S&P Global
Market Intelligence

High Tide Inc. TSXV:HITI

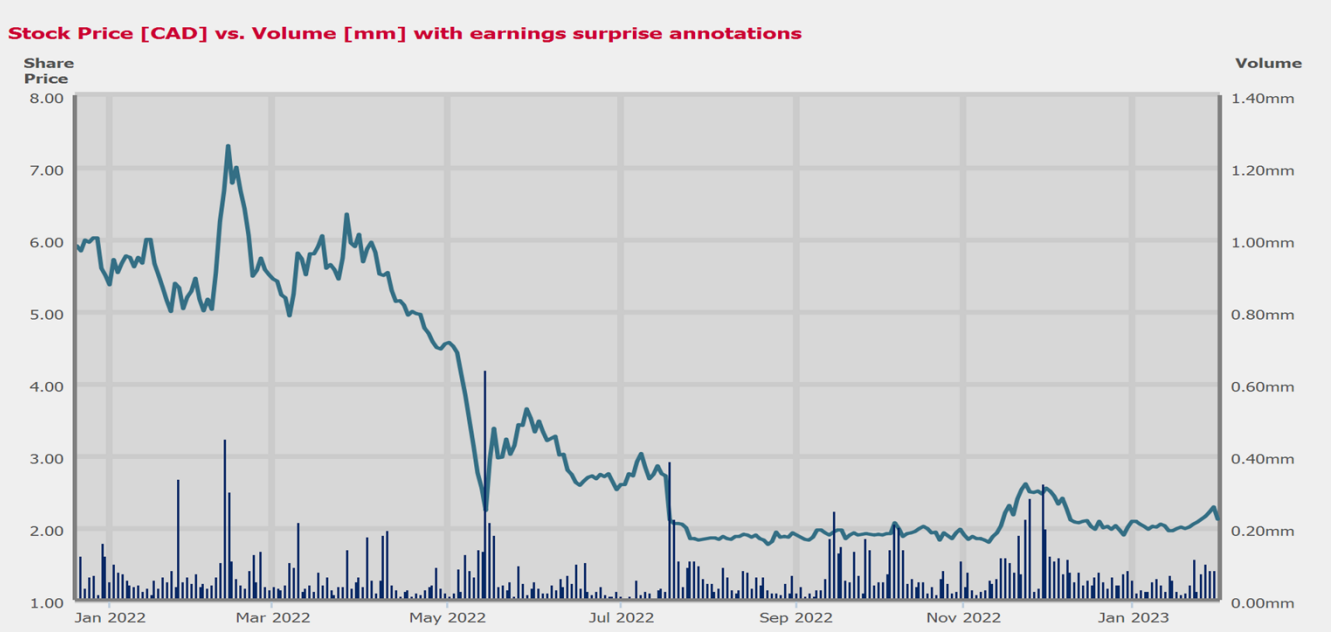
FQ4 2022 Earnings Call Transcripts

Tuesday, January 31, 2023 4:30 PM GMT

S&P Global Market Intelligence Estimates

	-FQ4 2022-			-FQ1 2023-	-FY 2022-			-FY 2023-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS
EPS (GAAP)	(0.07)	(0.85)	NM	(0.08)	(0.38)	(1.14)	NM	(0.23)
Revenue (mm)	99.90	108.25	▲8.36	106.80	347.60	356.85	▲2.66	454.30

Currency: CAD
Consensus as of Jan-31-2023 3:45 AM GMT



- EPS (GAAP) -

	CONSENSUS	ACTUAL	SURPRISE
FQ1 2022	(0.12)	(0.14)	NM
FQ2 2022	(0.07)	(0.14)	NM
FQ3 2022	(0.09)	(0.04)	NM
FQ4 2022	(0.07)	(0.85)	NM

Table of Contents

Call Participants	.....	3
Presentation	.....	4
Question and Answer	.....	10

Call Participants

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Rahim Kanji
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Presentation

Operator

My name is Drew, and I'll be your conference operator today. At this time, I would like to welcome everyone to High Tide Inc.'s Fourth Quarter of 2022 Unaudited Financial and Operational Results Conference Call. [Operator Instructions] And I will now turn the call over to your host.

Krystal Dafoe

Thank you, operator. Good morning, everyone. I'm Krystal Dafoe, Director of Corporate Governance, and welcome to High Tide Inc.'s year-end earnings call. Please note that the earnings discussed on this call are presented on an audited basis.

Joining me on the call today are Mr. Raj Grover, President and Chief Executive Officer; and Mr. Rahim Kanji, Chief Financial Officer. Last night, the company released audited highlights from its financial and operational results for the fourth quarter and year ended October 31, 2022.

Before we begin, please let me remind you that during the course of this conference call, High Tide's management may make statements, including with respect to management's expectations or estimates of future performance. All such statements and other than statements of a historical fact constitute forward-looking information and forward-looking statements within the meaning of the applicable securities laws and are based on assumptions, expectations, estimates, and projections as of the date hereof.

The specific forward-looking statements include, without limitation, all disclosures regarding future results of operation, economic conditions, and anticipated courses of action. For more information on the company's risks and uncertainties related to forward-looking statements, please refer to the company's press release dated January 30, 2023, released last night, our latest annual information form, and our latest management discussion and analysis each filed with securities regulatory authorities at sedar.com or on EDGAR at www.sec.gov or on the company's website at www.hightideinc.com, and which are hereby incorporated by reference herein.

Although these forward-looking statements reflect management's current beliefs and reasonable assumptions based on the currently available information to management as of the date hereof, we cannot be certain that the actual results will be consistent with the forward-looking statements in the future. There can be no assurance that actual outcomes will not differ materially from these results. Accordingly, we caution you not to place undue reliance upon such forward-looking results. For any reconciliation of non-GAAP measures mentioned and discussed, please consult our latest management discussion and analysis filed on SEDAR and EDGAR.

It is now my pleasure to introduce Mr. Raj Grover, President and Chief Executive Officer of High Tide. Thank you. Mr. Grover, you may begin.

Harkirat Grover
Founder, CEO, President & Executive Chairman

Thank you, Krystal, and good morning, everyone. Welcome to High Tide Inc.'s financial results conference call for the fourth quarter ended October 31, 2022, and what a quarter it was. As disclosed in last night's press release, we generated record revenue, record adjusted EBITDA, and year-over-year same-store sales growth of 50% and 9% sequentially.

I'll start this call by providing an overview of our results and other key developments in the fourth quarter. Rahim will discuss the financials in depth, and after that, we'd be pleased to answer any questions you may have. Before getting too deep into the quarterly numbers, let's take a step back and look at how this was yet another exceptional year for High Tide.

We generated revenue of $356.9 million in fiscal 2022. This was up 97% versus fiscal 2021 and up 329% versus fiscal 2020. No matter what the short-term dynamics that the Canadian cannabis market has

experienced from initial product shortages to COVID-related uncertainty to retail market saturation, the High Tide team has always found a way to grow our business through leaps and bounds.

And this hasn't been just topline growth for growth's sake. It has also translated into handsome adjusted EBITDA increases. This fiscal year, we generated $14.6 million of adjusted EBITDA, up 17% versus fiscal 2021 and 83% versus fiscal 2020. Our business is currently on an annual revenue run rate of $450 million, further cementing our position as having the highest cannabis revenue of any Canadian operator.

It's fair to say we expect the company to keep growing its top line, achieving its operational objectives, and continually generating value for shareholders. Now let's dig into the new information to the market, our Q4 results.

Total revenue for the fourth quarter was $108.2 million. This was up 101% year over year and was up 14% sequentially. As it represents 87% of our revenue and with enviable same-store sales and new stores popping up regularly, it's no surprise that sequential revenue gains were led by our core bricks-and-mortar cannabis business. I note that our consolidated gross margin profile remained stable at 27%, while gross margins from selling cannabis in our bricks-and-mortar stores ticked slightly higher.

Adjusted EBITDA for Q4 2022 was a record $5 million, representing our 11th straight quarter of positive adjusted EBITDA, up 18% versus Q3 2022 and up 206% versus Q4 2021, and we are extremely pleased to have set this new record. You will recall that in the second half of last year, we cautioned the market regarding 2 items: a new layer of costs relating to our NASDAQ listing and the initial impact of lower margins arising from our innovative discount club model.

We advised shareholders that these 2 items would depress adjusted EBITDA in the short term. However, we said stick with us, and we will grow through it. And that's exactly what happened. We set a new high in adjusted EBITDA, and we expect it to continue to grow looking forward.

In Q4, we completed the first full year since we launched our innovative discount club concept in October 2021, and the results speak for themselves. Our same-store sales alone in Q4 were up a tremendous 50% versus Q4 2021. In contrast, total national sales across Canada outside Quebec were up just 14% year over year in our fiscal Q4, including the impact of new store growth.

Our customers continue to become more loyal to our Canna Cabana brand. Our average store in Alberta generates more than twice the revenue as the provincial average. While our average store in Ontario, the biggest price of all, generates almost triple the average revenue as the provincial average. In our view, we have the best retail concept in the country, which is significantly outperforming our peers, and we believe it will be well received in international markets such as Germany.

Our same-store sales in Q4 rose 9% versus Q3, and with the increase in bricks-and-mortar gross margins previously mentioned, this is driving our improved profitability as shown by our consolidated gross margin dollars being up 15% sequentially. These very impressive same-store sales figures as well as rapidly opening new stores in high-quality locations has resulted in continued market share gains in Canada. We estimate our national market share, excluding Quebec, to have been over 8% in Q4, up from 7% in Q3, 6% in Q2, and 5% in Q1. We expect the string of steady market share gains to continue in Q1 of fiscal 2023.

Our balance sheet remains strong. We ended the fiscal year with $25.1 million of cash on hand. As at year end, we had drawn $16.4 million of the $19 million facility we closed with connectFirst Credit Union at a very attractive rate of prime plus 2.5%. While the stock market has yet to reward our solid financial performance, fortunately, the connectFirst has, and we believe there's room to significantly deepen our relationship.

Financial institutions tend to look at the last 4 quarters of adjusted EBITDA in assessing how much credit they can advance. With Q4 2021 now having rolled off this calculation and replaced with Q4 2022, our trailing adjusted EBITDA has increased by 30% from $11.2 million to $14.6 million. Accordingly, we expect upward movement in our borrowing capacity with our partner in the near term.

In the first half of 2022, we communicated to the market that we wanted to reach 150 stores by the end of the calendar year. In typical High Tide fashion, it came right down to the wire, and we needed every day up to New Year's Eve to make it happen. But our hard-working team did it. We added 45 stores during 2022, reaching our target.

Looking ahead, we plan on adding another 40 to 50 Canna Cabana locations in 2023, similar to last year. We expect this to come from a fairly even split between accretive M&A and organic store openings.

While much of the capital markets was focused on what may or may not happen in Washington, we had our heads down plowing our business forward. Our Cabana club membership currently stands at approximately 950,000 members versus 379,000 when we announced our Q4 2021 results a year ago. Per Health Canada's 2022 Canadian cannabis service findings, we calculate that over 13% of cannabis users outside Quebec are members of our loyalty plan, a true achievement and by far, the largest such program in Canada.

Not only does our base of loyal customers keep increasing, but the total addressable market, which we can draw from, keeps expanding as well. We note that Health Canada's 2022 survey found that the number of cannabis users, excluding Quebec, had increased by over the 2021 survey. That's over 900,000 new Canadians using cannabis, and we are disproportionately attracting them to our discount club model.

In late November, subject to individual provincial regulations, we launched the first-of-its-kind paid membership program in cannabis called ELITE, where we begin monetizing our existing Cabana club membership base. For $60 a year or $5 a month, ELITE membership offers our customers access to exclusively ELITE flash sales, limited edition and exclusive ELITE branded products, discounts on delivery, and discounts across High Tide's global e-commerce accessories portfolio among other benefits at non-cannabis retailers and restaurant partners across Canada. And it offers our shareholders a base of recurring, high-margin revenue.

Given these inflationary times, we wanted to be there for our customers. So for the first year, we are offering ELITE at half price, so just $2.50 a month. While it is still brand new, we have already signed up over 6,000 members, which we feel is a very good start. Over the long term, we will be gearing our SKU selection towards ELITE by having over 25% to 30% of our in-store offerings be ELITE only versus less than 2% today. And we expect to show a steady increase in members, which we have made the move -- this is why we have made the move to be elite.

Accordingly, we will start seeing the benefit of ELITE over the coming quarters, which will further enhance profitability. As indicated before, our CBD e-commerce businesses have been softer over the past few quarters, driven by 2 main factors. Global inflation at multi-decade highs has crimped consumers' wallets. And compared to THC products, CBD purchases are simply easier to cut back on during inflationary times than other consumer staples.

Also, the end of COVID restrictions has resulted the realization and pent-up demand for in-store restrictions for in-store shopping, which has impacted e-commerce sales across all retail sectors, including CBD. As a result of these factors, we had to take the unusual step of a $49 million impairment, which was primarily related to our e-commerce CBD businesses. This phenomena is in line with what several other major US CBD companies are experiencing.

We note that this is a non-cash charge and in particular, a credit union has indicated that in no way impacts how they view the strength of our company. While we are not pleased with this charge, we note that it is not reflective of the strength of our ongoing operations. We continue to believe in the long-term outlook of our internationally leading CBD brands that have global potential as new markets open up.

They provide higher gross margins and round out our overall ecosystem and value proposition. However, recall that 87% of our revenue is driven by our Canadian bricks-and-mortar business, which continues to motor ahead. And our online CBD platforms represented just 6% of High Tide's consolidated revenue. Despite the short to medium-term softness we are experiencing in our CBD business, we were able to deliver a record revenue and record adjusted EBITDA quarter for our shareholders.

As promised during our last conference call, we entered a new vertical in late 2022 selling cannabis seeds online in the U.S. initially on our Grasscity and Smokecartel online platforms and more recently on our Dailyhighclub and DankStop e-commerce sites. The initial uptake has been going well, which we feel will only get better over time as we continue to add some of the most sought-after genetics in cannabis seeds from breeders in the US. This is a strategic move, which we believe is a first of its kind by a publicly traded cannabis company, which gets us one degree even closer to the US cannabis consumer without jeopardizing our NASDAQ listing and provides another high-margin revenue business line, all created organically.

We continue to roll out fast and attack across our bricks-and-mortar portfolio. During our last quarterly conference call, on September 14, we had 28 locations equipped with this technology, and we ended calendar 2022 with a total of 120 locations outfitted with fast tender. Once we are finished with the rollout across our organization, we intend to license this exciting technology to cannabis retail outlets across the US, representing another high-margin, recurring, and NASDAQ-compliant revenue stream for us. We have already had inbounds from the US operators, but we need to outfit our own stores first.

Another big announcement we made yesterday was our LOI with Sanity Group, a Berlin-based health and life science company. Investors will note that we don't typically announce LOI. However, in this case, given the long-term and strategic nature of our potential German expansion and frankly, how excited we are about it, we felt that our shareholders should have a good sense of our concrete plans as cannabis legislation in Germany is possible as early as this spring.

Sanity Group has a well-established track record in Germany with respect to medical cannabis, finished pharmaceuticals, and cannabinoid-based consumer goods. They will help us with identifying and evaluating quality M&A opportunities in Germany as well as sourcing high-quality real estate for our Canna Cabana bricks-and-mortar stores. Sanity Group will also assist High Tide in navigating German regulatory compliance as well as a retail licensing process. In addition, High Tide and Sanity Group agreed to take a coordinated approach to German government relations activities.

Sanity will also provide us with a right of first refusal to pursue similar arrangements as new market opportunities develop across Europe. In turn, High Tide will provide Sanity Group with expertise in building its retail cannabis brand strategy based on our decade-long experience serving cannabis consumers in Canada, the United States, and Europe. This way, both companies can help each other succeed by leveraging each other's complementary strengths.

With 3.2 million customers across the country and now the ability to sell cannabis seeds online, we haven't taken our eye off the ball regarding the US opportunity. We continue to have many acquisition candidates in the US THC sector across many states in our pipeline, and we are keeping them warm with regular updates. We are monitoring company-specific and macro developments, and we will pull the trigger when we feel the time is right and not before. So far, especially with the drama in Washington in December, our decision to not hastily enter into an options deal has proven to be the right one.

Despite the turbulent environment both for cannabis operationally and the capital markets overall, 2022 was another monumental year for High Tide. We grew our revenue to be the first place in Canada amongst all Canadian cannabis companies, all while making sure this translated to record adjusted EBITDA and improved cash flows. Our reach with our customers has never been broader, and we are going deeper with the launch of ELITE. Despite all these achievements, we see room for much more growth ahead.

We plan to open many more stores by cherry picking the best organic locations and engaging in accretive M&A. Further, fast tender, cannabis seeds, ELITE, and our white-label program are all margin-enhancing initiatives, which germinated in 2022 and should begin bearing fruit in 2023 and beyond. Our incredible team continues to deliver on our objectives and will be there cementing our leadership in the Canadian cannabis market while laying the groundwork for German expansion. Our team's tireless work and dedication is what allows us to outperform our peers, both operationally and financially every day.

I want to give a huge shout out to our team for everything that they do for High Tide. Since Omar Khan joined High Tide 2 years ago, we have led the industry in many government relations initiatives, and we have had many incremental wins that add up over time. I'm very proud to note that earlier this month, we

promoted Omar to the position of Chief Communications and Public Affairs Officer. Congrats, Omar. Well deserved.

With that, I will now turn the call over to Rahim Kanji, our Chief Financial Officer, to discuss our financial results.

Rahim Kanji
Chief Financial Officer

Thank you, Raj, and good morning, everyone. I'm very excited to share the meaningful progress we made as shown in our record-breaking Q4 and year-end results, so let's go over the numbers. In the fourth fiscal quarter ended October 31, 2022, the company recorded consolidated revenue of $108.2 million, representing an increase of 101% year over year and 14% sequentially.

While we are very excited about the Q4 revenue figure, we know that revenue has continued to grow significantly after the quarter. Recall that we opened 8 new stores in December alone and had a very strong holiday season.

As a percentage of revenue, gross profit remained relatively constant versus the prior 2 quarters at 27%. Of primary importance, however, is that our 4-wall gross margins earned from selling cannabis in Canada, which drives the vast majority of our revenue, was up a full percentage point in Q4 versus Q3 and has continued to tick higher so far through Q1.

Our gross profit was $29.5 million in the fourth fiscal quarter of 2022. While gross margin as a percentage of revenue of 27% was down compared to 33% in Q4 2021, this was fully anticipated and communicated due to our shift in strategy with the launch of our innovative discount club model, which aim to increase gross margin dollars by generating more sales. And this has undoubtedly worked.

For example, I highlight the gross margin dollars in the last 2 quarters of fiscal 2022 were $55.3 million, meaningfully higher than the $34.2 million generated in the last 2 quarters of fiscal 2021. The more important factor for me is seeing that gross margins in our cannabis stores have not only stayed stable, rather, they have moved higher over the past 12 months. And as ELITE cannabis seeds and our white-label initiatives start to become more meaningful over time, they should each have a positive impact on our consolidated gross margins in the future.

We hit new high in our adjusted EBITDA at $5 million in Q4, up 206% versus Q4 2021 and up 18% sequentially. On the costs side, we held our salary, wages, and benefits constant at 12% of revenue, which is among the lowest in the industry. Similarly, our SG&A was only 6.6% of revenue, which is a testament to our strong cost controls.

One area we are particularly proud of and want to highlight for our investors is how our revenue growth has translated to improved cash flows. Our cash flows from operations before changes in non-cash working capital were positive in each quarter of fiscal 2022 totaling $9.1 million for the year and $3.5 million for Q4. This shows that our existing base of stores is generating cash.

Cash flows generated from working capital were $4.8 million in Q4. Quarter-to-quarter cash flows will change based on how many stores we open in a quarter, which require working capital investment and the overall management of payables and receivables in any given period. However, with Q4 results now available, we can look at it on an annual basis and see that non-cash working capital changes represented a use of cash of $4.6 million in fiscal 2022, just less than half the drag compared to fiscal 2021, where it was $9.9 million.

So total cash flows from operations, including the impact of working capital, were positive $4.5 million this year, a big swing from negative $2.8 million last year. Considering that total CapEx for the year, including intangibles was quite manageable at $9.1 million, you can see that we are not too far off from becoming free cash flow positive, a telling phenomenon for a company growing so quickly. We made significant improvements to our balance sheet during the quarter with the closing of the connectFirst facility.

Not only do we see meaningful near-term upside to the size of the facility, but with it place and other debt paid down, we now have no meaningful debt maturities until December 31, 2024, exactly 23 months from today. For context, I know that our adjusted EBITDA has almost doubled in the past 2 years from $8 million in fiscal 2020 to $14.6 million in fiscal 2022, and merely annualizing our last quarter puts us at $20 million run rate. Our total debt currently is at $38.7 million, less than 2 times this run rate.

In closing, Q4 was another record-breaking quarter for High Tide. And based on what we have seen for Q1, we are at a $450 million annual revenue run rate today, cementing us as a market leader in Canadian cannabis. With that, I now turn the call over to the operator to open the lines for the question-and-answer session.

Question and Answer

Operator

[Operator Instructions]. Our first question today comes from Scott Fortune from ROTH Capital Partners.

Scott Thomas Fortune
ROTH MKM Partners, LLC, Research Division

Congrats on the quarter. Just want to reiterate, you provided good color on M&A and organic store growth targets, remaining in that 40 to 50 stores a year.

Although on your press release, you said that might slow down on M&A side. But just wanted to see where the strong growth -- store growth coming from in the different provinces. As you see some of these provinces reach saturation, do you see more organic growth or M&A store growth plan going forward? Just a little more color on the store growth coming out here into 2023 here.

Harkirat Grover
Founder, CEO, President & Executive Chairman

Good morning, and thank you, Scott. Absolutely. So Scott, as far as you know, this current year or this past calendar year, we added 45 stores to our portfolio. Most of that store growth came from Ontario, and we had a very even split between organic growth and accretive M&A that we executed on. And we believe 2023 calendar year will be no different. Our intention is to add 40 to 50 stores, pretty much an even split of organic growth and accretive M&A opportunities that we are seeing.

We are constantly getting inbound opportunities that we are exploring. But we're going to be very opportunistic and only buy the ones that are most accretive and strategic. So we are the biggest players now, Scott, and we have been for some time, and we are practically setting the price for what these stores are worth.

And we continue to get these opportunities, but we're going to be very strategic in terms of how we approach this. But I feel we can still add 40 to 50 locations this year. It's not going to be easy, like I said. We, in typical High Tide fashion, we needed the last day of the year to make it happen, but we did. Our amazing team always comes through. So we believe we can add another 40 to 50 locations this year.

Scott Thomas Fortune
ROTH MKM Partners, LLC, Research Division

Okay. I appreciate the color. And then, my follow-up would be: You're early in rolling out your white-label product stores, your own stores here, but can you provide a little more color on the offering, the number of SKUs you have, and the ramp of your own products in the store, and what percentage of your own products will be sold in your own stores?

And obviously, I think for longer term. White label could represent about 20% plus of the revenue -- the revenue mix. Button that white-label growth plans as you see '23 playing out here.

Harkirat Grover
Founder, CEO, President & Executive Chairman

Sure. So, Scott, currently, we have 10 SKUs, a total of 10 SKUs in the market. 7 of them are Cabana Cannabis Co. products, and 3 of the SKUs are New Leaf natural products. And our average store in Ontario, let's say, for example, with all of these SKUs in the market, it's still only making 2% of our total inventory. So it's a very small percentage of sales, but that should grow over time as we have more offerings coming this year.

We just added 3 additional SKUs and we continue to add more SKUs. So long term, Scott, we think we can get to 25% of all of our SKUs in our white-label products. And that's going to include Cabana Cannabis Co.

That's going to include FAB CBD, New Leaf, and other brands that we continue to build. And we've already realized about 4% in additional gross margins from selling our current white-label SKUs.

So it's -- all of this is going according to plan. We anticipate that the Alberta market might also open up to white label. There are considerations in Alberta regarding that. That will increase our market size even more. But we remain very excited about this margin-enhancing opportunity that we have for white label, and you're going to see constant rollout of more white-label offerings throughout the year from us.

Operator

Our next question today comes from Frederico Gomes from ATB Capital.

Frederico Yokota Choucair Gomes
ATB Capital Markets Inc., Research Division

Congrats on a great quarter, and thanks for taking my questions. My first question is on the cash flow side. You obviously -- you had a good year. You generated positive cash from operations. And I think, Rahim, you mentioned this a little bit in terms of free cash flow. I know that you might be approaching that, but any more color on when you think that could happen? It's pretty clear that you are reducing your burn in your improvement of business. But any guidance you could provide us to when you think you can reach that?

Rahim Kanji
Chief Financial Officer

Thanks, Frederico. We've had a great momentum this year, moving towards a free cash flow position. Our Q4 cash flow from operations before working capital was $3.5 million, and our core -- Q4 cash flow from changes in working capital was $4.8 million. So Q4 total cash flow from operations, including working capital, we were able to generate $8.3 million.

If you look at the whole -- if we look at the whole year of 2022, cash flow from operations before working capital was $9.1 million, better than 2021 of $7.1 million. And our cash flow from changes in working capital was negative $4.6 million, better than 2021 of $9.9 million.

If you look at our total cash flow for the year from operations, including working capital, we ended the year with $4.5 million, better than 2021 of negative $2.8 million. Our free cash flow was $4.6 million negative in 2022, which is a huge improvement from negative $13.5 million in 2021. So things are definitely trending in the right direction.

Frederico Yokota Choucair Gomes
ATB Capital Markets Inc., Research Division

Okay. And in terms of your margins, your gross margins were pretty stable this quarter, even though you had a higher mix of sales from retail in Canada, which is a lower margin than . So could you comment on that dynamic? What should we expect in terms of gross margins for this year? And what is the opportunity that you see for potential margin increases in Canadian retail?

Rahim Kanji
Chief Financial Officer

Yes, sure. So our consolidated gross margins have stabilized over the last 3 quarters. Our CBD margins have come down given the environment. But more importantly, our brick-and-mortar gross margins have been ticking steadily higher, maintaining that balance. Looking ahead, we think we can increase margins by slowly increasing prices in certain markets, and other initiatives are gaining steam, such as our lead program, white label program, and introduction of seeds and implementing fast tender across all our locations.

Operator

Our next question comes from Matt Bottomley from Canaccord Genuity.

Yewon Kang
Canaccord Genuity Corp., Research Division

This is Yewon Kang on for Matt Bottomley. Congrats on the quarter, and thanks for taking our question. So I just have a quick question regarding the Cabana ELITE program. I know it's only been 2 months since the program launched, but could you provide some color on how the program has been rolling out so far, and what kind of expectations you have for the program's ramp up in fiscal 2023, and what kind of drivers you have in place for -- to support the growth of the program over time?

Harkirat Grover
Founder, CEO, President & Executive Chairman

Good morning, Yewon, and thank you for your question. So, Johan, we have signed over 6,000 members already in Cabana ELITE with less than 2% of our inventory in actual ELITE products. So we mentioned in the press release and also on the script that we're very excited about this uptake because we practically just launched this program.

Again, it's the first-of-its-kind initiative that I don't see any other company doing or innovating like us. But we're super excited about the ELITE future because we feel that we can get the ELITE product line to reflect 30% to 40% of our in-store offerings long term. So just look at the delta, we're currently sitting at 2, we're going to 30 to 40. So you can understand the uptake that we can have once we get to this long-term rollout of ELITE products.

In fact, a good 55 to 75 SKUs, I believe -- we just worked out internally with our team -- are becoming this week, and I think that is going to have an impact alone, not only considering what we're looking at 2 to 3 years out, but we're going to start seeing a little bit better intake of ELITE rollout as we start to introduce these SKUs.

We are very happy with the intake so far because we're going to continue to introduce new ELITE offerings every quarter. And this is a very high-margin recurring revenue stream for High Tide and should increase customer stickiness even further because if I'm paying for something as a customer, I want to come back to that store and shop more because I'm already a committed paying member.

We already had very sticky members, as you know, -- we were over -- 90% of our daily transactions in stores are conducted by club members. And now, when we're turning these members into ELITE, we think this goes even further. The current economical return that we're yielding on ELITE is over 70% gross margins. And this is selling ELITE at half price at $2.50 a month, like I mentioned, or $30 a year. But this is going to go up to $60 a year or $5 a month when the price goes up next year. So we think we can yield north of 80% gross margins to ELITE.

Operator

Our next question comes from Andrew Partheniou from Stifel.

Andrew Partheniou
Stifel Nicolaus Canada Inc., Research Division

Congrats on the cash generation this quarter. I wanted to just get a little bit of clarity on the language. In the press release, you discussed slowing down M&A activity. But in your outlook for new stores, it seems that you're guiding for roughly the same number of acquisitions as last year. So if you could just clarify what you meant by slowing down M&A activity in the press release, that would be helpful.

Harkirat Grover
Founder, CEO, President & Executive Chairman

Yes, Good morning, Andrew, and thank you very much for your question. I understand where the confusion is. So let me clarify a bit. So, Andrew, if you if you go back to 2021, we acquired 6 e-commerce platforms in the United States and internationally, one in the UK. And what we meant by slowing down an M&A activity, and I've said this multiple times, given the opportunity that -- given our equity prices

remaining so depressed, we don't even want to pay 5 or 6 times EBITDA. And we are now focusing on more smaller, highly accretive brick-and-mortar M&A that we did last year.

As you know, 87% of our revenue is derived from our brick-and-mortar operations, and we have no impairment in those operations. Impairment is not a norm for a High Tide. And considering the dynamics out there, our other complementary business lines supporting our brick-and-mortar businesses, our e-commerce platforms catering to the consumption accessories business, which remain very healthy because we have one of the -- some of the most searchable websites in the world when it comes to consumption accessories.

So what we were talking about here is we are going to slow down on larger M&A transactions such as we have conducted in 2021. We explored many opportunities in 2022 but did not press the trigger on it, considering what was happening in the macro markets and given inflationary times that we're all living in and how it's affecting the macro environment and how it's affecting CBD sales and other items because consumers have to prioritize their spending. So we're just moving down on that portion of the business.

Our brick-and-mortar is going very strong. Our strategy is working. And like I said, we have a ton of inbound opportunities. These are not also -- we're not even soliciting 10 groups that we want to do M&A. But given the right opportunity, the right location -- locations are very critical to us. If we get the right anchor locations we are looking for, we know when we put our model in there, it's going to do twice as much better.

Like I mentioned, our Alberta average sales are over 2 times the average unit sales in Alberta, provincial average, and almost 3 times Ontario average. So we're going to continue on that trajectory, build upon our 87% of our core brick-and-mortar business accretive M&A, and the rest to organic growth. But we are going to slow down on online opportunities unless we get a very good one that we cannot refuse at a very, very good multiple. So that's where we're at right now.

Andrew Partheniou
Stifel Nicolaus Canada Inc., Research Division

I appreciate that clarification. And for my second question, just maybe following on something that you mentioned here. I'm talking about valuation multiples. I think, last year, you paid somewhere under one-time sales on average and between 4.5 to 5 times EBITDA for your stores. I'm wondering what are you seeing in terms of multiples now, and what your thresholds might be? And also attached to that is, how are you thinking about funding these? You just announced a credit agreement, and considering last year, I think only 2 had cash components -- 2 transactions.

Harkirat Grover
Founder, CEO, President & Executive Chairman

Correct. So Andrew, just for clarification, most of our deals last year were between 3.5 and 4 times EBITDA. Most of them were conducted in Ontario and Saskatchewan and also some in Alberta. But only the one deal that we did in British Columbia was over a 5 multiple. I believe it was 5.25, which is commanded in the BC market because it's a very limited-license opportunity market.

So we're very disciplined in terms of what we paid for these stores, and we are going to remain very disciplined. And to answer your question on what I see the multiples being this year, if our own stock -- in our opinion, our stock is very undervalued at the moment. So -- and our stock is, I believe, currently trading at enterprise value to current annual run rate sales multiple of 0.4 times. And if you take our EBITDA multiples of less than 9 times last quarter, annualized, plus with the addition of Jimmy, so not even including our obvious growth ahead.

So, Andrew, we are very mindful in terms of how we do M&A, and the multiples are going to be relevant to where our multiples have come down to. So we may even do better deals than what we've done last year, but it doesn't get a whole lot better at 3.5 times EBITDA. If you looked at any other mature industries, you look at restaurants, you look at retail stores, there's nothing available for less than 3.5, 4 times EBITDA. I think these are very reasonable multiples to pay, and we are a fair acquirer. So it will remain along those lines.

And now, look, there's 2 ways of doing M&A, right? You either buy them with cash, or you buy them with your currency. And so, others have raised a ton of money. We have not done that. And we have -- our total CapEx spend last year was about $9 million. So this is why we're going to be disciplined again. This year, we're going to do half of it through organic growth, so we can manage our cash really well. And the other half is going through M&A with our currency that we've been using very well. So it's going to be an even split between the 2.

Operator

[Operator Instructions] Our next question comes from Andrew Semple from Echelon.

Andrew Semple
Echelon Wealth Partners Inc., Research Division

Congrats to the High Tide team on the very strong fourth quarter results. I'm glad to see the continuing momentum in retail in Canada.

First question here, just wanted to go back to, I guess, some of the prepared remarks about the e-commerce sales, and I really appreciate the additional color there. Based on my math, it actually appears that the e-commerce revenues are actually beginning to show a bit more stability, maybe down low single digits quarter over quarter compared to the double-digit declines you saw in Q2 and Q3. Do you believe the segment could return to growth in the year ahead, or is it too early to tell on that?

Harkirat Grover
Founder, CEO, President & Executive Chairman

Good morning, Andrew, and thank you for your question. So, Andrew, our e-commerce step was definitely stable quarter over quarter. And I want to highlight the fact that our accessories business because we have -- like I mentioned, GrassCity and Smoke Cartel are the 2 most searchable online accessories platforms in the whole world. And because of that searchability and being #1 in the whole universe, they didn't really get too affected. And the rest of the platforms are smaller anyway.

Really, where we felt the impact was strictly our CBD businesses, and it was across the board. It was in the United States, and it was for Blessed in the UK. And like I mentioned over the last earnings call, when people are prioritizing essentials, food, and gas, they're a little shy of buying a $100 bottle of CBD.

That doesn't mean that our brands are not performing, or our brands are not there to take market share as more of these global markets open up. But I always like to under promise and over deliver and not talk about fluff that is not real. So we are stable, quarter over quarter. We've had a good holiday season, like we mentioned in our script and the earnings press release.

But after the holiday season, sales always slow down, whether it's cannabis, whether it's CBD, whether it's consumption accessories. It's the same thing we saw with the ELITE as well. In the holiday season, people had money in their wallets. But as the spending finishes, and then you get into the next season, spending goes down a little bit.

So we feel that our e-commerce platforms will remain stable. They're not like tanking by any measure, you're absolutely correct. But like I said, we like to be cautious about things. Our core business -- 87% of our business is brick and mortar anyway. The remaining 6%, 7% of our online accessories business is still thriving, given our searchability factor that we have on Google.

And our CBD businesses, these are the brands that we're going to build into the future. I am very excited about them. As these new markets open up, many markets in Asia, including Japan, is now talking about a medical cannabis legalization, which means they're going to get more and more friendly towards CBD products as well. I'm having conversations in the Middle East as well. So we're not concerned about the long-term nature of our CBD business. It's just currently that we want to under promise, over deliver as usual, and just being cautious on that front.

Andrew Semple
Echelon Wealth Partners Inc., Research Division

That additional color was very helpful. Thank you, Raj. Moving to another topic, I just wanted to touch on the German market. As you look to enter that potential market opportunity, do you have any views on how the German market may regulate adult-use cannabis retail distribution as of yet? Have those rules been made clear, and do you have any thoughts on timing? I know you said it's early as this spring, but as we go back to our models, how should we be thinking about timing after this potential opportunity?

Harkirat Grover
Founder, CEO, President & Executive Chairman

Sure. So, Andrew, this is all speculation at this point, but educated speculation, I will call it. So we're hearing that Germany will introduce legislation this spring. A draft legislation will come out, and retail sales could commence as early as first -- calendar first quarter in Germany next year in 2024.

And we're keeping a very good eye on this, on all of the developments that are coming out of Germany. And this is why, we are very excited about this strategic partnership we are forming with Sanity. We wanted a solid partner on the ground to execute our game plan, and I think Sanity fits that bill perfectly.

They are a leader in their home country in Germany, and our business lines are very complementary in nature. So we're a retail-focused company, and they're a producer and distributor of cannabis brands. And we wanted to put this out because we wanted our investors to understand that we're not just talking about things. We're very serious about entering the German market. And if you look at Sanity, they've been doing some incredible things in Germany already.

They can assist us with high-quality M&A targets in Germany and other EU markets as well as -- for winning retail licenses organically. And also, both companies can also work together now in government outreach efforts, which we've already begun. And then, we will also assist Sanity on multiple things, helping them position and build their brands, obviously subject to provincial and federal regulations in Germany, as we have tons of experience in Canada as we have, by the minute, information on what these -- what kind of products are moving in Canada, and what is the cannabis consumer looking for?

So it's a great partnership. We're very excited about the German market. We think it will open up first quarter -- first calendar quarter 2024, and we are going to be ready when that happens.

Operator

That concludes today's Q&A portion of the call. I'd now like to turn the session back over to High Tide's Chief Executive Officer, Raj Grover, for final comments.

Harkirat Grover
Founder, CEO, President & Executive Chairman

Thank you, operator, and thank you to everyone for your interest and continued support for High Tide. We're very proud of what we achieved this quarter and remain excited about our growth trajectory.

With that, I will ask the operator to close the line. Have a great day, everyone.

Operator
That concludes today's High Tide Inc. year-end 2022 earnings call. You may now disconnect your line.