds to 146,000 pounds and increasing from roughly 61,000 pounds last year. Production cost per pound was $108, a considerable improvement compared to the $130 cost per pound we originally forecasted versus $182 per pound in Q1 2024.

We sold 147,000 pounds of wholesale biomass in Q1, compared to 165,000 in Q4 and 56,000 pounds in the same period last year. The average selling price for biomass sold was $193 per pound, which came in line with guidance of $190 to $200 per pound and compared to $220 in Q4.

First quarter consolidated gross profit was $20 million and gross margin at 45%, up 3% from the equivalent period last year, lower than anticipated cultivation costs, tight cost management within retail operations, and cost-saving initiatives in our CPG supply chain and manufacturing processes continue to support our gross margin improvement, despite the lower sales price. Cash operating expenses, which exclude impairment charges, depreciation and amortization and stock compensation, were $15.4 million in Q1 versus $13.7 million in Q4 and $14.1 million in the first quarter of 2024.

Adjusted EBITDA was $4.4 million in Q1, down from $9 million in Q4, but up from a loss of $1.6 million in the same period last year. This surpassed Q1 guidance of between $1 million and $3 million, despite the lost CPG sales from the distributor transition. Q1 operating cash flow was $2.5 million versus $8.2 million in Q4-24 and negative $1.9 million in the first quarter of 2024.

Turning to the balance sheet, we ended the quarter with $37.6 million in cash and restricted cash, up from $36.9 million last quarter and $24.4 million for Q1m 2024. The company grew cash $700,000 during the quarter, despite spending $6.5 million in CapEx, $1.9 million on dividends and $1.3 million of debt payments related to the prior credit facility. CapEx for the quarter was mainly associated with Phase three expansion, which includes Greenhouse 2.

As Kyle mentioned, we announced a new debt facility in March. This provided an immediate net cash inflow of $8.1 million and permits meaningful cash savings throughout the life of the loan. The loan and our lack of debt maturities for the next five years better positions us to self-fund further gross initiatives as they become available.

Looking ahead, we expect second quarter total revenue to be between $57 million and $59 million. Reflecting 8% growth at the midpoint compared to Q2-2024, with meaningful growth across all three business segments.

Over quarter revenue will be up nearly 30%, mainly on positive seasonal trends and continued strong execution with wholesale. The average Q2 selling price for wholesale biomass is assumed at $202 per pound down from $283 last year.

For the period, we expect to produce approximately 213,000 pounds of biomass production, up from 150,000 pounds last year and with a cost of production projected to be $105 per pound. Projected cost of production reflects a more than $40 reduction to Q2 last year, as we benefit from continued strong execution.

As a reminder, Greenhouse-5 had its first full quarter production in Q2, ‘24, but was still in startup mode. We anticipate gross margin to be approximately 49%, down versus 53% last year.

We expect both adjusted EBITDA and operating cash flow to be in the range of $11 million and $13 million. By comparison, for last year, Q2 adjusted EBITDA was $12.4 million and operating cash flow was $8.9 million.

We expect to exit the second quarter with a cash balance of approximately $38 million with approximately $13 million spent on CapEx during the quarter, primarily on Phase three expansion.

We maintain previously provided full-year revenue and adjusted EBITDA guidance as we await greater clarity on market conditions for the second half. As the typical seasonal increase in cannabis production and decline in wholesale biomass prices begins this quarter, we do not anticipate improved California pricing this year.

As a reminder, 2025 guidance does not include any contribution from Greenhouse two as we continue to anticipate the first production output and initial revenue in Q4-2025. Greenhouse two will provide a meaningful growth catalyst for full-year contributions in 2026. 2025 also does not include the impact of the hemp expansion tile discussed earlier. We will provide additional details in August during our Q2 results earnings call.

2025 full-year revenue is anticipated to be in the range of $220 million to $230 million at the midpoint. The range reflects 12% year-over-year growth. Full-year adjusted EBITDA is expected to be in the mid-$40 million range with a margin holding relatively flat at the midpoint while we anticipate positive operating cash flow to be in the low $40 million range.

We anticipate year-end cash to increase by approximately $10 million from the end of last year to $47 million.

Within our assumptions, wholesale biomass production is forecast to be between 780,000 and 800,000 pounds for the cost of production of approximately $105 per pound. Average selling price is estimated between $203 and $208 per pound for 2025.

We note that these numbers are updated from prior guidance of between 760,000 pounds and 780,000 pounds of wholesale biomass produced a cost of production of $112 per pound and a selling price of roughly $218 per pound. Within average selling price and cost of production statistics, we anticipate a higher mix of trim this year reduces average selling price and production costs.

As Kyle mentioned, enhanced trim production is based on a process change in cultivation whereby we are able to grow more extractable trim for sale which would have previously been disposed of without adding significant additional costs in production. With this change, our mix of trim will increase to a low 50% range up by approximately 6 percentage points from the prior year.

Our pricing assumptions at the wholesale segment level of flower, smalls, and trim are essentially flat to 2024. As always, we will provide further color on pricing trends on our Q2 call in August. With that, I will turn the call over to Kyle for his closing remarks before opening up the call to Q&A.

Kyle Kazan^  Thank you, Mark. As many on this call know well by now gaining release for individuals incarcerated in federal and state prisons for non-violent cannabis offenses is a cause for which I care deeply. As I have stated time and time again over many years, no one should be in prison for this plant.

That more than one year after the Department of Justice recommended cannabis to be federally scheduled to a Schedule III classification, a classification that I remind is akin to Tylenol.

There has been extremely limited to no progress on initiatives to release the thousands of prisoners who remain incarcerated for cannabis-related non-violent crimes at the federal and state level is one of this country’s greatest injustices in hypocrisies. Many of these people locked up for the plant that I’m discussing on this financial call are serving life sentences in maximum security prisons.

This failure imbues American justice and lifts the veil on the illusion of a fair and just system. I am a proud board member of Mission Green, an organization founded and run by Weldon Angelos.

Weldon, as you likely know was released from prison and granted clemency by President Trump during his first term after having served 13 years out of a 55-year sentence for a very small amount of cannabis.

By any measure, Weldon's release can be viewed as a successful story. I am encouraged by Weldon's meeting last month with President Trump's newly appointed pardon czar, Alice Johnson.

At this point, Weldon is no stranger to events and meetings in Washington. However, Ms. Johnson represents a new type of ally in the White House and one with hopefully a more sympathetic and understanding ear to our effort and this cause.

As a reminder, Ms. Johnson is herself a criminal justice reform advocate who gained national attention after her own life sentence for a non-violent drug offense was commuted by President Donald Trump in 2018. Her release and pardon similarly has been a success story.

I implore Ms. Johnson to get the attention of the President and ensure that he and other members of his administration remember pre-election promises on cannabis and to do what is right and create additional success stories with the release and pardon of these prisoners.

Finally, before we take your questions, as I mentioned on our last earnings call we will host our Fourth Annual Investor session on June 20th, which will be held concurrently with our annual general meeting at the SoCal Farm.

I warmly welcome investors to join us and visit the farm in Cambrio to see firsthand why we are so excited about the days ahead at Glass House.

We will be hosting tours of our greenhouses and you will be able to see in person our recently retrofitted Greenhouse 5, our progress retrofitting Greenhouse 2, and the ongoing development of hemp in Greenhouse 4.

Our leadership team will be present as usual for our traditional investor question and answer session. Participants can see up close our commitment to transparency.

We welcome you all to share your ideas with us. Those who attend will enjoy an interactive and fun day including food, exclusive merch, and Glass House products available for purchases under the beautiful California sun.

I hope to see you there. Thank you again, and I will now ask the operator to open the line for questions. Everyone, we're just waiting to, we're calling the operator so that we can get this going. So appreciate your patience.

## QUESTIONS AND ANSWERS

Operator^  Apologies for the delay. Our next question comes from the line of Frederico Gomes with ATB Capital Markets. Your line is open.

Frederico Gomes^ Hi, thanks. Good evening. Congratulations on the great quarter. Thanks for taking my questions here. Just to clarify, I guess, this question on the hemp strategy.

I guess, first, is there any pending regulatory issue for you to be solved here for you to export hemp out of California? So just to clarify that, or is that something that you're already comfortable with?

And then second, some of the numbers that you mentioned involving hemp sales, which markets would you be selling to? I mean how confident are you to achieve those numbers? Thank you.

Kyle Kazan^ So Federico, thank you for the question. I'm going to answer the first part. I'll ask Graham to answer the markets question. As you know from being around cannabis for a long time whether it be state-regulated cannabis or hemp-derived cannabis, it's like a wild ocean out there.

We're watching the regulations both in the different states to see what they're going to do. And we're also working with the state of California to make a small change so that that clears the way.

We do need to do that. And because of that, what we decided to do was to go CapEx light into this greenhouse. So we're not spending -- we're spending a fraction of what we normally would spend.

It also will come at a cost that we won't get the same amount of plants, but the speed will be planted and rolling towards the end of this year. So we're super excited about that.

And the other thing that we think is a potential massive problem in the hemp industry is that it is completely unregulated. And when that happens and people rush into it, like we saw with Vape Gate, people get sloppy and the consumer suffers.

And so, we want to get out there as quickly as possible because we will continue to test, just like we do, our state regulated with this. So people will know who it comes from and that it's safe and it's good quality from California. So that's the way we're looking at this.

Now if it really hits like we think it will, we'll be able to take the cash that we're generating, which we think will be substantial. And then we'll build out our last greenhouse just using the cash flow and add more to our hemp. And then come back and then fully retrofit the one that we're in right now. Graham, do you want to help with the markets?

Graham Farrar^ Sure. Thanks a lot for the question, Frederico. We're really excited about this. As Kyle mentioned, we've been working on the R&D side on hemp for a couple of quarters now.

I'm excited to progress from R&D into commercial production. Doing that, we do recognize that there is regulatory risk and it is a turbulent environment out there. Reality is that everything in cannabis carries some regulatory risks. You can have licensed cannabis where you're fully authorized with the state, but Schedule One with the federal government, or you can have Farm Bill where the federal government has very clear guidelines and the states are a patchwork.

So as Kyle mentioned, we're prioritizing speed and limiting our liability as we move into it. We do believe that there are strong markets out there. All the states where THC flower is legal will be markets that we're interested in.

We're in contract conversations with a couple of potential distributors on that, so actively exploring that in parallel with getting the retrofit started and ramping up operations. But again, to that point, you can see the spectrum from Arizona saying that they want to ban hemp to states.

I think it was Kentucky that says that they allow hemp, but they want it to be sold in dispensaries to states like Florida where they just decided to make no change for at least the next year. And you've got other operators with both hemp dispensaries and cannabis dispensaries, right?

So we're looking at that. We recognize that the opportunity is now. We don't want to put in a long-term retrofit that drags things out. We want to move.

We want to take advantage of the opportunity. And if something changes, we want to be in a position where we're not overly exposed. So I'm really excited to get it going. I think we're doing it in a prudent, but yet aggressive way at the same time. So I'm excited to see where things take us.

Operator^  And the next question will come from Luke Hannan from Canaccord Genuity.

Luke Hannan^  Thanks. Good afternoon, everyone. I wanted to follow up on the licensing partnership that you have with PLUS, the partnership that you have with Eaze right now. I know it's early days, but can you just speak to the success of that program, perhaps maybe where PLUS products stack up versus some of the competitors in Florida?

Graham Farrar^  Sure. I think the biggest takeaway from that is the front end of proving what has always been our thesis, which is that consumers across the country are interested in California cannabis products. PLUS is a top-selling edible brand in California, has been for a while.

We picked them up at a great deal. They were one of the first companies to actually go public in the cannabis space far too early and put distress on them. And Glass House was able to pick it up.

And we've been working on rejuvenating that brand, doing things like getting rid of distillate, moving to all solventless raws, and introducing new products like our most recent 10-10-10 Deep Sleep Gummy, which has a very potent 10 milligrams of THC, 10 milligrams of CBD, and 10 milligrams of CBN in our stores that actually came from our bud tenders and a listening tour that Kyle and I did, now one of our top-selling SKUs.

And the fact that Eaze was interested in the license that, they certainly could have made edibles without us, but they saw the value in the California brand and the trials and tribulations that we have out of here because competition is hard, but it also brings excellence.

So I'm really excited for that partnership. Still on the front end of it, the marketing is just rolling out. Florida is a unique market with a lot of opportunity, and we're excited to be partnered with Eaze as it's starting to just hit the store shelves now.

Luke Hannan^  That's great. Thanks. And then for my follow-up here, I wanted to ask about the distributor environment in California as well. Kyle, you talked about one of the events that happened towards the end of the quarter where Alchemist went into receivership.

As you also mentioned, it's not the first time that you've experienced a distributor that's had, frankly, poor financial health in the past.

So what safeguards can you put in place going forward to ensure that you're working with the best partners going forward, recognizing also at the same time though, that it is seemingly a tough market for everybody in the space?

Kyle Kazan^  Luke, that's a great question. I really appreciate it. When we were with Herbl, which was our first distributor for many years, we didn't need a sales team. We didn't need credit. Everything was handled. They bought our product, sold our product, did everything.

As they got into trouble, we then got our sales team going and also took credit in-house and then switched to Alchemist ultimately when Herbl went into receivership. Alchemist did co-packaging for us, and they were a great partner. When they went into receivership, we took almost every bit of our co-packing back, and we will complete that this year.

So all that's left right now is 3PL distribution. If we had an interruption again, it would be not fun, but it would be the least painful of the then three times.

We're hopeful it doesn't happen, but at this point, we think we've got some pretty good guardrails up. And it would be, again, it would be the easiest transition should that happen.

Luke Hannan^  Okay. I appreciate it. Thank you very much.

Mark Vendetti^  Also I think a quick note, a real testament to the team and everything Kyle just said there is that throughout that transition, not a single account was lost. A few delivery shipments were missed in it, but the team really did do a phenomenal job on making that transition as smooth as possible. And because of the things that are now in-house, it is the least risk that we have.

We recently brought in and are now automating a whole bunch of the packaging that was being done, which will eventually be seen as a benefit to our CPG COGS as we go forward.

So each of the trials that we go through seems to make us stronger, and we come out better for it in the end, which is a nice team to be working with.

Luke Hannan^  Appreciate it. Thanks, guys.

Operator^  We'll go to Andrew Semple from Ventum Financial next.

Andrew Semple^  Great. Good evening. Congrats on the Q1 results and the solid outlook ahead. Just maybe turning attention to Greenhouse 2 and the production guidance for that that was reiterated for that facility at 275,000 pounds.

Just given the experience you've recently had in your existing greenhouses where you're squeezing more production, I understand that's weighted to trim, but I'm just wondering if you're thinking that maybe 275,000 pounds is conservative given your recent ability to squeeze more trim of your existing greenhouses. Just want to hear your thoughts around that.

Graham Farrar^  Yes. Sure. So I think that by this point, people know that we like to approach things from a conservative fashion. Greenhouse 2 is new and unique in a number of ways, the most easily identifiable being the fact that it has supplemental lights. So we recognize that that's something that we have not done historically.

So again, we want to give ourselves time to optimize that and to learn those systems. As with everything we do, we expect that we continue to improve over time. Greenhouse 2 is really exciting because it is a new first for us since coming down to the Camarillo site.

I think, and I think many here on the team share the belief that the best cannabis actually is grown under the natural sun. The variety of wavelengths that you get gives you terpene expression and even unique cannabinoids that you don't find under artificial lights. And so this really gives us the best of all worlds where we get the beautiful Southern California sun that we've always had and every pound that we've grown to date has been grown under.

And then we get the ability to add these supplemental lights to it where we can smooth out the seasonal production and in particular lift up the quarters where we see the best pricing.

So not only do we get more year round and more smoothly, but we get the additional uplift in the parts of the year where the pricing is typically the best.

I think we get that benefit of the mother nature plus the glasshouse supplement and smoothing and optimization. And then we'll actually get a better quality product too, which should allow us to ramp the ASP up on it.

So I do think that the team has been pretty consistent and unfailing. And when they get in, they start out good and they eventually get great. There's no such thing as perfect in agriculture.

So it's the journey, not a destination, but they've done a great job improving every year. And I'll be surprised if Greenhouse 2 is any different than that.

Andrew Semple^  Great. That's helpful. And maybe just for my follow-up question here, I just want to understand some of the pricing pressure that's occurred on a year over year basis. Understand that the headline figure reflects a higher percentage of trim in the revenue mix.

But maybe if we were to isolate flower and isolate trim, what has been the year over year pricing change in those two separate categories to give us a sense of what's going on in the market?

Graham Farrar^  I'm just going to touch on the operations side real quick and then hand it over to Mark on the pricing.

So just as clarification, since I know it is kind of new. The change that we've made is basically that we've been able to monetize product that was previously waste. And that comes predominantly in the form of trim, but we also believe reduces our cost and helps improve our quality.

So just for clarity, year over year basis, we have more flower, we have more smalls, and we have more trim. They just didn't all go up in a proportionate amount. Trim went up more than the other categories.

So it's positive across the board and we did it without any additional cost. And I think it's most clearly seen in the fact that with compressing prices, we're able to expand margins. So it's working very well from an operational point of view. With that, I'll turn it over to Mark to talk about the actual selling price separate from the operations side.

Mark Vendetti^  Hi, Andrew. So I'm just going to say the benchmark flower pricing is, for the first three months of the year, it's been -- I'm going to say down mid-teens year over year. And one of the things, remember, last year, 2024 was really strong pricing in the front half of the year and then got weak in the second half of the year.

We're seeing the same seasonal rebound that you typically see when you move from the fourth quarter into the first quarter. But we haven't rebounded to 2024 levels nor do we actually think we'll rebound to 2024 levels during this period.

We are starting to now see the typical seasonal decline you get as the production for both mixed light or greenhouse and the outdoors on the cusp of hitting the market. So we're seeing the decline. It's just hard to know where the bottom is going to be or where the trough is going to be in the second half of the year.

So not far off from where we thought we would be in the first half or right now. And again, once we see the transition, we'll be able to give them more of an update in August when we're back on the line.

Andrew Semple^ Thanks, Mark and Graham. That was helpful to get back into queue.

Operator^ Next up, we'll take a question from Marc Cohodes, Alder Lane.

Marc Cohodes^ Thanks. Just a tremendous quarter. Not only was it great, but God, you guys are running mighty hard into some stiff headwinds and just kicking ass. Two, Operator, next time these guys have a conference call lay off the DHCP hemp. That way you can pay attention a little better.

And my real question is for Red. You mentioned some hemp numbers on a greenhouse, what you think it looks like going forward, 900 in pricing. I think you said 66% gross margin.

If you guys get the regulatory headwinds or green light like I think it will. Can't you retrofit or turn current greenhouses from 100% cannabis to 100% hemp and roll out those numbers if you can do that?

Kyle Kazan^ A couple of things I think to consider. I'm going to say over the framework of the next couple of years. As we see what happens in the current greenhouse, we're going to have one more that's totally vacant. From our perspective, we would pick up that first greenhouse or the vacant greenhouse with hemp first. That would be where we would go. We can always go back and replace the existing cannabis greenhouses with hemp.

The one consideration is while we do that, the greenhouse is going to have to be fully emptied out of cannabis before you can put hemp in there because you can't mix the two plants. You're going to lose revenue for close to half a year while you go through the transition.

That's why we would say we're building out or completing the full build out of the farm and get that vacant greenhouse first before we go back to hit one of the other ones. If that pricing holds and the market is such that it makes sense to do, we can go back and do Greenhouse 5 or Greenhouse 6 or Greenhouse 2 if the conditions are right.

Graham Farrar^ To add to that, Marc, from an operational point of view, the beauty is cannabis is cannabis. Our team is good at growing lots of high quality, fully tested, safe, pesticide-free cannabis for the best possible price out there.

The greenhouses that we have are built for that. From an operations point of view, we have full optionality, whether that be additional greenhouses that we retrofit until we're full, whether that be converting a greenhouse, whether that be going back and updating the retrofit that we're going to do on the fast and low-cost model here. Really, it's a matter of seeing how the world pans out, what the regulatory changes are.

We will act commensurate with our certainty on that. As we get more clarity, we will certainly go hunting to maximize the gross margins per square foot per day that we can out of our facilities.

Marc Cohodes^ But the $900 per pound in hemp, that's versus what's the apples to apples on cannabis? Is it the 220? Is it nine versus 220?

Mark Vendetti^ No. I think -- go ahead, Graham.

Graham Farrar^ I was going to say, yes, so the 220 is the average number, right? So that's if we take flowers, smalls, and prim and put them all together. 900 would be like a flowers number. So Marc, I don't know what would you say the apples to apples flower number is right now?

Mark Vendetti^ On an annual basis, it's probably around $500 in this case.

Graham Farrar^ We definitely expect what we see. I mean at the end of the day, cannabis and hemp are consolidated markets, right? If we just back up and see what the consumer is looking like.

So if you look at pricing for cannabis across the country, you'll see that basically California, Oregon, and Washington are at the absolute bottom of that. And every other state is an appealing market.

I forget who said it, but somebody said, your margin is our opportunity. And I think that's the way that we look at many of these other states where, you have trim in some states that sells for more than flower does in California. Those numbers are all going to come down, but they're going to come down because California numbers are going to rise up to meet them to some degree.

Marc Cohodes^ Well that's what I'm trying to get to. Right now you're getting what per pound in cannabis trim?

Graham Farrar^ Cannabis trim sells in the $25, $35 range. You can find markets out there where it's 20x that.

Marc Cohodes^  Right. But trim is 100% gross margin. And--

Graham Farrar^  And essentially it's a byproduct, yes.

Marc Cohodes^  And if you back out the math, then hemp trim is what, $400 a pound, $300 a pound now?

Graham Farrar^  Yes. I think so --

Marc Cohodes^  Hemp trim will be pure profit for you?

Graham Farrar^  To some degree. I mean we factor it in when we do our analysis, but it is a byproduct. And if you look to cannabis, at the end of the day, people are extracting trim for the THC. I think, one of our beliefs is this idea of synthetic cannabinoids out there doesn't make any sense. It's not good public health policy.

It's something people are doing because of, regulatory legal workarounds. I think if you look at even the Alcohol Wholesalers Association, they say that Delta 9 THC should come from natural sources and beverages. We 100% agree.

If you're going to legalize Delta 9, then you shouldn't need to legalize the plant it's extracted from. People should be extracting natural Delta nine THC, not synthesizing it from other compounds with high sulfuric acids and things like that.

So we expect as those markets expand that the value of the trim that feeds them and the active ingredients would likely expand as well.

Marc Cohodes^  It's coming. Well done, guys. Well done.

Graham Farrar^  Thanks, Marc.

Operator^  And ladies and gentlemen, that does conclude the question and answer session. I would like to hand the call back to Kyle Kazan for any additional or closing remarks.

Kyle Kazan^  Thank you, Operator. And thank you, everybody, for your patience today. I'm sorry there was a little bit of a glitch. But we look forward to speaking with you hopefully at our investor session, our next quarter meeting. Have a great day.

Operator^  Once again, everyone that does conclude today's conference. Thank you all for your participation. You may now disconnect.