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High Tide Inc. TSXV:HITI

FQ1 2024 Earnings Call Transcripts

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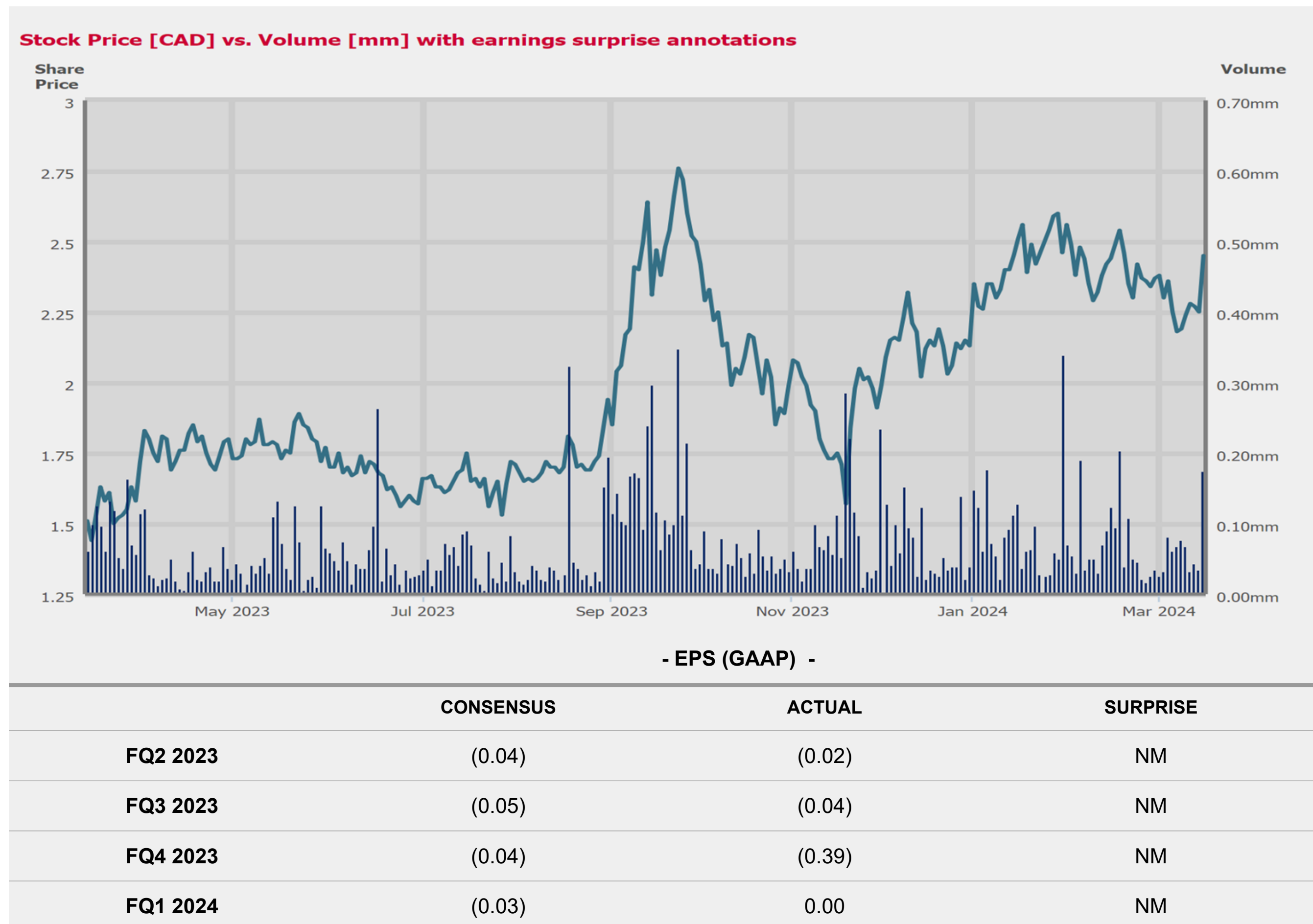
S&P Global Market Intelligence Estimates

	-FQ1 2024-			-FQ2 2024-	-FY 2024-	-FY 2025-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS (GAAP)	(0.03)	0.00	NM	(0.03)	(0.22)	NA
Revenue (mm)	127.68	128.07	▲0.31	130.85	541.36	NA

Currency: CAD
Consensus as of Mar-13-2024 6:03 PM GMT



- EPS (GAAP) -

	CONSENSUS	ACTUAL	SURPRISE
FQ2 2023	(0.04)	(0.02)	NM
FQ3 2023	(0.05)	(0.04)	NM
FQ4 2023	(0.04)	(0.39)	NM
FQ1 2024	(0.03)	0.00	NM

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Call Participants

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Presentation

Operator

Good morning. 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 Q1 2024 Audited Financial and Operational Results Conference Call. [Operator Instructions]. I will now turn the call over to your host, Krystal Dafoe.

Krystal Dafoe
Director of Corporate Governance

Thank you, operator. Good morning, everyone, and welcome to High Tide Inc.'s quarterly earnings call. Please note that all earnings discussed on this call are presented on an unaudited basis. Joining me on the call today are Mr. Raj Grover, President and Chief Executive Officer; and Mr. Sergio Patito, Chief Financial Officer.

On March 15, 2024, the company released unaudited highlights from its financial and operational results for the fiscal quarter ended January 31, 2024. Before we begin, please let me remind you that during the course of this conference call, High Tide management may make statements, including with respect to management's expectations or estimates of future performance. All such statements other than statements of historical facts constitute forward-looking information or forward-looking statements within the meaning of the applicable subsecurities laws and are based on assumptions, expectations, estimates and projections as of the date hereof.

Specific forward-looking statements include, without limitation, all disclosures regarding future results of operations, 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 29, 2024, our latest annual information form and our latest management discussion and analysis, each filed with securities regulatory authorities at sedarplus.ca or on EDGAR at www.sec.gov or on the company's website at www.higtideinc.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 on such forward-looking results. For any reconciliation of non-GAAP measures measured and discussed, please consult our latest management discussion and analysis filed on SEDAR plus and EDGAR.

Now it is my true 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 first fiscal quarter that ended January 31, 2024. I will begin with some big picture comments regarding the quarter and our strategy before Sergio and I dig deeper into the numbers. As you can see from the press release and financials filed on Friday, Q1 was another solid quarter for High Tide, marked by record revenue, record adjusted EBITDA and meaningful free cash flow generation. Income from operations was also a record and we broke even on net income which is another huge milestone for our company and one that I'm especially proud of. We have never posted a quarter where revenue declined sequentially and adjusted EBITDA has now been positive for 16 consecutive quarters, including 6 straight quarters where it reached new highs. As investors are probably aware, our focus for the past year has been on generating positive free cash flow. This is an anomaly in the Canadian cannabis sector and our results are a source of pride.

We generated $3.6 million of free cash flow in Q1 and $13.3 million during the last 3 quarters. In our view, this cash flow profile represents a tremendous street considering we have been growing the business during this period. And as we have done effectively no M&A over the past year, this growth has been all organic. In calendar 2023, we purposefully slowed growth to reach our objective of becoming free cash flow positive as we only opened 13 stores during the year versus 30 to 40 in prior years. We expect growth to reaccelerate during this calendar year. We are optimistic that M&A will resume this year. However, it has been slower than we would like so far, largely due to a lack of companies for sale that are quality candidates. As we are anticipating to add more stores to our network over the course of the year, we are excited about the revenue growth potential it will help create. According to a recent report by ATB Financial, High Tide already has the second largest non-franchise cannabis retail footprint across North America at 165 locations.

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Our performance over the past few years has really been a standout within Canadian cannabis retail. The discount club model we launched a few years ago has grown and evolved, and our innovation has helped create a personality of our own. This revolutionary model tailored to our company's unique retail ecosystem has allowed us to exceed 10% market share in Q1 in the 5 provinces in which we operate, making us the largest retail player in the country. Our market share in Alberta was over 19% during Q1, particularly given the increase in the store cap in Ontario from 75 to 150, we now see a clear path to 15% market share in the 5 provinces where we have stores in the long term. We are very pleased to see Cabana Club enrollment continuing to expand, and it has now grown to over 1.2 million loyal members. Elite onboarding has reached its fastest pace since initial launch with approximately 4,000 new members added since we reported Q4 as we reached a total of over 32,000 paid members. We have increased the Elite offerings in our stores just as we said we would as they now reflect 12% of in-store inventory geared towards our paid members versus less than 2% a year ago. Ongoing and in the long term, our goal is to have 20% to 30% of our SKU offerings targeting our elite members. We expect Elite to continue to grow as we onboard more Elite products, which gives our base of Cabana Club members more reasons to upgrade to Elite.

With the start of a new fiscal year, we have provided enhanced segmented disclosure so investors can better appreciate the main drivers of our business and how they performed. We now explicitly break out our bricks and mortar revenue and e-commerce revenue. While our consolidated revenue increased 8% year-over-year in Q1, investors can now see that our bricks and mortar revenue was up 16% during this period. Our brick-and-mortar stores are the core focus of the company as they represent over 90% of our total revenue and are doing even better than what our headline consolidated revenues suggest. Our e-commerce businesses continues to lag as revenue here has declined, it weighs on our consolidated revenue growth. Being proactive, we have been aggressively taking cost out of the system in this segment. and we have maintained positive EBITDA within our e-commerce portfolio similar to a year ago. This is 1 reason why while consolidated revenue only grew 1% sequentially, our consolidated adjusted EBITDA rose 25%. The I'm particularly proud of our consolidated adjusted EBITDA margin. It has been increasing at a significant pace, growing from 4.7% in Q1 last year to 6.6% in Q4 2023 and now reaching 8.1% this quarter. This gives us comfort that we will reach double-digit adjusted EBITDA margin in the long term, which has been our goal.

I will now go over the highlights from the financials and Sergio will do a deeper dive. Revenue for Q1 was $128.1 million, representing an annual pace exceeding $510 million and up 8% year-over-year and 1% sequentially. Our bricks-and-mortar segment led the way up 16% year-over-year. In the month of December, our average store was on an annual revenue run rate of $2.7 million which compares to average peer revenue of $1.2 million in the provinces in which we operate. In Ontario, the largest market and the focus of our future expansion, our outperformance was even more pronounced with the average Canna Cabana being on a $3.5 million annual revenue run rate, which was 3.1x that of our provincial peers at $1.2 million. Our same-store sales were up 7% year-over-year in Q1. While our same-store sales remained consistent sequentially, it was largely a symptom of a slower overall market in which we continue to outperform as our total sales in the 5 provinces in which we operate were down 6% sequentially as per statistics Canada and high-power data.

Consolidated gross margins were 28% in Q1 2024, which compared to 27% throughout all of 2023 and 26% in Q4 2023. Here again, our bricks and mortar segment posted gains with a gross margin of 27% in Q1 2024, up from 23% in Q1 2023. We once again held the line on expenses and reap the benefits of operating leverage this quarter. While revenue increased by $10 million versus Q1 2023, our overhead expenses actually decreased by $2.9 million. In particular, our general and administration expenses fell by $1.9 million and represented just 4.4% of revenue this quarter, down meaningfully from 6.3% in Q1 2023 and 5.3% in Q4 2023. I'm very happy to see this percentage continue to fall and believe it's exceptional within our industry. Adjusted EBITDA was a record $10.4 million for the quarter, up 25% sequentially despite only 1% increase in revenue. We also saw meaningful improvements year-over-year as Q1 2024s level was 90% higher than Q1 2023, which itself was up 86% versus Q1 2022. Again, we are very pleased with our adjusted EBITDA margin of 8.1% as it underscores the long-term benefits of our innovative discount club model, the leverage from our scale and our strict cost controls. Finally, as much as we usually talk about adjusted EBITDA, I would like to highlight that we also generated very meaningful EBITDA prior to adjustments for items such as share-based compensation and loss on revaluation of debentures of $8.4 million, which was a 78% increase over last year's Q1. Similarly, we set a record high in our income from operations, which was positive $2.8 million this quarter, marking a huge improvement from a loss of $3.9 million in Q1 2023. In fact, we also broke even on net income. Our free cash flow was $3.6 million during the quarter, which marked a large reversal from negative $847,000 a year ago.

As a reminder, our goal is to reaccelerate growth going forward while remaining free cash flow positive. However, the amount of free cash flow we may fluctuate in any given quarter given the working capital requirements and the impact of getting new stores to maturity. For example, I highlight that in this quarter, our accounts payable and accrued liabilities balance decreased by $5.4 million, which weighed meaningfully on our Q1 free cash flow. Nevertheless, over the past 3 quarters, we have generated over $13 million in free cash flow, which when annualized, translates to a 10% free cash flow yield on our enterprise value as [indiscernible] [Friday] close. We have taken steps to continue to fortify our supply chain. Last month, our value and distribution subsidiary signed an agreement with the Manitoba Liquor and Lotteries Corporation to be a distributor of cannabis products to cannabis retailers in

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Manitoba. This is one more step in the direction of being as vertical as we can to make the most of our cannabis ecosystem. As well on Friday, we announced the acquisition of the Queen of Bud brand and its well-known selectively curated cannabis product portfolio. Queen of Bud has an extensive customer base, particularly among women with unique offerings such as its rose petal blunts and crystal inspired SKUs. This is a solid brand addition to our international roster. With this acquisition, we can sell cannabis in Canada under the Queen of Bud brand via white label agreements as opposed to having to make large CapEx investments and deal with the overhead and administration expenses with growing it. Also, Queen of Bud has a wide range of ancillary products that we can sell internationally on our existing platforms. I'm very excited with the potential we have with this brand. And in usual High Tide fashion, we made this acquisition for a very reasonable price of just $1 million.

While it may not be obvious by looking at market caps, we continue to have the highest cannabis revenue of any Canadian company and our Q1 results once again demonstrated the strength of our brand and how we outperformed our peers. Our unique discount club concept has driven a total increase in same-store sales of 103% in January 2024 compared to October 2021, whereas total retail sales across Canada, excluding Quebec, where there is no private sector cannabis retail were up only 21%. That's almost a 5x outperformance incorporating the increase in our store count during the period, the average operator experienced a 14% decline while we posted a 103% gain. We see a stark disconnect between our fundamentals as shown by our string of record-setting quarters and our current share valuation, which now reflects an EV to last quarter annualized EBITDA multiple of just 4.2x based on Friday's close. This is why during our fiscal Q1, many of the insiders led by me, acquired more High Tide shares in the open market. We believe in what we are building here at High Tide, a global cannabis retail powerhouse. We have an immediate opportunity we plan to seize [indiscernible] in Canada focused on Ontario, where we plan to add over 90 more stores. Concurrently, we continue to monitor progress in Germany, which we believe will represent the next wave of growth for High Tide. Phase 1 of Germany's legalization plan has passed the German parliament. We look forward to Phase II, which would allow for proper retail cannabis stores possibly by mid-2025.

We were honored to be named on the prestigious TSX Venture 50 list for the second time in 3 years last month. Exciting things continue to happen at High Tide. I would like to thank our team for their dedication to getting us to where we have reached today and their diligent work to strive towards newer heights tomorrow.

I will now turn it over to Sergio Patino, our Chief Financial Officer, for his comments and a deeper dive into the numbers.

Sergio Patino
Chief Financial Officer

Thank you, Raj, and hello, everyone. I'm very proud to showcase how High Tide started off fiscal 2024 on the right foot, once again generating record revenue, record adjusted EBITDA, record income from operations, meaningful free cash flow and breakeven net income, which is a longer-term goal we have had for some time.

Let's take a deeper dive into the numbers. As Raj mentioned, revenue for the quarter was $128.1 million, up 8% year-over-year and 1% sequentially. Growth was led by our Canadian brick-and-mortar business, which was up 16% year-over-year, in particular, accessories sales in our install doubled year-over-year in dollar terms and represented 4.1% of our 4-wall sales. This is the strongest proof we can show that our discount cloud model, which often leads which very large price drops on premium accessories for members is working and gaining its team. On a consolidated basis, our gross margins of 28% were just ahead of the 27% we generated in Q1 last year. Our brick-and-mortar segment posted gains led by pricing increases in our 4 walls, which offset the declines in e-commerce, where things continue to be weaker.

Once again, our cost control was very apparent this quarter. Our consolidated expenses were $33.2 million, representing the lowest level in 6 quarters despite the fact that revenue was once again at a record level. In particular, I highlight that our G&A expenses were just $5.6 million in Q1, which was the lowest level in 9 quarters. This really shows how successful we have been taking costs out of the system particularly on the e-commerce side while being able to meaningfully grow revenue. I'm very proud of the team for this successful execution. This cost control combined with our record revenue and highest consolidated gross margin percentage in 9 quarters oil combined to produce a record adjusted EBITDA margin of 8.1% and a record level of $10.4 million.

As Raj mentioned, we had a very large decline in our accounts payable and accrued liability this quarter of $5.4 million, which weighted on cash flows. For context, the accounts payable and accrued liabilities represented a use of cash of $5.3 million all year last year. Despite this large amount we were still able to generate $3.6 million in free cash flow in Q1, which we feel is a very strong level. Our balance sheet continues to strengthen on the back of this free cash flow generation. We ended the quarter with $28.7 million of cash in the bank, down $1.4 million from Q4 level. But this was after paying down $3.6 million of principal our debt, including $2.8 million from our convertible debentures, which now has $1 million balance. Our total debt sits at $28.4 million today, which is only 0.7x our last reported adjusted EBITDA run rate.

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Given our underleveraged, we are -- we believe we can add more debt to support our growth, particularly to ramp up our store Ontario store footprint to the new cap of 150 stores. And we are in discussions with both connect fairs and other potential subordinated lenders to obtain more debt financing in the near term. We continue to have our ATM facility in place, but given our free cash flow profile, our low leverage level and a share price with [indiscernible] under value we have [indiscernible].

In closing, Q1 was another solid quarter for High Tide. Our operating fundamentals continue to improve with each passing quarter, and our competitive position continues to strengthen while our leverage keeps improving. Thanks again to our customers, our own dedicated team for making this all happen.
With that, I will now turn the call over to the operator to open the line for the question-and-answer session.

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Question and Answer

Operator

[Operator Instructions]. Our first question today comes from Ty Collin from Eight Capital.

Ty Collin
Eight Capital, Research Division

Maybe for my first one, I just wanted to dig into the gross margin a little bit. So it looked like a pretty nice step up even on a sequential basis for the 4-wall gross margin there. I'm just wondering if you could dig a little more into what was driving that, particularly given the comments last quarter that you were maybe taking a bit of a breather on going after additional margin and pricing. So how are you able to drive such strong performance.

Harkirat Grover
Founder, CEO, President & Executive Chairman

Thank you very much for your question. So yes, look, I was very impressed with our gross margin this quarter. And we have been hovering around that between 26% and 28%, and it can get lumpy from 1 quarter to the other because just the way we run our discount club Monotype, we use neighborhood-specific gross margin strategy. But the bigger impact that we had on this quarter on gross margin was related to Cabanalytics. As you can see, Cabanalytics went up from, I believe, $6.7 million last quarter to $7.3 million because we also added ad revenue to it. So now that is also starting to boost our gross margin profile, but we are actually holding the line on our 4-wall gross margin, especially because we have so many other efficiencies that we can generate, and we can help support our 4-wall brick and margin profile as our competitors are feeling financial distress and are practically on the word of going out of business or that is happening all around us, we don't want to let lose on that profile.

And I can tell you that it did not happen from a 4-wall increase. it happened more in the sense of a Cabanalytics data insights platform that got a bit of a boost. Quarter-to-quarter, this can shift. We added more stores, so that helped. But also add revenue. We've signed over 6 vendors on the consumption accessories and CBD front. And now we are starting to reap the benefits of that as well.

Ty Collin
Eight Capital, Research Division

Okay. Great. That's really helpful color. And then for my follow-up, Raj, maybe just wondering if you could comment kind of bigger picture on the overall market softness that you were seeing towards the end of 2023, what was behind that? And have you started to see any recovery in recent weeks and months, maybe beyond what the existing data says.

Harkirat Grover
Founder, CEO, President & Executive Chairman

Yes, absolutely. So look, after seeing consistent double-digit gains in retail sales, we've definitely seen things slow down a little bit in our fiscal Q1. And this is in line because overall, sales are down 6% nationally while we came consistent on our same-store sales level. So this is clear proof that our concept is absolutely working. Despite the softness, look, we're only a product of our environment. We are limited to what overall cannabis sales look like, but I couldn't be more happier with the quarter where we just saw 1% revenue increase, but still saw a 25% increase in adjusted EBITDA. And I believe the slowdown is in relation to just inflationary environment still prevailing and customers have to prioritize their spend. So the holiday season sales were not as robust as they usually are.

So what we've done, Ty, is that we've been really focused on the things we can control such as our G&A was at a multi-quarter low in dollars and very low as a percentage of revenue. And this is why I'm super proud of our performance in Q1, where we held the line on same-store sales despite industry sales being down 6%.

Operator

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

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

First question is, Raj, you mentioned the Cabanalytics program and how you did well there and impact to margins. I'm curious if you could comment on the excise tax that we have in Canada right now. And there have been reports about more strict enforcement. I'm

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just curious how in strict enforcement for LPs going back to your business on the data analytics side. And similarly, how would a possible reform in excise taxes could also impact your business?

Harkirat Grover
Founder, CEO, President & Executive Chairman

Absolutely, Fred. And thank you so much for your question. So look, we don't know the extent of how much the CRAs new measures will affect the LPs and thus our Cabanalytics revenue portfolio. As a reminder, we've expanded our Camanalytics program to also generate ad revenue, which we are already starting to see some good momentum on. As I mentioned, we signed 6 new clients. between our CBD and accessories portfolios who are altogether magazine that is starting to yield results, which will help offset -- which should help offset potential near-term pressure. But it's not a given how this thing is going to pan out. I'm hearing exactly the same that the CRA has upped the ante on collections of the excise taxes and the financial health of LPs is not great. That is the reality, right? So we keep seeing more and more CCAA filings among LPs. And the CR is getting more aggressive on taxes. So -- but the good news is, like I mentioned, because of the all altogether magazine, and the overall strength of our ecosystem and being the largest revenue-producing company in Canada, our data is very valuable. So we're not seeing a material shift downwards yet. In fact, we saw a very healthy shift upwards. I don't think we maintain this pace. I think we flatlined here a little bit between Q1 and Q4 levels. But all in all, I'm very pleased at where things stand, and we're keeping a very close eye in terms of what happens with this CRA amping up the motion on excise taxes.

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

And then my second question is just on your, I guess, your brand strategy. So you recently bought Queen of Bud, so I'm curious about your strategy there in terms of white label products and the brands you plan to acquire more brands? And do you see any opportunity or I guess, interest in licensing some of our brands in other markets, for example, in the West. And then just in terms of sales of your own brands or stores, can you give us any color in terms of what's the mix right now the target mix and the margin differential there as well.

Harkirat Grover
Founder, CEO, President & Executive Chairman

Yes. Absolutely, Brad. So look, very, very excited to announce the acquisition of Queen of Bud. It's a beautiful brand, and we got it for just $1 million. Look, in the discount world thread, every percentage point matters. And when you can own a brand which is highly popular in the country, and customers cannot price shop or price compare with other retailers. I can easily have a margin arbitrage of about 5% to 7% than on an average branded SKU in the country. It's not always easy to do because there's so much branded biomass in Canada, but because Queen of Bud is so different like it's [Cristal's] inspired team, it's virtually focused. It's geared towards the female cannabis cones. We have a lot of brands that cater towards mail, so we're balancing the equation a little bit. I think this is going to be a very, very healthy acquisition for us and a meaningful driver going forward.

We are going to position Queen of Bud front and center in our 165 store portfolio and the founder, actually [Newman], she's a very well-known personality in the cannabis industry and one of the most successful female founders and cannabis, she is joining our team as a global brand ambassador for Queen of Bud. So we're going to start here in our 165 stores and counting, but the opportunity for the brand will go across the borders, it will get into the U.S. through our ancillary cannabis portfolio. We're going to develop a full line of consumption accessories for the Queen of Bud, and we're going to do the same thing for Europe as well. And that there may be some cross-selling opportunities in the CBD world as well. So extremely happy with that acquisition.

On our other brands, as you know, we have a bunch of big house brands like Vodka, [Jokela, pop-up ads,] Evolution, Atomic, we have a ton of in-house brands where, again, customers cannot price compare, and that's where we win. And for full disclosure Fred, some of our larger competitors are either fully vertically integrated which they have to bear the cost of those facilities. So it's not the best equation. But however, they have their own brand. So now what we are doing is without adding that overhead, we're creating more and more of our own brands. We've got that in CBD through newly fab and less. We've got in consumption accessories. We have over 10 to 15 of our own brands. And now we're venturing into the cannabis world through this acquisition of Queen of Bud. And you may hear more about it, but we're going to be extremely selective. We want brands like the Queen of Bud. Otherwise, we are very satisfied where we are sitting. But not only the differentiated brand is going to help our overall selection in SKU and variety. It's also going to help us yield another 5% to 7% on gross margins because customers cannot price shop.

Operator

Next question comes from Matt Bottomley Canaccord.

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Matt Bottomley
Canaccord Genuity Corp., Research Division

Just wanted to stay on Queen of Bud. So obviously, it's relative to your size and scale and valuation, not a material investment in the overall purchase price. But brands have been something that I know have been frustrating for a lot of people following the sector for a while. If you go back to 5, 6, 7 years, most of the brands that were promoted don't exist now or have materially changed over. So obviously, you have the infrastructure and the retail exposure to lift that brand even further. But I'm just curious, is this something in terms of finding brands that might exist today? Is something that might be part of high [indiscernible] from an M&A standpoint? Or is this kind of a test case knowing that you know the founder well and she'll be included and you can kind of use your platform to grow it. I guess the overall question is internally generated brands on your own versus looking in the M&A pipeline?

Harkirat Grover
Founder, CEO, President & Executive Chairman

Matt, thanks for your question. So to your point, Matt, we already have the infrastructure. We have a massive footprint generating close to $500 million on a brick-and-mortar level or over $400 and $450 million on a brick-and-mortar level. So as we already have our accessory brands, we already have our CBD brands, this is a natural step in the direction to start building our own cannabis brands. Like I was just talking to Fred about it when we have our competitors that are vertically integrated and they're launching their own brands, the one advantage that they have is, again, we can't own those brands or sell those brands in our stores, which gives them a competitive advantage on margin. So as we build Queen of Bud in our stores and maybe even more forthcoming cannabis brands, we're going to have that margin arbitrage that does not exist for us today. So for that particular reason, you can call this a [cloud] case, but I would say it's not because we already have experience with accessory brands.

What we are doing with accessories, we are leading the country in accessories. Our competitors typically do about 1%, 1.5% of accessory sales are close to 4% to 5% of accessory sales and 90% of those sales are coming from our own brands. Now if we could do the same thing in cannabis, long term, we want to have 25% to 40% of all of our sales come from our own brands, and that's without adding the cost and the overhead of these growing facilities. We actually already had the contracts established. He knows all of the players in Canada. We also know all the players in Canada. So we're just going to leverage that with our size and scale. And because the brand is so differentiated, I think it's going to add very meaningful value for shareholders.

Matt Bottomley
Canaccord Genuity Corp., Research Division

Got it. And then just another question for me, something that you mentioned in your prepared remarks that I was just looking to expand on a bit. So the Ontario License cap is doubling. I know you spoke a bit about this last quarter. But just given the dynamics, a bit of softness in the industry, from a macro level and there's still a lot of stores in Ontario. Do you need to see the market retrace a little bit with respect to the number of doors before you would accelerate that? I know your guide for this year is a lot less than the 90 you could open. But I'm just curious how much of those 90 stores might make sense at the end of the day to open in the current environment in Ontario?

Harkirat Grover
Founder, CEO, President & Executive Chairman

Great question, Matt. So look, historically, we've always done some M&A to support our organic growth. I don't think that is going to change in our mindset for the Ontario market. We're going to be doing exactly that. We can still add 90 more stores in Ontario. I already have close to 15 leases still despite opening about 7 in Q1, 7 stores, we still have 15 leases in our hands. These are high-quality leases. We're patient in terms of the locations we get. There are anchored locations, as I always talk about, their Costco, LCBO, Big Grocery Anchors. And as we are securing these high-quality locations, despite the fact that there is existing competition in that area or there may be because we have a location that trumps everybody else is, and given our model, we start generating sales very, very quickly. So I'm not worried about the fact that Ontario is hitting saturation levels. It is an absolute problem in multiple areas of urban neighborhoods in Toronto and other places in Ontario. But given our location [selected criteria] as these locations come up, we are selectively taking these locations, and we feel that we can easily add 20 to 30 stores this calendar year, again, focused on the Ontario market. So you could see roughly 20 of them opened in Ontario.

And then if we get our hands on a good M&A transaction, that can go up even higher from that. But underpromise overdeliver, the goal is to do 20 to 30 in Ontario, and I don't see any problem for us to get there.

Operator

Our next question comes from Andrew Semple from Echelon Capital Markets.

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Andrew Semple
Echelon Wealth Partners Inc., Research Division

I also just want to call out the new segment disclosures are helpful. So appreciate that update. First question would be, it looks like the business is making a more intensive push for Elite membership taking up inventory allotted to lease members from 2% to 12%. I guess I just want to understand how consumers are responding to this. Obviously, the Elite lineups have been accelerating, so that's great to see. But what's happening in stores? Is that inventory allotment driving increased number of elite sign-ups.

Harkirat Grover
Founder, CEO, President & Executive Chairman

Andrew, thank you for your question. So look, we've been so methodical with Elite. When we launched Elite we didn't set the rug off our customers' fleet and go straight to 12% of inventory. When we launched Elite less than 2% of our in-store inventory reflected Elite, but we messaged this very clearly to the market that long term, we want 20% to 30% of all of our in-store inventory reflect Elite. And I'm extremely happy to see that within 1.5 years or close to 1.5 years of launch, we've already ramped up our inventory to 12%, and that is having a ripple effect. As you can see, last quarter, which was last quarter, Q4, we grew at the fastest pace for Elite since inception. This quarter, sequentially from January 2019, when we last reported to today, we have upped that pace even more. So customers are absolutely enjoying the robust elite selection that we have now both on cannabis accessories and cannabis itself. And it's a bit of a chicken and next story.

You can't overnight change all of your inventory and run the risk of customers not converting into Elite because it's an inflationary environment. So we paced it out. We methodically planned it and 12% of inventory is yielding results, and I can tell you that we are going even higher. Our confidence is also going up as we're seeing the customers block into an ecosystem and sign up for Elite. We've actually raised the price on Elite membership, which is another great data point to mention here on the call. When we launched Elite, we were $30 a year per Elite membership we've raised that to $35 a year now. Long term, the plan is to take Elite over $50, $60. So we can already see the benefits of that, and customers have not shied away from signing up because they're seeing more and more of in-store inventory reflectively. So you're going to be a lot more -- you're going to see a lot more sign-ups. You're going to see the sustained pace going forward, and we're going to continue updating the market in terms of where we sit in terms of in-store inventory reflecting Elite.

Andrew Semple
Echelon Wealth Partners Inc., Research Division

That's helpful, Raj. And a good point too, that sign-ups are increasing even as the price rises. Next question would just be on inventory, which continued to trend downwards in this quarter. You've taken a lot of inventory out of the business over the past year even as you add more stores, just wondering what's been driving that? Have you just been getting more efficient at the store level? Has there been some inventory reductions in e-commerce? And maybe if you could comment whether you can hold similar levels of [what the gains] of inventory or inventory turns or inventory per store, whatever your preferred metric is as you continue to grow this year?

Harkirat Grover
Founder, CEO, President & Executive Chairman

Yes, absolutely, Andrew. One thing we've always been very, very proud of is how we manage days on hand for our inventory, both on the e-commerce side, on the CBD side, accessories and very, very importantly, on the cannabis side, Cannabis is a perishable commodity. So you've got to be careful with that. And there's so much read in the country that if you get excited and overload your stores very quickly that SKU gets dated and something else takes over and now you have to sell it below cost. So we've been very, very mindful, and this is why you're seeing massive jumps in our adjusted EBITDA margin from 4.7% to 8.1%. One big reason is that we've managed our inventory extremely well. We've done the same thing in the CBD world. We've consolidated our vendors. Even when we are feeling revenue pressures on the CBD side and accessory side, what we continue to do is leverage more drop ship for the accessories business and leverage our vendors to buy all of the CBD companies, the raw materials together and to get them manufactured through New Leaf. So this very focused inventory management.

We have a great team that continues to be focused on inventory management, and I personally review these numbers every single week, and we keep on top of it. And that is one of the bigger drivers. And this is not going to change, Andrew. You're going to see that we run [assure] really tight. When it comes to inventory, our cannabis inventory days on hand is roughly 16, 17 days, which is, I believe, probably one of the lowest turns -- most efficient turns in the industry.

Operator

Our next question comes from Scott Fortune from Roth MKM.

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Unknown Analyst

This is Nick on for Scott. Congrats on the quarter and also congrats on the free cash flow front, while reducing accounts payable. Just wondering if you could provide some color around that $3.6 million you generated and just how you see your free cash flow evolving throughout the year here. is breaking even maybe the baseline moving forward? Are you expecting maybe some lumpiness as new stores come online? Just your sense of the free cash flow would be helpful.

Harkirat Grover
Founder, CEO, President & Executive Chairman

Nick, thanks for the question. Look, I'm very happy that this is the third consecutive quarter of free cash flow generation. Net income is another milestone, but I believe free cash flow is the most important metric we can judge ourselves with and which the market is going to judge us with because in this environment, if you don't have to depend on external funding, and we can continue to build our store portfolio and generate free cash. And we're super excited to see that we broke even on net income I don't know how much more efficiently we can run our business.

So it was very, very heartening to see that we generated another $3.6 million over the last 3 quarters. We generated $13.3 million in positive free cash flow. That is not going to change going forward, but I do want to highlight one thing, Nick, when we are opening up the stores, remember that -- when we're opening up these stores, you have this ramp-up maturity period, like it takes 6 to 8 to 9 months for them to ramp up to maturity. And there is a free cash flow burn at that time. And there's an adjusted EBITDA burn at that time. So it's a really delicate balance on how quickly we want to grow or we can afford to grow because most important metric for us to remain is to remain free cash flow positive. So the free cash flow is going to jump quarter-over-quarter jump up or down. It's going to be lumpy given the working capital requirements, like we plan to open a lot of stores in the remainder of March, April and also May. So -- and we're being very calculated about that we can make sure that we remain free cash flow positive. But I think our pace is very healthy. The [$3.3 million] that was generated, that was despite the $5.4 million that we made accounts payable and accrued liability. So we brought it down a lot. If we wouldn't have done that, we would have probably beat in our record of free cash flow from the last quarter. But we very clearly provided this disclosure that it's going to be lumpy from one quarter to another, working capital requirements and this is going to go up and down, but things are looking pretty good right now.

Unknown Analyst

Great. I appreciate that color. And then just second one for me. I wanted to build on the M&A side. Just wondering how you're evaluating the environment going forward, you're considering the strength of your balance sheet and that free cash flow you mentioned. You have your 300 store target out there in Canada. There's regulatory progress in the U.S. Germany potentially coming on board here. Just your sense on how you're looking at the M&A opportunity and kind of weighing all these options.

Harkirat Grover
Founder, CEO, President & Executive Chairman

Look, next historically, we've been the largest acquirers in Canada. We've built our portfolio very carefully, very selectively. Organically, we've added maybe about 60% of our locations and roughly about 40% through M&A. That is kind of the future trajectory as well on how we see this. When an M&A opportunity comes, it comes very quickly. But the 2 main reasons we've been very slow on M&A. One, we were very, very focused. We are very focused on free cash flow generation. And we didn't want to get distracted by again, adding locations. We wanted to tighten up our stores, tighten up our cost, as you can see through our G&A print. We came at 4.4%, lowest in dollar terms in many, many quarters, I couldn't be more happier. So we wanted to tighten up the operations here.

The issues that we see on rapid M&A is a couple of things. One, we need quality companies to acquire. When our national revenue run rate is $2.7 million, and our peer run rate is only $1.2 million. You can see that it's not an easy trajectory for us to get out there and then acquire a whole bunch of stores and get them to our level. Otherwise, our average per store starts dropping. The other problem is redundancy because we're so big and we're in so many towns and so many cities, and we have multiple stores, we love to do big block M&A. But in that big block M&A, I don't -- we can't waste shareholder money. We can't just spend shareholder dollars just for the sake of doing M&A. So we don't want redundancy and most operators don't want to just sell their winning stores. They want to sell their entire portfolio, which has a lot of losing stores. And when we are trading at 4.2x, 4.5x annualized last quarter EBIT to EBITDA multiple, it just doesn't make sense to give whatever someone is asking for.

So we don't like overpaying. There are some groups in the country that have been driving these prices up. But the reason High Tide is successful is we've been very, very disciplined on these things from day one. We don't chase anything. We look for high-quality locations. We're not going to pay for redundancy and we're not going to overpay for things. And we've got a ton of runway ahead even

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through organic growth. So M&A will pick up. M&A is in our DNA. It's not going anywhere. It's also going to happen for the German market for the American market eventually when we get into the U.S.A. We're not going to wait on opening one store at a time. But Canada, we've got a playbook sorted out. We're growing organically in healthy locations. We have good M&A opportunities that we're capitalizing on, and we're not overpaying for this opportunity. I do want to mention there are some competitors out there that are driving these prices up just for the sake of it or maybe to keep up with us, but that is not our theme.

Operator

[Operator Instructions]. Our next question comes from Mike Gagan from Excelsior Equities.

Unknown Analyst

I was just wondering if you could comment on the potential for the standing finance committee and the House of Commons just recommended lowering the LP excise tax from the $1 a gram, which is about 30% to 40% of value to 10% of value. I was just wondering if you could share any thoughts you have on how this could impact your business or sort of any insights into the process or timing or what have you?

Harkirat Grover
Founder, CEO, President & Executive Chairman

Mike, thank you for your question. So Mike, although we are not LPs, we're keeping a very close eye on everything that's going on in terms of excise taxes. We do know that health panel's, expert panelists reviewing Bill C-45 and is expected to make some recommendations in April. And these recommendations are not binding and the government will take their time to decide which ones to implement or not. So we don't really know what will happen, but let's say if the excise tax gets better, to the extent the LPs become healthier as a result, this is also going to be good for us and the whole industry.

We believe we have always had the guilt by association problem where the poor financial performance of larger LPs have cascaded into weaker investment sentiment for the sector overall, notwithstanding our continued excellent performance showed again this quarter. So we're really hoping that any positive momentum for LPs is good for us as well. And we feel that, that can absolutely happen. There's a lot of conversations and the government is not blind all cannabis that happened last year where cannabis -- 50% of all bankruptcies that took place in Canada last year were cannabis bankruptcies. So there's a lot of conversation around making the landscape healthy, and this can absolutely happen.

Operator

Our next question comes from Chris Damas from -- apologies the question has been withdrawn. So I'd now like to turn the session back over to High Tide Chief Executive Officer, Raj Grover, for any 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 the road ahead. With that, I will ask the operator to close the line. Have a great day, everyone.

Operator
That concludes today's high tide call. You may now disconnect your lines.

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