StateHouse Holdings Inc. Reports Second Quarter 2022 Financial Results and Provides Additional Business Updates

– Company expects to be EBITDA positive in 2023 –

SAN DIEGO and TORONTO, Aug. 25, 2022 /CNW/ - StateHouse Holdings Inc. ("StateHouse" or the "Company") (CSE: STHZ) (OTCQX: STHZF), a California-focused, vertically integrated cannabis enterprise, today announced its financial results for the three and six months ended June 30, 2022 ("Q2 2022" and "YTD 2022", respectively), and provided additional business updates. The unaudited condensed interim consolidated financial statements for Q2 2022 and 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.

"The second quarter was a landmark period for StateHouse, as we completed the acquisition of Loudpack to create a leading, fully integrated California cannabis company," said Ed Schmults, Chief Executive Officer. "We then launched the first phase of a major integration initiative, which was completed before the end of the quarter and resulted in significant annual cost savings. One-time costs related to closing the Loudpack acquisition impacted profitability in Q2 2022, but with the integration activities underway, we exited the quarter in a much stronger competitive position. While California cannabis market conditions are currently challenging, particularly in wholesale, we are continuing to aggressively reduce costs and optimize operations, developing new consumer packaged cannabis products and expecting to generate material positive EBITDA[(1)] in 2023".

Q2 2022 Highlights

- Total net revenues were $34.6 million, a 125% increase over the $15.4 million realized in the three months ended June 30, 2021 ("Q2 2021"). The increase reflected the acquisitions of UL Holdings Inc. ("Urbn Leaf") and LPF JV Corporation ("Loudpack"), which were completed in March and April of 2022, respectively;
- Gross profit before adjustments for biological assets, was $14.7 million, a 110% increase as compared to $7.0 million in gross profit realized during Q2 2021. Consolidated gross margins during Q2 2022 were 42.6% of revenues, compared to 45.6% of revenues in Q2 2021, with the gross margin reduction primarily due to the year over year selling price declines on bulk cannabis in the California market and the addition of manufacturing revenues which typically operate on lower margins, partially offset by greater sell through of in-house manufactured products at Company owned retail stores;
- On April 4, 2022, the Company completed the acquisition of Loudpack to form one of the largest vertically integrated cannabis enterprises in California;
- On May 11, 2022, the Company announced new retail store openings in San Francisco and Grossmont, California;
- On May 19, 2022, the Company acquired a further 50% interest in its retail store in Seaside, California, bringing its interest in the store to 100%; and,
- On May 31, 2022, the Company announced initial integration measures that are expected to generate approximately $10.3 million of annualized cost savings.[(2)] [(3)]

Subsequent Events

- On July 25, 2022, the Company officially changed its name from Harborside Inc. ("Harborside") to StateHouse Holdings Inc. to honor its pioneering history and reflect its future direction in California's cannabis sector. The Company's subordinate voting shares were also reclassified as common shares on this date;
- On July 28, 2022, the Company announced that it reached a Partial Payment Installment Agreement with the Internal Revenue Service ("IRS") to resolve and reduce legacy federal tax obligations related to the Internal Revenue Code Section 280E, resulting in a one-time non-cash gain of approximately $16.1 million. The Company continues to negotiate with the IRS over additional tax repayments; and,
- On August 15, 2022, StateHouse completed the transition to a common technology platform for its California retail stores, e-commerce and home delivery.

Operations Update

StateHouse has established a leading integrated cannabis platform that, when fully optimized, will minimize exposure to the volatile bulk cannabis market and allow the Company to operate as a focused, integrated CPG business with proprietary production, processing, brands and retail stores. In conjunction with the continuing reduction of costs, the Company expects to emerge with a scalable, controlled, profitable and more predictable cannabis business[(2)].

By the end of Q2 2022, StateHouse was well underway with initial integration measures that are expected to generate approximately $10.3 million of annualized cost savings. [(2)] [(3)] As a result of this first phase of integration, StateHouse is now operating with a greatly reduced cost base. Following the initial integration measures, the Company has initiated additional cost reductions which are expected to result in a further $8-10 million in annualized savings. [(2)] [(3)]

Improvements were also completed across the Company's operations. In cultivation, the Company has converted to a perpetual harvest program, with crop yields at the Salinas facility up 78% from last year through the first half of 2022, while also winning seven awards for quality, including three awards at the Emerald Cup and four medals at the California State Fair, including two golds and two silvers. At the Greenfield Campus, the adoption of best practices has led to enhanced efficiencies and improved gross profits. At retail, despite competitive pressures related to sales discounting, gross margins have held steady as the Company moves further towards its goal of in-house branded products representing 40% of total retail sales. On the administrative side, the Company is introducing a new ERP system for cultivation, rationalizing external relationships and suppliers and progressing on the consolidation of its finance and accounting systems into one common platform. With new management and a highly motivated team, StateHouse is revitalizing existing customer accounts and aggressively pursuing new ones.

As a result of the significant synergies and cost savings either achieved to date and financial forecasts of the Company, management expects StateHouse to generate materially positive Adjusted EBITDA[(1)] in 2023.

Management is also exploring the potential sale of various non-core assets, which is expected to generate approximately $5-8 million of non-dilutive capital,[(3)] to strengthen its balance sheet and fund its growth objectives.[(2)]

Management Departure

Ahmer Iqbal, Chief Operating Officer, is leaving the Company effective September 30, 2022 to pursue other opportunities. StateHouse's management team and Board of Directors thank Mr. Iqbal for his contributions to the Company and wish him the best in his future endeavours. Mr. Iqbal's duties will be assumed by other members of the management team upon his departure.

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 period ended June 30, 2022. 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

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 OTCQX 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.

Non-IFRS Measures, Reconciliation and Discussion

This press release may contain references to "Adjusted EBITDA" and "Adjusted Gross Profit" which are non-IFRS financial measures. Management believes that these measures provide useful information as they represent the value of incremental sales.

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 exclude the changes in fair value less costs to sell of the Company's biological assets. Management believes this measure provides useful information as they represent the gross profit based on the Company's cost to produce inventories sold while removing fair value measurements which are tied to changing inventory components and levels, as required by IFRS.

There are no comparable IFRS financial measures presented in StateHouse's financial statements. Reconciliations of the supplemental non-IFRS measures are presented in the Company's management's discussion and analysis for the period ended June 30, 2022. The Company provides the non-IFRS financial measures as supplemental information and in addition to the financial measures that are calculated and presented in accordance with IFRS. These supplemental non-IFRS financial measures are presented because management believes such measures provide information which is useful to shareholders and investors in understanding its performance and which may assist in the evaluation of the Company's business relative to that of its peers. However, such measures should not be considered superior to, as a substitute for or as an alternative to, and should only be considered in conjunction with, the most comparable IFRS financial measure. For more information, please see "Use of Non-IFRS Measures" and "Non-IFRS Measures" in the Company's management's discussion and analysis for the period ended June 30, 2022, which is available under the Company's profile on www.sedar.com.

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 generating positive EBITDA by 2023, total amounts of annualized cost savings, the successes resulting from the Company's integrated cannabis platform, amounts of in-house branded products sold, the implications of the sale of non-core assets, and the Company's future profitability, potential cost reductions, and potential asset sales.

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 period ended June 30, 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.

Assumptions

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

- The targets are based on StateHouse's historical results including its year-to-date consolidated results of operations.
- The targets are subject to continued cultivation improvement.
- Targeted revenue at our retail dispensaries through the end of the year is based on our YTD results.
- 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 inventory purchased from third parties have been projected in line with historical levels.
- Selling, general and administrative expenses in future periods are assumed to decrease as a percentage of revenues due to inherent scalability of selling,

general and administrative expenses and our cost cutting initiatives outlined above. Additionally, total selling, general and administrative expenses include an allocation for corporate overhead and public company costs.

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.

View original content:
https://www.prnewswire.com/news-releases/statehouse-holdings-inc-reports-second-quarter-2022-financial-results-and-provides-additional-business-updates-3016

SOURCE StateHouse Holdings Inc.

View original content: http://www.newswire.ca/en/releases/archive/August2022/25/c8742.html

%SEDAR: 00013218E

For further information: Investors: Philip Koven, Bay Street Communications, pkoven@baystreetcommunications.com, 647-496-7858; Ed Schmults, CEO, StateHouse Holdings Inc., 800-892-4209; Media: Chris Goddard, CGPR, chris@cgprpublicrelations.com, 781-640-8387

CO: StateHouse Holdings Inc.

CNW 20:15e 25-AUG-22