FINAL TRANSCRIPT

# Ascend Wellness Holdings

## Second Quarter 2022 Earnings Conference Call

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## PRESENTATION

**Operator**

Good evening and thank you for standing by. Welcome to AWH's Second Quarter 2022 Earnings Call. I'd now like to hand the conference over to your first speaker today, Rebecca Koar, Head of Investor Relations. Please go ahead.

**Rebecca Koar** — Head, Investor Relations, Ascend Wellness Holdings

Good evening and welcome to AWH's earnings call for the second quarter of 2022. The presentation that accompanies this call can be found on our website, www.awholdings.com.

Before we proceed I would like to remind you that there are several risk factors and other cautionary statements contained in our SEC and SEDAR filings, including our annual report on Form 10-K for the year ending December 31, 2021. We filed our 10-Q for the quarter ending June 30, 2022 earlier today. We will not review those risk factors and other cautionary statements on this call; however, we encourage you to read them carefully.

Various remarks that we make on this call concerning expectations, predictions, plans, and prospects constitute forward-looking statements or information. These forward-looking statements are subject to risks and uncertainties that may cause actual results to differ from historical or anticipated results. Any forward-looking statements reflect management's current view only and we undertake no obligation to revise or update such statements or make additional forward-looking statements in the future.

During today's call we will be referring to non-GAAP measures as defined and reconciled in our earnings materials in the appendix of the presentation. These non-GAAP measures, as defined by AWH, may not be comparable to measures with similar titles used by other companies.

On today's call we have Abner Kurtin, Chairman, Founder and Chief Executive Officer; Frank Perullo, President, Co-Founder and Chief Strategy Officer; and Daniel Neville, our Chief Financial Officer.

With that, I'll turn the call over to Abner, starting on slide four.

**Abner Kurtin** — Chairman, Founder & Chief Executive Officer, Ascend Wellness Holdings, LLC

Thanks, Rebecca.

I am extremely proud of the team for the performance in Q2, proving our strategy of successfully expanding our business. We are well on the way to becoming a premier MSO in our target markets east of the Mississippi.

We delivered record revenue for the Company in both our retail and gross wholesale business. We attained robust growth and our financials exceeded expectations, accelerated by an earlier than anticipated start to adult-use sales in New Jersey and a rebound in the wholesale business. Revenue grew 15% sequentially and adjusted EBITDA margins expanded by 220 basis points. The strength was across both business segments. Retail revenue increased 19% sequentially while gross wholesale revenue increased 11%. Moreover, we are very pleased with our initial transition to adult use in New Jersey. Our Rochelle Park store has been very successful. The store is now our number-one store, surpassing our $50 million revenue a year store in Collinsville, Illinois.

We aren't stopping here. We have significant continued upside in New Jersey. We expect to begin adult-use sales at our Montclair, New Jersey store later this week, August 19th, subject to final approval by the town. Our Fort Lee store opened last Friday for medical sales and we expect to commence adult-use sales sometime in the fall. We have begun growing in the first phase of our canopy expansion in New Jersey and expect significantly more canopy to come on line by year end. Accordingly, we continue to expand our New Jersey cultivation capabilities so we are able to offer more of our own products to our customers and increase gross margins.

The results in New Jersey illustrate our investment thesis. Last June, Rochelle Park averaged 1,800 transactions a month. This June, transactions were up 23 times and revenue was up 17 times. Overnight, with the start of adult-use sales, we were able to significantly increase profitability. That is exactly why this business resembles such a stair step. While we may go through lulls in growth, when we do turn on assets, they ignite. We expect to see a similar dynamic in Pennsylvania and Ohio when those states become adult use at some point in the future.

Outside of New Jersey, the rest of the business performed well. Excluding adult-use flips and new store openings, retail transactions grew by 8% sequentially and, despite pressure on basket sizes in some stores, retail revenue grew 4% sequentially. We are particularly pleased with the team from Ascend Michigan, which was able to achieve 23% retail sales growth despite being in a very competitive market. Turning assets on and optimizing our existing asset base is our key focus.

In Q2, we secured an additional $65 million of debt to finance our expansion plans in Pennsylvania and other growth initiatives. It was highly opportunistic to secure this capital amid a capital drought in our industry. We have one of the strongest balance sheets among our peers and no material maturities for the next three years, which is a huge competitive advantage. We ended the quarter with $140 million of cash, enough to fuel our near-term initiatives as we move towards generating cash flow from operations. We remain laser-focused on limiting non-essential CapEx, increasing operating cash flow, and becoming a cash flow generating company during 2023.

Just today we announced the signing of a definitive agreement that provides us the ability to acquire 100% of the stock of Ohio Patient Access LLC. This transaction will add three medical dispensaries to our portfolio in Ohio and will bring us to the state-imposed five dispensary cap and further our exposure to this highly populated state with near-term rec potential. We have plans to build the dispensaries in central retail quarters in Sandusky, Piqua, and Cincinnati, respectively. The Cincinnati location will be our Ohio flagship store and will be the only dispensary in downtown Cincinnati. Not only will the dispensary be across the street from a casino and less than a mile from the Bengals and Reds Stadium, but it is the closest dispenser to the Kentucky border and intersects two major highways. This model is representative of our core retail philosophy to never sacrifice location.

Also subsequent to the quarter we signed a definitive agreement to acquire two additional paper licenses in Illinois. We plan to site one in Tinley Park, one of the fastest-growing suburbs southwest of Chicago, and the second one in an up-and-coming neighborhood in the Greater Chicago Area. Upon closing of these transactions, we will have ten dispensaries in Illinois and will be at the state-imposed cap. In Illinois, we will only be the fifth company to have reached this ten-store cap.

Going deep in the states which we operate and being a top player in each state is critical to high levels of profitability. Illinois is a great example of what can happen when you achieve scale and go deep within a state. We entered the Illinois market fewer than four years ago and have since become a top player in the state. Our wholesale products are sold in 99% of the dispensaries, our Ozone brand is one of the leading brands, and we have one of the highest-grossing dispensaries in the state. Furthermore, once these deals close, we will be at the retail cap in every one of our states with the exception of the Pennsylvania market, which we are set to open early next year.

While scale in our existing states is our priority, we are considering opportunities to improve our footprint and future earnings potential outside of that footprint. We are actively pursuing multiple opportunities to enter Maryland. Maryland is home to more than six million people and has a mature medical program. Adult use is on the ballot in 2022 and we believe the start of adult-use sales are likely to occur by the end of 2023.

Prohibitive taxation and access to capital pose challenges, but they also serve as a barrier to entry. In this environment, we choose to focus on building a moat around our business and carefully managing cash, which is where our team excels. We expect to see consolidation in the industry and a lot of opportunities to acquire desirable assets and we are prepared to be opportunistic with what we perceive to be heavily discounted transactions. All of the deals being contemplated have a high-return profile and should improve the portfolio on a risk-adjusted basis.

In contrast, due to concerns about the status of MedMen New York's assets, which have deteriorated materially since December 31st, we are not moving forward to close the transaction that we previously announced. We have been engaged in negotiations with MedMen for 17 months and, because of the state of MedMen's assets, it is time for all of us to move on. Because we will not be moving forward with the MedMen transaction, we have $70 million of unencumbered cash at a time when cash is (inaudible). In addition, as many of you know, the regulatory environment in New York remains highly uncertain given the unknown timing of the commencement of adult-use sales, unclear licensing process, and the lack of policing of the illicit market. As a result, the New York market is not a priority for AWH, but we will continue to monitor it closely.

Management and the board are excited about the asset base that we have and the trajectory of the industry, which remains one of the fastest-growing sectors in the United States. Given this momentum, we continue to believe in Ascend's potential to deliver long-term shareholder value. We are in this together and through the long haul. This support is evidenced by our entire board of directors, including my Co-Founder, Frank, and myself, making share purchases of Ascend common shares on the public market. Additionally, several months ago I elected to take all of my 2022 compensation as stock. Our team is 100% aligned with investors. Based on most analysts' expectations, we trade at a 30% to 45% discount compared to projected estimates of our peers. We view this as completely unjustified given our best-in-class portfolio and execution of our business plan.

Not only are we aligned with investors, but we are making strides to help right some of the wrongs and injustices that plague our industry. Our contributions and customer match donations to the Last Prisoner Project recently passed $1.75 million since we started the program. These funds will undoubtedly be useful as the organization works to fight criminal injustices and fight for reform. In addition to partnering on these efforts, Ascend is doing our own social equity work. We recently launched the Ascend Foundation, a non-profit organization committed to the holistic wellness of our communities. Through the foundation, we have begun providing technical assistance to social equity applicants in New Jersey, allowing them access to mentorship from our staff and have hired returning citizens in Chicago and Boston as interns and we'll soon be kicking off a series of educational workshops and expungement clinics. This is important work and we are happy to be a small part of it.

With that, I will turn it over to my Co-Founder and AWH President, Frank Perullo, to provide detail on our progress in New Jersey, starting on slide six.

**Frank Perullo** — President, Co-Founder & Chief Strategy Officer, Ascend Wellness Holdings

Thank you, Abner. I will focus most of our conversation today on New Jersey, our most significant growth driver for 2022.

Ascend is positioned to have an outsized benefit from New Jersey compared to our peers due to our size and exposure. On April 21st, Ascend was among seven alternative treatment centers in New Jersey authorized by the New Jersey Cannabis Regulatory Commission to begin selling recreational adult-use cannabis. During our May earnings call, we provided some impressive stats about weekly sales and transactions at our Rochelle Park, New Jersey store. Our most recent weekly sales were up approximately 46% from this dispensary's first full week of recreational sales. I attribute this growth to our focus on store optimization, emphasis on order ahead, diversity of menu, and our ample parking. Ascend is developing a reputation for being the fastest dispensary in the state, offering the most convenient customer experience, with an average time in store of under eight minutes. Our Rochelle

Park team took the playbook from our highly successful Collinsville store in the St. Louis area, which gave us an edge by providing some of the best practices for running a high-volume superstore.

Our Montclair store was the first dispensary in the state of New Jersey and is in the heart of downtown Montclair. After weeks of delay to our start of adult-use sales, we have been working with the town of Montclair and are glad to have reached an agreement. We anticipate receiving approval from the township tomorrow, which would enable us to begin adult-use sales on August 19th. Our Fort Lee store opened its doors to medical patients on Friday and is our flagship New Jersey dispensary. It's the closest New Jersey dispensary to New York City, located in a prime position directly across the Hudson River from the city and is accessible to many major highways and thoroughfares in New Jersey. We have big hopes for this flagship New Jersey location, which is currently operating as a medical-only store but is expected to open for adult-use sales this fall. We encourage everyone to take a trip out to see these stores. Retail is something Ascend does right time and time again and that is evident by our execution in New Jersey as well as our $14.6 million average annual revenue per dispensary, which leads the industry.

Let's move to slide seven to discuss our expanding cultivation and wholesale capabilities in the state. We're making great strides in building out the scale and capabilities at our Franklin, New Jersey cultivation facility. Just last week we planted an incremental 4,000 square feet of canopy, bringing our total planted canopy to 20,000 square feet, and we're still on track for a total of 42,000 square feet of canopy by the end of 2022. The expansion is going well and, over time, this will allow us to source more retail products from our own cultivation, allowing us to expand margins. We continue to dial in our process, improve our genetics, and refine our procedures such that each week we are noticing improvements in quality and yields. In April, we completed our ethanol extraction lab, enabling us to produce vape products and expand our offering. Since the start of the year, we have launched nearly a dozen new products in New Jersey and ramped up to close to 20 wholesale clients. We launched a partnership with Airopro, a leading vape brand, in a space that has been extremely well received in the market. After initially serving only our retail stores, we expanded the collaboration to wholesale and are ramping up production. Our kitchen is nearing completion and has been approved by the Cannabis Regulatory Commission. The kitchen will significantly expand our offering by enabling us to produce edibles. We are encouraged by the early signs of success we are seeing in New Jersey and are pleased to be part of this market, which is targeted to reach close to $2 billion in legal sales by 2025.

With that, I will turn it over to Dan to review the detailed financials, starting on slide nine.

**Daniel Neville** — Chief Financial Officer, Ascend Wellness Holdings

Thanks, Frank. Good evening, everyone.

Q2 was a strong quarter for Ascend. We achieved robust sequential revenue growth and significant margin expansion as we benefited from the successful start of adult-use sales in New Jersey, increased utilization of our existing assets across the wholesale business, and improved capture of vertical margins.

Total system revenue increased by 16.2% sequentially to $118 million, while net revenue, which excludes the intercompany sales of wholesale products, increased by 14.6% quarter over quarter to $97.5 million. The growth was primarily driven by the start of adult-use sales in New Jersey and increases in the wholesale volumes and realized pricing in New Jersey and Michigan. Total retail revenue increased 19% sequentially to $76 million, representing 77% of net revenue. This growth was driven by the start of AU sales at Rochelle Park.

Across the board, our average ticket remained roughly flat, but transactions increased 20% sequentially. Excluding Rochelle Park and East Lansing, which opened in the quarter, transactions grew 8% sequentially. We are attracting new customers and our existing customers are shopping more frequently, despite pressure on their wallets from inflation.

Our average annualized revenue per dispensary was $14.6 million in the quarter, which remains among the highest in the industry and is a testament to our strategy to run high throughput doors in prominent retail locations. Even in Michigan, a challenging market in many respects, we outperformed, with organic retail sales up 22% sequentially, boosted by a 15% improvement in traffic and a 7% increase in basket size.

Gross wholesale revenue increased to $42 million across our five cultivation sites, representing an increase of 11% sequentially as we expanded intercompany sales to our owned retail stores, which also helped to boost gross profit. Net wholesale revenue of $21.9 million was consistent with the prior quarter as increased pricing and volumes in New Jersey and Michigan were almost entirely offset by lower pricing in Illinois and lower volumes sold in Massachusetts. We believe that wholesale pricing in Illinois will begin to stabilize as the 185 new retail licenses recently issued by Illinois begin to become active.

Adjusted gross profit increased by $7.9 million to $44.4 million, a 21.7% increase sequentially. Margins increased from 42.9% to 45.6%. This 268 basis point margin expansion was driven by increased pricing in New Jersey, higher wholesale volume throughput in New Jersey and Michigan, and higher intercompany sales as a percentage of wholesale sales.

Our Q2 adjusted EBITDA was $20.9 million, which represents a $4.5 million or 28% sequential increase. Our EBITDA margin for Q2 was 21.4%, which represents approximately 220 basis point quarter-on-quarter increase. This expansion is the result of more of our assets coming on line. Notwithstanding this notable progress and margin expansion, we believe we have unrealized upside potential ahead as we build out the rest of our owned asset base. In the quarter, we had $7.7 million of rent expense related to sale leasebacks, the majority of which are represented in COGS.

Let's move on to discuss the balance sheet on slide ten and our strong cash position. At the top of the slide, you'll see our standard waterfall, which bridges from Q1 cash to cash at the end of Q2. During the quarter we used about $3 million of cash in total. We used approximately $10 million of cash flow from operations inclusive of $12 million in cash taxes. Once the rest of New Jersey turns on, we expect to be cash flow from operations positive, excluding a material cash tax payment we plan to make in Q4. We also used $48 million in net cash for investing. This was inclusive of the Story of PA, LLC purchase and related payments thereof.

We were pleased to raise $65 million in debt via the accordion feature on our term loan, bringing the total raised under the senior credit facility to $275 million. We saw strong participation from existing lenders and appreciate their continued support. Net of other financing costs and payments, cash raised from financing for the quarter was $55 million. These funds will contribute to our acquisition plans in Pennsylvania, Ohio, and Illinois. We ended the quarter with $141 million of cash and equivalents, $293 million in total debt, and $153 million of net debt. We do not have any material debt maturities for the next three years and are proud of our strong balance sheet. We remain excited about our asset footprint and exposure to high-growth markets like New Jersey and look forward to what the rest of the year has in store as we continue this growth journey.

With that, I'll turn it over to the operator for questions.

## Q & A

**Operator**

Thank you. Ladies and gentlemen, we will now begin the question-and-answer session. If you would like to ask a question, please press the star followed by the number one on your touchtone phone. Should you wish to decline from the polling process, please press the star followed by the number two. We ask that you please limit yourself to one question. One moment please for your first question.

The first question comes from Matt McGinley of Needham. Please go ahead.

**Matt McGinley** — Analyst, Needham & Company

Thank you. You noted today that you'd be acquiring the three dispensaries in Ohio and the two in Illinois, but you didn't provide any terms. Can you help us better define when you expect those assets to be either operational or consolidated and what the overall consideration is for the assets in Ohio and

Illinois? And in New York, has the decision to walk away from purchasing the New York assets been agreed to by MedMen or is this something that's likely to result in litigation from you walking away?

**Abner Kurtin** — Chairman, Founder & Chief Executive Officer, Ascend Wellness Holdings, LLC

Dan, do you want to walk through the consideration of the deals?

**Daniel Neville** — Chief Financial Officer, Ascend Wellness Holdings

Yeah, sure. Hey, Matt. So, on the Ohio side of things, it's structured in a couple of different payments. So there was $11.3 million that was due on signing of the option agreement, which provides us the ability to acquire these dispensaries. There is an additional $11 million that is due upon the final regulatory approval of the transfer of these licenses, which will likely occur in two to two and a half years' time, and then there is a $7 million earn-out payment that is payable in cash or stock at the seller's option upon the commencement of adult-use sales in Ohio. So that's the total for the three dispensaries in Ohio.

**Abner Kurtin** — Chairman, Founder & Chief Executive Officer, Ascend Wellness Holdings, LLC

And that includes purchases of the licenses and certain real estate.

**Daniel Neville** — Chief Financial Officer, Ascend Wellness Holdings

Yes, and the associated real estate for these three locations. On the Illinois side of things, the purchase price for the acquisitions was about $5 million apiece. I think it was $5.5 million for each of those. And the $3 million of cash went out the door on signing of the agreement. The remainder will be due upon the final license transfer approval by the Illinois regulators.

**Abner Kurtin** — Chairman, Founder & Chief Executive Officer, Ascend Wellness Holdings, LLC

So, in terms of New York, there's really no agreement, because we had signed a term sheet for a settlement that ended up not going forward. The remaining litigation is by us to close the original transaction that they failed to close last December. So, we anticipate this being the end of the matter, though we can't control what others do. As we move forward here, we're looking, per the termination agreement, to the refund of certain monies that we paid from them at the outset of the transaction.

**Matt McGinley** — Analyst, Needham & Company

Okay. Thank you.

**Operator**

Thank you. The next question comes from Kenric Tyghe. Please go ahead.

**Kenric Tyghe** — Analyst, ATB Capital Markets

Thank you and good evening. Abner, I wonder if you could just build on the sort of change in tone around New York. I mean I think as recently as last quarter or certainly over the last couple of quarters the tone has been very constructive around that opportunity set. How much of the decision here is a function of continued uncertainty in New York versus the deterioration of the assets, as you called out, and what read should we take from that in terms of why and how it's changed as sharply as it has in what appears to be a very short window of time? Thank you.

**Abner Kurtin** — Chairman, Founder & Chief Executive Officer, Ascend Wellness Holdings, LLC

Thanks for the question. It's two separate issues, right? The transaction was terminated because of a deterioration of MedMen's assets, the point there being that the advantage to these licenses and the benefit of these licenses is the ability to execute really well at the outset of adult use. We believe the deterioration of those assets materially impacted the ability to do that and that made the transaction no longer makes sense.

In terms of New York, we've become more and more concerned as the months go by. So now, as we look at the landscape fresh, without this transaction, we see better opportunities elsewhere. I have a background in the stock market, so the way I would describe New York is the highest beta opportunity in the country. New York, obviously, 20 million people going adult use, has a lot of potential. The problem is, as we discussed, there's no visibility on a bunch of issues and the regulators don't seem particularly clear about what they want to do with licensing and what they want to do with the illicit market. That gives the potential for New York to end up like L.A. And L.A., as we know, is a very difficult market for cannabis operators. But we don't have a crystal ball and it could be great and we're going to look at other opportunities to enter that state. Just as that deal terminated and we look at fresh opportunities, we're more excited about Ohio and Maryland and expanding in Illinois and the ability to expand in our core states where we're having success. So, for us, it's more about that than a particular view on New York.

**Kenric Tyghe** — Analyst, ATB Capital Markets

Good insights. Thanks, Abner.

**Operator**

Thank you. The next question comes from Neal Gilmer, Haywood Securities. Please go ahead.

**Neal Gilmer** — Analyst, Haywood Securities

Maybe just wanted to talk about the gross margin. You had a nice improvement from Q1 to Q2. How should we think about that going forward with, obviously, further contribution from New Jersey, which I believe you cited as helping those margins, and should we be considering that in fact of potentially some of the other markets may have a little bit of pressure on margins just given some of the pricing trends?

**Daniel Neville** — Chief Financial Officer, Ascend Wellness Holdings

Yeah. So I think, as you think about gross margin going forward, you obviously had the benefit of New Jersey, which should expand from here. It's an early adult-use market. Pricing on both the retail side of things as well as the wholesale side is strong, so that's clearly accretive to gross margins. But similarly to this quarter, in other more developed markets like Massachusetts, like Illinois, like Michigan, although that was less of a factor this quarter, we do have some pricing pressure or I'd say price settling in those markets. So pricing has settled a little bit in Illinois. In Massachusetts I think it's more pricing pressure in terms of what we're seeing in that market. So I think you'll have continued benefit from New

Jersey, but to a large extent I think, as you look forward from this quarter, some of that benefit will be offset by pricing pressure in our other markets.

**Abner Kurtin** — Chairman, Founder & Chief Executive Officer, Ascend Wellness Holdings, LLC

Also, I mean I think, as other industry participants have said, like a huge driver of gross margin is the verticality of your business, right? So, in states like New Jersey, that's a pretty vertical market right now and that's going to be our source of expansion. At the same time, we're bringing our lab and kitchen on line in New Jersey, which will provide opportunities to get more vertical. The same thing holds true in Mass where we're looking to get our lab and kitchen on line. So we're hoping to offset some of the overall market pressure settling with higher degrees of verticality in a lot of our markets.

**Neal Gilmer** — Analyst, Haywood Securities

Okay. Thanks very much.

**Operator**

Thank you. The next question comes from Ty Collin, Eight Capital. Please go ahead.

**Ty Collin** — Analyst, Eight Capital

Hey, there. Thanks for taking my question. Just wondering if you could update us as to what proportion of your retail sales were owned brands this quarter. I think last quarter you mentioned 43% with a target of getting to 50%. Also wondering if that target is a little bit higher now given some of the contraction we're seeing in the wholesale channels and what do you kind of see as an upper limit for how high you're willing to take that verticality? Thanks.

**Daniel Neville** — Chief Financial Officer, Ascend Wellness Holdings

Yeah. So this quarter we were at 43%. I believe last quarter we were a bit lower, right around the mid-30s. So that's where we are today. I think we're going to be focused on increasing our verticality. We don't have a full assortment of offerings, as Abner mentioned, from the lab and kitchen, both in New Jersey and Massachusetts. Our lab also just turned on line in Michigan. So that will be able to increase our assortment and offering at owned retail where we're not providing the full assortment today. But I still feel like we'd, you know, I think Frank can speak to this a little bit, we would like to continue to offer other people's products in our store. We don't want to be a company-owned store. We want to provide our consumer choice.

I don't know if, Frank, you have anything to add there?

**Frank Perullo** — President, Co-Founder & Chief Strategy Officer, Ascend Wellness Holdings

I think 50% is a good goal. I think we do want to have the best products at the best prices and the best experience but, generally speaking, we have the opportunity to get to that 50% later this year, early next year, by just opening up the assets that we've been working to turn on, including, as I mentioned, kitchens and labs in various states and getting all the form factors on the shelves, as we have in Illinois, for example. If we can do that successfully, I think we'll get to our goal sometime later this year or early next year.

**Abner Kurtin** — Chairman, Founder & Chief Executive Officer, Ascend Wellness Holdings, LLC

Yeah, I mean I think we've said, like we're a bit of an earlier-stage MSO compared to some of the others, particularly the bigger ones that have reported, so we're still turning on assets. We're still turning on assets and getting vertical in every state. We just turned on our lab in Ohio as well where we have a small grow but we want to expand that. So we think there's a lot of opportunity for us to grow, both on the wholesale side and with verticality, as we expand and turn on these assets where we're coming from low market shares. So we're pretty excited about that.

The other thing we're excited about is the 185 stores coming on line in Illinois. We think that's a potential to double the size of that market over some period of time. We see some of that coming online in 2022, more of a 2023 story, and we'll also benefit from the two stores taking us up from the eight stores to the ten cap.

**Operator**

Thank you. The next question comes from Russell Stanley, Beacon Securities. Please go ahead.

**Russell Stanley** — Analyst, Beacon Securities

Hello and thank you for taking my question. Maybe if I could just follow up on Abner's last comments around Illinois, given the pace of those retail licenses getting developed or your view on that, I guess, you recently completed an expansion there, what's your appetite or need for another expansion on the cultivation front in order to satisfy the additional 185 licenses coming out? How are you thinking about that at this point? Thanks.

**Abner Kurtin** — Chairman, Founder & Chief Executive Officer, Ascend Wellness Holdings, LLC

I mean, look, we're just getting comfortable with 110,000 feet of canopy, which maybe is not Cresco size but is our largest by far. So we really want to optimize that and optimize profits in that state. We think we're really right-sized to be able to do that and we think generating, you know, we really feel like we can get a high level of profitability with the wholesale penetration in the ten stores. So, we're not saying never, but it's not on our agenda in the short term. I think that that will be the story there. While there's been a little bit of pressure in Illinois, like many other markets, there haven't been a lot of capacity expansions. We don't see a lot of capacity coming on line in Illinois compared to other states. We think that should set up well for wholesale as these stores open.

**Russell Stanley** — Analyst, Beacon Securities

Great. Thank you.

**Operator**

Thank you. The next question comes from Andrew Semple of Echelon Capital Markets. Please go ahead.

**Andrew Semple** — Analyst, Echelon Capital Markets

Hi there. Good afternoon and congrats on the solid Q2 results. My question is, ah, your commentary has mostly referred to New Jersey driving revenue growth and retail revenue growth within the quarter. Could you maybe spend some time on how the rest of the retail network fared in Q2 on a state-by-state basis? I'm specifically interested in Illinois and Massachusetts and whether you kept pace with overall market growth in those states and how are you faring so far in Q3?

**Abner Kurtin** — Chairman, Founder & Chief Executive Officer, Ascend Wellness Holdings, LLC

I'll let Dan do that, but we do want to keep talking about New Jersey. We really like New Jersey. But I think the question is fair. Dan can give the state breakdown.

**Daniel Neville** — Chief Financial Officer, Ascend Wellness Holdings

Yeah, so, as we referred to in the earnings script, it wasn't just New Jersey contributing in the quarter. We had a really fantastic quarter in Michigan. We got some new leadership into the state and really got our sea legs under us there and posted 22% organic revenue growth sequentially quarter on quarter. We found that Grand Rapids, where we have two stores today, is a very good market to be in. We have a third store coming on line in that market, so that should provide additional potential for the market. So Michigan, in addition to New Jersey, while off of a smaller base and a little bit less exciting without the AU flip and a very good store, still did solid work in the quarter.

If we look at, without getting too much into our other markets, we saw growth, or without getting into too much detail market by market, we saw growth in Illinois in the quarter. Transactions were up, average ticket was down a little bit, but transactions more than offset the decline in average ticket. Michigan, as I mentioned, transactions up and basket sizes notably were actually up on the quarter. And transactions were up in Ohio during the quarter and average ticket was down slightly but, again, growth in transactions more than compensating for the decline in the average ticket in that market. Massachusetts, similar story. Traffic was up pretty strongly in the double digits there. Our average ticket was down low single digits. So that's kind of the consistent story across our markets on a sequential basis. Transactions up in all of our markets, average tickets flat to slightly down for the most part, with transactions offsetting the decline in average ticket.

**Abner Kurtin** — Chairman, Founder & Chief Executive Officer, Ascend Wellness Holdings, LLC

And I know, you know, we're pleased. I know our results are better than many for the quarter, but I don't think it's a different macroeconomic view. I think we just had some idiosyncratic benefits of really strong execution by the retail team and really improving some of the areas that there was some upside. So we've had success, our Grand Rapids stores in Michigan, a great area, we performed a lot better there; our delivery program in Mass is getting its sea legs under it too; and so we see kind of more company-specific factors that worked in our favor this quarter rather than something different than others from a macroeconomic point of view.

**Andrew Semple** — Analyst, Echelon Capital Markets

Great. That's excellent color and very helpful. Congrats again on the Q2 results.

**Operator**

Thank you. The next question comes from Diana Tokar of Canaccord Genuity. Please go ahead.

**Diana Tokar** — Analyst, Canaccord Genuity

Thanks for taking my question. I just had one question regarding Pennsylvania. If you can just provide some color on the progress there and if it's still on track to be open in 2023. Thanks.

**Daniel Neville** — Chief Financial Officer, Ascend Wellness Holdings

Yeah. So, Frank, do you want to provide an update on timing?

**Frank Perullo** — President, Co-Founder & Chief Strategy Officer, Ascend Wellness Holdings

Sure. So we're working to start up the cultivation there sometime this fall. We are right on schedule for sometime in the fall start-up of the cultivation facility and, along with that, to perfect the license you do need associated retail to open up and, again, there, we're hoping to have at least one store open at the same time in the fall, but it could be two coming on line this year. So, we are on schedule to start operations in Pennsylvania in late 2022, albeit with some risk to that schedule in the coming months, but so far, so good.

**Abner Kurtin** — Chairman, Founder & Chief Executive Officer, Ascend Wellness Holdings, LLC

Yeah, let me kind of give a little more color on our Pennsylvania strategy. Pennsylvania is a mature medical market and, to be fair, it's faced wholesale pressures with some excess capacity for a medical market. We're not looking to rush in there. We're looking to be really smart and build a really good business for adult use. And, as we know, adult use has what we call second-mover advantage, that a number of the stores that were sited for medical stores were available a few years ago, the environment now allows for more traditional retail siting as well as siting that's maybe potentially better for adult use. That's where we're focused. Adult use is not on the ballot and hasn't been proposed for the legislature, it's not happening near term, but we expect to be a real player in that market and we're going to site the six stores and size to grow for that opportunity, not near-term medical success.

**Diana Tokar** — Analyst, Canaccord Genuity

Okay, great. Thanks for the color.

**Operator**

Thank you. There are no further questions at this time. I will turn the call back to Abner Kurtin for closing remarks.

**Abner Kurtin** — Chairman, Founder & Chief Executive Officer, Ascend Wellness Holdings, LLC

Thanks. I would like to thank all our customers, shareholders, lenders, partners, and employees for their continued support as we continue to work together to fulfill our mission of bettering our patients' and customers' lives with cannabis. The board and management team remain enthusiastic about the trajectory of our industry and, more importantly, in Ascend. Thank you for tuning in and please reach out with any further questions.

**Operator**

This does conclude your conference call for today. We thank you for your participation and ask that you please disconnect your line.