



STATEHOUSE

H O L D I N G S

StateHouse Reports Second Quarter 2023 Financial Results

August 29, 2023

Q2 Revenue increased 2% sequentially to \$25.3 million with a 15% improvement in gross margin for a consolidated Q2 Gross Margin of 49.9%

Generated \$635K in Positive Adjusted EBITDA

Commitment to cost savings drove Q2 operating expense decline of \$14.3 million or 50% from Q2 2022

TOPS Loyalty Program Customers recently surpassed 280,000 Members Enrolled

Building Strong Customer demand with Dime Bag Brand Revenue up 41% sequentially

SAN DIEGO and TORONTO, Aug. 29, 2023 (GLOBE NEWSWIRE) -- [StateHouse Holdings Inc.](#) ("StateHouse" or the "Company") (CSE: STHZ) (OTCQB: STHZF), a California-focused, vertically integrated cannabis company, today announced its financial results for the three-month ("Q2 2023") and six-month periods ended June 30, 2023, and provided additional business updates. The unaudited condensed interim consolidated financial statements for Q2 2023, as well as the corresponding management's discussion and analysis are available for download from the Company's investor website, [statehouseholdings.com](#), and on the Company's SEDAR profile. Unless otherwise indicated, all dollar amounts in this press release are denominated in U.S. currency.

Management Commentary

"The combination of our commitment to leading in California, our collective depth of industry knowledge, and the hard work of our talented team is beginning to deliver on the vision we had when we established StateHouse," said Ed Schmults, Chief Executive Officer of StateHouse. "Reaching positive adjusted EBITDA in Q2 is a solid achievement. Cultivation yields and product quality are continuing to steadily improve, our TOPS customer loyalty program recently reached a milestone of more than 280,000 members, and we've expanded our strategic capabilities with our new managed services offering. These are incredibly exciting developments that demonstrate our resilience in spite of challenging market conditions, and we intend to leverage our industry leading size and scale to build out managed services as a scalable new line of business to further enhance our profitability."

Mr. Schmults added, "We've significantly strengthened our financial position through the recent modification of our debt obligations. Pelorus is a valued partner and these modifications reflect the confidence they have placed in our ability to execute on our growth strategy and advance our position as a leading operator in California."

Mr. Schmults concluded, "Consistent execution and steady improvement has been at the core of our success throughout the first half of the year, and we expect to carry this momentum into the second half of the year as well. We've seen incredibly strong response to our Dime Bag brand which has been resonating with customers well beyond our expectations and proving extremely popular in the market. Our focus on strong cultivation, branded sales and manufacturing and retail will remain at the forefront into 2024 which combined with our robust footprint we believe will continue to drive our success in California."

Q2 2023 Highlights

- Q2 2023 net revenues were \$25.3 million, compared with \$34.6 million in Q2 2022.
 - Retail revenues were \$13.0 million, representing 51.3% of total sales for Q2 2023, compared to \$18.5 million or 54.9% of total sales in Q2 2022.
- Gross profit before adjustments for biological assets was \$12.3 million in Q2 2023, compared with \$14.7 million in Q2 2022.
- Consolidated gross margins improved to 49.9% in Q2 2023, compared to 46.6% for Q2 2022.
- Q2 2023 cultivation yields in the Company's Salinas facility were up 34% over Q1 2023. Relative to Q2 2022, yields were up 23% per sq/ft due to improved lighting and growing techniques. TOPS, the Company's high-value customer loyalty program, as of August 29, 2023, had 281,000 loyalty members enrolled.

Subsequent Highlights

- Received a capital infusion and revised debt obligations through an agreement with Pelorus Capital Group (“Pelorus”) to extend the repayment date of the Series A Loan Agreement to February 10, 2027, combined with Pelorus providing an incremental term loan of \$7.521 million, to bring the total principal amount of the Series A Loan Agreement to \$15.0 million.
- Expanded strategic offering with new arrangement with Pelorus for StateHouse to operate a Humboldt County Cultivation Facility. StateHouse will provide Pelorus with its cultivation and operational expertise as well as services including human resources, legal and compliance, post-harvest production and processing, contract manufacturing, distribution, and safety management.
- In connection with the Company's ongoing operational expense management, Statehouse elected to not renew the cannabis license and closed operations of the Seaside dispensary.
- Selective investments are being made in cultivation (lighting and air circulation) and manufacturing (automated trimming and preroll production) to enhance output and contribute to improving cash flow for the Company.

Operations Update ⁽²⁾

Total revenue in Q2 2023 improved 2.8% sequentially, despite ongoing competition, price compression and a reduction in retail foot traffic. With better utilization of raw material through vertical integration, the Company has continued to generate strong gross profit before biological asset adjustments with a gross margin of \$12.3 million or 48.6% of total revenue. Additionally, the Company remains committed to reducing operating expenses, implementing additional changes during the quarter that have reduced annualized operating expenses from the prior quarter by approximately \$8.8 million. These reductions have been achieved through a comprehensive evaluation of the Company's operations, including process improvements, outsourcing of distribution, upgraded and consolidated technology, and the elimination of redundant operations and service providers.

Management reduced headcount an additional 25% from January 1, 2023, to August 25, 2023. Management continues to explore the potential sale of various non-core assets, which is expected to generate approximately \$1-3 million of non-dilutive capital ⁽³⁾ to strengthen its balance sheet and fund its growth objectives ⁽²⁾.

The Company has continued to execute on improvements at its cultivation operations, with significant enhancements being made at its Salinas facility. The Company expects flower yields and efficiency to improve during 2023 through infrastructure investments that will increase CO2 and light distribution, which that are expected to increase cannabis yields and potency while continuing to reduce costs and drive efficiency.

In its retail operations, the Company has focused on increasing profitability despite competitive pressures related to sales discounting. Gross margins have held steady as the Company achieved its goal of in-house branded products representing approximately 40% of total retail sales in Q2 and has set a new goal of 50% by end of Q4. In connection with this effort, subsequent to quarter-end, StateHouse elected not to renew its Seaside dispensary license and immediately cease operations at that location.

The Company's manufacturing operations continues to implement new automation as it pushes to lower cost and enhance quality. New product innovation, new flavors and new product sizes have hit the market in Q2 and will continue to flow as the Company revitalizes its product line to enhance competitiveness. The Company has a goal for new product sales to reach 20% of total sales by the end of Q4.

The Company has completed a number of integration milestones to establish itself as a leading California cannabis company. StateHouse is now well positioned as a focused, integrated CPG business with proprietary production, processing, brands, and retail stores. This strong platform will provide the foundation for growth, as well as improvements in profitability. Based on improvements in the business and what has been achieved to date, the Company expects to begin generating positive Adjusted EBITDA ⁽¹⁾⁽³⁾ and to positive cash flow before the end of 2023⁽³⁾.

Annual General Meeting

The Company will host its annual general meeting (the “Meeting”) of the holders (the “Shareholders”) of common shares (the “Shares”) on Thursday, September 21, 2023, at 10:00 a.m. Eastern Time. Following the formal Meeting remarks, The Company will provide a business update and presentation.

AGM DETAILS

DATE: Thursday, September 21st, 2023
TIME: 10:00 a.m. Eastern Time
WEBCAST REGISTRATION: [Click Here](#)

Financial results and analyses are also available on the Company's website (statehouseholdings.com).

Notes:

(1) This is a non-IFRS reporting measure. For a reconciliation of this to the nearest IFRS measure, see “Use of Non-IFRS Measures” and “Non-IFRS Measures” in the Company's management discussion and analysis for the three and six months ended June 30, 2023. See “Non-IFRS Measures, Reconciliation and Discussion”.

(2) This is forward-looking information and based on a number of assumptions. See “Cautionary Note Regarding Forward-Looking Information” below.

(3) These targets, and the related assumptions, involve known and unknown risks and uncertainties that may cause actual results to differ materially.

While StateHouse believes there is a reasonable basis for these targets, such targets may not be met. These targets represent forward-looking information. Actual results may vary and differ materially from the targets. See "Cautionary Note Regarding Forward-Looking Information" and "Assumptions" below.

About StateHouse Holdings Inc.

StateHouse, a vertically integrated enterprise with cannabis licenses covering retail, major brands, distribution, cultivation, nursery, and manufacturing, is one of the oldest and most respected cannabis companies in California. Founded in 2006, its predecessor company Harborside was awarded one of the first six medical cannabis licenses granted in the United States. Today, the Company operates 13 dispensaries covering Northern and Southern California and one in Oregon, distribution facilities in San Jose and Los Angeles, California and integrated cultivation/production facilities in Salinas and Greenfield, California. StateHouse is a publicly listed company, currently trading on the Canadian Securities Exchange ("CSE") under the ticker symbol "STHZ" and the OTCQB under the ticker symbol "STHZF". The Company continues to play an instrumental role in making cannabis safe and accessible to a broad and diverse community of California and Oregon consumers.

Cautionary Note Regarding Forward-Looking Information

This news release contains "forward-looking information" and "forward-looking statements" (collectively, "forward-looking statements") within the meaning of the applicable Canadian and United States securities legislation. To the extent any forward-looking information in this news release constitutes "financial outlooks" or "future-oriented financial information" within the meaning of applicable Canadian securities laws, the reader is cautioned not to place undue reliance on such information. All statements, other than statements of historical fact, are forward-looking statements and are based on expectations, estimates, and projections as at the date of this news release. Any statement that involves discussions with respect to predictions, expectations, beliefs, plans, projections, objectives, assumptions, future events or performance (often but not always using phrases such as "expects", or "does not expect", "is expected", "anticipates" or "does not anticipate", "plans", "budget", "scheduled", "forecasts", "estimates", "believes" or "intends" or variations of such words and phrases or stating that certain actions, events or results "may" or "could", "would", "might" or "will" be taken to occur or be achieved) are not statements of historical fact and may be forward-looking statements. In this news release, forward-looking statements include, among other things, statements relating to potential future growth, future financial performance including but not limited to the company's ability to generate materially positive Adjusted EBITDA ⁽¹⁾⁽³⁾ in 2023, and to begin generating positive cash flow before the end of 2023⁽³⁾, the company's ability to increase the sale of in-house branded products, sale of various non-core business assets, cost savings related to the strategic partnership with NABIS, future financings and the potential rescheduling or de-scheduling of cannabis under the Controlled Substances Act, and the potential benefits of this change to StateHouse.

These forward-looking statements are based on reasonable assumptions and estimates of management of the Company at the time such statements were made. Actual future results may differ materially as forward-looking statements involve known and unknown risks, uncertainties, and other factors which may cause the actual results, performance, or achievements of the Company to materially differ from any future results, performance, or achievements expressed or implied by such forward-looking statements. Such factors, among other things, include: implications of the COVID-19 pandemic on the Company's operations; fluctuations in general macroeconomic conditions; fluctuations in securities markets; expectations regarding the size of the cannabis markets where the Company operates; changing consumer habits; the ability of the Company to successfully achieve its business objectives; plans for expansion and acquisitions; political and social uncertainties; inability to obtain adequate insurance to cover risks and hazards; employee relations; the presence of laws and regulations that may impose restrictions on cultivation, production, distribution, and sale of cannabis and cannabis-related products in the markets where the Company operates; and the risk factors set out in the Company's management's discussion and analysis for the year ended December 31, 2022 and the Company's listing statement dated May 30, 2019, which are available under the Company's profile on www.sedar.com. Although the forward-looking statements contained in this news release are based upon what management of the Company believes, or believed at the time, to be reasonable assumptions, the Company cannot assure shareholders that actual results will be consistent with such forward-looking statements, as there may be other factors that cause results not to be as anticipated, estimated or intended. Readers should not place undue reliance on the forward-looking statements and information contained in this news release. The Company assumes no obligation to update the forward-looking statements of beliefs, opinions, projections, or other factors, should they change, except as required by law.

The Company, through several of its subsidiaries, is directly involved in the manufacture, possession, use, sale, and distribution of cannabis in the recreational and medicinal cannabis marketplace in the United States. Local state laws where the Company operates permit such activities however, investors should note that there are significant legal restrictions and regulations that govern the cannabis industry in the United States. Cannabis remains a Schedule I drug under the United States Controlled Substances Act, making it illegal under federal law in the United States to, among other things, cultivate, distribute, or possess cannabis in the United States. Financial transactions involving proceeds generated by, or intended to promote, cannabis-related business activities in the United States may form the basis for prosecution under applicable United States federal money laundering legislation.

While the approach to enforcement of such laws by the federal government in the United States has trended toward non-enforcement against individuals and businesses that comply with recreational and medicinal cannabis programs in states where such programs are legal, strict compliance with state laws with respect to cannabis will neither absolve the Company of liability under United States federal law, nor will it provide a defense to any federal proceeding which may be brought against the Company. The enforcement of federal laws in the United States is a significant risk to the business of the Company and any proceedings brought against the Company thereunder may adversely affect the Company's operations and financial performance.

This news release does not constitute an offer to sell, or a solicitation of an offer to buy, any securities in the United States. The Company's securities have not been and will not be registered under the United States Securities Act of 1933, as amended (the "U.S. Securities Act") or any state securities laws and may not be offered or sold within the United States or to U.S. Persons unless registered under the U.S. Securities Act and applicable state securities laws or an exemption from such registration is available.

The CSE has neither approved nor disapproved the contents of this news release. Neither the CSE nor its Market Regulator (as that term is defined in the policies of the CSE) accepts responsibility for the adequacy or accuracy of this release.

For the latest news, activities, and media coverage, please visit <https://www.statehouseholdings.com>, <https://shoparborside.com> and <https://urbnleaf.com> and connect with us on LinkedIn and Twitter.

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