

Transcript of Interview with Jamie Mendola,  
Head of Strategy and M&A with AYR Wellness

Interview by Aaron Edelheit

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\*Lightly edited for readability

**Aaron:** Jamie, thank you so much for agreeing to do this interview. You are one of my favorite people in the cannabis industry. And when I talk to other people, everyone has really great things to say about you. I'm most fascinated with how you went from being a hedge fund manager, a money manager like me to suddenly being the Head of Strategy and M&A at AYR Wellness. And then your role in Mercer Park brands and Glasshouse and now being on the board. And I'm just fascinated with that journey. And I think that I can learn a lot and others can learn a lot from the different hats you've worn and their differences and similarities. So, thank you so much for just agreeing to do this interview with me.

**Jamie:** Absolutely, Aaron. I'm glad to be here and you've become someone with a following in your own right as one of the most famous cannabis folks on Twitter. So, I feel like I'm talking to a celebrity.

**Aaron:** It's what I've always dreamed of! So, OK, so we're going to go back in time. It's 2014. You're the founder and chief investment officer at Pacific Grove Capital. Three hundred-million-dollar hedge fund. What's your strategy? What are you doing in 2014?

**Jamie:** Yeah, so it's probably worth talking about my history prior to that point, because no one starts a hedge fund right out the gates without having some type of history or edge or something that

**Aaron:** Does it start with you being a Buffalo Bills fan?

**Jamie:** Everything starts - that started at birth, like every other person that was born in Buffalo and has continued on mostly through a tortuous path with some glimmers of hope along the way. But yes, that's where it started. So, prior to starting Pacific Grove Capital in early 2014, I was fortunate to be part of two large hedge funds, both with very different strategies, early in my career. The first right out of business school was when I joined Watershed Capital, which had recently spun out of Farallon, which is probably the largest hedge fund in the Bay Area. And it was a very interesting time because Watershed, I would characterize it as a special situations fund that mostly focused on distressed debt and credit opportunities with some value and special situation equities. And so, there, both pre and post the financial downturn and learned quite a bit about the leveraged finance part of the of the industry, looked at opportunities long and short in the credit spectrum, and I've always been a big believer that those that really understand the intricacies of a company's cash flow generation, capital structure and balance sheet are oftentimes the best equipped to run financial analytics around any type of investment. And so, I spent about four years there and I was starting to work on more of the equity opportunities and to further my career I wanted to move towards a more equity-oriented fund. And I was fortunate to get connected with a group called Scout Capital. At the time, they were just based in New York, but they had an interest in opening an office in the Bay Area. And so, I moved to New York for about 10 months and then came out with the founder, Adam Weiss, to help build out the Bay Area office. And we kind of took that from three or four people to 14 people, and the fund grew along the way from about a billion to \$7 billion. So, it's a fund that had a 15-year track record of about 15 percent returns over that period of time. We're in a very concentrated portfolio of equities, typically twenty or twenty-five positions and really looking for business in industries undergoing transformative change that were pretty misunderstood in high quality companies. And our view was, if you could find companies in industries that had a lot of growth with good management teams that had some type of inflection over a couple of year period, if you're not quite right, you're probably still going to make positive returns or not terrible returns because the businesses had organic growth and we're buying them at a somewhat reasonable valuation. But if they had a transition, let's say software moving from license to subscription or restaurants moving from company owned to franchise, we're looking for these business model upgrades that were going to result in better stability of financials and cash flows and oftentimes multiple expansion backed by good jockeys. And that was like the trifecta of opportunities that we really look for. And so that was a very

powerful part of my investment journey and something I really enjoyed. But as we move from a billion to seven billion dollars, your ability to find those misunderstood opportunities became a little bit tougher because of the liquidity profiles of trying to find companies that were trading 20, 30, 40 million dollars a day. And it really pushed us up market cap. And so, we had a great run. Adam Weiss, one of the founders, decided he wanted to retire at the top and move on to some other things in life. And so, we returned capital in the beginning of 2014, at the peak, coming off of a great year. And so, at that point, I really had to think, do I want to go and join another bigger fund or even sort of the next version of Scout, which is called Hitchwood Capital, and there's a bunch of really talented people that I like and respect, but I always had an entrepreneurial bug. I went to Stanford for business school, watched a lot of my classmates have a lot of success with entrepreneurial ventures and technology or other industries. And I really liked the management and leadership and cultural aspects of managing people, managing incentives, managing risk and really help helping to build a firm. And so, I decided to go at it alone. I built a team of seven people out of the gates, and my pitch to investors was I was trying to build Scout Capital circa. 2010, when it was still a billion dollars and where we could still really focus on a lot of these small and mid-cap opportunities that have the transformative changes and more a little bit more under the radar. And it did help that Scout had a really good reputation, and I performed well there. And as you know, getting past that first hundred million dollars of capital feels like a Herculean task. And we were fortunate to get off to a really good start from the fund. We got above one hundred million within the first three or four months and got to about three hundred million dollars within the first 12 months. So, we built a really nice organization. We got off to a really good start from a return perspective, and I was able to focus on some of those under the radar opportunities, both from an industry and a company perspective.

**Aaron:** So, you're one of the first, if I have it correct, to take an interest in SPACs, which are special purpose acquisition corporations kind of like a reverse of an IPO where you get the money and then you find a private company. You were one of the first to look at that before it was fashionable. What did you see with SPACs and what was your strategy at the time?

**Jamie:** Sure. So, I first looked at SPACs actually back in 2008, when it was a very different investment vehicle and where I only started looking at it when there was

massive liquidations in all asset classes and sectors. And at that point in time, I had a pretty negative view on SPACs and the management team in the structure, but they were trading at such a discount to cash value, there are some interesting opportunities just from a yield to liquidation perspective. But really didn't look at them again for the most part, between 2008 and 2012 or 2013 when there started to become a couple of new SPACs with a better structure that was very favorable to investors in the SPAC vehicle. And when I started Pacific Grove, I started seeing a resurgence in the vehicle, and so we did our homework on the structure and where we thought that interesting opportunity was, is that you started seeing really high-quality management teams or board members or folks that had had success deep in a vertical or as a general private equity investor. And the SPAC structure provides downside protection to the investors in the SPACs. So basically, you put your \$10 in the IPO, you're typically getting a share and a warrant. The cash from the SPAC is held in escrow and earns interest. And then the warrant, which you're effectively getting for free, can oftentimes be worth a buck or two if a deal is consummated. And so, if a deal trades well, the stock could go to 11 or 12 bucks. Or it could be worth a couple of bucks and you could be sitting on a 30 or 40 percent gain with something that literally has no downside risk and in fact will generate some interest income along the way. So, it was the only investment product in my entire career, where there was pretty much perfect downside protection given that the cash was held in short term treasuries and there was a lot of upside if some of these high-quality management teams were able to consummate a successful deal. So, I decided to start deploying some of the capital from the fund in SPACs. And as the industry continued to grow and we had success and got our feet under us a little bit more, we decided to raise what I believe was the first dedicated SPAC fund. And for as much as limited partners and family offices say they want unique off the run differentiated ideas. I pounded the pavement so hard and we had ridiculously good returns, and I think I raised a total of \$40 million for the SPAC fund despite being massive returns. And so that was a bit of a frustration for me, and as I started thinking how to scale my own organization, I think that was one of the signals of like, Hey, this is going to be really hard to turn this into, like a great business that has sustainability over time. The hedge fund industry had been maturing, and that was one of those signals that, hey, the long short business investing in consumer and tech and financials, like they're kind of a dime a dozen. There's a lot of people out there that are that are doing that. I found a niche that was very interesting and didn't have a lot of competition, but the investors also weren't familiar with it, and so therefore they weren't willing to write checks. And so, I

started getting a little bit frustrated by my ability to blaze my own path and control my own destiny. And as you know, particularly when you have decent size team and infrastructure, you really have to keep growing and get beyond that half a billion-dollar mark to create that as a great business.

**Aaron:** Yeah.

**Jamie:** So that, I think opened my mind, you know, to other opportunities, and it was right at the time when I had a personal experience in cannabis, when I was, you know, figuring out the wellness impacts of that and when the industry started to emerge as investment vehicle that I think took me on the next stage of my journey.

**Aaron:** So, I want to know I wanted to know, so mine, as I've shared with others, I've suffered on and off with insomnia and cannabis when I go through one of these bouts has radically changed my life, being able to sleep. I'm curious how cannabis entered your life, at least personally. And then when you started looking at it from a business perspective or an investor perspective?

**Jamie:** Yeah, sure. So, I started doing a bunch of research on the space, probably back in 2012, 2013, 2014. My parents, unfortunately, both had tough illnesses. My mom had MS and my dad had cancer pretty early in their lives, and they both ended up passing away in their early to mid-sixties. And so, you know, as they were going through the different cocktails of Western medication and chemo and complications from a lot of the side effects, I really started looking at a cannabis out of desperation because nothing else was working. And, you know, being out in the Bay Area, a few people had, you know, referred me to some combination of CBD and THC. It was funny, my mom didn't have much pushback. I think I learned at a Christmas party from my aunt that she had actually run away to Woodstock and may have switched colleges a few different times along the way. My dad was a hardcore athlete, quarterback and baseball player at Cornell. And you know, didn't have quite the same acceptance. But that journey of really researching the medicinal benefits and the wellness benefits of the plant really opened up my eyes because up until that point, I didn't really have a passion for cannabis one way or the other. I wasn't a big consumer, and I didn't really actually know at that point that there was much about it outside of trying to get high. And that journey and that

research path, and just reading so much about how cannabis even became illegal, it just takes you down that rabbit hole.

**Aaron:** It's shocking when you read the history of cannabis and you're like, Hey, how did they decide to make it illegal? You're just like, Wait, that can't be right. Right?

**Jamie:** Yeah, it's one of the most racist things that's really ever happened that has not nearly gotten enough attention. And the fact that it was so well known for centuries, all the benefits of the cannabis plant, both for industrial and consumer use and the fact that it got squashed.

**Aaron:** Have you ever seen the picture of it's like 1915 Eli Lilly bottle and there's like the top ingredient is sativa cannabis?

**Jamie:** Oh, interesting. I've not. I've not seen that. But so that's what really opened up my eyes. And then watching the California market start to transition from the Prop 215 to the adult use regulations and seeing what was going on in Colorado, it clearly had an open-ended business opportunity and putting my lens on of trying to find those businesses and industries that were undergoing transformative change. It was so obvious that this was a massive market, right? I think it's not really debatable at this point that this between the illicit and the regulated market is somewhere between a 50 and a hundred-billion-dollar industry today. I would argue there's upside to that over time as more consumers get comfortable and move into the category. And I got to the point where I've seen so many folks in my network really be part of building an industry, whether that was social media, software, crypto, fintech and I had the experience of helping build a couple of firms get bigger. And then I had an opportunity to make my mark and start my own company. But I hadn't had the opportunity to really be part of building something in an industry that wasn't defined yet. And that was what really interested me. And it was sort of serendipitous that I got connected with Jon Sandelman and the original team at AYR. And really, that's how my journey to cannabis started.

**Aaron:** So how did that happen? Like, how did you connect with Jonathan Sandelman and how do you go from like, Hey, you're a hedge fund, you know, \$300 million isn't chump change. You have a business, you have a staff. And how did you meet him? And

then how do you make that leap to, Hey, I'm going to just I'm going to jump for this opportunity?

**Jamie:** Sure. So, I actually I knew Jon a little bit prior to ultimately, I invested in the SPAC when the predecessor of AYR was raised, so Jon and team raised a SPAC.

**Aaron:** Cannabis Strategies Acquisition Corp.

**Jamie:** That's right. There you go. CSAC as it was affectionately known. So, he raised the first cannabis SPAC in the fall of 2017, which even though it wasn't that long ago, it's quite early, right? Because at that point, none of the now known as MSOs had really come public yet. And 2018 was really the year that MedMen and GTI and Cresco and Acreage and Curaleaf all came public. And so, he raised, I think it was about 137 million dollars Canadian up in Canada and raised the first cannabis SPAC focused on the U.S. plant touching industry. And I thought that was a tremendous opportunity as an investor because I knew that there were a ton of different opportunities in a capital starved industry, and with John's track record as a money manager and as president of Bank of America and someone who had a lot of success along the way in his own career, I figured that was the perfect person, especially when teamed up with a Colorado operator to both identify and consummate a transaction. And given the risk profile that I described earlier of the SPAC product, that seemed like the safest way to get asymmetric upside in the emerging U.S. cannabis industry. So, it started with me as an investor in the SPAC. As an investor, I was reaching out to him, asking questions about how he was viewing the landscape, and I was sharing my thoughts with him as I was getting a lot more active as an investor, both privately and publicly in the space. And I think after about dinner or lunch number four or five as I'd go see him every time I was in New York, you know, he sort of said, Hey, look, what do you think about doing this together? And joining me for this journey? And it took me a little bit of time to get my head around being part of an operating business in the cannabis space as opposed to just an investor, but the more I thought about it, the more I read about it, the more I talked to a lot of smart folks who had been involved in emerging industries. You know, it felt like a big leap of faith at that point to join a cannabis company. But as I talked to my network of folks, it's like hey look, every great business starts out as quasi-illegal. You know, Airbnb, Uber, DraftKings, you know, the list goes on, also crypto. Ultimately laws shape what consumers want, and especially if it's not creating too many kind-of side

effects or harm to society, right? And there's still the perception that cannabis might create some harm, you know, say no to drugs. It's a gateway drug. It's bad for kids. Like not to say there are no negative externalities of cannabis, but the positive outweighs the negative by a massive factor. And I just felt that that narrative was going to be on our side and I had the opportunity to be part of a great team that was going to trailblazer and build one of the best cannabis businesses from scratch and to effectively learn from some of the mistakes that had been made by a combination of early operators and early capital allocators into the industry.

**Aaron:** So, this is what really fascinates me is that your journey is you start out just like me or a larger version, you manage a lot more money and you make the leap into joining an operating team, being, you know, a mergers and acquisitions head of strategy. You go from investing in stocks and then owning a piece of a company and being relatively a passive investor to buying whole companies. And so, I'm just curious, what are the similarities or differences between you being an investor to now being head of Strategy and M&A?

**Jamie:** Sure. Look, I think the biggest difference obviously is as an investor, you have liquidity and you can change your mind. Right. And so as much as I was trained, particularly at Scout, as you know, running a very concentrated portfolio and becoming in many cases the largest or a top five investor in the companies that we were invested in, at the end of the day, if things didn't go as planned, we could change course and sell or reduce risk. When you're buying a company, you have one decision point and you have to live with that decision, maybe for the rest of time or at least for five or 10 years. And so really thinking through not just what the business prospects or the industry prospects or supply demand in the certain state are for the next year or 2 but trying to use a little bit of an educated crystal ball of identifying what that's likely to look like over a five-to-10-year period, as we're building out our business in a world where regulations and licenses and a lot of things are really moving in flux. And so, you know, for us, as we built the business, it was a very strategic view of looking top down what we thought were the most attractive markets from a license structure standpoint, from a population density and from our ability to build scale. And we knew that because each of these states were very self-contained, they're each like little countries. And so, our view was unless we can build a business that had 50, 100 million plus of revenue, it was probably going to be a complete waste of time. And certainly, it was going to be very distracting



from a human capital standpoint, which obviously we all know talent is one of the biggest bottlenecks in the industry. So, we stayed pretty laser focused on the markets that had a lot of density, had some prospects of moving from medical to adult use or had a very vibrant medical market and where you could build enough scale to build the size business that we could provide the resources and marketing and supply chain support to be a leading competitor and build a company that had strong margins from a strong foundation.

**Aaron:** Gotcha. So, what in your current job, are there things that you've learned now that you're in this position that make you a better investor? I'm curious what you could share with me about what most investors are not paying attention to or some of the things that you've learned now that you're in an operating company, now that you're actually buying whole companies and as you said, you own it for five or 10 years. What are some of the things that people like me to pay attention to or missing?

**Jamie:** Sure. I think as we all saw in the industry back in 2018 and 2019, the market in this industry, both in the U.S. and in Canada, certainly earlier on in particular, would focus on one or two key metrics. And it felt like capital and management teams would then chase those outcomes. So, in Canada, it was funded, canopy or cultivation capacity. And so, all of a sudden you had 10 players that each had a bazillion square feet and they were all just looking at square feet times price to feet revenue. And you start scratching your head and said, Well, wait a second, there's only 30 million people here. The size of the market can't possibly be more than 10 or 15 billion dollars, but somehow these 10 companies are going to have \$50 billion of revenue. Like, something doesn't add up here. Right. And so, they're all looking at if they were the only player that might have been true, but not looking at, you know, the capacity that everyone was building and sort of missed the fact that they were going all sort of implode on themselves. And there's no plausible way they were all going to be able to build out, execute and make the margins that they were talking about. In the U.S. I think that land grab early on in 17, 18 and 19, where a lot of the big platforms were just trying to grab states and licenses, and there wasn't a lot of differentiation by, I think, the investment community of, well, is it good to be in 15 or 20 states or not? Do you treat a processing license in Ohio, the same as a full vertical in Illinois? So, all things are not created equal and even having the same dot on the map in a state is not created equal. And I think the market is getting a little bit more sophisticated on that front. I think there should be a

little bit more pressure from investors to provide more bottoms up disclosure in terms of how many stores you know, what type of canopy, how many pounds are being produced in the respective states or regions. And I think it is very difficult for public investors to build bottoms up models in the way that they would for traditional consumer or retail manufacturing business. And I think the onus is on all of us, both from the company, the sell side research and the buy side/investor side, to raise the bar because we all know at some point in the next couple of years we're going to be talking to the Fidelity's of the world and the T. Rowe Prices and the Farallons and what they're going to require of these companies, certainly for the best in class companies that want to solicit those great investors is going to be much greater transparency and really provide people the puzzle pieces to understand what the key drivers are in the business. And so, we've tried to become and err much more transparent in our own business over the last 12 or 18 months and really provide people the building blocks of our model through both investor, you know, our investor presentation, as well as some of the materials that we provide on the calls and also for people to understand and evaluate how we're executing. There's a big difference in terms of timing of a market. You know, New Jersey or New York may go from medical to adult use a quarter or two later than expected or earlier than expected. But at the end of the day, the earnings power of the business is really unchanged, even if it changes 2023 or 2022 calendar year estimates. And so, I think we want to isolate what's happening with respect to execution or pricing or margins versus the timing of facilities or state transitions, both of which are important. But I think we'd all agree that the earnings power of the platforms, whether it's us or one of the other top MSOs, is what really matters more so than what exactly happens next month or next quarter.

**Aaron:** Are you surprised now being on the inside, you've been an investor and you obviously watch stocks go up and down and move all over. Are you surprised in watching from the operating side how the stock moves, you know, based on either what is reported or fund flows, I'm just curious of what your thoughts are now being an insider versus being in like my shoes.

**Jamie:** So, this is one of the most unique situations that I've seen in my career from the standpoint that you talk to broad investors and everybody sees the growth and there's a tremendous amount of interest. But then the people that can actually deploy capital in the industry because of all the constraints around custody or fund charters or other

restrictions, because of the federal illegality of the U.S. business, the number of like sophisticated institutional investors, it's probably no more than 20 or 30. And I would say two thirds or three quarters of the funds that we talk to regularly are the same funds that we talked to two, three or four years ago. So, there's a few new ones that pop up. There's a few larger funds that are deploying some capital. But if this were software where there's five thousand funds vying for scraps of good ideas and deploying billions and billions of dollars of capital, I think this market would be a lot more efficient, a lot more liquid and the valuations would be a lot higher. But because there is so little available liquidity and fund dollars available for this space, it just creates a tremendous amount of volatility that I think fundamentally the sector doesn't deserve, but there's not really the same degree of normalization that when stocks get really cheap or oversold, in most cases, there's smart money that takes advantage of that from a value perspective or from opportunities being a lot more compelling. And here you basically have people that love this space, they're in it for the next three years, but they're kind of all in. They just wrote it down 30 or 40 percent, and in many cases, they actually don't have dry capital. So, you might have some liquidation of people from a risk or other perspective that need to take down exposure at the bottom, as opposed to adding, and there just aren't that many funds that can fill the gap. And so, I think unfortunately, that's where we are. There is a tremendous amount of enthusiasm and excitement towards the end of 2020 and the beginning part of 2021, with the federal elections moving more favorably towards the Democratic Party. And with the thought that federal legalization or safe banking would move in a much more accelerated pace. And obviously we saw different spots where the stocks all spiked in unison as the prospects for various forms of federal legalization or safe banking became more optimistic and then more pessimistic. And they are tracking the sentiment vibes more than anything else. And meanwhile, the companies continue to put up really good numbers. Yes, Q3 was a touch soft across the board in the scheme of things, i.e., growth was, you know, only good instead of great. Right. But I think some of that fast money came out of this space as soon as it was clear that the federal side wasn't going to move quite as quickly. And there's just not the depth of capital that I think is cushion the blow that just supports these stocks on a pure fundamental basis.

**Aaron:** Thank you, by the way, for making such a great pitch for my new fund that I just launched. That is literally my pitch! But thank you. That was just a joke. Now going to AYR specifically, it's been a wild ride. You know, as an investor, I'm sure as an insider

as well. And now we seem to be in one of those patterns, along with the industry where investors might be questioning about AYR. Again, you're consolidating the industry, you've been quite acquisitive. And after Q3, there appears to be some confusion. You know, just after what you reported, and I'm curious of what your thoughts are from the reaction from when your company reported to looking at where your stock price is now, like what do you think happened and what do you think investors may be missing after you reported and just watching your stock price? I'm just curious your opinion.

**Jamie:** Yeah, sure. So, look, I think we've reported a solid but not spectacular Q3, and we did reduce our guidance a bit for 2022. Now, if you look at ultimately the range that we reduced it to, it's still going to be tremendous year over year growth. Our guidance is for EBITDA between two hundred and fifty and three hundred million dollars for calendar year 2022 versus we'll end up this year right around one hundred. So, we're going to somewhere between double and triple EBITDA in 2022, which is still very, very, very strong performance. The reality is there's a couple of markets where there's some regulatory delays. In Massachusetts, we have an amazing portfolio of retail locations that are currently all medical or one case a flagship location in Boston under construction. Those are all going to come online in 2022 and turn into amazing recreational stores, but we're just not going to get a full year contribution. Yeah, I think we originally anticipated those coming online in Q1 and I think we'll have some contribution for sure in 2022, but it'll be less than the full year. Similarly, we have big cultivation expansions in Massachusetts and Arizona, in Florida. I think a combination of COVID, construction and other delays, it's not one thing in particular, it's death by a thousand cuts, but many of those projects are two, three or four months behind plan. And instead of getting three quarters or three and a half quarters of contribution, we're going to get two or two and a half. So, I really think as people look at the second half of 2022 in the earnings power that we generate, I think there'll be a lot of comfort that we'll end up pretty consistent with what our original expectations were. It's just a little bit more back half loaded, and we just don't simply get the full contribution for the whole year. I would say that's probably two thirds of the change. The other third, and we've tried to be transparent about this, the whole industry is maturing a bit. There is some pricing compression in the wholesale and the retail business. It's not unique to AYR. I think we're holding our own and taking some market share and cushioning the pricing because of the quality of the products that we're producing. But in almost every market, the markets that were three thousand or 3500 a pound, are 10 or 15 percent less. And I

think that's likely going to continue a bit across the industry as well capitalized both single state and multistate operators have had the capital over the last couple of years to really start to build out, to move toward some of the forward-facing demand. And some of these markets still have yet to move from medical to rec. So, Pennsylvania and Florida are two that come to mind out of the gates. They're both very, very strong and successful medical markets and the programs and the margins are really good, I think, for us and the other operators in those states. But there is capacity that probably is catching up to some of the patient demand and maybe even tipping over just a little bit. It's still very strong. It's just a little less strong, but within the next eighteen to 36 months, I would hazard a guess that both of those markets move to adult use. And so, you're still going to have a huge lift in terms of the total size of those addressable markets. And so, I think in a world where margins are still pretty good, I think the MSOs that have had capital have felt comfortable building a little bit ahead of the curve, knowing that they're going to get paid on those investments by having greater capacity when those markets flip rack and where they can take advantage of some of that early mover advantage. So, I think things are still really strong, obviously, the margins across the industry are quite attractive, but I think the days of 40 or 50 percent margins are going to get tougher. And I think this industry will settle in somewhere in the low to mid-thirties for good operators. And I think that's still great. And I think as we all have to invest in infrastructure and compete more effectively, I think there's still a lot of room for many players, including ourselves, to win, and it's just getting a little bit harder. And so, I don't think there's anything wrong. I don't think we've bitten off more than we can chew. I think we're, you know, we put out numbers early in 2021 for 2022. And as it's become closer and we have more visibility on those markets, we're trying to be transparent and provide accurate information to the market. So, it's unfortunate that there's been a little bit of a disappointment per say. But I think if you didn't look at the stock price and you were tracking the fundamental performance and hopefully, we'll continue to execute well, I think people will end up being very proud about where we ended up in the portfolio that we've been able to amass and put together.

**Aaron:** So, diving into Florida, I'm quite bullish on Florida, as I'm sure you, I know you are, you moved your company headquarters there and you bought Liberty Health, but it was a, you know, struggling company with a lot of operational problems that have been kind of well documented. How do you see the turnaround working there? And I know that you still have some stores that are not where you want it to be. I think you're

working on a rebrand. What should investors be looking for in 2022 in terms of your focus on Florida?

**Jamie:** Sure. Thanks for the question. Florida is a very interesting market. As you know, it's the only large market that has forced vertical integration, meaning you can only sell in your dispensaries what you grow and produce and manufacture yourself. So, there is no wholesale market whatsoever. And so, if you are not producing great products and producing ample supply with your cultivation, you're in tough shape. And unfortunately, prior to our acquisition, that was the issue that Liberty got themselves into. They had a very large-scale facility, three hundred and fifty thousand square foot greenhouse and a decent footprint of stores. I think they probably had about 30 stores when we acquired them, which was in the top handful of operators in the state. But they had some major operational challenges at their cultivation facility, most of which were kind of SOP and self-inflicted wounds. You know, there was some capital that we put in.

**Aaron:** SOP is standard operating procedure?

**Jamie:** Standard operating procedure. Yes. Yeah. So yeah, they had some issues with genetics that weren't the right fit for the greenhouse environment. There was some turnover on the cultivation team. And so, they had lower yields than they anticipated and they had a lot less selection and genetic supply. And so, what happened is if you're not producing well at the cultivation, you fast forward to retail and a consumer walks in and they only have flower three days a week, or they only have two or three strains. While all of a sudden that's not a great consumer experience and there's others in the market that were providing flower every day of the week, and they had a dozen or two dozen selections. And like every other competitive retail business, if you're not receiving good customer service and good products and good pricing, you're going to move somewhere else. And so, Liberty was struggling at the retail side because they didn't have great product supply in terms of consistency and quantity. And so, we spent a lot of time, probably more than most on operational diligence and had several trips down to Gainesville at their large campus with our head cultivators and our senior manufacturing team to make sure that we could underwrite an improvement in the facility. And the minute that we closed, we had our game plan ready and we were off to the races. We did put some capital into the building to partially enclose some of the rooms. We

cleaned out the moms and the nursery, we brought in some new genetics. And you can start seeing the results if you follow the state level OMMU data, which is,

**Aaron:** Yeah, you can see it in the data from when you acquired it, the improvement.

**Jamie:** The trailing four-week supply or sell through of both oil and flower is depending on the week or the month you are two to three four times better than it was in January or February prior to our acquisition. It's not linear, it's not a straight line. I think there are some things that we've learned by managing the facility through the summer, which is the most challenging time in Florida given the humidity. But I would say we are on track or better than on track relative to our expectations, and people have to keep in mind that our store productivity is still well below average and obviously well below some of the top folks in the game like Trulieve. So, you know, Liberty historically has been in the ballpark of two or three million dollars per store. I think Trulieve is eight to \$10 million per store. Many of the other top operators at four or five million bucks a store. Our view was we wanted to continue to push out and roll out additional stores even before all of the cultivation was exactly where we want it to be because we do think there's a little bit of a land grab in the state. There's unlimited dispensaries per operator, but there's only 21 or 22 operators and a lot of the jurisdictions and towns and counties are putting in place zoning or other soft or hard caps that are going to limit the number of stores in these jurisdictions. So, our view is we really want to push out our footprint. We think there's an opportunity for 80 stores in the state. I think we have another 15 leases signed on top of the 45 or 46 we have today. And we really want to build out our retail footprint as we continue to improve the cultivation and the supply. And we are intending to flip the flag from Liberty to AYR Wellness in the first half of next year. We wanted to wait until we have the product quality and selection where we wanted it to be so that it wasn't just a new banner, but it was a new experience. It stood for what AYR is proud of, which is being one of the highest quality operators in each state, and I think the product quality and selection is improving dramatically. And I think by the time we get three or four or five months out, which is going to coincide with when we are flipping the flag, I think it'll really be great for both consumers and investors.

**Aaron:** So, in terms of as an investor, what to expect, the strategy is and this is what I know, I know this for a fact is a lot of people focus on the federal legal status and legislative movements, and they focus on the state level. But one of the most

remarkable things is how little is said on local municipal rules and how nothing of federal illegal status or even the state basis is going to change the local control of where and how cannabis can be sold. And this is like how many dispensaries are there in Boston is like a great example and that however long it takes you to build and get that store. I think you're right next to the Apple Store, if I'm correct.

**Jamie:** We are, yes.

**Aaron:** Like, you just won't be able to get the control here in Santa Barbara. This is the thing I tell people about Glass House, which we'll get to in a second, UCSB has like 30,000 students. There's going to be one dispensary next to it. Yeah, there's going to be five dispensaries in all of Santa Barbara County and they won't let any anything else in. And what's exciting about Florida, I'm going to put words in your mouth and you know, I own some other companies that are in Florida for this very reason is it's so exciting because you have many of these towns and municipalities only allow a certain amount of dispensaries and then that's it. And you have a market, there's like 640,000 medical marijuana patients in a twenty-one and a half million population. When that goes legal, it's going to be what I don't know, 20 percent of the population. And then you have one hundred million tourists. Many people don't realize this – if you don't have a medical marijuana card in Florida, you can't go in the store and it costs like two or three hundred dollars. It's a little annoying. I've had people that I've talked to who said their doctor won't recommend it because they're old school or whatever. So, there is kind of a hurdle. And so, you can make a case that that 640,000 medical marijuana patients could go up 10x, right? When you account for the hundred million tourists that come to Florida.

**Jamie:** That's right, I mean, I think typically as markets transition from medical to adult use in a state that doesn't have a tremendous amount of tourism like Florida, I think generally 15 percent of the of the adult consumers will end up using cannabis at least occasionally and be customers kind of in a traveling 30, 60 90-day basis. But in Florida, if you took the twenty-one million people times 15 percent and then you add, I don't know, five, 10 percent of the tourists, which are multiple times bigger than the local population. I think this is going to be a market that could be one of the biggest in the country and has a lot of interesting dynamics.



**Aaron:** And I like what you said and I want to make sure I understand it is Liberty is, you're fixing it while you're moving forward, which is hard. It's like you're fixing a car while it's moving. And so, there's going to be there's obviously going to be problems. I've run an operating business before. It's not pretty when you're trying to fix something and grow. And so, what I'm hearing is we're going to see more progress, but you're growing on purpose because at some point, you're not going to be able to grow.

**Jamie:** That's right, I think the returns over any three-to-five-year period. I'm locking down good real estate because you can actually make money even on lower volume stores, given that it's vertical, where gross margins typically for a vertical operation, are going to be 65 to 75 percent. And so even on a two- or three-million-dollar store, you might not be making gobs and gobs of money, but they're generating cash, right? So, to have that placeholder to hopefully be able to drive medical sales, you know, to four or five million dollars a store and then ultimately hopefully have a bunch of rec stores that are doing well north of that in an area where there may not be 10 other stores allowed, even if people want to come in. We really think that locking down the real estate is the right move and we're doing so aggressively.

**Aaron:** So is a way to think about this is that if I think about the Florida opportunity and I go in the future and you're able to fix not only the cultivation but rebrand the stores, invest in the stores, have the great customer experience, if I go out and I think there's some estimates that they're hoping 2025 Florida goes rec and the market doubles is a way to think about this, and I'm not holding you to this. I know this is not a forecast, but I just want to make sure, you get to four or five million a store and then rec potentially doubles it. So, you're like eight to ten million. You have 80 stores. That's a lot of money compared to what your market cap is right now, just in Florida. Is that the right way to think about it?

**Jamie:** I think you're directionally correct and I think you've probably heard Jon Sandelman, who's our CEO, say that in his opinion, he believes that the Liberty acquisition will be worth more than what AYR is valued at today at some point in the future. And I agree with that assessment and the math that you just did. I'm not going to really comment on the specifics, but I think directionally that's probably the appropriate way to frame the opportunity. And so, if you have 80 stores at those types of revenues

with a reasonable margin profile, the EBITDA generation out of that becomes very material relative to the size company that we are today. And that's and we haven't

**Aaron:** And we haven't gotten into that you're one of the 15 licenses in New Jersey, right? We haven't even talked to about New Jersey or the other states. So, that's really helpful. And it helps explain like, hey, why did you give up your opportunity managing money to be in this, you run some of those numbers and it's like, Oh, wow.

**Jamie:** Look, I would say the other thing that I really love, you know, helping to build something with such a great team is there's so much inefficiency in this market, right? Obviously, you can take advantage of that as an investor to a certain degree, but this is something I think myself personally, but also the rest of the team. We're very passionate about changing the narrative around cannabis and mainstreaming and professionalizing this from an operational perspective, but also welcoming people in this industry, because I've seen it firsthand that people that are using this, you know, for sleep or for pain, or for stress or anxiety, PTSD, you know, cancer, all sorts of different things. It's improved their quality of life. It's better than many prescription drugs. It's better than alcohol. It's better than Tylenol PM. The use cases for cannabis, when dosed appropriately, I think, can be extraordinarily disruptive to a bunch of mega categories. And if you look at the cumulative market cap of the publicly traded cannabis companies, especially today, I mean, the top 10 companies probably are 25, 30 billion dollars in market cap? Well, how many hundred billion CPG and alcohol and spirits and soda companies are there out there, never mind pharmaceuticals. I mean, this is I still think this is going to be the opportunity and the trade of a lifetime. And I think all of us feel a little bit scarred over the last one hundred and eighty days, given that almost all of the companies, even the best-in-class companies, in fact, I was looking at it today, the best performing company of the top 10 or 20 is down forty nine percent from their 52-week high. Right. So, if you pick the best stock, you're down forty nine percent and it's actually a pretty tight band between about forty-nine and 60 percent. So, correlations are very high. You know, some companies have done better than others during discrete periods of time, but it's been a painful ride for everyone. And so, I think there's a bunch of folks that feel like this was a scam, it was a little too promotional. This isn't a real thing or the people that were in it maybe got their hand slapped, so they feel scarred. And it has been painful. And as big shareholders, we all own a lot of stock in the company. I bought stock on the open market. At least the recent past is underwater.

And I think many of us have a lot of our net worth locked up in the company, but we still think, I think this is the best investment in my entire portfolio and I'm betting on it with both my career and my capital. No one at AYR on the management team has sold a share of stock since we became a public company. No senior people have left. So, we have, I think, an incredible culture with people that have very good track records in their past that take managing people's capital and corporate governance and being good fiduciary very strongly, and we're going to do the right thing. This is a hard business. We put out fires every day. We manage challenges like everybody else. But I think we're doing a very good job. We have a very strong organization and we have a very clear ethos of what we're trying to become. And I think the chapter has yet to be written about who's ultimately going to be the winner in the space.

**Aaron:** Well, thank you for saying that. You know, I just tweeted out something today where the best performing stock in the last 20 years is Monster Beverages. It's up 210,000 percent. Ok. In the past 20 years. It experienced something like five 50 percent drawdowns and in 2008 went down almost 80 percent. And so, the hard part is not investing in a thesis. You know, everyone shows those long charts like, Amazon's another, you could have been a big believer in e-commerce and who is going to hold down? That's the question as an investor. But that's one point. The other point that I really liked, you said, and it's the reason that I started a dedicated cannabis fund was not only to like, Hey, there's an investment opportunity, but to kind of yell out to institutional capital and my fellow money managers being like, Hey, how are you not involved in this industry? How are you not part of this? This is good for society. This is good for the economy. This is good for people. And so, I wish more people could have seen the positive energy when we were at Trailblazers together. That was like some of the most positive people I've ever been around, like who felt like, Hey, we're really changing the world for the positive and that felt really good.

**Jamie:** Absolutely. Absolutely.

**Aaron:** So, shifting gears just for a second, I want to ask what it was like now you are on the board of Glasshouse because another Mercer Park SPAC merged with Glasshouse. I've talked about written about it endlessly. I'm super fascinated. I'm sure you wouldn't be on the board of merged if you weren't as bullish as I was. But I'm more curious about you personally. What is it like being on the board? I believe this is your

first, or maybe it's your second board opportunity. Maybe you could fill me in on that. But I'm curious of what it's like being on, you know, again, I'm curious your pathway from like money manager to like all of a sudden, you're this corporate bigwig who's now on board of directors.

**Jamie:** Yeah. So, it's my second opportunity to be on a public company board. The first one I was an investment that I made at Pacific Grove and joined the board, and we recently consummated a sale of that business this summer, it was a business in the travel space. It was sort of an Airbnb for business to business. So, it's basically a technology platform that enabled online and offline travel agents to source alternative lodging accommodations. So, think about going to Expedia and being able to see chateaux or houses or apartments alongside the Hyatt and the Holiday Inn Express. So very, very interesting business and interesting opportunity. Glasshouse is a very compelling opportunity. We think it's going to end up being one of the largest players in the entire California market. And most impressively, I think you've seen the facility. They announced the acquisition of the largest tomato greenhouse facility in California and I believe, the second largest greenhouse of any kind in the country. And so, this will be the largest cannabis facility in the entire world. It's five million square feet. It's a very high-end greenhouse. This is not dilapidated flower greenhouse. This is state of the art tomato greenhouses that were selling produce to Costco and Trader Joe's and Whole Foods, and it's right down the street from where Glasshouse has their existing five hundred thousand square foot greenhouse facilities. And so, the combination of the asset, the gentleman whose family has built and owned that business for about 20 years, and Graham Farrar, who we think is one of the best operators and cultivators in California, led us to make that investment and believe that it can be the preeminent brand platform in the entire state and have some interesting optionality if and when interstate commerce ever comes to be. So, we're not sure exactly when that day may come, but we were able to buy that facility for about 20 dollars per square foot, which is way, way below replacement cost. And quite frankly, for a facility that size, in addition to just the cost, it would probably take you five to seven years to get through all the permitting and licensing in California to build a ground up facility at that size. So, the California market has been very challenging as is well publicized, flower pricing has basically got cut in half over the last nine months. And so, all the more important to be the low-cost producer of high-quality cannabis in the state. We think the operating costs are going to be in the ballpark of one hundred dollars per pound flower pricing for pound

for greenhouse operators. It's fallen from, let's say, twelve or thirteen hundred dollars a pound, six to eight hundred dollars a pound. And we think that the cost for a lot of the small to mid-scale operators is four or five hundred bucks. And so unfortunately, it's a really sad story. Eighty percent of the operators in California are sub-twenty or thirty thousand square feet. And so, I really actually hope that some of these craft growers are able to make it through, particularly some of those up near Humboldt and the folks that have been operating this industry for a long period of time. But if you just look at the amount of supply, there's just too much fragmentation of high-cost operators that don't really have much of an edge or distinction. And we think there's a huge opportunity for Glasshouse, which is the number one ranked flower brand in the state, according to BDS Analytics, to really be able to expand their flower and derivative products, as well as be the acquirer or partner of choice for a lot of other brands in the state. And like I said, to the extent the wall's ever fully or partially fall down, it would be hard to imagine that that would be one of the most strategic assets in the country.

**Aaron:** No, that's great, and in terms of where you're seeing, are you as the board member, do you see just you helping with your experience, with M&A, with just strategy, with obviously all everything you've seen with AYR, that's your role, just kind of like more consultative or, you know, could you share?

**Jamie:** At this point they've really built out their team. They hired a guy named Eric Dorison, who I've known for quite a bit of time, who is at Harvest Health. He stepped into the M&A and corporate development seat. They just brought in a new CFO who's quite strong. So, I don't have any day-to-day roles there, but I do help share my knowledge about what's going on in the industry. I hope I'm a thought partner to them on capital markets, debt and fundraising, M&A type opportunities. And it's a very different role because you're really a consultant to the operating team and you try to add value where you can without overstepping on their shoes. And also recognizing that, you know, working with a competitive company. I mean, technically, we don't compete directly because AYR is not in California and Glasshouse is only there. So, we don't really step on each other's toes day to day. But ultimately, there probably will come a time, you know, in the next handful of years where AYR makes its way somehow some way into California. And hopefully we have a collaborative relationship at that point. But there's obviously it's a huge, huge market. It's the biggest market in the country and there will be many, many winners despite the difficulties in that market today.

**Aaron:** This has been just an amazing interview. I want to end on one question that I'm just curious about. We're looking on the other side of cannabis, it's worked out or however it works out. I think it's going to work out like how we hope and expect, though probably in a path we don't expect. Do you ever want to go back to professionally managing money or do you ever dream of going back and being, you know, starting the Pacific Grove Capital 2? Or do you think that, eh I did that?

**Jamie:** You know, it's a good question. The answer is, I really don't know. I haven't actually given it much thought or mindshare. It feels like we still have a number of years ahead of us in terms of growth and opportunity. And so, I've tried to keep my head down and stay laser focused on that. The one thing I would say is whenever the next opportunity arises, they'll have to be a little bit of a gap in between because we're going at it pretty hard. There's a lot of travel, we're all working really hard and I basically transitioned with no time between Pacific Grove to AYR, and it's been a sprint for the last three or four years. So hopefully we have another sprint for the next three or four years and then maybe a little bit of a break and a little time to reassess what the best opportunity is for me and my family and what I want to do in my life at that point. But it's pretty clear that this is probably the best, the best place I can be for the next several years.

**Aaron:** Jamie, thank you so much. This has been fantastic.

**Jamie:** All right, thank you, Aaron.