Harborside Inc. Announces Third Quarter 2019 Results

-- Third quarter 2019 revenue of $14.1 million, an increase of 22% over last year

OAKLAND, CA and TORONTO, Nov. 22, 2019 /CNW/ - Harborside Inc. ("Harborside" or the "Company") (CSE: HBOR) today reported financial results for the three and nine months ending September 30, 2019. All figures are reported in U.S. dollars unless otherwise stated.

Financial Highlights

- Third quarter revenue increased 22.4% year-over-year to $14.1 million, driven by 13.5% growth in retail revenue and 57.1% growth in wholesale revenue
- Adjusted earnings before interest, taxes, depreciation and amortization ("Adjusted EBITDA") of ($2.9) million for the third quarter compared to ($4.1) million for the prior year[(1)]
- Net loss for the third quarter was $1.2 million, as compared to net loss of $5.2 million in the prior year, primarily due to decreases in fair value of biological assets, increases in operating expenses and a one-time write-down of investment which was offset by non-cash gain on derivative liabilities of $9 million due to translation on exercise prices of options and warrants, and conversion prices of debentures, denominated in other foreign currencies
- Total assets totaled $53.0 million and included $16.6 million of cash on hand

Management Commentary

"We are pleased with the continued strong results from our retail and wholesale operations, which have contributed to a robust third quarter. Our revenue growth remains solid and Q3 represents the 15th quarter in a row in which our revenue has tracked over $10 million," said Harborside Interim CEO Peter Bilodeau.

"While we are pleased with our third quarter results, there is still much work to be done. We are focused on executing on our goals, continuing to drive growth through our retail and wholesale divisions, and remaining laser-focused on our California-centric growth plan. In addition, we have worked with our executives, members of the Board of Directors and insiders to extend the terms of the Company's lockup agreements until June 1, 2020, and expect analyst coverage of our company to commence shortly."

"The Company recognizes that a strong management team will be required to enable the Company to achieve its goals, and to that end, our CEO search remains on track and we are devoting internal and external resources to identify the best candidate to lead Harborside to its next phase of growth in a nimble, yet prudent way. We are also excited about our recent management changes and hires including promoting Greg Sutton to the role of Chief Operating Officer of Cultivation and Manufacturing, hiring our Chief Retail Officer, Lisah Poore, and Vice President of Human Resources, Mireille Duclos."

"In addition, in order to be a profitable business, we must address costs. To reach our goal of reducing our operating expenses, we have begun implementing the cost cutting initiatives the Alvarez & Marsal team identified to recognize the efficiencies in our business and have focused on streamlining our operating costs at our Salinas facility."

"In Q2 2019 the Company previously reported a 2019 revenue target of $55 to $57 million of revenue and positive Adjusted EBITDA. We now expect a 2019 revenue target of $50 to $52 million of revenue and negative Adjusted EBITDA." [(1)(2)]

"We are updating our full year 2019 revenue guidance from $55-57M to $50-52M to reflect the delayed timing of the openings of the Desert Hot Springs and San Leandro locations, and the delayed closing of the LUX acquisition. Both stores are in the process of opening, and we now expect LUX to close by the end of December, such that they will be reflected in our run rate for 2020. The delay in the closing of the LUX acquisition is expected to result in an approximately $1.5 million decrease to 2019 annual revenue, and an additional $2 million decrease in revenue resulting from the delay in the opening of the two new locations. Additionally, a production issue at the Company's farm disrupted three harvests which the Company expected to monetize in the fourth quarter of 2019 worth approximately $1.5 million of revenue."

	2019 Guidance[2]
Revenue	$50 to $52 million
Adjusted EBITDA[1]	negative

These targets, and the related assumptions, involve known and unknown risks and uncertainties that may cause actual results to differ materially. While Harborside 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. To the extent such actual results differ materially from previously disclosed guidance, the Company will report such differences in its annual management's discussion and analysis. See "Cautionary Note Regarding Forward-Looking Information" and "Assumptions" below.

Retail Business Development

- Third quarter retail revenue increased 13.5% year-over-year to $10.4 million, driven by higher sales activity at the two flagship Harborside stores in Oakland and San Jose
- Harborside's dispensaries in Oakland and San Jose serviced an average of 1,302 customers per day during the third quarter, with an average basket size of $83
- Our continued innovation in the retail experience at the Oakland flagship store, including a positively received, redesigned open retail floor plan implemented earlier this year, and an event venue and tasting room to open in December further enhance our customers' in-store experience, and provide third-party sponsorship opportunities
- The Desert Hot Springs location has an official opening date to the public of December 7, 2019, is one of only two cannabis stores in the State of California with a licensed drive-thru window and situated in a geographically desirable location attracting customers from Palm Springs and those heading from Los Angeles to Indio or Coachella

	Three Months ended March 31, 2019	Three Months ended June 30, 2019	Three Months ended September 30, 2019	Nine Months ended September 30, 2019
Total Tickets	107,001	120,569	119,749	347,319
Average Customers/Day	1,189	1,325	1,302	1,272
Average Ticket	$85.95	$86.19	$82.94	$84.99

Wholesale Business Development

- Third quarter wholesale revenue increased 57.1% year-over-year to $3.7 million, driven by increased scale of cultivation, improved product quality, and expanded distribution throughout the state of our cannabis products
- The first harvest from our new state-of-the art 44,000 square foot Dutch Venlo greenhouse commenced on November 15, 2019. We expect the greenhouse to contribute approximately 10,000 lbs of annual production in 2020
- Continued development of our in-house brands Key and Harborside Farms, demonstrating customer acceptance of our brands in our retail stores

Discussion of Third Quarter 2019 Results

Revenue for the third quarter of 2019 totaled $14.1 million, compared to $11.5 million for the third quarter of 2018, representing an increase of 22.4%. Revenue for the first nine months of 2019 was $38.8 million, an increase of 21.7%, compared to $31.9 million in the prior year period.

Gross profit before biological asset adjustment for the third quarter of 2019 was $3.2 million or 22.6%, as compared to $2.8 million or 24.4% for the same period last year. For the first nine months of 2019, gross profit, excluding the impact of fair value adjustments for biological assets was $12.1 million or 31.3%, as compared to $4.6 million or 14.6% in the prior year period. The improvement in adjusted gross margin was due to increased quality wholesale sales and a favorable fair value adjustment to inventory.

Total operating expenses for the third quarter of 2019 were $8.7 million, compared to $6.7 million for the prior year period. Total operating expenses in the third quarter of 2019 included general & administrative expenses of $5.4 million, $2.1 million in expenses related to share-based incentive compensation, $2.3 million of share-based payments, an allowance for expected credit loss of $0.3 million, and $0.284 million of depreciation and amortization.

Adjusted EBITDA for the third quarter of 2019 was ($2.9) million, compared to ($4.1) million for the third quarter of 2018. Adjusted EBITDA for the first nine months of 2019 was ($3.0) million, compared to ($10.2) million in the prior year period.(1) See "Non-IFRS Financial Measures, Reconciliation and Discussion."

Net loss for the third quarter of 2019 was $1.2 million, compared to a net loss of ($5.2) million for the third quarter of 2018, and for the first nine months of 2019 was ($22.9) million, compared to ($13.9) million in the prior year period. This was partially offset by a non-cash gain of $17.2 million due to foreign currency translation on options and warrants.

Balance Sheet and Liquidity
As of September 30, 2019, total assets were $53.0 million, including $16.6 million of cash. Outstanding debt includes notes payable and accrued interest of $0.8 million, leases payable of $0.043 million and an estimated tax penalties of $15.4 million. Total shareholders' equity was $19.6 million.

Capital Markets and Financing Activities
On October 11, 2019, the Company acquired full ownership of San Leandro Wellness Solutions. In connection with the transaction, the Company entered into a stock purchase agreement and settlement agreement with Grace Executive Services ("GES"), dated October 1, 2019, (the "GES Agreement") wherein the Company acquired GES' 50,000 shares (the "GES Shares") of SLWS' common stock (representing all of GES' shares in SLWS) upon the terms and conditions set forth in the GES Agreement. In consideration for the GES Shares, the Company paid a total sum of $2,000,000, allocated as follows: (i) $1,750,000 for the purchase; and (ii) $250,000 in settlement of all amounts GES claimed it was owed under certain agreements with the Company. In exchange, GES transferred to the Company GES' entire right, title, and interest in and to the GES Shares.

Buyback update
The Company continues to monitor its previously announced normal course issuer bid (the "Bid") for up to 5% of its issued and outstanding subordinate voting shares of the Company (the "SVS"). To date, the Company has not purchased any SVS under the Bid. From time to time, when the Company does not possess material non-public information about itself or its securities, it will exercise its discretion in determining if SVS will be purchased under the Bid.

Update on Pipeline Acquisitions
As previously discussed, on March 28, 2018, Lineage entered into a binding Letter of Intent to acquire a 100% interest in Altai Partners, LLC ("Altai"), a California limited liability company operating (the "Altai Acquisition"). Altai had in place a binding agreement dated March 15, 2018, as amended to acquire a minimum 45% ownership interest in Lucrum Enterprises Inc., d/b/a LUX Cannabis Dispensary ("LUX"). On March 28, 2018, Altai subsequently entered into an additional agreement to acquire the remaining 55% ownership interest in LUX. The Company continues to work towards a definitive agreement with LUX, and expects the Altai Acquisition to be completed by the end of Q4 2019.(2)

Conference Call and Webcast Details
The Company will host a conference call and webcast to review its results at 11:00 a.m. Eastern Time (8:00 a.m. Pacific Time) tomorrow, Friday, November 22, 2019. The conference call will be accessible on our corporate website at www.investharborside.com and by dialing 888-390-0605 (416-764-8609 for international callers) and providing conference ID 22211128. To ensure proper connection, it is advised to log on or dial in ten minutes prior to start time.

A recording of the call will be available one hour after the end of the conference call until 11:59 p.m. Eastern Time (8:59 p.m. Pacific Time), Friday, December 6, 2019 by dialing 888-390-0541 (416-764-8677 for international callers) and providing playback passcode 211128#, or by visiting www.investharborside.com.

About Harborside:
Harborside Inc. is one of the oldest and most respected cannabis retailers in California, operating two of the major dispensaries in the San Francisco Bay Area, and opening its third Northern California facility and first Southern California retail facility in late 2019. The Company also operates two dispensaries in Oregon and a

cultivation facility in Salinas, California. Harborside has played an instrumental role in making cannabis safe and accessible to a broad and diverse community of California consumers. Co-founded by Steve DeAngelo and dress wedding in 2006, Harborside was awarded one of the first six medical cannabis licenses granted in the United States. Harborside is currently a publicly listed Company on the CSE trading under the ticker symbol "HBOR". Additional information regarding Harborside is available under Harborside's SEDAR profile at www.sedar.com, including Harborside's Listing Statement dated May 30, 2019, the unaudited condensed interim consolidated financial statements for the three and nine months ended September 30, 2019 and 2018, and the management's discussion and analysis of financial condition and operating performance for the three and nine months ended September 30, 2019 (the "Interim MD&A").

For the latest news, activities, and media coverage, please visit the Harborside corporate website at www.investharborside.com or connect with us on LinkedIn, Facebook, and Twitter.

Non-IFRS Measures, Reconciliation and Discussion

This press release contains references to "Adjusted EBITDA", "Adjusted Gross Profit" and "Adjusted Gross Margin", which are non-IFRS financial measures.

Adjusted EBITDA is a measure of the Company's overall financial performance and is used as an alternative to earnings or net income in some circumstances. Adjusted EBITDA is essentially net income (loss) with interest, taxes, depreciation and amortization, non-cash adjustments and other unusual items added back. This measure can be used to analyze and compare profitability among companies and industries, as it eliminates the effects of financing and capital expenditures. It is often used in valuation ratios and can be compared to enterprise value and revenue. This measure does not have any standardized meaning according to IFRS and therefore may not be comparable to similar measures presented by other companies.

Adjusted Gross Profit and Adjusted Gross Margin exclude the fair value adjustments for the Company's biological assets. Management believes these measures provide useful information as they represent the gross profit based on the Company's cost to produce inventories sold and removes fair value metrics tied to changing inventory levels, as required by IFRS.

There are no comparable IFRS financial measures presented in Harborside's unaudited condensed interim consolidated financial statements. Reconciliations of the supplemental non-IFRS measures are presented in the Company's Interim MD&A. The Company believes that the measures provide information useful to shareholders and investors in understanding our performance and may assist in the evaluation of the Company's business relative to that of its peers. For more information, please see "Non-IFRS Measures" in the Company's Interim MD&A available on www.sedar.com.

Notes:

1. This is a non-International Financial Reporting Standard ("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 Interim MD&A.
2. This is forward-looking information and based on a number of assumptions. See "Cautionary Note Regarding Forward-Looking Information."

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 securities legislation. 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 relate to, among other things, future expansion plans, reduction of operating expenses and 2019 guidance.

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: fluctuations in general macroeconomic conditions; fluctuations in securities markets; expectations regarding the size of the California cannabis market and changing consumer habits; the ability of the Company to successfully achieve its business objectives; plans for expansion; political and social uncertainties; inability to obtain adequate insurance to cover risks and hazards; and the presence of laws and regulations that may impose restrictions on cultivation, production, distribution and sale of cannabis and cannabis related products in the State of California; and employee relations. 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 is indirectly 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, these activities are currently illegal under United States federal law. Additional information regarding this and other risks and uncertainties relating to the Company's business are contained under the heading "Risk Factors" in the Listing Statement dated May 30, 2019, filed under the Company's profile on SEDAR at www.sedar.com.

Assumptions

In developing the financial guidance set forth above, the Company made the following assumptions and relied on the following factors and considerations:

- The targets are based on the Company's historical results including its year to date consolidated results of operations.
- The targets are subject to the completion of the Company's 44,000 square foot Dutch Venlo greenhouse cultivation facility in Salinas expansion and other cultivation improvement plans anticipated to come online in the last quarter of 2019 and during 2020.
- The targets are subject to the successful closing of the previously announced acquisition of LUX, which operates a 3,700 square foot dispensary in San Jose, California, and the relocation of that dispensary to a new location. There is no assurance that such acquisition will be completed as contemplated or at all.
- Revenue at our retail dispensaries through the end of the year are based on our YTD results.
- Wholesale revenue in the second half of 2019 is expected to grow by approximately 130% compared to the first half of the year, which growth is based upon more favorable weather conditions in Salinas, our Dutch Venlo greenhouse coming on-line in September 2019, and implementation of additional environmental and other quality controls aimed at ensuring product quality.
- Both retail and wholesale revenue sustainability and growth depend on a variety of factors, including among other things, location, competition, legal and regulatory requirements. Prices are projected forward at recently realized wholesale and retail prices.
- Cost of goods sold, before taking into account the impact of value changes in biological assets (which are non-cash in nature, and, accordingly, are excluded from calculations of Adjusted EBITDA), have been projected based on estimated costs of production and capacity available from a vertically-integrated supply chain. Cost of goods sold relating to retail inventory purchased from third parties have been projected in line with historical levels, which is approximately 50%. Across our retail and wholesale businesses, we assume blended adjusted gross margin to be approximately 35%. Our gross margin can be influenced by a number of factors given, among other things, the cost of cannabis cultivation and production, wholesale cannabis prices, and other relevant factors.
- Selling, general and administrative expenses through the end of 2019 are assumed to remain consistent through the end of 2019, but to decrease as a percentage of revenues due to inherent scalability of selling, general and administrative expenses, and to be in the range of 35% or below as a percentage of revenue. Additionally, total selling, general and administrative expenses include an allocation for corporate overhead and public company costs.
- Our 2019 guidance does not include the results of any pipeline acquisitions other than LUX.

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