THIS MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR JUSHI HOLDINGS INC. ARE ALSO INCLUDED IN THE FORM 10-Q FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2023, FILED ON SEDAR IN ITS ENTIRETY

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This Management's Discussion and Analysis ("MD&A") covers the consolidated financial statements of Jushi Holdings Inc. and its controlled subsidiaries as of and for the three months ended March 31, 2023 (the "Financial Statements"). Unless the context indicates or requires otherwise, the terms "Jushi", "the Company", "we", "us" and "our" refers to Jushi Holdings Inc. and its controlled entities. This MD&A should be read in conjunction with the unaudited condensed consolidated financial statements and notes thereto for three months ended March 31, 2023 (the "Quarterly Financial Statements"). The Quarterly Financial Statements have been prepared by management and are in accordance with generally accepted accounting principles in the United States ("GAAP") and should be read in conjunction with the audited consolidated financial statements and notes thereto for the year ended December 31, 2022, which are included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2022, filed with the U.S. Securities and Exchange Commission ("SEC") on April 18, 2023 (the "2022 Form 10-K") and was also filed on the System for Electronic Document Analysis and Retrieval ("SEDAR"). All amounts are expressed in U.S. dollars unless otherwise noted.

Company Overview

We are a vertically integrated, multi-state cannabis operator engaged in retail, distribution, cultivation, and processing operations in both medical and adult-use markets. We are focused on building a diverse portfolio of cannabis assets through opportunistic investments and pursuing application opportunities in attractive limited license jurisdictions. We have targeted assets in highly populated, limited license medical markets on a trajectory toward adult-use legalization, including Pennsylvania and Ohio, markets that are in the process of transitioning to adult-use, namely Virginia, and limited license, fast-growing, large adult-use markets, such as Illinois, Nevada and Massachusetts, and certain municipalities of California.

Factors Affecting our Performance and Related Trends

Competition and Pricing Pressure

The cannabis industry is subject to significant competition and pricing pressures, which is often market specific and can be caused by an oversupply of cannabis in the market, and may be transitory from period to period. We may experience significant competitive pricing pressures as well as competitive products and services providers in the markets in which we operate. Several significant competitors may offer products and/or services with prices that may match or are lower than ours. We believe that the products and services we offer are generally competitive with those offered by other cannabis companies. It is possible that one or more of our competitors could develop a significant research advantage over us that allows them to provide superior products or pricing, which could put us at a competitive disadvantage. Continued pricing pressure due to competition, increased cannabis supply or shifts in customer preferences could adversely impact our customer base or pricing structure, resulting in a material impact on our results of operations, or asset impairments in future periods.

Recent Developments

Store Closures

In April 2023, we closed three underperforming Beyond Hello™ stores in Colwyn, Pennsylvania, Hazleton, Pennsylvania, and Palm Springs, California, bringing our current footprint to a total of 35 operating dispensaries in seven markets.

Results of Operations

(Amounts expressed in thousands of U.S. dollars, except share and per share amounts)

	Three Months Ended March 31, 2023	Three Months Ended March 31, 2022	% Change
REVENUE, NET	$ 69,873	$ 61,888	13 %
COST OF GOODS SOLD	(39,932)	(42,776)	(7)%
GROSS PROFIT	$ 29,941	$ 19,112	57 %
OPERATING EXPENSES	$ 32,452	$ 37,308	(13)%
LOSS FROM OPERATIONS	$ (2,511)	$ (18,196)	(86)%
OTHER INCOME (EXPENSE):			
Interest expense, net	$ (8,520)	$ (10,116)	(16)%
Fair value gains on derivatives	8,030	14,309	(44)%
Other, net	709	(703)	(201)%
Total other income, net	$ 219	$ 3,490	(94)%
LOSS BEFORE INCOME TAX	$ (2,292)	$ (14,706)	(84)%
Income tax expense	(10,148)	(5,051)	101 %
NET LOSS AND COMPREHENSIVE LOSS	$ (12,440)	$ (19,757)	(37)%
Less: net loss attributable to non-controlling interests	—	—	— %
NET LOSS AND COMPREHENSIVE LOSS ATTRIBUTABLE TO JUSHI SHAREHOLDERS	$ (12,440)	$ (19,757)	(37)%
LOSS PER SHARE ATTRIBUTABLE TO JUSHI SHAREHOLDERS - BASIC	$ (0.06)	$ (0.11)	(45)%
Weighted average shares outstanding - basic	194,050,835	183,226,027	6 %
LOSS PER SHARE ATTRIBUTABLE TO JUSHI SHAREHOLDERS - DILUTED	(0.06)	(0.16)	(63)%
Weighted average shares outstanding - diluted	194,050,835	207,838,906	(7)%

Three Months Ended March 31, 2023 Compared with the Three Months Ended March 31, 2022

(Amounts expressed in thousands of U.S. dollars, unless otherwise stated)

Revenue, Net

The following table presents revenue by type for the periods indicated:

	Three Months Ended March 31, 2023	Three Months Ended March 31, 2022	$ Change	% Change
Retail	$ 62,311	$ 57,955	$ 4,356	8 %
Wholesale	7,562	3,848	3,714	97 %
Other	—	85	(85)	(100)%
Total revenue, net	$ 69,873	$ 61,888	$ 7,985	13 %

Revenue, net, was $69,873, as compared to $61,888, an increase of $7,985, or 13%. Retail revenue increased $4,356 due primarily to new dispensary openings from build outs and acquisitions. We acquired Apothecarium and NuLeaf in Nevada during March 2022 and April 2022, respectively, and opened new Beyond Hello™ dispensaries in Ohio, Pennsylvania and Virginia in 2022. The increase in retail revenue was partially offset by declines in revenue in: (i) Illinois, due to the impact of the state of Missouri moving to recreational use, and (ii) Pennsylvania due to market price compression. The Company ended the quarter with thirty-seven operating dispensaries in seven states, as compared to twenty-nine in six states at the end of March 31, 2022.

Wholesale revenue increased $3,714 primarily due to increased cultivation and processing activities at our grower processor facilities in Massachusetts, Nevada and Virginia. The increase in Nevada is from the acquisition of NuLeaf.

Gross Profit

Gross profit was $29,941 compared to $19,112, an increase of $10,829, or 57%. Gross profit margin increased to 43% compared to 31%. The improvement in gross profit and gross profit margin was driven by operating efficiencies at our grower processor facilities in Massachusetts, Nevada and Virginia, which was partially offset by declines in revenue in Illinois and Pennsylvania driven by market price compression. Additionally, gross profit and gross profit margin for the prior year were negatively impacted by the sell through of inventory acquired in the acquisitions of Nature's Remedy, which was acquired in September 2021, and Apothecarium, which had a fair value step up.

Operating Expenses

Operating expenses were $32,452 compared to $37,308, a decrease of $4,856, or 13%. The following table presents information of our operating expenses for the periods indicated:

	Three Months Ended March 31, 2023	Three Months Ended March 31, 2022	$ Change	% Change
Salaries, wages and employee related expenses	$ 16,804	$ 17,336	$ (532)	(3)%
Share-based compensation expense	2,311	6,964	(4,653)	(67)%
Rent and related expenses	2,893	3,089	(196)	(6)%
Depreciation and amortization expense	2,663	2,256	407	18 %
Professional fees and legal expenses	2,325	2,706	(381)	14 %
Other expenses (1)	5,456	4,957	499	10 %
Total operating expenses	$ 32,452	$ 37,308	$ (4,856)	(13)%

(1) Other expenses are primarily comprised of marketing and selling expenses, insurance costs, administrative and application fee, software and technology costs, travel, entertainment and conferences and other.

Salaries, wages, and employee-related expenses decreased due to a decrease in the number of employees as we work to right size the organization. Share-based compensation expense decreased primarily due to lower stock options granted to new employees and management. Depreciation and amortization expense increased primarily related to property, plant and equipment ("PP&E") and amortizable intangible assets that were acquired with the 2022 acquisition of NuLeaf and Apothecarium.

Other Income (Expense)

Interest Expense, Net

Interest expense, net, was $8,520 compared to $10,116, a decrease of $1,596, or 16%. The decrease is due primarily to lower debt discount amortization driven by the redemption of the 10% senior notes ("Senior Notes") in December 2022, partially offset by higher overall debt balance due in part to funding of our recent acquisitions as well as higher finance lease obligations.

Fair Value Gains on Derivatives

Fair value gains on derivatives were $8,030 compared to $14,309. Fair value gains on derivatives include the fair value changes relating to the derivative warrants liability. The derivative warrants are required to be remeasured at fair value at each reporting period. The fair value changes in derivatives were primarily attributable to the movement in our stock price during the corresponding period.

Other, Net

Other, net was an income of $709 compared to an expense of $703, a change of approximately $1,412. The change from an expense to an income was due primarily to (i) the recording of additional indemnification asset of $614 in the first quarter of 2023 related to acquisitions made in prior years, and (ii) $405 of non-operating expenses recorded during first quarter of 2022.

Income Tax Expense

Total income tax expense was $10,148 compared to $5,051, an increase of $5,097, or 101%. The increase in income tax expense is primarily due to increased gross profit as well as the recording of additional uncertain tax positions and higher interest and penalties in 2023.

Non-GAAP Measures and Reconciliation

In addition to providing financial measurements based on GAAP, we provide additional financial metrics that are not prepared in accordance with GAAP. We use non-GAAP financial measures, in addition to GAAP financial measures, to understand and compare operating results across accounting periods, for financial and operational decision making, for planning and forecasting purposes and to evaluate our financial performance. These non-GAAP financial measures are EBITDA and Adjusted EBITDA (each as defined below). We believe that these non-GAAP financial measures reflect our ongoing business by excluding the effects of expenses that are not reflective of our operating business performance and allow for meaningful comparisons and analysis of trends in our business. These non-GAAP financial measures also facilitate comparing financial results across accounting periods and to those of peer companies. As there are no standardized methods of calculating these non-GAAP measures, our methods may differ from those used by others, and accordingly, the use of these measures may not be directly comparable to similar measures used by others, thus limiting their usefulness. Accordingly, these non-GAAP measures are intended to provide additional information and should not be considered in isolation or as a substitute for measures of performance prepared in accordance with GAAP.

EBITDA and Adjusted EBITDA

EBITDA and Adjusted EBITDA are financial measures that are not defined under GAAP. We define EBITDA as net income (loss), or "earnings", before interest, income taxes, depreciation and amortization. We define Adjusted EBITDA as EBITDA before: (i) non-cash share-based compensation expense and other one-time charges; (ii) inventory-related adjustments; (iii) fair value changes in derivatives; (iv) other (income)/expense items; (v) transaction costs; (vi) asset impairment; (vii) loss on debt extinguishment; and (viii) start-up costs. These financial measures are metrics that have been adjusted from the GAAP net income (loss) measure in an effort to provide readers with a normalized metric in making comparisons more meaningful across the cannabis industry, as well as to remove non-recurring, irregular and one-time items that may otherwise distort the GAAP net income measure. Other companies in our industry may calculate this measure differently, limiting their usefulness as comparative measures.

Reconciliation of EBITDA and Adjusted EBITDA (Non- GAAP Measures)

The table below reconciles net loss to EBITDA and Adjusted EBITDA for the periods indicated.

(Amounts expressed in thousands of U.S. dollars)

	Three Months Ended March 31,	
	2023	**2022**
NET LOSS [1]	$ (12,440)	$ (19,757)
Income tax expense	10,148	5,051
Interest expense, net	8,520	10,116
Depreciation and amortization [2]	7,335	3,248
EBITDA (Non-GAAP)	$ 13,563	$ (1,342)
Non-cash share-based compensation	2,311	6,964
Inventory-related adjustments [3]	251	3,742
Fair value changes in derivatives	(8,030)	(14,309)
Other (income) expense, net [4]	(511)	575
Start-up costs [5]	—	2,715
Transaction costs [6]	19	780
Adjusted EBITDA (Non-GAAP)	$ 7,603	$ (875)

(1) Net loss includes amounts attributable to non-controlling interests.

(2) Includes amounts that are included in cost of goods sold and in operating expenses.

(3) Includes: (i) inventory step-up on business combinations; (ii) inventory recall reserves; and (iii) reserves for discontinued products. The inventory step-up on business combinations relate to the fair value write-up on inventory acquired on the business acquisition date and then sold subsequent to the acquisition date. The inventory recall reserves relate to the estimated impact of the Pennsylvania Department of Health recall and ban of vape products containing certain cannabis concentrates. The ban was lifted in June 2022.

(4) Includes: (i) remeasurement of contingent consideration related to acquisitions; (ii) losses (gains) on legal settlements; and (iii) severance costs.

(5) Expansion and start-up costs incurred in order to prepare a location for its intended use. Start-up costs are expensed as incurred and are not indicative of ongoing operations of each new location.

(6) Transaction costs include: (i) registration statement costs such as professional fees and other costs relating to our SEC registration; and (ii) acquisition and deal costs.

Liquidity and Capital Resources

(Amounts expressed in thousands of U.S. dollars, unless otherwise stated)

Sources and Uses of Cash

We had cash, cash equivalents and restricted cash of $19,424 as of March 31, 2023.

The major components of our statements of cash flows for the three months ended March 31, 2023 and 2022, are as follows:

	Three Months Ended March 31, 2023	Three Months Ended March 31, 2022	$ Change	% Change
Net cash flows used in operating activities	$ (3,572)	$ (13,825)	$ 10,253	74 %
Net cash flows used in investing activities	(4,542)	(23,631)	19,089	81 %
Net cash flows provided by financing activities	331	18,219	(17,888)	(98)%
Effect of currency translation on cash	61	(9)	70	NM
Net change in cash and cash equivalents and restricted cash	$ (7,722)	$ (19,246)	$ 11,524	(60)%

Operating activities. Cash used in operations was $3,572, as compared to $13,825. The decrease in cash used in operations was due to a decrease in net loss of $7,317 and an increase in non-cash items of $3,769, partially offset by decrease in operating assets and liabilities of $833.

Investing activities. Net cash used in investing activities was $4,542 compared to $23,631. The current year includes $4,542 for the purchases of property, plant and equipment for use in our operations. The prior year includes $17,039 for the purchases of property, plant and equipment for use in our operations, and $6,592 paid for the acquisition of Apothecarium, net of cash acquired.

Financing activities. Net cash provided by financing activities was $331 compared to $18,219. The current year includes $1,900 in proceeds from other debt, partially offset by: (i) $844 in net finance lease obligation payments, (ii) $668 in other financing activities and (iii) $57 in payments of other debt. The prior year includes (i) $13,680 proceeds from private placement equity offerings in January and February 2022, (ii) $3,265 in proceeds from other debt, (iii) $1,121 in net receipts on finance lease and (iv) $541 in proceeds from the exercise of warrants and stock options, partially offset by (i) $258 in principal redemption repayments of the Senior Notes and (ii) $130 in payments of other debt.

Liquidity

As reflected in our 2022 Form 10-K, we have incurred a loss from operations of $220,333, including non-cash impairment charges of $159,645, and used net cash of $21,416 for operating activities for the year ended December 31, 2022, and as of that date, our current liabilities exceeded its current assets by $37,577. Furthermore, we incurred additional loss from operations of $2,511 and used cash of $3,572 for operating activities for the three months ended March 31, 2023, and as of that date, our current liabilities exceeded our current assets by $50,201. Since inception, we have focused on building a diverse portfolio of assets in attractive markets to vertically integrate our business. As such, we incurred losses as we continue to expand. We have put in place plans to increase the profitability of the business in fiscal year 2023 and beyond. In order to achieve profitable future operations, we began to commercialize production from our recently expanded grower-processing facilities in Pennsylvania and Virginia, as well as implemented a cost-savings and efficiency optimization plan which includes, among other things, reduction in labor and packaging costs as well as operating efficiencies at our retail and grower-processing facilities.

As a result of the above, substantial doubt exists about our ability to continue as a going concern within the next twelve months from the date these financial statements are available to be issued. We intend to fund our operations, capital expenditures and debt service with existing cash and cash equivalents on hand, cash generated from operations and, as needed, future financing (equity and/or debt) as well as the potential sales of non-core assets. The ability to continue as a going concern is dependent upon profitable future operations and positive cash flows from operations as well as future financing and/or sales of assets if necessary. There is no assurance that we will be successful in this or any of our endeavors or become financially viable and continue as a going concern.

The quarterly financial statements contained herein have been prepared on a going concern basis which assumes we will be able to realize our assets and discharge our liabilities in the normal course of business for the foreseeable future, and do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or amounts and classification of liabilities that may result from the outcome of this uncertainty.

Off-Balance Sheet Arrangements and Contractual Obligations

As of March 31, 2023, we do not have any off-balance sheet arrangements that have, or are reasonably likely to have, a material current or future effect on the financial performance or financial condition of the Company. For our contractual obligations, refer to Note 7 - Debt, Note 8 - Leases and Note 16 - Commitments and Contingencies of our Quarterly Financial Statements contained in Part I. Item 1 of this report.