

Medicine Man Technologies, Inc.

Schwazze Fourth Quarter 2021 Conference Call

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PRESENTATION

Operator

Good afternoon. My name is Sylvie and I will be your conference operator today. At this time, I would like to welcome everyone to the Schwazze Fourth Quarter Conference Call and Webcast. Note that all lines have been placed on mute to prevent any background noise. If at any time during this call you require immediate assistance, please press star zero for the operator. I now would like to turn the conference over to Joanne Jobin, Investor Relations Officer. Please go ahead.

Joanne Jobin — Investor Relations Officer, Schwazze

Greetings and welcome to the year-end 2021 conference call and webcast for Schwazze. We are being hosted by Justin Dye, Chairman and Chief Executive Officer, and Nancy Huber, Chief Financial Officer. Following their presentation, management will take questions submitted via the link found on Schwazze's investor relations website and in the earnings press release.

I would also like to remind you that management's prepared remarks and answers to your submitted questions may contain forward-looking statements, which are subject to risks and uncertainties. Examples of forward-looking statements include, among others, statements regarding federal and state legislation and regulation and Schwazze's future results of operations and financial position, business strategy and plans, and objectives for future operations. The words "expect", "anticipate", "could", "enable", "estimate", "intend", "accept", "believe", "potential", "will", "should", "project", "position", "objective", "determine", "vision", and similar expressions, as they are related to Schwazze are, as such, a forward-looking statement. Investors are cautioned that all forward-looking

statements involve risks and uncertainties that may cause actual events, results, performance, or achievements to differ from those anticipated by Schwazze at this time.

Additional information concerning factors that could cause events, results, performance, or achievements to differ materially is available in Schwazze's earnings release made available before this call and available on Schwazze's Investor Relations website and in the Form 10-K for the year ended December 31, 2021. In addition, other information is more fully described in Schwazze's public filings with the U.S. Securities and Exchange Commission, which can be viewed at www.sec.gov or on the Company's investor relations website.

Also, Schwazze may discuss non-GAAP financial measures during today's call. A reconciliation of the differences between the non-GAAP financial measure disclosed during the call with the most directly comparable GAAP measure can be found in the Schwazze earnings press release made available before this call and available on Schwazze's investor relations website and in the Form 10-K for the year ended December 31 2021.

I would now like to turn the call over to CEO and Chairman, Justin Dye.

Justin Dye — Chairman & Chief Executive Officer, Schwazze

Hello and thank you for joining us this afternoon. I will provide a business update and our CFO, Nancy Huber, will review our year-end financial results in detail before I conclude our presentation with some final thoughts. We would then be happy to take your questions.

In a truly transformational year, which continued into the first quarter of this year, 2022, our business continued to deliver strong operating results and our team continued to execute our operating playbook. Our growth plans remain on schedule. We remain enthusiastic about our expanding future. These factors give us confidence that we are building a unique, differentiated business that is poised for profitable growth.

In 2021, and including the first quarter of 2022, we announced or completed the following transactions:

On March 23 this year, the Company's common trading shares commenced trading under the symbol SHWZ on to the NEO, a tier-one Canadian stock exchange based in Toronto, Ontario. In March we also signed definitive documents to acquire all the assets of Urban Health and Wellness Inc. The proposed transaction includes the adult-use Urban dispensary as well as 7,200 square feet indoor cultivation facility, both located in Denver, Colorado.

On February 16 we announced the acquisition of the assets of Brow 2 LLC, a Denver-based cultivation asset, which includes a 37,000 square foot building for indoor cultivation and equipment. In February we also acquired Emerald Fields, the owner and operator of two retail cannabis dispensaries located in Manitou Springs and Glendale, Colorado. We officially became a regional multi-state operator when we announced closing of the New Mexico operating assets of Reynold Greenleaf & Associates, LLC and the equity of Elemental Kitchen & Laboratories, LLC. This transaction included ten Greenleaf licensed medical cannabis dispensaries, four cultivation facilities—three operating, one in development—and one manufacturing location. The state of New Mexico currently allows medical

cannabis and has approved adult-use recreational cannabis sales expected to commence tomorrow, April 1, 2022.

Along with our newly formed MSO status, we formed a strong Schwazze New Mexico leadership team under the leadership of Steve Pear as our New Mexico Division President, along with Alex Falter-Hahn and Jacob White, both from R. Greenleaf & Associates. We also announced we are adding additional key roles at Schwazze to support our significant expansion within manufacturing, cultivation, and information technologies. Key members included Dave Kaufman as VP of Manufacturing and Supply Chain and Robert Piziali as VP of Cultivation.

In late January we announced the acquisition of the assets of Drift, which consists of two cannabis dispensaries located in Boulder, Colorado. In December of 2021 we announced the acquisition of the assets of the Smoking Gun, a dispensary located on a prime retail corner in the Greater Denver Metro area.

Our most important announcement of the year occurred in early December when we announced a transformative \$95 million raise of convertible debt for Schwazze M&A initiatives and expansion plans. This raise also introduced new institutional investors to the Company at that time. We made the announcement agreeing to purchase the New Mexico assets, transitioning Schwazze into a regional operator status.

In August we commenced our product home delivery service to residences in the City of Aurora, Colorado and are continuing to look into ways to expand the service into other jurisdictions as delivery is approved.

In July we closed the acquisition of Southern Colorado Growers, which includes 34 acres of land with outdoor cultivation capacity as well as indoor greenhouse and hoop house cultivation facilities and equipment. This purchase was the Company's first major move into cultivation, which provides high-end premium cannabis directly to our Star Buds dispensaries and also provides significant production of biomass for our Purplebee's extraction and manufacturing facility.

We launched our wholly owned research and development subsidiary, Schwazze Biosciences LLC, in May of 2021 and, during 2021, Schwazze completed the acquisition of the remaining seven Star Buds dispensaries and the rebannered of four Mesa Organics retail dispensaries to Star Buds.

As you can see by this report, our leadership team and our board of directors place a premium on execution. To summarize, since April 2020, Schwazze has acquired or announced the planned acquisition of 33 cannabis dispensaries as well as seven cultivation facilities and two manufacturing assets in Colorado and New Mexico. Most importantly, we continue to build our house of retail brands with Emerald Fields and our Greenleaf dispensaries and we also continue to successfully expand the Purplebee's vape brand in all our dispensaries and across the state of Colorado. Now that we have the retail square footage and the grow capability, we expect to commence additional flower branding in our dispensaries in 2022.

Year over year, our revenue increased to \$108.4 million compared to \$24 million during the same period last year, representing a 352% increase. The Company's adjusted EBITDA for the year was \$32.2 million, representing 29.7% of revenue. Pro forma identicals for 2021, which includes performance before acquisition in 2020 and 2021, show an average basket size that increased to \$59.70, up 9.5%.

Recorded customer visits totaled 1,375,584, up 3.8% compared to year end 2020. Year-over-year identical sales were 13.3%. Since completing our acquisitions, we continue to generate approximately 68% of our revenue from retail and 32% from wholesale. We expect the contribution from the retail segment to continue to grow as we add to our dispensary count and add recreational sales in New Mexico.

Through the implementation of our operating playbook, we have been able to effectively contribute to growth in efficiencies at our manufacturing and retail locations. At our Purplebee's manufacturing division, we implemented our MRP system, improving our ability for production planning and making cost decisions with real-time information. We held our first vendor summit in September, attended by approximately 83 suppliers from across Colorado reviewing our product plans and discussing partnering opportunities and how to grow our vendors' business as well as ours.

In retail, we're reviewing our product categories, aligning product assortment across our dispensaries. Along with strong revenue growth and adjusted EBITDA results, we continue to be encouraged with our retail results with our two-year stacked IDs at 47.3%, which we believe better represent market growth due to the COVID-19 impact and stimulus packages and demonstrates that we continue to outpace the Colorado market, as reported by BDS Analytics, by 19.8%. In 2022 we will continue to cycle COVID-19 retail numbers for the first half of the year, so we anticipate growth in the Colorado market to be challenging this year. We anticipate the opening of the adult-use market in New Mexico will offset some of that slower growth in Colorado.

As mentioned earlier, we continue to strengthen our Colorado and New Mexico management teams. All come with great experience in their respective fields and will add unnecessary horsepower to critical areas to drive growth, execution, and support acquisitions in Colorado and New Mexico. We also plan to add a distribution center in Colorado as part of our retail wholesale playbook expansion.

As for the federal and state government laws regarding cannabis legislation, there continues to be a lot of discussion, but no significant movement or changes on any of the federal acts. Although it looks like the House may pass the MORE Act again this week or next, we remain skeptical it will pass the Senate. We expect that all parties will continue to look at financial and legal reform in cannabis laws and perhaps pass either the MORE Act or the SAFE Banking Act or something similar as we continue to invest and reinvest in our customers and communities. On a positive note, more states continue to legalize both medical and adult-use cannabis. As always, we will closely monitor any federal and state changes that would impact our industry and are poised to make any changes that are necessary. We have recently started home delivery products to Aurora, a suburb of Denver, Colorado, and we are looking to expand this service into other jurisdictions as delivery is approved.

Turning to the future, as we are now a regional operator, we will continue to evaluate additional opportunities across the cannabis industry in the areas of cultivation, manufacturing, and retail dispensaries and other states. Our current criteria for potential acquisitions includes revenue growth or growth potential, EBITDA profitability with synergy opportunities, attractive acquisition prices that are accretive to our shareholders, provides additional brands and products and attractive retail locations with good real estate. Any announcements regarding expansion intentions will be made once we have reached definitive agreements with prospective partners.

Let me also reiterate that we believe our home state of Colorado continues to represent attractive geographies to build out our platform, as it provides us with the opportunity to acquire targets that are sophisticated and profitable and have already weathered the early boom-and-bust cycle of the industry. Our entry into New Mexico will provide exciting additional opportunities as the state turns from medical-only to medical and recreational adult-use by April 1st.

And now I'd like to turn the discussion over to Nancy to continue our financial review.

Nancy Huber — Chief Financial Officer, Schwazze

Thank you, Justin. I would now like to review our financial results for the year ended 2021.

As Justin mentioned at the top of the presentation, total revenue for the year was \$108.4 million compared to \$24 million for the same period in 2020 and represents an increase of approximately 352%.

Also, just a reminder that in the first quarter of 2021 we changed our segment reporting to align with how we now manage and evaluate business performance. We are now reporting by retail, which includes dispensaries; and wholesale, which includes MIPs, cultivation, Big Tomato, and Success Nutrients; and other, which includes revenue from consulting and other small revenue areas.

Also remember we added two Star Buds dispensaries in February of this year and five in March, as well as Southern Colorado Growers in July and Smoking Gun in December, so results include their contribution since those dates.

I am also pleased to report that we generated positive operating cash flow for the year of \$57.3 million, of which \$34.9 million were due to our derivative liability related to our convertible debt financing. We ended the year with \$106.4 million in cash and cash equivalents.

Retail sales were \$73.7 million for 2021, up from \$3.9 million the previous year, representing a 1,811% increase, driven primarily by acquisitions of dispensaries in Colorado.

Wholesale operations revenue increased to \$34.4 million from \$18.6 million compared to the previous year, representing an 85% increase, primarily driven by the acquisition of cultivation facilities and increase in sales of distillate products to the market.

Other sales were point \$0.3 million from \$1.5 million the previous year, primarily driven by the focus away from consulting to retail and wholesale.

Total cost of goods and services for the year totaled \$59.1 million compared to \$17.2 million during the same period in 2020, representing an increase of 243% due to increased sales of products and growth through acquisition.

Gross profit increased to \$49.4 million for the year compared to \$6.8 million during the same period in 2020. Gross profit margin increased as a percentage of revenue from 28.2% to 45.5%, continued to be driven by the strength of Star Buds acquisition, our consolidated purchasing approach, and continued implementation of our retail playbook.

Total operating expenses were \$38.9 million for the year compared to \$29.7 million during the same period in 2020. The higher expenses were due to increased selling, general, and administrative expenses and salaries, benefits, and related employment costs.

Net income attributed to common shareholders for the year was \$7.2 million or approximately \$0.17 basic earnings per share compared to a net loss of \$19.4 million or a loss of \$0.47 for the basic loss per share for the same period last year.

Adjusted EBITDA for the year was \$32.2 million, representing 29.7% of revenue, compared to a loss of \$7.6 million for the same period last year. This is derived from operating income and adjusted for one-time expenses, merger and acquisition and capital raising costs, and non-cash related compensation costs and depreciation and amortization.

Turning now to the outlook for 2022, the Company is providing guidance, which excludes transactions that are announced but not closed. Our Q4 2022 run rate projected revenue guidance is approximately \$220 million to \$260 million and we are projecting Q4 2022 annualized adjusted EBITDA from \$70 million to \$82 million.

The Company is optimistic 2022 will be another pivotal year as we integrate and synergize our recent acquisitions and continue our expansion in M&A plans.

Thank you for your time today and I'd now like to turn back to Justin, who will open the call to questions and answers.

Justin Dye — Chairman & Chief Executive Officer, Schwazze

On behalf of the entire Schwazze team, I'd like to thank all of you for your continued support, encouragement, and interest in Schwazze. I'd like to thank our entire team, but specifically the frontline team members at Big Tomato, Success Nutrients, Purplebee's, our cultivation team at Growth (inaudible) Gardens, Star Buds, Emerald Fields, and R. Greenleaf.

As always, we are grateful for our customers for their loyalty and support. We would now be happy to take your questions. To ask a question, please click on the link on the investor relations portion of our website and submit. Thank you.

Joanne Jobin — Investor Relations Officer, Schwazze

Thank you, Justin and Nancy. Also joining us here today is Nirup Krishnamurthy, our Chief Operating Officer, who will also be available to take questions from the audience. My name is Joanne Jobin. I am the IRO for Schwazze and I will be moderating Q&A on behalf of the team today. And the first submitted question is: Given your capital raises and other financings in 2021, could you please give us a rundown on your total cash position, total outstanding debt, fully diluted shares outstanding by voting class, total outstanding warrants, and any other employee stock options outstanding at year end? This would help us without having to navigate through your filed 10-K. Thank you.

Nancy Huber — Chief Financial Officer, Schwazze

Thanks, Joanne. So, as of today, we have about 52.4 million shares of common stock outstanding. That includes the shares that we've issued subsequent to year end per the subsequent events comment

in the 10-K. And the preferred converted as of year end was 78.3 million shares. Remember, there is an 8% PIK interest on that, so every quarter that number goes up by a little bit. There are 17 million warrants outstanding. And then the convertible shares at 95 million would convert to 42.4 million, the conversion rate on those 2.24, but those are counted in our debt position as of now. In terms of options, we have about 9.8 million options outstanding to our employees, of which about 5.4 million of them are vested, and they range in stock price from about \$1.17 to just a little over \$2.00.

And at year end we had \$106.4 million of cash. We've used approximately \$52 million of that cash for the M&A acquisitions that are again discussed in the subsequent events. And then, you know, we do believe we are cash generating positive, although we are using cash for capital projects as well. Also remember the convertible debt, which is \$95 million, has a 4% PIK interest and a 9% pay, so there is 4% being added to that interest. As we go, the other debt that we have is \$44.5 million in Star Buds seller notes, the Altmore note is \$15 million, and we have a seller note with RGA for \$17 million. I think that gives you all the information you need to look at our capital structure.

Joanne Jobin — Investor Relations Officer, Schwazze

Thank you. The next question: How many acquisitions since Star Buds?

Justin Dye — Chairman & Chief Executive Officer, Schwazze

I think maybe a better positioning would be how many dispensaries do we have now, just to give everybody kind of a view. If you look at it, we have acquired or announced 33 cannabis dispensaries, seven cultivation facilities, and two manufacturing campuses in Colorado and New Mexico. I would

comment and say we have a very good pipeline of new store opportunities, both new real estate as well as acquisitions of existing operators, both in Colorado and in New Mexico, so we continue to look at that and stay disciplined and look for really nice businesses to acquire and partner with. We certainly look forward to expanding in New Mexico as well. And we can continue to look at other states in the region, but our main focus right now is certainly Colorado and New Mexico. Thank you.

Joanne Jobin — Investor Relations Officer, Schwazze

Thank you, Justin. How do you keep outpacing the state? That's four quarters in a row now. That's quite impressive considering the state is down once again.

Justin Dye — Chairman & Chief Executive Officer, Schwazze

Yeah, great. Appreciate the comment. We actually, we outpaced the state by 11.3% for the year when you compare are identical sales versus BDS reported growth for the cannabis industry, which we're proud of. We're going to keep working towards that. We're applying our execution playbook to what we do, and that's being excellent retail, standing for great quality products, terrific, friendly, knowledgeable service, and then making sure we have the highest quality and the best assortment in the stores is really what we want to stand for in our stores. We've executed the operating playbook to drive efficiencies and drive productivity and best practices in cultivation, in our supply chain, manufacturing. We are opening a distribution center later this year that we think will continue to drive efficiencies and will make the business better and more prepared to satisfy the needs of our customers in our vendors, who are looking for supply chain solutions. So we're excited about that.

We've implemented our MRP system, which allows us to do better production planning and costing at Purplebee's, our manufacturing campus. We held our first vendor top-to-top summit in September. We had 83 Colorado suppliers there where we discussed products, we discussed how we can work closer together and grow, really grow the industry and be partners in doing that.

In retail, we're continuing review categories and products, brands, and aligning that assortment to what our customers are telling us that they want and at good values with great quality. If you look at our two-year stacked ID comps for same store sales, we're 47.3%, so the last two years, if you combine our one-year identicals of 47.3%, which is, we think, very healthy growth for a sophisticated market such as Colorado. And as we've said, our IDs were 13.3%, which we believe represent really the market over the last couple of years. And certainly there's been lots of displacement, labor shortages. We've had employees out with COVID, we've seen customers in certain parts of the state really drop off with some of the COVID issues. So I think the team has, ah, I think the industry has done a nice job of really managing through this in an unprecedented sort of set of circumstances with the pandemic.

So we're proud of what we're doing. We continue to work on growing sales, taking care of our customers. If you look at wholesale, our wholesale business, we continue to win customers. We delivered 85% revenue growth. We continued our upward trend with an increase in basket size and customer visits on the retail side. And we continue to generate approximately 68% to 70% of our revenue from retail and 32% from wholesale. And we continue to expect to see growth with rec in New Mexico. In fact, we're calling from New Mexico today. We're excited about being here. At midnight tonight we will be in the rec business here in New Mexico and we've got almost the entire team here

who will be checking customers out at the stores. So if you're in the area of Las Cruces or Santa Fe or Albuquerque, come see us.

Joanne Jobin — Investor Relations Officer, Schwazze

Thank you, Justin. The next question is multipart, so I'll go through it sequentially. Do you have any comment on why your revenue declined sequentially? What impact has higher fuel prices had on the home delivery business? Can you provide any detail as to the number of daily transactions, average basket size, growth rates for the home delivery business?

Justin Dye — Chairman & Chief Executive Officer, Schwazze

Yeah, this is really the difference between new markets and limited license markets that are still ramping, are still in the gold rush kind of process, so to measure sequentially and to look at it sequentially, frankly, is not a very sophisticated view in a mature market such as ours.

When you look at what we have done, you look at quarter three this year, our identical was 1.1% at retail and the two-year stack comp was 37.7%. When you compare that to Q4, our identical was 4.9%, so improving 3.8% store to store on an identical basis, which is good sequential growth, and on the two-year basis it was 40.4%. So we grew about another 3% versus Q3. And Colorado is its own unique market and when you look at it certainly you have cyclicity. So the best two quarters are Q2 and Q3 in the Colorado market with tourism, which is how the market behaves. It's been like that since rec came on line, so you can see there's certainly cyclicity in the business. So that's probably the right way to look at it.

I would also say in the fourth quarter retail held in there very strong and we saw a softening on the wholesale side, particularly on the distillate. Back half of November we saw CPG customers not taking product as they had seen slowing, really slowing CPG sales and had excess inventory on the raw material side with the distillate. And then we saw that to continue in December. We're seeing some recovery. I think that's a temporary sort of lag and we're seeing it start to pick up here. But that's really how to think about the growth side of things and how to think about that.

Joanne Jobin — Investor Relations Officer, Schwazze

Thank you, Justin. How is the Company addressing cultivation license caps in New Mexico as you seek to grow vertical operations?

Justin Dye — Chairman & Chief Executive Officer, Schwazze

Yeah, that's another great question. So, New Mexico is its own market and here you have, you do have a number of licensees that are getting retail licenses, as well as growing licenses as well. There is a shortage of product in the state. So, one of the key issues that's going to hold back really the demand side of things is going to be lack of product. So it's really supply generated. So we're going to see a number of operators open in New Mexico and they won't have a lot of product to sell is sort of the way we're thinking about things. We've addressed that, so we have plenty of product to meet the growing needs of the rec market. We'll tip off tonight at midnight and we're really looking forward to seeing how rec evolves here in New Mexico. But the licensing, certainly you've got to get licenses, et cetera, but there's a fundamental supply issue with product here in New Mexico. So those are the things that we think about for our customers and patients here with our Greenleaf.

Joanne Jobin — Investor Relations Officer, Schwazze

Thank you, Justin. Next question: Can you comment on the proposed Star Buds site on Colorado Boulevard slated for a 2023 opening? It looks like a very large retail dispensary.

Justin Dye — Chairman & Chief Executive Officer, Schwazze

Yeah, we're very optimistic about that. That was single operator that we acquired on a hard corner on one of the busiest streets in Denver and we're really excited about the opportunity. Hard corner, great ingress and egress, we will convert that into a Star Buds, bring our merchandising, our service, our quality to that, and we're in the process of remodeling and we'll start remodeling and drawing the store up. It'll be a Star Buds quality and we're excited about that. So, more to come on that and we look forward to seeing that store grow.

Joanne Jobin — Investor Relations Officer, Schwazze

Thank you, Justin. And sticking with the same topic, what is the strategy with using Emerald Fields versus Star Buds as banners for the dispensaries?

Justin Dye — Chairman & Chief Executive Officer, Schwazze

When you look at customers, they have a slightly different customer mix when you look at who is shopping within those stores, so we think really having Star Buds in Colorado as well as Emerald Fields will allow us to appeal to a broader set of consumers. And we're going to test and measure different retail tactics and merchandising sets and service, staffing models, technology, et cetera, so we always do

some A/B testing and looking to see what's driving the best benefit for our customers in terms of getting them out quickly, efficiently, give them the best service, and then obviously give them the right products at the right value on the right promotions. So it really gives us a way to appeal to a broader audience here in Colorado and we will run both of those. So, as we continue to grow our store count in Colorado, we'll decide whether, you know, is it best to be an Emerald Fields or Star Buds or keep the existing name that they have brand loyalty and those shoppers have an affinity towards that. We are not going to be overly prescriptive. We're going to do what's best for the customer and do no harm. So we may keep that banner for a while or into perpetuity if we think it's good.

Joanne Jobin — Investor Relations Officer, Schwazze

Thank you, Justin. Next question: In the M&A pipeline, what size of acquisitions will be your sweet spot and will that still follow the same acquisition criteria and structure or has that changed with today's market environment?

Justin Dye — Chairman & Chief Executive Officer, Schwazze

Yeah, these will solve a strategic imperative for us. So, on the retail side, we're going to continue to drive our store footprint to cover more and more of the state of Colorado. Same thing in New Mexico. We will buy businesses that generate EBITDA and hopefully are generating free cash flow after taxes. That's important to us. We'll pay an appropriate price for those that make sense for our shareholders. And that's the way we'll think about that. So we're going to continue to look at—retail will be our principal focus. There may be some brand and product opportunities down the road as well, but

principally on the retail side. And then as we really try to get into more growing our biomass to fuel our distillate manufacturing business, you'll see us investing there as well.

Joanne Jobin — Investor Relations Officer, Schwazze

Thank you, Justin. It sounds like the Aurora delivery model may be still evolving. Can you discuss the challenges and opportunities that you are seeing and do you expect to bring that to New Mexico?

Nirup Krishnamurthy — Chief Operating Officer, Schwazze

Yeah, I'll take that. So we implemented delivery in Aurora last year and we are seeing decent traffic for online ordering and delivery. And our basket size on delivery is significantly higher than an in-store kind of basket from a consumer standpoint. So in that regard, it is proving beneficial in terms of both top line and margins. And good customer service. So we have a process that is established and in place. And as the questioner, as the person who asked the question said, it is evolving and we are actively looking at figuring out how to expand that capability across other counties, including Denver.

Joanne Jobin — Investor Relations Officer, Schwazze

Thank you, Nirup. Next question: Are the retail prices in New Mexico the same, better, or less than Colorado prices?

Nirup Krishnamurthy — Chief Operating Officer, Schwazze

Retail pricing in New Mexico will be higher than Colorado, simply because of a scarcity of supply to begin with. As we go rec, starting tomorrow, demand, we expect demand to far outstrip supply and

that will drive pricing in the marketplace. Colorado, being a very, very mature market with a large number of suppliers, both on the grow side as well as in the CPG side, the pricing is more market based, and so while we expect New Mexico to get there over many years, it's not going to happen right away.

Joanne Jobin — Investor Relations Officer, Schwazze

Thank you, Nirup. And one more on New Mexico: How well prepared are you for rec while still serving the medical market? Do you expect a large influx of visitors from other states?

Nirup Krishnamurthy — Chief Operating Officer, Schwazze

Yes, we closed on our acquisition in New Mexico on February 7th and since then the team here, Steve and his team, have worked very, very diligently to get the ten stores ready for recreational sales starting tomorrow. We have remodeled four of the stores and have made adjustments to the remaining six to ensure that medical patients are not inconvenienced. At the same time, enable some significant traffic from the recreational side. So yes, we love to see customers. Our job is, as Justin mentioned, to have the best set of products of the highest quality and great customer service and we would bring the same playbook that we are operating in Colorado into New Mexico. And we're really and eagerly looking forward to serving our recreation customers in addition to our medical customers here.

Joanne Jobin — Investor Relations Officer, Schwazze

Thank you, Nirup. Congratulations on quite an eventful year. It appears that Q4 came in roughly \$5 million to \$6 million below the guidance you gave with Q3 results. Can you please tell us what do you attribute this shortfall to?

Nancy Huber — Chief Financial Officer, Schwazze

I'll take that one. Retail did see a slight decrease in our performance compared to what we anticipated. Things were a little bit soft in November and December. We have seen that bounce back. But, you know, I think cycling COVID in those times was a little bit more difficult than we anticipated. And because we saw a decrease in retail, we also saw a decrease in our wholesale business, as the consumer products people who had built up inventory in anticipation of the high sales in November and December figured out they had a lot of inventory on their shelves. So those numbers decreased as well. It has taken a little bit longer for those numbers to bounce back, but we are seeing those come back now in Q1 and anticipate moving forward there. As Justin said, we do believe that COVID cycling (inaudible) in the first half of this year will be a little bit more challenging in Colorado, but we anticipate that the launch of rec in New Mexico will offset some of that stuff.

Joanne Jobin — Investor Relations Officer, Schwazze

Thank you, Nancy. As you continue to target becoming a super (inaudible), will you be focusing on adjacent states or nationwide? And what states should we be thinking about for possible expansion?

Justin Dye — Chairman & Chief Executive Officer, Schwazze

Well, thank you for the question. It's one that we keep very close to the vest. We certainly have gone on record to say we're going to continue to drive market share in Colorado and, obviously, we're focused on that here in New Mexico. So we've got a lot of work to do in these two states and certainly

we like this region. There are other states that may be attractive down the road, but for the next period of time we're really focused on building the best business we can here and being a market leader.

We're number one in Colorado today, after our most recent acquisitions, by revenue, which we're very proud of. We said we were going to do that we've done it. And we've got good competitors in Colorado, so we've got to stay focused on continuing to drive the business there and taking care of customers. And we have similar plans here in New Mexico. But we like the west. There are synergies between being able to move people around, share best practices, it's easier to travel, et cetera, so I think you're going to continue to see that. And we're going to remain disciplined buying cash flowing, good, profitable businesses that we can make better and add synergies to.

And I think there was a question around synergies. I would say the synergies are reflected in the guidance that we have provided, those deals that we've announced already. We will have, we believe we will have more acquisitions and certainly are going to continue work on unit growth and more stores that will create more and more opportunities for best practices, which is operating better, more efficiently, using our size and scale, as well as synergies on the supply chain side.

So, I think we're focused on Colorado and New Mexico and that's sort of the punch line.

Joanne Jobin — Investor Relations Officer, Schwazze

Thank you, Justin. We're getting a lot of questions on potential buyouts or takeovers, so maybe you can just comment on that.

Justin Dye — Chairman & Chief Executive Officer, Schwazze

Well, my general counsel has advised me do not comment on any potential deals in the market, et cetera, or where we are. That's a fair question. Obviously, there was a big transaction announced between Cresco and Columbia Care. We continue to watch and monitor the MSO landscape and how that works.

But I'll come back to what we've said really from the beginning. We are focused on building a really great company here that innovates, that takes care of customers, that continues to drive and drive sales and grow margin and become very, very efficient in the supply chain, launching products and having really superior brands, and we're going to do those in the states that we're at. And if we do that, we're going to create a really great company that's going to be valuable and that's going to treat investors very, very well, and that's what we're focused on.

Our job here is to build a great company and make sure that we reward our shareholders and investors and drive the highest returns for them. That's what we're in the business for doing. So we'll continue to build this business and if there are opportunities down the road we certainly would keep our eyes open to make sure that we're taking care of our shareholders.

Joanne Jobin — Investor Relations Officer, Schwazze

Thank you, Justin. For the clarification, it sounds like the 2022 guidance does not include any additional acquisitions that have not been closed and acquisitions that have not been announced. Is this correct?

Nancy Huber — Chief Financial Officer, Schwazze

Yes, that is correct. It's just based on acquisitions that we have closed. So if you look at the subsequent events, again, in the 10-K, it would include those things we've closed this year. For example, Drift, Emerald Fields, New Mexico, and Brow (inaudible). It doesn't include, for example, Urban, which we announced we had a definitive agreement with but we haven't closed. So that's kind of the way to look at that.

Justin Dye — Chairman & Chief Executive Officer, Schwazze

So, to the extent we have more acquisitions that are accretive and grow revenue and cash flow, those would be additive to what we've put out there, which means upside.

Joanne Jobin — Investor Relations Officer, Schwazze

Thank you, Justin. How should we think about translating the \$70 million to \$82 million EBITDA guidance to recurring operating free cash flow after maintenance CapEx or can you provide a range for that?

Nancy Huber — Chief Financial Officer, Schwazze

I can't really give you the operating cash flow, because we haven't provided any guidance on that, but I'd say that we'll be doing about \$15 million worth of capital improvement over the year and that kind of breaks out across the board. We will be doing store refreshes probably earlier in the year and new store openings, which will take a little longer, as well as we are assessing (inaudible) capabilities

in New Mexico and a little bit in Colorado as well and some manufacturing improvements. And we have a new distribution center opening that we've talked about in Colorado as well (inaudible) kind of circled throughout the year.

Joanne Jobin — Investor Relations Officer, Schwazze

Thank you, Nancy. Justin, we're getting quite a few questions on the share price and what the rationale is as to why the market is not paying better attention to Schwazze. Would you like to comment please?

Justin Dye — Chairman & Chief Executive Officer, Schwazze

I'll frame it as probably a more optimistic one in the fact that now, you know, if you look at the business, our business grew from roughly \$20 million to \$108 million in within one year. In 2019 we had about \$12 million in revenue. So the business has ramped very, very quickly. We've grown from 100 employees to 700 employees in one year and we're generating positive EBITDA, we're generating positive net income, we're generating free cash flow after taxes, after CapEx.

So the fact of the matter is we're a unique company, I believe. I think we've got really great fundamentals. We've got a good strategy of building market share, taking care of customers, working with partners on the supply chain side to make everyone more efficient, and that model works and we're seeing that. I think that's why we're outpacing Colorado, I think that's why we're optimistic about New Mexico, and it's about focus and execution. And from my perspective and our board's perspective, we want to be known as an execution company and delivering the results that we set.

So, having said all of that, we have to take that and share that with more people. Since COVID, we've not been on the road in person for road shows. We've done a lot of virtual road shows and we're starting to, ah, we'll be traveling here over the next, really over the next nine months and sharing with more institutional investors, retail investors. We've got a handful of conferences coming up here next month that we'll be at, three different conferences. So I think doing that, I think that's important. I think being listed and going public in Canada does a couple things for us. I think it gets more institutions and more retail investors attuned to our story. It also sets us up to be—it's easier to trade in the stock. So there are trading platforms that can't get into or can't really trade in OTC stocks but they can on the NEO exchange.

So I think those things, they're all incremental, and I think they'll all continue to pay dividends for us. And we trade at a pretty steep discount to where other operators trade and I think, you know, our goal is to continue to operate. The numbers and what we're doing will speak for themselves. And we're going to get out and make sure that that message is delivered to capital markets as we think about our future and lowering our cost of capital and making sure we've got a really good balance sheet.

So I think we're going to see a lot of good, positive things. I think we've got really great operating momentum. I think you have to look hard and fast at companies that look like us with the free cash flow profile, EBITDA growth, revenue growth, and really taking market share from sophisticated markets. So I like where we're positioned. We've got a lot more things to do and a lot more things to work on, but I love our team and I think everyone is really focused on making this a great company.

Joanne Jobin — Investor Relations Officer, Schwazze

Thank you, Justin. Are you able to detail whose idea was to create a Star Buds cell phone app? It appears that Star Buds app was the first major cannabis operator app available to the public.

Justin Dye — Chairman & Chief Executive Officer, Schwazze

I cannot. That's a great question that I don't have an answer for. My guess is it would be the founders of Star Buds.

Joanne Jobin — Investor Relations Officer, Schwazze

Okay. Thank you. So we're going to wrap up. We have one more question and I think it's a great one to wrap up on: What concerns you the most for executing on 2022 guidance?

Justin Dye — Chairman & Chief Executive Officer, Schwazze

I think, look, I think you always have risk on the demand side. We watch the customer base very closely. We watch visits. We watch basket. Our goal is to continue to sell great products to solve problems and make people's lives better and we've got to do that. We've got to do that at the store level, on the wholesale side. We've got to continue to work with our customers in solving problems, whether it be giving them really high-quality consistent distillate and other products and really working closely with them.

So I think really, on the demand side, we're going to watch how Colorado evolves going forward. We certainly mentioned the wholesale softness back part of Q4 and certainly pricing for wholesale

distillate has certainly come down, so we're watching that, but I feel like the team feels pretty confident we can meet the guidance for the fourth quarter. We've done that because there are some timing things that we don't control from a licensing and build-out standpoint. That's why we went to a fourth quarter view. I think it's a cleaner view than full annual view. And it really gives you a sense of the size in the company that we are building. So I worry about that.

I think in New Mexico we're going to have to really work hard to stay on top of taking care of customers. The volume, we believe, is going to expand dramatically and making sure that we are in stock, making sure we've got great products on the shelves, making sure we're taking care of patients and customers with really great front-end associates and team members to do that. So staying staffed up, making sure we've got good contingency plans on the supply chain side, those are going to be the things that we need to work on. But I see a lot of synergies, a lot of best practices that we can share between Colorado and New Mexico and it gives me a lot of optimism.

Joanne Jobin — Investor Relations Officer, Schwazze

Thank you, Justin. We're going to wrap up now and I'd like to ask you if you have any final remarks before we end the call today.

Justin Dye — Chairman & Chief Executive Officer, Schwazze

Yeah, I just want to thank our investors. I want to thank all the team members at Schwazze. I want to thank our board. I want to thank our vendors, partners who have really stepped up and have been terrific working with us on the flower side, on the packaged goods side. Certainly want to thank the

customers for shopping with us and all the team members. But I think I would leave, the parting shot is basically the following: I think we've created a really good company with good operating momentum. We're seeing that from a revenue perspective. We're seeing that from an EBITDA perspective. We're generating free cash flow. We've got positive earnings per share. And from a financial perspective, that's important. But more importantly, we really like the innovation that's going on in the Company and we're building new products, we're working on new solutions with our vendors, and you're going to continue to see us innovate. So I think you're going to see a lot of good stuff out of us and more to come and we'll look forward to our next conference call.

Joanne Jobin — Investor Relations Officer, Schwazze

Thank you, Justin, and thank you, Nancy and Nirup. I would like to remind everyone that this webcast is available on the Schwazze website. Once again, thank you for joining the Schwazze fourth quarter and year end webcast. This ends our call for today.

Operator

Thank you. Ladies and gentlemen, you may now disconnect your lines.