FINAL TRANSCRIPT

Glass House Brands Inc.

First Quarter 2022 Investors Call

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PRESENTATION

Operator

Good afternoon. Thank you for standing by. Welcome to the Glass House Brands First Quarter 2022 Investors Call.

I now would like to hand the conference over to Mr. John Brebeck, Glass House Brand's Vice President of Investor Relations.

Please go ahead, sir.

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

Thank you, Sylvie. I'd like to welcome everyone to Glass House Brands' first quarter 2022 conference call for the three-month period ending March 31, 2022.

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, May 12, 2022.

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

Kyle?

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

Thanks, John—

John Brebeck

Please go ahead.

Kyle Kazan

Thanks, John. Good afternoon, everyone, and thank you for joining us for today's call. I would like to take a few minutes to review our strategic priorities and provide an overview of our business, positioning, and 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 President and Chief Cannabis Officer, Graham Farrar, Mark, and I will take your questions.

I'd like to start with an update on our 5.5 million square foot SoCal facility located in Camarillo, California. We reached a major milestone in the first quarter with the March 11th receipt of all necessary licences to operate the facility, including a cannabis zoning clearance from the local municipality; all California state licences for nurseries, cultivation, and processing operations; and a cannabis business licence from Ventura County.

Receipt of the licences enabled Glass House to immediately commence cultivation activities at the SoCal facility, which included an internal transfer of approximately 30,000 clones from the Company's nearby cultivation facility in Santa Barbara, California.

Since then, we've expanded planting into the second section of the nursery and have moved several batches of plants into Greenhouse Six for the flowering and upcoming harvest. Early results have been good, and we look forward to enjoying our first harvest from the SoCal facility before the end of June, roughly nine months after the start of the retrofit.

We also expect to have Greenhouse Six fully planted by that time, only nine months after we acquired the SoCal facility. This is the third greenhouse facility that we have ramped up and we are getting much better at it over time.

At our Padaro site, the second site we developed, it took us over 33 months to get from acquisition to licensing, full planting, and harvest.

The ramp-up of Phase I is already paying dividends in terms of how Glass House is perceived amongst our customer base. More and more brands are becoming regular buyers and/or approaching us to discuss long-term supply relationships.

The SoCal facility's Phase I expansion is expected to increase our greenhouse footprint by approximately 1.6 million square feet, which will enable us to produce an additional 180,000 dried pounds of cannabis, tripling our current cultivation footprint at Casitas and Padaro.

Our long-term goal, when fully built out, is to increase our cultivation capacity to 1.7 million pounds of biomass. The competitive advantage of this facility is its potential to increase quality while significantly reducing our cost of production. As stated previously, our eventual goal is to lower our cost of goods sold to $100 per pound.

Additionally, we expect that the SoCal facility will allow us to continue reducing our per unit energy consumption and carbon emissions, which is good for the planet and certainly good for business.

Subsequent to quarter-end, we announced three important developments that bolstered both our product portfolio and retail operations.

The first is the completion of our acquisition of PLUS Products, which makes Glass House the only company with a top-five position in both the flower and edibles segments in the California market.

The number-four ranked edibles brand in California by sales in the first quarter of 2022, PLUS currently accounts for approximately 5.5 percent of the California edibles market, according to Headset data, and enjoys both strong brand recognition and customer loyalty.

Historically, our CPG offerings have not included edibles, which represents about 11 percent of the overall California cannabis market and had been growing faster than the market. By comparison, the flower market accounts for 38 percent of the overall California market.

Combining our existing brand platform with PLUS will substantially increase our total addressable market opportunity in the state.

This is a truly synergistic combination. The Glass House Farms brand is stronger in Southern California, while PLUS is stronger in Northern California. The overlap between our active accounts and those of PLUS was less than 25 percent in the first quarter, so there is significant untapped potential.

Based on PLUS' 2021 run rate, incremental revenue could amount to $14 million annually, while we expect business synergies and the lower cost of goods sold associated with PLUS edibles business to have a favourable impact on margins.

We're incredibly excited to be working with the PLUS team to expand the presence of their premium products in our retail stores and across our distribution network.

The second development is our binding letter of intent to acquire the remaining equity and property ownership interest in The Pottery dispensary located on LA's Venice Boulevard.

Over the past year, The Pottery has been cited by several publications, such as LA Weekly, Thrillist, the LA Times, and Angeleno as being one of the best high-end dispensaries in Southern California. We're eager to acquire the remaining ownership stake in this ideally situated dispensary, which is beautifully designed and known for its elevated and interactive retail experience.

Given The Pottery's first quarter run rate, we look forward to consolidating its performance in our financial results, with $3.9 million in potential incremental annualized revenue in 2022.

Including The Pottery, we are currently operating four dispensaries and expect to open our Eureka location during the third quarter, as well as our Isla Vista and Santa Ynez locations in the fourth quarter.

The Eureka location extends our retail reach into the heart of the Emerald Triangle. Isla Vista and Santa Ynez are in prime areas, which are both limited to a single licence, providing the advantage of regulatory voting in what we expect to be robust retail markets.

All three of these properties will be branded as Farmacy locations and will offer the same award-winning customer experience as our existing stores. We're extremely excited about these stores and after a 9- to 12-month ramp-up, we expect the revenue to reach approximately $5 million annually on average.

Finally, we announced a definitive agreement to acquire Natural Healing Center, or NHC, which includes three dispensaries in Lemoore, Morro Bay, and Turlock, California. These NHC dispensaries are top performers in limited-licence markets.

The success of these dispensaries can be attributed to NHC's careful location selection and the world-class experience it offers its incredibly loyal customers.

Currently, Glass House-branded products represent about 5 percent of NHC revenue, so as with our PLUS acquisition, this agreement represents an opportunity to drive significant retail revenue growth and expand our gross margin profile.

All of NHC's open locations are currently generating positive EBITDA. NHC's soon to open Turlock dispensary is expected to be one of its highest grossing locations, as it is one of only three dispensary licences in the city, which is also home of California State University, Stanislaus. We are very much looking forward to closing this transaction.

Finally, I will address the current market conditions in California. Wholesale flower prices bottomed in November, but significant challenges remain.

As we have mentioned, we expected these conditions would come at some point, as commoditization is natural in all industries as they mature. We described the wholesale pricing environment as destructive in our fourth quarter call and, although it has improved slightly, it still remains extremely difficult.

We are approaching one year since the steep decline in prices began. And the cumulative effect of the low prices over the last eight to nine months is creating real distress for many operators.

There is too much flower for the number of licensed dispensaries in the market and too many brands competing for shelf space. We are increasingly seeing troubled operators reaching out to us for help or seeking business combinations.

Knowing this was coming was precisely why we set our sights on and eventually purchased the SoCal facility. Being able to survive in difficult pricing environments is part of our strategy. Our goal is to not only survive, but to thrive going forward.

I expect that the most efficient growers will persevere and pricing will be flat and slowly rebound, but not to the levels we saw pre-commoditization. For clarity, we are not experiencing a demand issue, as that continues to remain very strong.

Our push now is to lean in and fully expand into our first phase expansion at SoCal, as we expect the transition will position us to have positive margins, even if this low pricing continues for a prolonged period. In other words, this new facility will allow us to grow profitably when almost nobody else can.

The strength of our Glass House Farms brand is also another factor that should ensure Glass House Brands' continued success. Since early 2021, we have maintained a top five or above ranking based on both BDSA and Headset data, and we were ranked number one by BDSA and number two by Headset at the end of the first quarter of this year.

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, 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 first quarter of 2022 was $14 million. These results represent an 8 percent decline versus last year and a 24 percent decline versus Q4.

In order to understand our wholesale results for the quarter, it is important to recall the seasonal pattern our greenhouses demonstrate.

The first quarter is our lowest quarter for production, primarily because of decreased sunlight and the associated intensity in the wintertime and, therefore, our highest-cost quarter. It also skews the output more toward low-value trim and smalls and away from high-value flower compared to Q4.

Wholesale revenue of $5.1 million increased 14 percent versus Q1 last year. We sold 41 percent more equivalent dry weight in Q1 this year than last year, indicating continued strong demand for our wholesale product.

The increase in weight available for sale was driven by a 7 percent increase in production versus last year and additional weight available to sell due to lower than anticipated sales and production in CPG.

Average pricing was 19 percent lower than last year, but would have been much worse if our greenhouses hadn't produced a much higher percentage of flower this quarter than last quarter.

Compared to last year, we experienced a 41 percent decrease in flower pricing and a 50 percent decrease in smalls. If pricing can remain constant from last year to this year, wholesale revenue would have been $3.6 million higher, representing an increase of 94 percent year over year.

Sequentially, wholesale revenue decreased 21 percent as equivalent dry weight sold declined 22 percent. We did see a slight improvement in wholesale prices, particularly in our flower pricing, which improved 21 percent. However, the mix of flower sold in Q1 this year decreased versus Q4. This unfavourable mix did not allow us to enjoy the full extent of the increase in wholesale pricing.

Consistent with last year and assuming similar weather, we expect our greenhouses in Padaro and Casitas to increase production, lower cost per pound, and improve their mix of high-value flower, which will help improve the average selling price as the year progresses.

Before I discuss our retail and CPG businesses, I want to provide data on the state of the California cannabis market using Headset and BDSA data.

Sequentially in California, Headset data reported a 3 percent decline in total cannabis market and a 5 percent decline in the flower category. BDSA reported a sequential decline of 8 percent in both total cannabis and the flower category.

Regardless of which market analytics you prefer, the data indicated the growth rates for cannabis and flower have dramatically slowed, and the market contracted in Q1 of 2022 versus Q4 of 2021.

Also during Q1 of this year, we saw the majority of COVID measures lifted, no new stimulus, and the highest inflation rate in 40 years. In addition, we noticed a slowdown in the overall market as inflation accelerated late in February and into March, marked by the war in Ukraine. All of these put pressure on our consumers' wallets and likely reduced their discretionary spending.

Moving on to retail for the quarter. Our retail footprint consists of three dispensaries: one each located in Santa Barbara, Santa Anna, and Berkeley. All three have been opened at least since the beginning of the first quarter 2021. Retail sales continued its steady performance, with revenue of $4.9 million in the first quarter following 3 percent year on year and 5 percent sequentially.

Despite the overall difficult market conditions, data from Treez indicates our dispensaries are outperforming peers in their comparable market geographies, sequentially by anywhere from 3 percentage points to 9 percentage points.

Looking into the second quarter, we believe there will continue to be negative effects from a challenged consumer, which may keep market growth constrained or declining.

Also note, second quarter 2021 retail revenue included a loyalty program's true-up, which improved sales and gross margin during the quarter by almost $1 million.

Lastly, turning to our Q1 2022 CPG business. Revenue decreased 31 percent from last year and 41 percent sequentially. The majority of our CPG business is in the flower category and is being impacted by the declines in the cannabis market previously discussed.

In addition, we did not execute well. We did not manage our inventory properly within the quarter. We had too much aged inventory in the quarter and did not have a proper balance of strains, which resulted in too much of some strains and not enough of others. And we did not achieve our expected sales from retail, which resulted in the need to increase our level of discounting by 6 percentage points of gross sales.

On the macro side, we do think the difficult environment has started to impact dispensaries across the state, with dispensaries closely watching their inventories and seeking to conserve cash. We saw an 8 percent sequential decline in the number of dispensaries our distributor sold to and a 9 percent decline in the average order size by these dispensaries.

We also experienced an increase in the percentage of dispensaries that are in a restricted credit status, which limits their ability to place orders with our distributor. We are actively taking steps to address these issues. We have changed our inventory management processes to act more quickly when inventory begins to age.

Sales and marketing are now the determining factor in strain selection, with input from cultivation, ensuring a closer connection to the market and consumer. We've also hired a new VP of Sales, Jacqueline de Ginestet, who joins the Company from Canndescent and will be working to leverage the addition of PLUS and newly added PLUS sales team to increase sales across Glass House Brands and PLUS.

We believe these will make us more agile in responding to the continually changing market. However, we expect a difficult sales environment to persist through the second quarter as we make the needed adjustments to improve our inventory.

Discounting will remain high throughout the second quarter, and CPG sales will remain challenged. We expect to see a rebound to sales at year-ago levels as we move into our third quarter.

Now moving to gross margin. Please note, in this quarterly report we have begun reporting our gross margin by business line. Our gross margin for first quarter 2022 was $2.3 million, or 17 percent versus minus 2 percent in the fourth quarter of last year and 36 percent in the first quarter of 2021.

When comparing our Q1 2022 gross margin to our Q4 2021 gross margin, recall our Q4 margin last year included $3 million of inventory reserves for slow-moving or obsolete inventory, as well as inventory revaluation of our live plants that negatively impacted Q4 margin by 16 percentage points.

The primary difference between gross margin in Q1 last year versus Q1 this year is the impact of the decline in wholesale prices between the two quarters. As mentioned earlier, a price decline during the period caused a $3.6 million decrease in revenue. Adjusting for this impact, Q1 2022 margin increased to 34 percent.

Within our Q1 2022 gross margin, we expensed $2.2 million for cultivation tax: $1.8 million is in wholesale and $0.4 million is included in CPG. This tax is worth 16 margin points in the quarter. Within wholesale, the Q1 cultivation tax was $98 per pound sold. Please note this is not included in our cost of production.

We are closely watching legislation in California and are hopeful to see tax relief beginning in the third quarter. This will be particularly important as our SoCal facility begins to ramp up in the third quarter and wholesale revenue becomes an increasingly large part of our revenue.

Our cost per equivalent dried pound of production in the quarter was $238 per pound, with 16,729 pounds produced. This represents a 2 percent reduction per cost per pound and a 7 percent increase in the number of pounds produced compared to Q1 2021. This quarter’s results only include greenhouses at Padaro and Casitas.

General and admin expenses were $9.4 million for the quarter compared to $13.5 million in Q4 2021. The $4.1 million decrease is primarily attributable to a $3.2 million reserve for nonoperational bad debt established in Q4 last year and a $0.8 million reduction in expenses in Q1 ’22, compared to Q4 ’21 related to the start up of our SoCal facilities and new dispensary openings.

Sales and marketing expenses were $0.9 million, a $0.3 million decrease from Q4 2021. The reduction is primarily driven by a decrease in trade marketing and promotions.

Professional fees were $2.6 million compared to $2.1 million in Q4 2021, with the increase primarily related to audit expenses incurred in Q1 as part of our 2021 year-end audit.

Depreciation in Q1 ’22 of $2.6 million was essentially flat to Q4 ’21, as very little of the CapEx spending in the quarter was placed into service.

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 loss improved by $2.7 million to $6.4 million in the first quarter compared to a loss of $9.1 million in Q4 2021. Almost the entire improvement was from gross margin, which increased to 17 percent from a negative 2 percent in the fourth quarter of 2021.

We ended the quarter with $24.8 million in cash, including $3 million of restricted cash. This was down from $54.1 million in Q4 2021. Operating cash flow was negative $16 million, a decrease from negative $8 million in the fourth quarter.

Increased working capital usage caused mostly by inventory changes account for $6 million of the difference. We depleted $5 million of inventory during Q4, which helped cash flow, but added $1 million of inventory in the first quarter of this year. Additionally, cash net loss was $2 million greater than in the fourth quarter.

CapEx spending during the quarter was $12 million, with the lion’s share spent in SoCal.

Looking forward on Phase I CapEx spending, we expect the rate of CapEx spending to slow down over the next two quarters as we complete the build-out of Phase I.

The Company is exploring options for adding additional capital and liquidity to support the NHC acquisition and pay back the bridge loan, as well as continued growth initiatives in the California market. With the difficult operating environment in California, we feel there may be additional opportunities for acquisitions at compelling valuations.

Before I turn it back over to Kyle, I want to confirm our prior guidance on generating positive cash flow from operations by early 2023.

After four months in 2022, our assumptions for wholesale prices are trending in line with actual results. We are taking the necessary steps to put our CPG business back on a growth track, which we think will positively impact the business in the third quarter of the year.

We are extremely excited about our new acquisitions of NHC, PLUS, and The Pottery. When these are combined with our SoCal facility and three planned new dispensaries, the Company is on a path to deliver its operating cash flow goals.

With that, I will turn the call back to Kyle.

Kyle Kazan

Thank you, Mark. Before we move to Q&A, I'd like to take a few moments to discuss the harm that unfriendly regulations are having on California-based cannabis companies and their shareholders.

The current market distress is taking a toll on brands, growers, and retail operators. It is painful for Graham and I to watch as friends within the industry are having trouble making ends meet, while the illicit market continues to thrive.

In many cases, they are reaching out to us for help and, where possible, we are looking for win-win solutions. The best market is a market where farmers of all sizes can thrive.

In our retail locations, we make it a point to provide a wide variety of products from farmers of all types and regions within the state. We do not want anyone to go out of business due to over-taxation in a poorly structured regulatory regime. And it hurts to see the owners and shareholders of businesses, large and small, both retail and institutional, see the value of their investments shrink.

We've been maintaining close contact with regulators at the state and federal level to help alleviate the pain in our industry and for, the sake of all players, to create a more cannabis-friendly regulatory environment. We believe that our communications with the regulators are having a positive impact, and we continue to expect that the cultivation tax will be eliminated this year.

Additionally, I'm very passionate about working to gain the release of nonviolent drug offenders and working for the elimination of excessively punitive sentencing practices in states where cannabis is still not legal. We will continue advocating for this.

We also continue to work to minimize our environmental impacts. Our goal is to build an ESG-friendly and compatible business. We continue to work towards that every day.

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

John Brebeck

Thank you, Kyle. At this point, I'd like to extend a warm welcome to all of our investors to come join us for our shareholders meeting and first annual Glass House Investor Sesh. The event will include tours of the farm with Q&A with Kyle and Graham, food, and merchandise. It will be held on June 24th at 11:00 a.m.

For more information, go to the News and Events tab of our Investor Relations webpage at ir.glasshousebrands.com/investorsesh2022, where we have posted event details.

Now I'll turn the call over to the Operator to begin the question-and-answer portion of the call.

Sylvie, turning over to you.

Q&A

Operator

Thank you, sir. Ladies and gentlemen, if you would like to ask a question, please press *, followed by 1 on your touch-tone phone. You will then hear a three-tone prompt acknowledging your request. And if you would like to withdraw from the question queue, please press *, followed by 2.

And if you're using a speakerphone, we do ask that you please lift the handset before pressing any keys. Please go ahead and slowly press *, 1 now if you do have a question.

Once again, ladies and gentlemen, if you would like to ask a question, please press *, followed by 1 on your touch-tone phone. One moment, please, while we compile the Q&A roster.

Thank you for your patience. And your first question will be from Sloan Hatfield at SVA. Please go ahead.

Sloan Hatfield — SVA

Can you hear me?

Kyle Kazan

We can, Sloan.

Sloan Hatfield

Hey. How's it going? So in both releases today, Kyle, you were quoted as saying that the Company is on path to become "cash flow positive" in early 2023. My question is, what is your definition here of cash flow positive? Is it something like positive EBITDA? Or positive cash flow from operations?

Or even something that might be more relevant for valuing the equity, like positive cash flow from operations after subtracting certain capital expenditures, specifically those required to maintain the business going forward?

Kyle Kazan

So thanks for the question. Let me just make it clear. We are a growth business right now, so EBITDA, adjusted EBITDA, those are common nomenclature. Our goal is cash flow positive, just as I said, where after everything is subtracted and everything else, we are in the black.

Operator

Thank you. Ladies and gentlemen, as a reminder once again if you would like to ask a question, please press *, followed by 1 on your touch-tone phone.

And your next question will be from Howard Penney at Hedgeye. Please go ahead.

Howard Penney — Hedgeye

Hey. Thanks very much for the question. I just wanted to dig into the—and I apologize if I don't describe this properly—the issues that you had around the different strains and not having the strains, or not having the right strains or—sorry, I apologize for not remembering exactly how you described it, but what kind of consumer insights do you have or can you have to avoid that kind of misstep in the future?

Kyle Kazan

So, Howard, number one, thank you for your question. I'm going to ask my co-founder, Graham Farrar, to address that one.

Graham Farrar — Co-founder, President & Board Director, Glass House Brands Inc.

Sure. Hey, Howard. How you doing today? Thanks for the question. So I think it comes in a couple of forms. So the real solution to it, which we've honed in on a bit, is what I would call strain life cycle management.

So one of the things that we found and, particularly, discovered it in the transition where we went from kind of the COVID world to the post-COVID world was we were in a situation where kind of any strain that we put on the shelf would sell. And strains that were selling at a rate of, illustrative purposes, a number of 5,000 units a month over time degraded to when they were selling 500 units a month. And what we didn't really do correctly because it was, frankly, a somewhat new phenomenon in cannabis, is plan for that.

So we kept producing based on historical consumption rates rather than forecasting that kind of I equate it to like a fashion life cycle almost of things are very hot, they're excited, they have a peak, and then they have a natural kind of die-off.

And so one of the changes that we've made and one of the things we're doing now is, A, working through and pushing through that inventory, which became aged over time because you're making it 5,000 units a month production when consumption has dropped off to 500 units and so the inventory built up and over time gets older and less desirable. So we're pushing that through and getting that out of the system.

But we're also doing a better job now of planning for that cycle and not just assuming—rather than looking at historical trends, but instead forecasting forward. So you take a strain and you're going to ramp it up and it's going to do 5,000. Then you're going to assume, you're going to predict that over the next three months that 5,000 is going to taper off, and so taper off the production to match with it.

So that's one of the things I think we could have done better, and it was a learning. It's a new industry, and COVID was certainly an anomaly out there and across the board on supply chains. So I think doing a better planning for that will be helpful.

The second is just a much better strain menu. We've almost doubled the number of strains that we have in production now; lots of new stuff, things coming from great breeders like Seed Junky, Jealousy and Kush Mints, a bunch of strains that are kind of I'd call it more on trend and that we're seeing when we put those out, they sold immediately, which actually exacerbated the issue with the older inventory because it kind of just sat there and got even more stagnant, while people picked up the newer strains.

So that life cycle management and a better menu, I think, is going to give us a lot better results on our CPG business.

Howard Penney

Can I just pick up on something you said to the answer to that question? So—

Graham Farrar

Sure.

Howard Penney

—are brands—or are strains fashionable? Meaning you introduce a new strain and that becomes more popular than existing strains and then—but you do have your core strains that people know and love, but there's an element to this business that is fashionable?

Graham Farrar

Yeah. So I mean, this is something we could sit down and pontificate on for an hour over a joint, but I think the short answer is very much yes. And even to the point where sometimes there's almost two brands out there, right? There's the Glass House Farms brand, but there's also the brand of the strain, right? I'll use one of the ones from Seed Junky.

Their Jealousy strains, like whoever produced it, that carries its own weight, right? And so it's really the combination of those two things.

I think the best analogy that I've found out there is fashion, right? So at some level, you have—and oftentimes it's the illicit market which is driving—they're the equivalent of the runway at Fashion Week in Paris, right? Like it's very few people understand it, many of us almost wouldn't digest it, don't know what it means. But the trends that happen there in Paris, next they show up at Bergdorf Goodmans and after that they show up at Saks Fifth Avenue and then they're at Nordstroms and then they're at H&M and then eventually they're at Ross.

And cannabis does very much the same thing where there's kind of the new stuff, everyone gets excited about it, it passes through from exclusive to widely available to value, and then there's the next new thing that comes down the pike. So there is that kind of dual set of the constantly churning, where's the trend?

And then there's also the perennials, like so we have our Super Silver Haze strain. It's a strain I've been growing for 20 years and one of our best-selling strains. We've got a great kind of Gorilla Glue. We have our Jelly Fish strain, which is high CBD. Those are kind of the year-round always on the menu. And then we overlay on top of that the new kind of trends as they come out. And we're doing a handful of work here to get closer to those trends so that we can be kind of a fast follower or a first follower and keep ourselves in that Bergdorf Goodman, Saks, Nordstrom's world and stay out of the—or at least not lead with the H&M and Ross world in the market.

Kyle Kazan

And if I could—

Howard Penney

And how—go ahead.

Kyle Kazan

—just to follow up real quick on it, Howard—

Howard Penney

Oh, sorry. Go ahead.

Kyle Kazan

—I would say that one of the things we're very lucky to have here is we have a very robust wholesale business. So if we misstep, which is always possible when you're trying new things, we can always just turn the tracks over to the wholesale, and there's plenty of demand there.

So while we were a little frustrated—obviously, we try and hit a home run every single time we go to the plate—we have optionality in the business and so that really helped.

But your question was right on point. I hope we see you at our Investor Sesh because when we show some of the different strains, it's almost like wine tasting where you'll touch one and you'll smell it, and then you'll walk down a few more rows and try a different one and you'll smell a completely different nose. And that's what the consumer enjoys and California leads this.

Howard Penney

Awesome.

Graham Farrar

Yeah. Great point.

Howard Penney

And thank you for opening up your facility. I look forward to seeing it. Just last question. I think you're signalling that edibles will be a more important component for your growth in the future, given how significant it is in the market out there in California? Thanks. And that's it for me. Thank you for your time.

Kyle Kazan

Thanks, Howard. Thank you, and I look forward to meeting you. I would say this. One of the questions, we're looking at our quarter numbers and people are saying, hey, you're going to get to cash flow positive. How are you going to do that? And I would tell you, we've plowed in a lot of our CapEx already into the big farm, the SoCal facility. So we're super excited about that.

The PLUS gummy, that gives us another area on the shelf. A lot of people want to enjoy cannabis but don't want to smoke. And so that was a long time coming. We knew PLUS for years, and when we had the opportunity to buy them and they selected us, we were super excited.

So to us, this just allows us to introduce cannabis in another form factor.

Graham Farrar

Yeah. And just to add on to that, too, right, as a reminder that in our stores, which we're increasing almost on a daily basis here, or the addition of—the acquisition of Natural Healing Centers, as well as the three stores that we have under construction, that we currently historically see sales of about 25 percent of what we sell is Glass House Brands' products, but that is before PLUS, right? So we are doing 25 percent sales with nothing on the edibles shelf.

Edibles are a significant and growing component of the market. So the addition of PLUS allows us to continue to drive that synergy between our stores kind of multiplied with our brands. So as we add more stores, it makes our brands more valuable. As we add more brands, it makes our stores more valuable. And so to continue driving that synergistic relationship is one of our goals to have a top-three product in every category with multiple top-10 products in every category is one of the things we strive for.

PLUS with, I think, four years of history in the top five in California, is saying something about what the consumer likes. It's a brand that has some of the highest brand recognition nationally of any edible brand out there. And in the stores that it's in it's historically in the top one, two, or three.

So with our expanded reach and the partnership and our expanded stores, our expectation is that we're going to be able to take what PLUS was already doing well and drive that even further.

Howard Penney

Awesome. Thanks for your time.

Operator

Thank you. Next is a follow-up from Sloan Hatfield. Please go ahead, sir.

Sloan Hatfield

Hi. Two other questions, if I could, please. The first one is the cultivation licence that you recently acquired for the SoCal facility, what's the duration of that? Is that something that you have to renew annually? Or every three years? Or what's the duration on that?

And then the second question is for the PLUS gummies, I thought I read that you had plans to sell them outside of California. And if that's right, what's the regulatory environment for that? Can you sell other products outside of California, just not flower? So any colour on those two would be appreciated. Thanks.

Kyle Kazan

So, Sloan, thank you again for—

Graham Farrar

Sure.

Kyle Kazan

—yeah, for the follow-up.

Graham, you want to talk about the cultivation licence?

Graham Farrar

Yes. So thanks for the question, Sloan. So our cultivation licence is really the—it's a combination of a couple things. One is the municipal licence, so that's the licence from the county and the approval to cultivate cannabis, which is a combination of a zoning clearance and a land-use entitlement and a business licence. And then the second piece is the state licences from the State of California, which are for cultivation and nursery, et cetera.

The land-use entitlement and the zoning clearance is in perpetuity from the municipality. So that's kind of a consider it one-and-done, at least for this first phase. When we do expansion, we'll come back to them and they'll approve the expanded area. But there's nothing annually that we need to do to kind of keep that going, other than just pay a business licence fee, which is in the low tens of thousands of dollars range.

At the state level, the licences are all annual and so that you don't need to be reapproved, or there's no kind of hoop to jump through. It's just paying the annual fee for the licence at the end of the year and renewing it so that you get your next year's licence.

All of our licences at SoCal are annual licences, which is an upgrade from the provisional licence that most cultivators have. It means that we have checked off every single box you need to, including

CEQA compliance. And for those who aren't familiar with California, you're lucky that you don't know what CEQA is.

It is the California Environmental Quality Act, and it is an absolute bear which, in some cases, has even been weaponized by folks to prevent development and entitlement issues. And we have gone through all those hurdles on that SoCal facility, so there's really nothing left that could trip us up in the future. All we need to do is pay renewal fees, and our licences are good in perpetuity.

Kyle Kazan

And regarding your PLUS question, right now they'd already laid some groundwork for Nevada. As you're probably aware, we can't currently deliver product that we make in one state to another state because it would violate federal law. So in every single state we basically have to bring the formula and quality control to go ahead and make the gummies there.

I would tell you that, yes, it's well known around the country, so we expect to take a look at that. But again, some states, like Florida, we couldn't sell all the products that we have here, like water hash and things like that. Florida just is not there yet. So it's a little bit of a complex tapestry, but we anticipate that we'll be doing that.

When it comes to flower, that's going to be more of a licensing and QC agreement, which is to and move Glass House Farms brand or one of our other brands out of state.

Sloan Hatfield

Thank you.

Graham Farrar

Yeah. And just for clarity there, I think PLUS is an eminently brand, right? That's something that's very extensible; the formulas and the ways to manufacture, that can be easily emailed over to be done by licensing in other states. So one of the areas that we're optimistic about with PLUS is the ability to license it into other states until such time that it can be made and shipped with interstate commerce.

Sloan Hatfield

All right. Thank you.

Operator

And at this time, Mr. Brebeck, we have no further questions. Please proceed.

John Brebeck

Thank you very much, Sylvie. This concludes Glass House Brands' Q1 2022 earnings call. We welcome you to join us again for our Q2 results call, which will be held in mid-August. Keep an eye out for the announcement.

Thank you. That's all.

Operator

Thank you, sir. Ladies and gentlemen, this does indeed conclude your conference call for today. Once again, thank you for attending. And at this time, we do ask that you please disconnect your lines.