

Glass House Brands (1Q26 Earnings)
May 13, 2026

Corporate Speakers

- Kyle Kazan; Glass House Brands Inc.; Co-Founder & Chairman
- Mark Vendetti; Glass House Brands Inc.; CFO
- Graham Farrar; Glass House Brands Inc.; Co-Founder and President

Participants

- Frederico Yokota Gomes; ATB Cormark Capital Markets Inc.; Analyst
- Kenric Tyghe; Canaccord Genuity Corp. Analyst
- Marc Cohodes; Alder Lane Farm; Investor

PRESENTATION

Operator^ Good afternoon, ladies and gentlemen. Welcome to the Glass House Brands First Quarter 2026 Earnings Call.

Matters discussed today during today's conference call may constitute forward-looking statements that are subject to the risks and uncertainties related to the 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 the Glass House Brands' periodic filings and registration statements. These documents may be accessed via the SEDAR or SEDAR+ database.

I'd also like to remind everyone that this call is being recorded today, Wednesday, May 13, 2026.

On today's call we have Kyle Kazan, Co-Founder and Chairman; and the Chief Executive Officer of Glass House Brands and the Chief Financial Officer, Mark Vendetti. Following prepared remarks, management will open up the call to the analyst questions.

Also joining for the questions is Graham Farrar, Co-Founder and President.

And with that, I'll turn the call over to Kyle Kazan.

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 2026 earnings press release and financial filings.

Before I get into our first quarter results, I want to acknowledge the landmark event within our industry, the rescheduling of medical cannabis to Schedule III. This represents the most important drug reform in my lifetime and is an important step in normalizing the industry.

I applaud President Trump and his administration for progressing with this change, one that reflects genuine common sense, acknowledging the beneficial medicinal and therapeutic properties of the cannabis plant and granting people greater access to find relief in healthy and natural ways.

We are pleased with the update and anticipate further legislative progress to come in connection with the Administrative Law Judge, or ALJ, hearings scheduled for June 29, during which we anticipate a similar rescheduling of recreational cannabis.

At that time I'm hopeful that we will also see social reform, and I appeal upon the President to pardon the many people that remain incarcerated in federal prison for nonviolent cannabis offenses.

Just as he did with his current pardon czar, Alice Marie Johnson and my friend and adviser, Weldon Angelos, among many others, President Trump can correct a wrong and give these people their lives back, many of whom are sparing bleakly at a nightmare of decades behind bars. I hope the President shows compassion as the war on cannabis won't truly end until these people are brought home.

From a business perspective, interpreting the outcomes of the medicinal rescheduling is complicated, and the opportunities presented for us and other cannabis businesses are still being defined in scope and timing. We are working diligently to ensure that initial legal interpretation become reality as we are excited for what the near-term future can hold.

We are confident that medical cannabis rescheduling is sufficient to support interstate commerce between companies with the appropriately registered DEA licenses and export. This permits our team to ship low-cost, sought-after California cannabis to compliant medical markets outside the state and country.

The opening of either interstate commerce or export off to Europe, a multibillion-dollar importer of Canadian cannabis today and growing would meaningfully increase our addressable market size and unlock profit and cash generation growth on account of more favorable pricing dynamics that are magnitudes higher than those of California today. We have been training at altitude in the California market which is the most difficult on the planet and any beneficial change to pricing dynamics will flow right through to profits.

In addition, we believe through rescheduling that we can supply research institutions with cannabis and assist in their efforts to further unlock the therapeutic power of the plant.

At the outset, we will look to deepen our relationship with partners at UC Berkeley, who we have been working with on novel medicinal development with hemp for more than a year, ideally

deepening our learning on topics such as post-harvest curing, chemical makeup and terpene expression that we can leverage in producing higher quality and more valuable product.

Our entire business is medically licensed and operational. And since the announcement, we have registered our retail stores cultivation and processing licenses with the DEA, permitting us to immediately operate medical operations under a Schedule III designation and have converted each of our cultivation and processing licenses to medical.

We have completed an export application and are navigating that permit process. Mark will expand upon this topic further in his section of this call but we are also working with advisers related to the tax ramifications of medical cannabis becoming Schedule III.

Meanwhile, we are in discussion with California regulators to develop a system for tracking cannabis sales and tax collection for out-of-state sales. Given the state's accommodating expedition of license changes in recent weeks, we are confident that a solution can be found in short order that is beneficial for both cannabis companies and the state's tax coffers.

Interstate commerce and export offer a huge opportunity to California's agriculture industry and gives cannabis growers pressured by compressed pricing and powerful illicit competition, a valuable lifeline. California growers can and should win nationally. The export to other states and countries at more reasonable pricing presents a real opportunity for job creation, tax generation and would give a genuine incentive for those in the illicit market to become legal. Not to mention, this is what consumers globally really desire.

Beyond activity of recent weeks, preparing for a Schedule III outcome was a top priority for the first half of this year, and we made significant progress in the first quarter.

We accelerated and are completing the build-out of the final two-thirds of Greenhouse 2. Greenhouse 2 is our fifth operational greenhouse and in total, can produce more than 300,000 pounds of biomass per year. Plants from the final two-thirds will contribute to sales in the second half of this year.

Our new production expansion committee within our Board of Directors continue to discuss future operational partnerships with companies in more traditional industries including tobacco, alcohol and cosmetics.

We are pleased with initial conversations and expect further rescheduling progress to enhance interest. We believe widespread adoption of cannabinoid products within the traditional consumer product industries is coming and anticipate that further rescheduling progress will hasten adoption.

We continue to progress toward a Good Agriculture and Collection Practices, or GACP, compliance audit, a prerequisite for European medical cannabis market supply, and we have been connecting with potential distribution partners in anticipation of establishing future supply agreements.

Graham and I recently spent a week in Europe including attending the ICBC Conference in Berlin and Cannabis in Spain, meeting with companies and potential future partners.

I can confirm that the rest of the world wants California cannabis, and we look forward to giving it to them. I will be providing further updates as they arise.

We recently announced preliminary first quarter 2026 results. Results were mixed with revenue, \$41 million, period ending cash, \$28 million, average selling price of \$171 per pound and biomass production 152,000, each matching or exceeding guidance. Cost of production, \$175 a pound, adjusted EBITDA, a loss of \$4.2 million and gross margin 25% were below our expectations.

We also reduced our full year 2026 guidance for gross profit, adjusted EBITDA and period ending cash as our first quarter results and those anticipated in the second and third quarters will reflect a higher cost of production than we had previously expected.

The reason is that we continue to operate with a less experienced workforce of third-party labor contractors. While the staff gains valuable experience every day, the first quarter was their first at pre-raid scale for harvest and production, and there remains a learning curve with operations. This has hindered our productivity.

Meanwhile, we are compounding stresses for our legacy staff by accelerating expansion projects in the form of construction and planting new plants through the build-out of Greenhouse 2 and Greenhouse 4 for hemp. The reasons for our shortfall are explainable.

It is a massive challenge to put the pedal down on expansion while still training people new to agriculture and at the very same time of turning on a new greenhouse, rescaling back up to pre-raid full production. We hold ourselves accountable and are taking action to ensure that our expectation of our team's growth are realistic and reasonable. We have a history of under-promising and overperforming, and we regret the restatement.

Importantly, despite the near-term shortfall, we remain confident that our long-term cost reduction target is achievable. We forecast the quarterly cost of production to decline as the remainder of the year progresses and continue to believe our \$95 annualized target cost reduction is realistic on a quarterly basis within the second half of the year. Longer term, we will never have to pay the high and growing energy bills of indoor peers nor do we rely on third-party water supply.

It is these benefits that have sustained us despite challenging California cannabis market conditions and will further separate the company as we enter new markets as indoor cultivators face increased pressure on rising energy costs.

We reiterated guidance to produce 1 million pounds of cannabis biomass this year, a record number for the company, and we continue to anticipate strong revenue growth in 2026 with progressive revenue growth throughout the year as scale comes online.

I remind that revenue growth and guidance overall come before factoring in any potential benefit of sales outside of California for our cannabis plants or contributions from hemp sales.

As previously discussed, we have hemp plants growing in Greenhouse 4 today and have completed an initial harvest and anticipate sales this summer.

With initial product, we plan to supply international hemp and smokable CBD markets and are in active discussions with customers. This is a historic step for the company as it represents the first planned sale of any product outside of California and provides an R&D test for future near-term medical cannabis sales in new markets.

With the current build-out, Greenhouse 4 is capable of producing roughly 100,000 pounds of hemp biomass annually. That can eventually be enhanced to approximately 300,000 pounds through a full retrofit of the greenhouse.

While we are not ready to provide explicit guidance on hemp contributions in the second half, we are confident that products will be sold at favorable prices relative to those currently achievable with California cannabis. Any contributions to results will be incremental to our current guidance.

Long term, we believe Greenhouse 4 production could be an eventual supplier to President Trump's proposed reimbursable CBD market for Medicare patients.

We also maintain optionality to supply a U.S. hemp market should the looming hemp ban be eliminated or pushed out as many predict it will be.

Finally, before I turn the call to Mark to discuss financial results in greater depth, I would like to provide some initial color on the recently announced California retail joint venture with Vireo Growth which is one of the fastest-growing multistate operators in cannabis. Together with Vireo, we plan to form a joint venture with the aim of building one of California's largest and best strategically positioned cannabis retailers. This will be a game-changing transaction for the golden state, and I am excited to be working with the Vireo team, a group that I have come to know well and respect over the last few months.

The two companies will each contribute its California dispensary operations in exchange for a 50% ownership interest in the new entity. Operations and future expansion will be jointly managed by Vireo's CEO, John Mazarakis and myself.

I am pleased to announce that Vireo's President of California, Cory Azzalino, someone I have known and worked with for many years, has been appointed CEO of the joint venture. Our contribution will be our 10 retail stores and our ongoing Leaf MSA.

For Vireo, the contribution is its ease dispensaries and home delivery business. As part of the agreement, we will support the needs of the combined retail network through a supply agreement.

By operating retail as a larger consolidated base and in connection with the underlying supply agreement for Glass House, we believe we can improve upon the distressed pricing conditions in California and enhance the profitability of both our retail and wholesale businesses. Through the ease delivery business, we can also meaningfully expand our distribution reach including for the first time within cannabis desert areas of California without dispensaries with our low-cost product lines.

In addition, after a five-year operating period, the JV provides an off-ramp that allows us to sell our ownership in the joint venture to Vireo. I look forward to providing further updates on the transaction and the JV's operations as they come available.

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 Vendetti^ Thank you, Kyle. Good afternoon, everyone.

As represented with preliminary results released in April, first quarter revenue was \$40.5 million, down from \$44.8 million in the same period last year, but ahead of prior guidance of \$39 million. The decline year-over-year can be attributed primarily to lower wholesale prices compared to the same period last year. The first quarter 2026 was the final quarter with reduced capacity of product available for sale for the wholesale channel following the step back in production in the second half of last year.

As been previously discussed, we ended the fourth quarter of last year with the most acreage planted in Glass House history, but the product was not available for sale on January 1. on account of typical growing harvesting and processing times. Increased scale only began flowing completely through the business in the second half of the quarter and will be available on a full quarterly basis in Q2 with the first a third of Greenhouse 2.

Within first quarter revenue, \$28.6 million stemmed from combined wholesale bulk and CPG sales, down from \$33 million for the same period last year.

Revenue in our wholesale segment was \$24 million, down 15% from last year due to lower wholesale pricing, while our CPG segment had revenue of \$4.6 million, down 2% from last year. Retail sales in the first quarter were \$11.9 million, up from \$11.8 million last year as the retail stores continue to grow on a same-store sales basis, outperforming the broader California market which for the same period declined 8.5% according to Headset data.

In early 2024, we implemented a strategic pricing model with our retail stores. And since that time our own dispensaries have consistently outperformed state retail sales, confirming that above all, consumers demand high-quality, low-cost cannabis. No one anywhere matches Glass House's flower quality at low-cost pricing.

We produced 152,000 pounds of wholesale biomass in the first quarter, ahead of our 138,000 pound guidance, but down from 153,000 pounds in the prior year period. Production cost per

pound was \$175 in the first quarter, above guidance of \$161 per pound and \$108 per pound for the first quarter of last year.

As Kyle discussed, we are experiencing short-term inefficiencies with labor that is resulting in higher cost of production. We have and will continue to take steps to accelerate efficiency and lower cost.

We sold 140,000 pounds of wholesale biomass in the quarter, down from 147,000 in the same period last year. The average first quarter selling price for biomass sold was \$171 per pound versus \$167 for guidance and \$193 last year.

Year-over-year price decline of 11% reflects continued California pricing challenges with flower pricing down in line with the total pricing decline.

As a reminder, last year, we began selling higher levels of trim on account of improved cultivation practices which allow us to harvest and sell trim material that would have been previously disposed of. This has the effect of lowering our ASP as the additional material is predominantly trim which garners lower average selling prices.

As we move forward and bring on more product from Greenhouse 2, we expect our flower percentages of sales to increase back up to new normal levels in the mid-30% range.

First quarter consolidated gross profit was \$10 million and gross margin was 25%. The gross margin compared to 29% guidance and 45% in the first quarter of 2025. The decline stem from higher production costs in the wholesale business.

First quarter adjusted EBITDA was negative \$4.2 million, down from a positive \$4.4 million in the first quarter last year. Adjusted EBITDA reflects the factors that impacted our gross margin performance as well as a modest increase in cash operating expenses of 3%.

First quarter operating cash flow was negative \$11.8 million.

Turning to the balance sheet.

We ended the quarter with \$27.9 million in cash and restricted cash compared to \$23.4 million at year-end 2025. Inclusive in cash spending was roughly \$3.5 million in CapEx.

Additionally, the final cash number includes approximately \$22 million raised for the use of our now closed \$25 million ATM. The shares were primarily issued to existing long-term investors with proceeds from the raise, primarily going to fund the build-out of the remaining two-thirds of Greenhouse 2 and our Greenhouse 4 expansion.

In addition, we paid roughly \$2.9 million in dividends.

As disclosed within our earnings release, we have entered into a new \$50 million ATM agreement with ATB Cormark as a matter of good business practice should beneficial opportunities arise. Currently, we have no plans to use the ATM.

As Kyle mentioned, we've had discussions with our tax advisers regarding the implications of rescheduling on taxes. We are working through to define if and how much of our uncertain tax liability can be eliminated. This will depend on how retroactive the rescheduling makes to ADE.

For perspective, our 2025 uncertain tax provision increased almost \$10 million and our Q1 2026 tax provision of \$3 million was comprised almost entirely of 280E tax impact.

At the end of Q1 2026, the uncertain tax provision was almost \$35 million. We expect further changes to come if recreational scheduling occurs as expected this summer.

Turning to guidance.

As Kyle discussed, we recently updated our full year 2026 guidance. The company anticipates net revenues to be between \$235 million and \$245 million, in line with prior guidance.

We plan to produce approximately 1 million pounds of biomass this year and anticipate an average selling price for wholesale product to be in the mid-\$180 per pound range. We estimate cost of production to be approximately \$111 per pound compared to prior guidance of approximately \$100, while noting that the company's long-term \$95 cost of production target remains intact with expectations to still achieve this level on a quarterly basis within the second half of the year.

With the updated cost of production, we now expect gross profit margin to be in the mid-40% range, down from prior guidance of approximately 48% and adjusted EBITDA to be in the high \$30 million range. This compares to prior guidance of an anticipated high \$40 million level. 2026 ending cash is expected to be in the low \$40 million range, down from prior guidance of approximately \$50 million.

As a reminder, full year guidance does not include contributions from any sales outside of California or any changes to the financial model related to a closing of the announced joint venture with Vireo.

Additionally, anticipated sales from our hemp business are incremental to guidance, and we anticipate initial hemp sales to come later this summer. We anticipate that no matter the end market pricing dynamics for hemp will be favorable to cannabis prices achieved in California.

For the second quarter, we anticipate revenue to be in the range of \$55 million to \$60 million as we produce approximately 240,000 pounds of biomass, up from 231,000 pounds in the same period last year.

Second quarter average selling price for wholesale biomass is assumed to be approximately \$185 to \$190 per pound, down from \$206 last year, while cost of production will be approximately \$120 per pound versus \$91 last year.

As a result of the higher cost of production and lower sales price, we anticipate second quarter gross margin to be in the high 40% range which compares to 53% last year.

On April 28, we delivered a redemption notice related to those warrants, whereby all warrants as of May 28, 2026, will be redeemed on a cashless basis at a redemption price of 0.011826 shares per warrant.

In the interim, warrant holders may convert any outstanding warrants at a conversion price of \$11.50 per share and exercisable for one equity share of Glass House stock until the business day immediately preceding the May 28 redemption date. There are currently 30.6645 million warrants outstanding.

And with that, I turn the call back to Kyle for his closing remarks before opening up the call to Q&A.

Kyle Kazan^ Thank you, Mark. And again, thank you for all who have joined us today and for all of our investors for their continued support. I am encouraged by the recent rescheduling news and believe it presents a true breakthrough for the industry and may well prove to be just the beginning of change and long anticipated normalization for this industry. I am genuinely hopeful for the months and years ahead.

I'd also like to thank the entire Glass House team. We have put the staff, both employees and third-party workers through the ringer over the past year. And in every path, they have stepped up and demonstrated true grit and spirit to face the challenges presented. Thank you.

Finally, we once again plan to host our annual investor event, Investor Session 5 at the Camarillo Farm. As always, the event will include our Annual Shareholders' Meeting, a question and answer period with all members of the senior team and tours of our facility and operations. if they can't miss event for all Glass House shareholders. Given all the excitement in the industry and the expansion of Glass House, I am confident this will be our best investor session yet.

This year, we have the event scheduled for Thursday, June 18, and I genuinely hope to meet you there. One request for all cannabis investors listening.

Please call your Congress person and ask them to request that President Trump grant clemency to all nonviolent federal cannabis prisoners. These requests make a difference as I communicate with several of these people who are living a nightmare.

It is sincerely appreciated. Let's not leave them behind.

Thank you again, and I will now ask the operator to open the line for questions.

QUESTIONS AND ANSWERS

Operator^ (Operator Instructions) Your first question comes from the line of Frederico Gomes from ATB.

Frederico Yokota Gomes^ First question on international exports. It seems like it's a very meaningful potential opportunity here. But can you just help us understand what is certain from a legal standpoint and what still needs to be clarified by the DA or the DOJ as well as the state of California in terms of the actual path for international exports? And when do you think that could happen?

Kyle Kazan^ So Frederico, always nice to hear from you. Thank you for your call. This is a top of mind.

I would tell you that Graham and I are spending a decent amount of our bandwidth in conversations with legislators and lawyers.

Let me ask Graham to go ahead and field that one, if you don't mind. You want it, Graham?

Graham Farrar^ Sure. Frederico, thanks a lot for the question. I appreciate it.

I would put there's really two lanes here. So what's certain from an export point of view right now is CBD flower that's below 0.3% total THC, that's compliant with the current farm bill.

It's compliant with the state of California. It's even compliant with the farm bill post November, assuming that nothing changes in the more restrictive McConnell language that's currently coming for that unless there's either a delay or a change there.

It's also compliant with most of the countries over in Europe where they have limits from 0.2% to 1% total THC. So that's what we're harvesting or actually have harvested out of Greenhouse 4 now and we'll continue to harvest going forward.

That's a new market that we're exploring. It's not a place that we've been before. Part of the reason that we don't see it in the guidance yet is because we recognize that we're doing discovery and R&D over there. But the product looks good.

Our trip that we went over to Europe, and I had a lot of interest from various participants over there. We've got follow-ups, and we'll be sending them trade samples shortly for them to look at the results of our first harvest.

The second piece which is I think probably more where you were going on the cannabis side of things with the DEA. So what we have done so far is we have converted all of our cultivation licenses that weren't already to medicinal.

We have registered with the DEA on what's called a Form 225 which is a bulk drug manufacturer form. They recently updated that as part of the final order from the blanch signed. So it was

exciting to actually be filling out a DEA application where we were able to say that we were doing Schedule III medical cannabis. So those applications have been submitted.

And per the final order, once the application is submitted, you're able to act in compliance with your state law. So those things are all certain and the boxes are checked. The steps that still deem to go are twofold.

One is the state needs to give us guidance on how they want us to have cannabis leave the state. And the DEA needs to finish processing our 225 application because for international export, there's what's called a Form 161 export permit which we don't anticipate them approving until the 225 application has been reviewed and approved.

So right now within the United States, we are Schedule II for our cultivation and we are in discussions and have upcoming meetings with the state of California on how we move forward from their point of view. And then we'll be waiting and watching the DEA on how they process our application. The final order did mandate a maximum of six months processing time.

So we're hoping that they will meet or beat that timeline for us. And in that timeframe, we'll be working with California to figure out what they'd like to see for us so that we can check all those boxes and be supplying medical markets overseas.

Kyle Kazan^ And Frederico, please know we're speaking to people at every level of government and so -- including and especially California. So we are all over this.

As you can imagine, after our trip to Europe which I mentioned, there's plenty of demand for our cloud.

Frederico Yokota Gomes^ Perfect. I appreciate that color.

I guess second question on the retail JV. When is that going to be set in place? And I guess, is the expectation that the JV is going to be opening new doors in California? And what sort of capital contributions would that require, I guess, from Glass House?

Kyle Kazan^ So good question.

We're still working through the final parts of the definitive agreement, but everything is going fine. And as part of it, we are looking to close it in conjunction with an acquisition which we believe will be all stock from both Vireo and from Glass House. And it will be likely a longer period. It won't be just a flood of stock. It will be a kind of a two- or three-year process.

So we're in a lot of conversations. There is a lot of interest out there given that Vireo and Glass House are working together here. So I would tell you that I believe it will all be done in calendar year 2026, and I think the capital contributions will be minimal.

Operator^ Your next question comes from the line of Kenric Tyghe from Canaccord Genuity.

Kenric Tyghe^ Can I just follow up on one of Fred's comments. While I understand the reiteration of 2026 guidance, it certainly sounds there's very material optionality, and I think we can all appreciate why given your positioning as a low-cost leader, quality product and all those related attributes we've already discussed. Is your hesitation in terms of a reset of that guidance related just more to a timing effect?

We've all been around long enough to know that there really is a little way of handicapping whether this falls into a late '26 or an early '27 scenario. But perhaps could you just walk us through sort of what appears to be a very, very high degree of conservatism in your guidance being for all intents purposes, reiterated?

Kyle Kazan^ So one, Kenric, nice to hear from you.

Let me turn that one over to Mark when it comes to guidance.

Mark Vendetti^ So Kenric, I think we will, I guess, either -- we set our guidance when we have better visibility into the path outside of California and what that might do for us financially.

So the guidance today, again, is driven entirely off of the business in California. And so we're going to stay with that until there's a reason why or I'll say it differently, we're going to stay with that until we have better visibility in how we should change the guidance rather than put something else that isn't, say, reasonably baked or fully thought through from where we think the numbers are going to be. And at some point, that might actually result in a short term just pulling back for guidance while we work that through.

Kenric Tyghe^ Right. That makes a good deal of sense. And then just a follow-up with respect to the international opportunity.

I mean certainly, your cost of production is one that gets a lot of attention. And if you look at sort of that selling prices in -- relative selling prices in Europe, I think you were probably being, again, cautious in your commentary with respect to the fact that average selling prices there are multiples of what we see in the U.S.

Certainly, my read would be that the margin opportunity here, and let's not -- let's take it outside of the '26 discussion, but looking into 2027, I mean it really quite literally pardon the pun will be a wholesale reset of margin if you were selling into Europe.

Kyle Kazan^ So Kenric, that is 100% correct. We are running some different scenarios right now. Our investor session is June 18. And at the investor session, I think we will be able to shed a little bit more light into that.

But yes, we're playing with the models now given our recent trip and given our different communication. But what you just said is exactly right.

Graham Farrar^ Yes. One other note on that, one of the things, I think, coming back from the kind of nice trip to Europe that I like the most was we've always believed that there was a

preference and a premium that would be applied to cannabis from California. And we heard that echoed back to us from everybody we spoke with. Nobody over there did not care about the California Appalachia. No one over there didn't know the reputation for quality that we had. So it felt good in validating while we stay conservative and we try and pay attention to what's in our control versus what's not.

It does -- the message we got back was that people want what Glass House grows better than everybody else, and that's quality California cannabis for the best possible value. So that felt really good to hear. You also don't have to go all the way to Europe to find multiples.

I just saw a recent chart average cost of an eighth of cannabis in New Jersey is at \$35, and we're happily selling our -- as well here in California for \$7.50. So everywhere you move east looks pretty appealing to us coming from California.

Kenric Tyghe^ A little easier to drive across countries and ship it across the Atlantic. I hear you on that one if the opportunity presents. Just a quick follow-up for me.

With respect to the people piece of this and your labor sort of reset, could you just sort of walk us through how much of the drag that you're seeing is just that, call it, the training effect? How much of it is sort of the availability in terms of fully documented contract labor is?

And how do you see that sort of evolving through the remainder of the year? I mean short way of answering is how close to there do you think you are in terms of filling what is and remains a bit of a talent gap today or a training gap perhaps or some combination of the above?

Kyle Kazan^ Let me give that to Graham in a second, but let me say because I've been getting a lot of calls over the last couple of weeks asking me about my confidence level. And I've said, it's really nice. I don't know any other company out there that has a Chief Campus Officer nor someone who can grow like Graham Farrar.

So if someone says to me, am I confident? If Graham says he will get it across the line at 95 at the end of the year, I will put all my money on Graham Farrar. And so yes, I am confident. So with that said, Mr. Graham Farrar or should I say, Sir Graham Farrar^?

Graham Farrar^ Yes. So I'll take that one. It definitely lives on my shoulder.

So there's a few factors here, right? And I think it might -- it's helpful to think of it in terms of a timeline. So we all know that we got -- to use an analogy, our legs ran over in July of last year. And through the end of the year, we got ourselves back up and walking and came into the year going again with the goal of running a sub two-hour marathon.

So throughout that process, getting back up to speed and refilled the step one, getting the output coming out with step two. So that's the walking phase.

Now we're starting to run again, and now we're trying to optimize for the pace. And so you have a couple of things going on.

One is we had labor force where in some cases, you are replacing people that might have been here with five years with someone who today has been here five months. And so the question is not can you get them up to speed, the long-term destination and where we're going and where we'll end up, I have zero doubt about no change.

What we did at \$91 a pound, I think it was in Q2 last year, there is nothing structurally that takes that away from us. There's no reason we will not be able to do that again.

The question is only how fast can we get back to that two-hour marathon sub four-minute mile pace. And so what we're working on right now is getting those people -- the people are back and now we're working on getting them efficient.

And I think there's a number of places we're actually more efficient than we used to be from a process and automation point of view, but none of that benefit is going to shine through until we can get the people close enough to where they were, right? So if you made a process 5% more efficient, but the people are still 20% away from being trained, you're going to see a negative 15%. You're not going to see that 5% benefit until you get them over that three quarters line where you start to then see how your process has improved, how automation is helping out.

So we're getting those people back up to speed, but also at the same time we're expanding.

And long term, that's great and fantastic in what was always done. But near term, it's a drag because that means you're adding more people and those people on average are going to be less efficient than the people you just spent your time training.

So what we're doing right now we actually -- we'll be planting in about two weeks is Greenhouse 2 is going to be another 300,000 square feet and another 300,000 square feet on top of that. So that will bring some more people in. That will plateau us a little bit as we have to hire and train people up.

But once we stabilize on that, then we'll be able to again push the accelerator pedal on getting the overall average efficiency up because we'll have people now who have been here twice as long.

It's interesting to remember that as we sit here, we're only five months past getting back just the capacity, right? So we've been training these people. We're expanding. We're going to train those people.

Coming out of the end of this year, I think you'll see us the biggest we've ever been and should be the most efficient we have ever been as well.

Operator^ Your next question comes from the line of Marc Cohodes from Alder Lane.

Marc Cohodes^ You guys are really sandbagging on hemp because I was just in Greenhouse 4 about a month ago and it looks like you can probably do between 50,000 and 150,000 pounds, and that's probably at \$500 a pound. So just sort of rolling out a bed, that's somewhere between

an incremental \$30 million and \$50 million, \$60 million that you can do. That's just sort of my math. So I'm curious your thoughts on that.

Kyle Kazan^ So thank you, Marc. I would say you're right, you did see that. We are probably -- this one, I would err on the side of underpromising it with the hope of seriously overperforming. Graham, do you want to field the numbers on that one, the \$500 a pound kind of thing?

Graham Farrar^ Yes. Sure. Mark, thanks for the question.

Obviously hemp is something we're interested and we believe there's opportunity in or we wouldn't be doing it. That said, it is a very different market than California cannabis. And so we're just wanting to be conservative both as we do something new and operationally as well as we explore new markets out there.

There's a wide range of what people are doing with CBD flower. I'm hopeful that we can compete at the high end of that which would put us in a very good position.

Also recognize that when you're doing something new, you don't always step up and hit a home run on your first at bat. So I want to give us some room.

Marc Cohodes^ You do. I don't.

Graham Farrar^ Appreciate that.

Marc Cohodes^ And the other thing is when I saw you last, you're good and pissed off which is exactly how I want you.

Graham Farrar^ Yes. We are fired up. The other thing, too, as a reminder, is with Greenhouse 4, we did take the approach of rather than doing our full retrofit. We wanted to be quicker to market and with less exposure as we figure out what the world is looking for from us. So we do have a greenhouse that's a little bit more on average there which I think we'll figure out what we're doing.

We'll get the right genetics in. We'll see how the market develops, both Farm Bill, CBD flower as well as now Schedule III. And then we'll continue to be smart capital allocators and go where the margins are the best.

Marc Cohodes^ But 100,000 pounds at \$500 a pound is not out of the question, correct?

Graham Farrar^ Those math numbers work. The question is, how does the market demand, what's the pricing and what's the yield? And those are the pieces that we're working on diligently flushing and nailing down, and then we'll be able to give better numbers, and we'll add that right in.

Marc Cohodes^ Okay. So you guys mentioned export quite a bit. And as I scour east of the Mississippi, no one, and I mean no one can grow or produce under \$900 a pound. So either you

can sell to Europe in excess of \$900 a pound or the East Coast in excess of \$900 a pound which is where the other MSOs live. So at \$900 to \$1,000 a pound either export or to the East Coast, is that a number you guys are comfortable with in terms of your other MSO peers producing at?

Because you should theoretically be able to sell higher than that because of the California brand. And to the Canaccord guy's point, it's one thing to be conservative, but these numbers go completely off the charts at \$900 to \$1,000 a pound.

So can you just sort of elaborate on that? And may I suggest a chart in investor session breaking down as you migrate out of California where those numbers lay out?

Kyle Kazan^ So with no disrespect to our peers in this industry, we don't -- we've heard those numbers, too. We don't verify them.

But I would tell you, with what's going on with energy in this world right now the happy thing is we're not seeing the sun charges more. We don't care about the straight of moth when it comes to the sun. And to the extent that those numbers are accurate, yes, we are tantalized by that.

And at investor session, we will be talking much more about modeling of what we believe we will be able to do outside, but the numbers you're talking about are certainly within the realm of what we've been thinking.

Graham Farrar^ I note on that -- it's a good time to remind people that operationally, as Kyle mentioned, we love the one lighter in the sky. There is no inflation on the sun. There's also no environmental impact from the sun. The power that we use on site here is largely produced by our three cogeneration plants on site which are natural gas powered, tremendously efficient, partially because we're able to generate electricity currently around \$0.09 a kilowatt.

But in addition to that, we also get free heat and free of CO2, both of which are valuable commodities on a farm.

And natural gas pricing has actually been fantastically low lately. I don't know if that's related to not being able to export or to the other disruptions, but it is a resource that we have in fairly good supply here domestically.

So our ability to use the sun to full degree as well as produce power at a much lower cost and independent from the cost of data centers and AI and things like that as part of the Glass House Advantage.

We've always said we can grow the most best cannabis for the least amount of money. stand by that, stand by the fact that there's a preference for the Appalachian of California across the globe and look forward to being able to compete on a national and international market.

Marc Cohodes^ Final question. I think you mentioned in the press release something about \$95 a pound. I think you were what, \$170 in Q1, you're going to be \$120 in Q2. Does that stair step go down in Q3 and Q4 where you hit \$95 in Q4? Or do you hit \$95 in Q3?

Kyle Kazan^ I'm passing you the ball, Michael Jordan.

Graham Farrar^ I'm looking at my CFO and my attorney on what we've said publicly there.

Marc Cohodes^ Forget the CFO. He's on the bench, right? He's in the box for what went down with the reduced guidance. Leave him out of it. Tell the attorney to go get a cup of coffee. So are we at \$95 in Q3 or \$95 in Q4?

Graham Farrar^ Yes. Well listen, first of all, I will take that from Mr. Kazan and Mr. Mark Vendetti, the CFO. His changes in numbers is because of my change in numbers, not the other way around.

We have two focuses of the firm, hitting the pounds with the quality at the right cost. So that's what we're grinding on every day.

We're expanding, we're training. We're trying to improve across the board on that. I have zero doubt that we can do it.

And the reason I say that is because we have done it before. This team is as great as they come. They're as experienced as they've ever been. So they're just climbing back to the top of the mountain that they already know what the view looks like from, and we will get there as quick as we possibly can.

But every day, there's an amazing team of people who are passionate and hard work in waking up here at the farm to help make that happen as soon as possible.

Marc Cohodes^ So I take it \$120 in Q3 and \$95 in Q4?

Graham Farrar^ As fast as we can, yes. So just keep in mind, training and also expanding. So with expansion comes -- the road gets a little bit steeper. So you got to pedal harder just to keep up. But that is the way it works.

To get good, you got to get going. So we will be another 300,000 square foot bigger in terms of operations in the next couple of weeks here. And then a few weeks after that, we're going to do that again. 1 million pounds is the target for this year.

I think that's probably about 40% higher than the best ever record from the best ever greenhouse growers. So it's a tall order, and we'll do it as efficiently and with the best quality that we can.

Kyle Kazan^ One last real quick. If you remember the movie Crimson Tide, where they had a fire and then I call the missile drill on top of it. And so we really -- this one is on me. I put so much pressure on that farm team and on Michael Jordan. But I've gotten over 10 years of working with him and his team. I knew they could -- I believe that we will get through this in a wonderful way by the end of the year.

Marc Cohodes^ Okay. So here's the bonus question from all three of you. By Q4 at the end of the year, December 31, what percentage of your business will be California? What percentage of your business will be outside of California, all three of you?

Kyle Kazan^ So let me start by saying I'm open as much as possible, but that's us talking to California and the DEA. If they let us do it, we will be converted.

Marc Cohodes^ Okay. Still, what's best guess, California, outside of California? Guess? I mean your numbers are so beyond conservative, it's laughable. So I'm just curious where you see the mix come December 31.

Kyle Kazan^ I'm going to hand it over to Graham and say 100% of our hemp will be out of state.

Graham Farrar^ It's tough because it's almost a binary question, right? What we're going to do is we're going to go wherever the margin is best. And I think we all collectively know where that is, and it doesn't start with the C.

So I think the DEA is already there on interstate commerce because that's how Schedule III works. Assuming that they continue to move forward as they have been once they've processed our Schedule III licenses, I don't know why they would deny an export permit, but that's untested waters. So it really comes down to the state of California forging a path which we're pushing and believe they are aligned on wanting to do for cannabis to exit the state.

And other countries internationally, we know the answer to. They have medical markets where they'd be happy to import California cannabis. They import it from Canada, and I'm sure they would prefer ours. And then other states within the U.S. to allow Schedule III cannabis into their borders and the state of California and the other states are unknowns.

If the answer is from them are yes, then I think you see it almost exclusively. If the answer for them is no, then we'll keep doing what we do and still have the best year that Glass House has ever had.

Marc Cohodes^ Well I thought the call was outstanding. I appreciate the candid answers, and I look forward to the chart on Investor Session on where these numbers lay out and thanks for taking my call and putting up with me.

Graham Farrar^ All right. Thanks for the good questions.

Operator^ That concludes our question and answer session.

I will now be passing the call over to Kyle Kazan for closing remarks. Please go ahead.

Kyle Kazan^ Thank you, Operator. And thank you everybody, for listening in. And we hope to see you on June 18 in Camarillo at the investor session at our farm.

Operator^ Thank you everyone, for attending this call. You may now disconnect. Good-bye.