FINAL TRANSCRIPT

Glass House Brands Inc.

Third Quarter 2021 Investors Call

Event Date/Time: November 11, 2021 — 5:00 p.m. E.T.

Length: 52 minutes

CORPORATE PARTICIPANTS

John Brebeck
Glass House Brands Inc. — Vice President of Investor Relations

Kyle Kazan
Glass House Brands Inc. — Chairman and Chief Executive Officer

Mark Vendetti
Glass House Brands Inc. — Chief Financial Officer

Graham Farrar
Glass House Brands Inc. — President

CONFERENCE CALL PARTICIPANTS

Eric Des Lauriers
Craig-Hallum Capital Group — Analyst

Loren DeFalco
CB1 Capital — Analyst

Allen Wenstin
Elliot Investment — Analyst

Scott Fortune
ROTH Capital Partners — Analyst

PRESENTATION

Operator

Good afternoon. Thank you for standing by. Welcome to the Glass House Brands Third Quarter 2021 Investors Call.

I would now like to hand the conference call over to Mr. John Brebeck, Glass House Brands' Vice President of Investor Relations. Please go ahead.

John Brebeck — Vice President of Investor Relations, Glass House Brands Inc.

Thank you. I'd like to welcome everyone to Glass House Brands' third quarter 2021 conference call for the three-month period ending September 30, 2021.

Listeners are reminded that certain matters discussed in today's conference call, or answers that may be given to questions asked, could constitute forward-looking statements that are subject to the risks and uncertainties relating to Glass House Brands' future financial or business performance. Actual results could differ materially from those anticipated in these forward-looking statements.

The risk factors that may affect results are detailed in Glass House Brands' periodic filings and registration statements. These documents may be accessed via the SEDAR database.

I'd like to remind everyone that this call is being recorded today, Thursday, November 11, 2021.

And I would now like to introduce Mr. Kyle Kazan, Chairman and Chief Executive Officer of Glass House Brands.

Kyle, please go ahead.

Kyle Kazan — Chairman and Chief Executive Officer, Glass House Brands Inc.

Good afternoon, everyone, and thank you for joining us for today's call. Today, I would like to take a few minutes to review our strategic priorities and provide an overview of our business, positioning, and will give an update on our facilities. Mark Vendetti, our Chief Financial Officer, will then discuss our financial results for the quarter in detail, following which Mark, Graham Farrar, our President, and I will take your questions.

First, I'd like to address the California market. As we are an SSO, a superstate operator which only operates in the Golden State, it is important to understand that the environments in every aspect of our vertically integrated company is facing challenges that we expect the markets and the rest of the country to also eventually experience.

The flower market is going through the long-awaited commoditization, much like Oregon, Colorado, and Washington experienced. It is important to note that everything we are experiencing was expected, but as with all markets, timing is the most difficult aspect to predict. We have positioned ourselves as a company accordingly and will be discussing throughout how we are weathering the storm.

Suffice to say, we believe like other markets which mature, there will be a large shakeout that will position the strongest companies to lead the largest market in United States and the ones synonymous with premium cannabis.

Our vision since inception has been to become the largest cannabis brand-building platform in California. This vision guides everything we do. And during our most recent quarter, we executed on a number of key strategic objectives, building on our solid foundation and strengthening our position as one of the leading companies in the world's largest cannabis market.

We have identified three key pillars to support our branded CPG strategy: increasing scale and cultivation capacity, expanding our own retail footprint, and building a world-class leadership team.

Towards that end, I'm pleased to announce that our brands have continued to grow in both units and dollars through this quarter and that our Glass House Farms flower brand was the number-one brand in California in the third quarter of 2021, the country's largest market according to BDSA data. It reminds us that producing best-in-class flower at industry-leading cost is always a winning strategy.

In regards to our first pillar, increasing scale and cultivation capacity, I'm thrilled to share that since our last call we closed on our 5.5 million square foot SoCal cultivation facility, which provides us with the size and scale necessary to grow the highest-quality craft cannabis with the lowest cost of production and to do so in a sustainable, environmentally friendly manner. We were also able to reduce the cash purchase price to $93 million, keeping an additional $25 million of cash on our balance sheet.

Currently, we operate one of the strongest wholesale networks in the state, with best-in-class cultivation processes and highly efficient cost structures, employing an operational canopy of over 300,000 square feet on our current 500,000 square foot greenhouse footprint. We expect to produce and sell over 90,000 pounds of dry equivalent biomass this year at a very competitive cost of production this quarter of $179 a pound prior to bringing on our new SoCal facility, which we anticipate will eventually allow us to bring our cost of production down to $100 per pound.

Phase 1 expansion of the SoCal facility is expected to increase our greenhouse footprint by approximately 1.6 million square feet by the end of 2022, with a targeted long-term footprint of 6 million square feet. With this expanding capacity, we will operate the largest and most efficient cultivation facility in California by far, and we'll be well positioned in supply across the country once that opportunity arises.

The second pillar of our strategy is the expansion of our own retail footprint. Regarding our partnership with Element 7, we announced last week that our subsidiary, GH Group, Incorporated has filed suit in Superior Court for the County of Los Angeles Central District against Element 7 and its principals and owners for claims arising from Element 7's conduct incident to the merger and exchange agreement entered into between GH Group and Element 7 in February of this year.

Additionally, in conjunction with this announcement, we informed the market we are terminating the licence development consulting agreement between the two parties for costs. The purpose of the suit is to enforce transfer of the 17 contractually committed licences, of which 3 have been transferred to date. We are very confident that our suit will prevail and enforce a transfer of the remaining 14 retail licences. Unfortunately, we are unable to comment further at this time due to legal considerations. For further information, please see the press release on our website.

Our goal is unchanged. We intend to operate the largest retail footprint in the state to create exceptional retail experiences for our customers. We currently operate four dispensaries and are well positioned to continue investing in and expanding our retail presence. We will continue developing the facilities for five new licences: our two new Santa Barbara licences and the three licences in Dunsmuir, Hesperia, and Eureka, that were acquired from Element 7. This will get us to a total of nine retail facilities.

We continue to work tirelessly to scale our retail network via acquisitions, new licence wins, or partnerships with the expectation of having good news to share soon. The synergy between retail and our brands is clear. We have historically sold almost 15x more volume of our Glass House Brands in stores we operate versus non-Glass House-operated stores.

We currently plan to brand all five of our new properties as pharmacy locations. We expect to have them open before the second quarter of 2022. Our two new Santa Barbara dispensaries will be in prime locations where they are the sole dispensary in a limited-licence area and are being designed to provide a fabulous customer experience, an experience that has allowed us to garner multiple awards at our existing stores. We can’t wait to roll them out, and I warmly invite all of our shareholders to visit them to get a feel for what we mean by the pharmacy-branded experience.

We're also excited about the Eureka location, which extends our retail reach into the heart of the Emerald Triangle, and the Dunsmuir location, which is located on Main Street in a beautiful old bank building in a town that views our dispensary as an attractive addition to a downtown area in the midst of revival.

The third pillar of our growth strategy is establishing a world-class management team. During the quarter, we were excited to welcome Erik Thoreson as our new Chief Business Development Officer. Erik, who is a CFA charterholder, is spearheading our M&A activity and comes to us with previous cannabis experience from Harvest. He is playing a critical role and will continue to roll out and scale our business.

We were also thrilled to recently announce Mark Vendetti as our new Chief Financial Officer. Mark brings a wealth of experience as a CFO in the public markets and a work history across several different sectors, including retail, manufacturing, consumer goods, e-commerce, and the cannabis industry to boot. His vast knowledge and deep industry experience has already made Mark a strong addition to our team.

Finally, I'm pleased to welcome John Brebeck to the team, who everyone here should get to know, as our Vice President of Investor Relations. We recognized that this was a need for us as a newly listed company. Having spent his entire career in the public markets, most recently in capital market advisory for public companies, John brings a vast breadth of knowledge of the institutional investment community to the Glass House team. Working closely with our CFO, Mark Vendetti, he has provided a huge boost to our investor outreach program.

We have taken important steps towards providing additional transparency to investors about our operating metrics this quarter. For the first time, we have included a detailed sales breakdown of our retail, wholesale, CPG, and wholesale biomass sales in our earnings release. We have also included operational canopy, equivalent dry pound production, and cost per equivalent dry pound production. This will make tracking our progress easier for all.

Our CPG business continues to perform extremely well, especially in the flower category. Flower is the largest segment in the California market and accounted for approximately 37 percent of sales in the state in the third quarter of 2021. At the end of the quarter, we had approximately 471 retail doors in our CPG distribution network.

Our position in the market was developed very quickly, in less than 24 months, and we see it as a testament to a formula we intend to continue to expand: the highest quality at the lowest cost. We also recently launched a line of live resin and diamond-infused pre-rolls, which are 100 percent internally sourced to reach consumers looking for potent, fast-onset highs.

Looking briefly at the third quarter before Mark provides a more in-depth review during his remarks, we generated net sales of $17.2 million. I'd like to provide some context on this number and the market challenges we faced, which caused a sequential decrease in revenue despite strong growth in the volume of our sales. Revenue during the quarter was largely impacted by a 48 percent year-over-year and 33 percent quarter-over-quarter drop in wholesale flower prices as a result of overproduction in the market.

While we expect the weakness in pricing to persist in the near term, we are confident in the strength of our efficient operating model and the ability of our team to navigate a rapidly changing industry. In this growing and crowded market, we believe that the best-in-class operators will be those that are able to produce the high quality at scale with the lowest cost of production.

We announced in September that we have completed the acquisition of our state-of-the-art SoCal greenhouse facility, located in Camarillo. It was operating as a tomato farm and consists of six high-tech, environmentally controlled greenhouses, building 5.5 million square feet on a 160-acre property in Ventura County, California. It is equipped with approximately 125 acres of ultra-high-tech and efficient Kubo greenhouses, an on-site well, and water treatment facilities, automated root washing systems, supplemental lights, advanced climate control systems, both solar and natural gas cogeneration facilities producing over 14 megawatts of power, heat, and CO_2.

The farm was designed and built to operate in a very low-margin vegetable production environment. We intend to bring that same operational approach to cannabis. Construction of the new facility began within days of closing on the property in September. Phase 1 of the construction includes an approximately 500,000-square-foot nursery and propagation facility, with ebb and flow systems to allow for efficient automated plant handling, and an approximately 900,000-square-foot Kubo Ultra Clima high efficiency greenhouse, which will add approximately 600,000 square feet of new flower canopy to the Company's existing operational footprint.

In addition, we are constructing a processing centre and a new distribution centre to support Phase 1 of the SoCal facility and the future retrofit of the remaining four greenhouses. The Company is also rapidly moving ahead with required licensing of the SoCal facility. We have already received cannabis zoning clearance from the local municipality and have completed and submitted all California state licence applications needed for Phase 1 operations.

We expect cultivation activities to commence by the second quarter of 2022 and the first harvest and sale of cannabis from the facility to occur in the second half of 2022. Once this initial phase is completed, we expect to produce an additional 180,000 dry pounds of sellable cannabis, representing approximately a 200 percent increase from our current capacity.

On a very positive note, in looking at our existing facilities, we saw an increase of 22 percent in dry weight production, sequentially, with productivity significantly improved. Our cultivation team, led by Graham Farrar, solved many of the production issues, which we've shared in our second quarter earnings call. We attribute the productivity gains to the new roofs installed at Padaro and the expansion of post-harvest processing capacity. Despite market pricing conditions, demand has remained strong, with more dry weight sold than ever before in Glass House history.

Between our current facilities and our newest SoCal facility preparing to come online in 2022, we believe we are ideally positioned to lead the California cannabis market with the lowest cost. One of the things that we have been reminded of in the current market is how much quality matters because even in this very challenging market, we have maintained the pricing of our CPG products and continue to sell record volumes of our biomass to the wholesale market. We are very excited to be positioned to produce some of the highest quality craft cannabis to meet customer demand and support the expansion of our business.

I want to share that as one of the largest investors in Glass House Brands and a long-time value investor, I am excited to have entered this phase of the market. It will bring many compelling opportunities on the M&A front, which will be perfectly suited to our large and growing footprint in California.

With that, I will turn the call over to Mark for a review of our financials for the quarter.

Mark?

Mark Vendetti — Chief Financial Officer, Glass House Brands Inc.

Thanks, Kyle, and good afternoon and nice to meet everyone. As a reminder, the results I will be sharing today can be found in our financial statements and MD&A, which are reported in US dollars and prepared in US GAAP.

Total revenue for the third quarter of 2021 was $17.2 million, an increase of 29 percent year over year. The wholesale CPG business was the key engine of revenue growth, increasing 103 percent. It was driven primarily by the Glass House Farms brands, which almost tripled in revenue compared to the prior-year period. Successful marketing and distribution of the product, as well as the large increase in canopy under operation, namely from our Padaro facility, supported the growth.

Sequentially, CPG grew 14 percent, which came in the face of a high single-digit decline in the California retail market, based on BDSA data.

Wholesale biomass revenue fell 18 percent despite a more than doubling of unit volume sales, as flower wholesale prices fell by 48 percent, negatively impacting revenue by $4.1 million. Sequentially, biomass revenue decreased 19 percent from $6.2 million in Q2 to $5 million in Q3. Wholesale flower prices fell 33 percent sequentially, affecting biomass revenues by $1.6 million.

Retail is our B2C business selling packaged good products to end consumers through the retail stores we control. And retail revenues increased by $1.4 million, or 37 percent versus a year ago, with the addition of our Berkeley store, which opened in Q1 2020. But revenue declined 18 percent sequentially. I'd like to remind our listeners that our Q2 retail revenue results contain modifications to our rewards and loyalty program that resulted in a one-time favourable adjustment to revenue that advantaged Q2 revenues by $1 million versus Q3.

Without this effect, the sequential decline in Q3 retail revenues would have been 4 percent, which outperformed the overall market. Our Los Angeles-based dispensary, The Pottery, is reported as an equity method investment given its current ownership structure and therefore is not consolidated within our retail revenue.

Gross profit for the quarter was $2.4 million, or 14 percent gross margin compared with a gross profit of $5 million, or 37 percent gross margin in Q3 2020. The decrease in gross margin was driven by the fall in wholesale cannabis prices, as well as inventory valuation adjustments.

In Q3 2021, total operating expenses increased $5.8 million year over year to $11.9 million compared to total operating expenses of $6.1 million in Q3 2020.

General and administrative expenses increased $3.8 million year over year to $8.5 million. The increase was largely a result of stock-based compensation increasing $2.5 million, increased insurance costs, and costs to support operational expansion, as well as professional service fees related to the SoCal expansion and our enlarged retail footprint, which increased $1.3 million year over year.

Sales and marketing expenses increased $600,000 year over year to $900,000, with additional investments in digital media, consumer and retail education, brand events, and activation. This is an area we intend to continue to focus on as we build our brand and product portfolio.

We define adjusted EBITDA as earnings before interest, taxes, depreciation, and amortization adjusted for transaction costs, restructuring costs, share-based compensation, and other non-cash operating costs.

Adjusted EBITDA for the quarter was a loss of $5.4 million compared to $0.2 million in Q3 2020. The decrease in adjusted EBITDA was primarily due to lower gross profits and higher operating expenses. Year to date, Q3 2020 adjusted EBITDA was $2.6 million loss versus a loss of $1.4 million in Q3 2020.

We ended the quarter with $28.9 million in cash and a solid balance sheet, which has us well positioned to continue to execute on our growth strategy. Additionally, we are actively evaluating additional resources of capital to help fuel our future growth opportunity in planned CapEx investments.

I'd like to provide further colour into the purchase costs for the SoCal property. In addition to the $93 million of cash, as additional consideration the Company issued 6.5 million shares valued at $29 million at the time and an additional $35 million in earn-outs to be paid if certain milestones are met, bringing the total purchase price to $157 million.

Looking ahead, we would like to provide guidance for investors. We no longer expect to achieve the 2021 and 2022 projections provided in the Outlook section of our de-SPAC and listing prospectus. Factors include the dramatic drop in cannabis prices that has occurred in recent months, the delay in closing the purchase of the SoCal facility versus our original expectation, and the developments noted in our November 4th press release regarding Element 7.

The Company anticipates Q4 2021 revenues to be flat to down slightly compared to Q3 2021 revenues of $17.2 million. This outlook assumes the current difficult operating conditions in California will remain unchanged, at least through the end of the calendar year with no improvement in cannabis wholesale prices, as well as the continuation of the sequential trend from Q3 of flat to declining California retail sales.

Regarding the operating outlook for 2022, we plan to provide some basic guidance during our Q4 2020 results call—during the Q4 2021 results call, at which time our budgeting process for 2022 will be complete and Q1 2022 operating conditions in the California cannabis market moving on.

I would now like to turn it back over to Kyle for some special announcements.

Kyle Kazan

Thanks, Mark. I would like to draw your attention to the Third Quarter 2021 Operational Highlights section of our press release. It includes a link to a video that shows the impressive scale and ultra-high-tech greenhouses at our SoCal facility. We are working on more content to share on the progress that our renovation team has already made in less than one month since we began our Phase 1 retrofit and look forward to posting it on our website very soon.

We're excited to announce that our annual shareholders meeting will be held this summer at our SoCal facility, directly followed by our first annual Glass House Fête that celebrates the cannabis culture born in California so many years ago.

I'd like to invite and encourage all shareholders to participate in both events, where you'll be able to enjoy our products and meet the members of our executive team. Graham Farrar, President and Chief Cannabis Officer, will guide a can't-miss tour of the SoCal facility. We'll have samples and products on hand. Stay tuned for more detail on this event, which will feature fun, food, music, cannabis, of course, special merchandise, and much, much more.

With that, I will turn the call back to John Brebeck.

John Brebeck

Thank you, Kyle. I look forward to joining our shareholders, friends, and family at this event.

At this point, I'd like to turn the call over to the Operator to begin the question-and-answer portion of the call.

Operator, turning over to you.

Q&A

Operator

Thank you. Ladies and gentlemen, we'll now begin the question-answer session. Just as a reminder, if you could please stick to three questions, that would be great. Should you have a question, please press *, followed by the 1 on your touch-tone phone. You will then hear a three-tone prompt acknowledging your request, and your questions will be polled in the order that they are received. Should you wish to decline from the polling process, please press *, followed by the 2. And if you are using a speakerphone, please lift the handset before pressing any keys.

One moment, please, for your first question.

Your first question comes from Eric Des Lauriers from Craig-Hallum Capital Group. Please go ahead.

Eric Des Lauriers — Craig-Hallum Capital Group

All right. Great. Thanks for taking my questions, guys. So a bit of question on sort of near and long-term strategy here. So California is, of course, known for leading cannabis brands, including from the legacy market, but one of the issues is finding trusted, licensed partners to outsource production, without risking product quality. From my standpoint, that sounds like that would kind of fit your guys' operations here. I understood you have your own brands.

But as we start to think about your strategy for California and, eventually, interstate commerce, how do you think about contract growing? Is that something you would entertain, either in the near term, or maybe after you bring the new facility in-house? And how would you kind of describe your relationships with other brands here and that opportunity? Just trying to get a sense of the overall strategy here. Thanks.

Kyle Kazan

Yeah. So this is Kyle. I would tell you that we're already having those conversations. We see that as a value add that we can add to, especially the larger brands, because you're absolutely right. Sourcing consistent product is difficult. And if you're a brand, the worst thing that can happen is you're on a store shelf today, and then you're not on tomorrow, and the retailer basically shuts you out because of it. So it's a problem that we recognize since we're vertically integrated, and it's a solve that we bring. And so we anticipate that we will be announcing some deals in the not-too-distant future.

Graham Farrar — President, Glass House Brands Inc.

Eric, I maybe could add quickly to that too. This is Graham, and it's worth remembering that our background is actually in being a wholesale supplier to brands in the market. We started Glass House Farms about seven years ago. And when we first started, it was exclusively wholesale, so we've carried a lot of those relationships forward. And as we've built our brand in parallel with that, we continue to be that kind of trusted provider for a lot of those brands. So many of the brands you know actually have flower from us inside them.

Our philosophy is quality, consistency, and cost. And that quality, of course, you've got to do that, got to do it right, and then you got to do it right every time, and that's really what makes a brand. So as Kyle mentioned, we've got a number of exciting conversations going on, now that we're able to expand our supply on the horizon. If we can't be the trusted supplier to help enable brand-heavy, asset-light brands, then we're doing something wrong, and that's not our intention. So we got a lot of exciting stuff in the works on that.

Eric Des Lauriers

All right. No. That's great to hear. And then just another kind of high-level strategy question here. So understand you guys are in a really strong position, both from cost and quality in California, obviously the largest market here, and obviously some stuff in the works to increase your retail reach here. Should we think of this as really California only until interstate commerce? Or given some of the pricing pressures, would you guys ever look beyond California? Maybe either from a retail or—I mean, I would doubt production. But can you just kind of help us understand your thinking of anything beyond California? Or if that's just a post-interstate commerce opportunity for you guys? Thanks.

Kyle Kazan

Yeah. So this is Kyle again. We've got a really talented—kind of the talented cultivator in the world in Graham Farrar. So we've had opportunities at different points to assist in cultivation, other places, and we've declined. We've also had opportunities in some of the neighbouring states to participate. And we've decided to keep it a singular focus in on the largest market in the world, California—makes sense—and partly because every state right now during prohibition doesn't allow interstate commerce.

As much as we know interstate commerce will happen at some point, the when is debatable. So our focus right now is purely California, with the exception that at some point in the near future, we may be licensing some of our brands to other states because we see that as an opportunity as people really like that California reputation.

Eric Des Lauriers

Makes sense to me. All right. Thanks, guys, and good luck.

Kyle Kazan

Hey. Thank you for listening in today and asking the questions.

Operator

Thank you. Your next question comes from Loren DeFalco from CB1 Capital. Please go ahead.

Loren DeFalco — CB1 Capital

Hey, guys. Thanks for taking my call. We've seen price compression on flower in Washington and Oregon, and I'm just curious. Where do you guys think California is in that cycle? And how bad is it going to get before it starts to improve, as we saw in the other states?

Kyle Kazan

So thanks for the question, Loren. This is Kyle again. And then I'll answer one part, then I'll ask Graham to kind of share his opinion, because this is one of those ones where it's not purely—it's not really science. It's more kind of a perspective. I would tell you, from being a long-term investor, I think it's great to take a look and see what's happened in those other states because it did create a big washout. And now, you see those states on good footing.

I don't know how the pricing here goes. Does it continue to climb? For awhile, I would suspect it does. And I think the best thing we do is we hope for the best and fully prepare for the worst. And I can't tell you how excited I am that, so far, Graham and his licensing team up in Camarillo and Ventura, it's gone smoother than we'd hoped.

And so I'm knocking on my head right now that, that continues because the sooner we can bring that on—you heard where our COGS are now, and you've heard where we're hoping to take them. And after walking the farms with Graham for, now, a couple years, cannot wait to get that rolling. And it will dramatically lower our COGS. But as far as when, I would say better to plan on it being longer than it probably actually will be.

Graham, do you want to weigh in?

Graham Farrar

Yeah. I think there's a couple points to that. One is I would say that we're getting fairly close to the bottom here. We're now into Crocktober, where we have outdoor plants coming down. And one of the other metrics I see is that we've got, basically, price parity right now between California, Oregon, and Washington. And I don't really see a good justification for California prices dropping below those markets.

And we’re seeing it in real time. We’re currently picking up equipment at $0.50 on the dollar from farms who are stopping production, who have product that it’s not working, then harvesting right now.

And I think, if we were in a demand-destruction environment, I would be concerned. I think we were in an overproduction environment, partially spurred by the COVID bump-up last year, which had folks continuing to operate who, frankly, shouldn’t be, from an efficiency and scale perspective. And I think markets are pretty good at correcting for overproduction. Right?

And our whole strategy is the ideal climate and the best facility, with the best team to be able to survive and thrive, regardless of what the market is. So we know we can’t control the market, but we can control what we grow, how well we grow it, and how efficiently we grow it. And that’s our entire strategy, is investing to be able to do that better than anybody else.

So I think our strategy, if anything, is proven by what’s happening in the market. You need scale, you need efficiency, you need a team, you need a facility, you need to be in the right climate regions to be successful in this, long term. And I think that this is, long term, beneficial for us. This is going to drive consolidation, which is what we’ve been betting on and building for since the beginning.

Loren DeFalco

Thank you—

Kyle Kazan

And one last point to make, real quick. When you have these down markets and this kind of pain, it creates an amazing opportunity for, as Graham said, consolidation or M&A. And so we are a fix for a number of different companies out there, and they would be a value-add to us. So we plan to use this painful time to our advantage and also to the advantage of some of the folks we’re talking to. So we’re super excited that we’re going through this period. And we knew it was coming; now, it’s here.

Loren DeFalco

Thanks. And thanks, you might have answered part of what I'm about to ask. And it's just in light of the price compression in California, the delay, the licences at retail having issues, and so on, so forth. Can you speak more to that value proposition for Glass House going forward?

Kyle Kazan

Yeah. I would say this. When you talk to the other folks in cannabis, some of the MSOs, they're quick to acknowledge California's the most difficult market. Licensing issues are never easy here. Everything is a little bit more difficult. And we have friends at other companies, and they sort of laugh at some of how they're able to work in their markets compared to us. But that's all we know, is what we have. And so I would tell you that we're getting better and better in working in those markets.

And we're also seeing that Colorado and Washington started in January of 2014. We started in the rec market a little later than that. And so we're seeing some pressures ease. Like for instance, our two Santa Barbara dispensaries, those licences are going to come online on the shorter end of what we thought because some of what might have happened earlier, hasn't happened. It's just—I wouldn't call it breezing along, but I'd call it going on the fast end of the scale, so excited there.

Graham, do you want to chime in too, please?

Graham Farrar

Yeah. I mean, I think you nailed it. I mean this environment creates opportunities to do what we intend to do. I mean, our goal is to build a platform that we can build on, and I think we're going to see a lot of brands and products and operations that need that platform. I mean, when things are fast, it's easy for everybody to play. You can be a hobbyist that got good. You can be a sub-scale, 22,000, half-acre-square-foot farm. When things get tough is when you sort out who has the scale, the operational efficiency, the facilities to really kind of make it in the long term.

So I think, while it's painful in the quarter-by-quarter basis, I think over the year-over-year basis, the environment here is going to create some real opportunities for us to take advantage of.

Loren DeFalco

Great. Thanks for that, guys. I'll hop back into queue.

Operator

Ladies and gentlemen, as a reminder should you have a question, please press the *, followed by the 1.

And your next question does come from Allen Wenstin from Elliot Investment. Please go ahead.

Allen Wenstin — Elliot Investment

Hi, gentlemen. Thank you. It's been a long call and—

Kyle Kazan

Operator, we can't hear anything.

Graham Farrar

Looks like he lost the mic.

Operator

Yeah. Unfortunately, we did lose him.

Your next question will come from Scott Fortune from ROTH Capital Partners. Please go ahead.

Scott Fortune — ROTH Capital Partners

Good afternoon, and thanks for taking the questions. Can you expand a little bit, we've talked about the (unintelligible) in price and stuff, but expand on the retail side, the footprint? Obviously, you have some stores that are under a little litigation right now. But kind of how you're looking at acquiring or organic wins kind of accelerating the retail side? And then also accelerating your expansion—I think you said you're in 475 doors—how do you view that as we look forward going into 2022 expanding your retail opportunity from that standpoint?

Kyle Kazan

Well, Scott, thank you for the question. Appreciate that. What I would tell you is we've watched the data from BDSA and had said we also have a lot of friends in the market, friendly competitors, I would say. And we were a little bit surprised to see that year over year there's been a decline in the market. We can only guesstimate what that is. I'm sure you have some thoughts as well. But I think it's maybe post-COVID the world's sort of opening back up.

In regards to increasing our retail footprint, it is something we're going to do. The reason we brought our business development person in, Erik, at the C-suite level, is that's how serious we take it. And we decided to really pay up for that kind of talent and that kind of experience. And with—if you're not vertically integrated, if you are just on the retail, or just in the manufacturing, or just in one area, it's particularly hard not to have the vertical integration in the state. And retail, remember, you also have to battle the 280E IRS code.

So we're finding there are some very interesting retail targets. We are in conversations with a number. Nothing to announce at this point, but we see them as a value-add to us and they're seeing us as a value-add to them. So it's one of those things where it's not a hard conversation to have. Obviously, there's negotiations about certain things. But at the end of the day, I think you're going to see more consolidation.

And the benefit to some of the folks we're talking to is that they already have open stores. So while we're building out, that takes some time. And typically, my rule of thumb is you don't really hit your full stride until the sixth quarter. So there is an advantage if you can actually bring in some already operating stores.

Oh, and by the way, when our brands are on our store shelves, as I mentioned earlier, we sell almost 15 times as many of our products on our shelves than we do on the outer shelves, the shelves at, say, neighbouring stores. And so that's a huge—as a brand builder, that's a massive—that's fantastic for us.

Graham Farrar

Yeah. I think, Scott, maybe just to add to that too—

Scott Fortune

I appreciate the colour. Maybe expanding on that, Graham, on your stores and the store metrics, four-wall metrics that you're seeing in your stores? Obviously, COVID put a little challenge in that, but kind of expectation there? And the opportunity of improving your store yield from that standpoint?

Graham Farrar

Yeah. So I was just going to say, I think one of the things that's important to remember as we look at what we call flat to declining is if that was on top of a regular year, it would be concerning. It was not on top of a regular year, right? It was on top of a COVID year where we saw 54 percent and 46 percent and 35 percent growth on a year-over-year basis. So we took a huge jump up now and it's almost like we're just in the market, right? You get a big run up, and you take a little breather.

So I think we're just seeing a back-off of that trend, and I would call it return to normal or reversion to the mean, right, as people spend a lot of time sitting on their couch watching Netflix, smoking joints, and now they're back to travel and restaurants and things like that. But we're still seeing year over year it's still growth, right? It's just 2 percent growth instead of 30 percent growth, right?

So I think, overall, we're going to catch back up and kind of continue the trend that we were on, and it's important to remember it's flat to declining in the market. Our stores beat that trend, right, so if you normalized out the market, you would see our stores still growing relative to the market background trend. So overall, I think making good progress on retail against the slight downdraft in the broader market and, again, continuing to see acceleration of our brands on our shelves, right?

So we're currently tracking somewhere around 24 percent, 25 percent of the revenue coming out of our stores is our products. And we're still not even in all the categories, right? That's something that we certainly intend to do. So if that's 25 percent for flower only, when we add edibles, we expect that to grow, right? When we add other infused pre-rolls, which we just launched and are just starting to take hold and growing rapidly. We've got smalls that are out now. We've got a number of brands in development. We got a number of exciting M&A conversations going on.

So we really continue to believe and be confident in that synergy that we're building between large-scale, high-quality, low-cost cultivation turned into products and then sold on our retail shelves and think that that formula is a really durable competitive advantage that we're building that will last far into the future for us.

Kyle Kazan

I was going to say durable—

Scott Fortune

Got it.

Kyle Kazan

—competitive advantage. You cut me to the chase.

Scott Fortune

Well, thanks for the colour. And yeah, continue to move forward, obviously.

Kyle Kazan

Thanks, Scott.

Operator

Your last—

Scott Fortune

Yeah. Thanks.

Operator

Your last question comes from Allen Wenstin from Elliot Investment. Please go ahead.

Allen Wenstin

Gentlemen, can you hear me now?

Kyle Kazan

We can hear you, Allen. We got you.

Allen Wenstin

Okay. Good. Sorry about that. I had a technical problem before. I have a quick two-part question, one looking back and one looking forward. When you guys decided to become a public company and de-SPAC, I'm sure you probably had many opportunities with MSOs who are interested in getting a footprint in California. Can you talk a little bit about your decision to stay independent as an SSO?

And then part two of the question is, when you think about the long-term vision for Glass House and the Company, can you talk about how you see monetizing all the value you've built in the Company and ultimately it paying off for long-term shareholders like us?

Kyle Kazan

So, Allen, I'll take one shot at it, and then I'll ask my cofounder, Graham, to take a shot. I too am a long-term shareholder. I think I'm the largest investor coming into the de-SPAC transaction. Look, there is no perfect situation to invest in prohibition cannabis. The advantage to being a superstate operator in the largest market in the world, California, is that some day when the walls come down, and I would imagine as part two of your question, let's say companies from outside cannabis, very large alcohol, tobacco, pharmaceutical, CPG, decide to make acquisitions or make offers, when you look at MSO and let's say you're vertically integrated in 25 states, there's no other industry that has 25-state vertical integration.

So there is going to be a cleanup that every one of those MSOs are going to have to do to drive efficiency, or else they are going to have some real problems. And so I would expect that there's going to be some write-downs and there's going to be just cleanups.

Us being in California, we don't have that. Right now, our focus is just building a very, very large platform in the state that we think has that appellation, much like Tequila. Mexico has tequila. Champagne, France has champagne. We see California having a very special appellation, so.

And I won't answer part two just yet. I'm just going to say that, yes, we talked to a lot of people. Yes, we considered some very interesting options. And we felt that the de-SPAC opportunity with Mercer Park was the best opportunity for us and to help accomplish what Graham and I as visionaries to this company had envisioned, so. But it came with a lot of contemplation.

Graham?

Graham Farrar

Yeah. I think there's a couple things it makes me think of. One is I've got a favourite Warren Buffet quote right now, which is you don't buy a farm because you think it's going to rain next year. You buy a farm because you think it's a good value for the next 10 years. And I think that's very much—encapsulates how we're thinking of things here, right?

I liken and think back to the early days of Amazon where for a long time they ran very low margins and very low EBITDA because they were building and investing and really trying to create something of long-term value. And I think there's parallels to that in what we're doing here. At this price range, a share of Glass House stock is not too far away from the real estate value. And don't quote me on the exact numbers—

Allen Wenstin

No. I totally agree.

Graham Farrar

—but you can directionally act—

Allen Wenstin

I totally agree.

Graham Farrar

Right? So you're almost at real estate value on a company that's playing for the long ball and in the ballpark relative to like Curaleaf. I think what we're building right now is 2.5 to 3 times the size of Curaleaf's total combined cultivation footprint. You can buy us at 3 percent of their market cap. Right? So we're thinking of where is this going to go?

And at some level, we believe in interstate commerce—won't try and play the timing. Luckily, we're in California, fifth-largest market in the–fifth-largest economy in the world, like 25 percent of the US's total market. Right? LA has more people in it than Colorado and Oregon combined yet, today, has the same number of dispensaries. Right? So there's this amazing upside within California.

And then the walls are going to come down, and we think that the appellation of California, from a brand-building platform point of view, it's like a Cuban cigar. You can get cigars anywhere. People, given the choice, they pick a Cuban cigar. California has the advantage of it's a better place to grow. Like there's a reason that 50 percent of the agriculture in the US comes from California. It's not because the land's cheap or labour's easy. It's because the other factors are so overwhelmingly good for cultivation and growing products that it overcomes those things. Right?

And so now, you have this beautiful place to grow and a place that consumers across the country and around the world pay a premium for. So at some point, someone's going to have to grow the cannabis for the country and eventually the world. We think we've got the building blocks in a unicorn asset that happens to be the hardest market today but, long term, is the best place to grow and distribute and create cannabis brands from.

So competition in California today is a challenge, but it also—it breeds excellence, right, like iron sharpens iron, and this is not a place where being number one means you're better than four or five other people. This is a place where being number one means you're better than 1,600 other brands nipping at your heels and struggling for dominance, and you're still winning. Right? And I think that's the long-term formula, the way—it may make a hard quarter. It makes a really exciting 10 years.

Allen Wenstin

Thank you, gentlemen—

Kyle Kazan

And, Allen—

Allen Wenstin

—and good luck. Yes? I'm sorry. I'm with you.

Kyle Kazan

In regards to your second question, when you said a long-term investor, I've been called a vulture investor by Bloomberg Magazine. I've been called a value investor. Typically, I look for the value up front. It's here. When it comes to the market, I've bought a bunch of condo deals. I've bought all kinds of things that needed reposition. And whether it was from the RTC in the 90s, or whether it was during the financial crisis, the timing is always hard to see. When are we going to see that value? When are we going to see the upswing?

And here, a lot of this is going to be timed with what happens through the federal government. The sooner that happens, I think you're going to see the 99 percent-plus of people that are not able or not willing to invest in cannabis to come on in. So what I would expect is for the companies that are run right, that have good assets and a solid company, I think you're going to see a very good demand for those companies when capital comes. And I would call this the biggest capital dislocation I have ever seen, and I have thrived under much smaller capital-dislocated markets.

Allen Wenstin

Well, I've been in the financial markets for about 40 years, myself, and I wouldn't disagree with anything you said. The only thing I would add is I hope you don't use your current stock price to make acquisitions because the current valuation, as your CFO said, is below replacement value.

Kyle Kazan

I hear you, Allen.

Allen Wenstin

Right?

Kyle Kazan

We're doing what we can on that, but we also have to continue growing the business, too. So that said, I hear you loud and clear.

Allen Wenstin

Okay.

Kyle Kazan

As an investor myself, a very large equity holder, I know exactly what you're thinking. I would just say, I hear you loud and clear.

Allen Wenstin

All right. Well, thank you for taking my questions and good luck. I'm with you all the way. Good luck, guys. Thank you.

Kyle Kazan

Thank you, Allen. Appreciate it.

Graham Farrar

Thank you.

Operator

There are no further questions at this time. You may please proceed.

Kyle Kazan

Yeah. Let me finish up here. Sorry. Here it is. Thank you for joining us today. I would like to take this opportunity to thank our team, who has worked diligently to move forward with expanding our cultivation and distribution footprint, improve supply chain and production efficiencies, and enhance our consumer brand profile.

We look forward to speaking to you next year when we announce our fourth quarter results. Have a great day. But before I say anything, before I end the call, I really want to make sure those two words are echoed from our board to every single person on the team, and that is thank you. You guys have done a heck of a job in a challenging environment.

Thank you. Have a great day.

Operator

Ladies and gentlemen, this concludes your conference call for today. We thank you for participating, and ask that you please disconnect your lines.