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SLANG Worldwide Inc.

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Earnings Call

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CALL PARTICIPANTS 2

PRESENTATION 3

Call Participants

EXECUTIVES

John Moynan
CEO & Secretary

**Mikel Patrick-Alexander
Rutherford**
Chief Financial Officer

ATTENDEES

Philip E. Carlson
*Kanan, Corbin, Schupak & Aronow,
Inc.*

Presentation

Operator

Good morning, and welcome to the SLANG Worldwide First Quarter 2023 Earnings Conference Call. [Operator Instructions] Thank you.

Phil Carlson, KCSA, you may begin your conference.

Philip E. Carlson

Kanan, Corbin, Schupak & Aronow, Inc.

Thank you, operator, and good morning, everyone. Our speakers on today's call will be Mr. John Moynan, CEO of SLANG; and Mr. Mike Rutherford, Chief Financial Officer.

Before we begin, please let me remind you that during this conference call SLANG's management may make forward-looking statements made within the meaning of applicable securities laws. Forward-looking statements may include, but are not necessarily limited to, financial projections or other statements of the company's plans, objectives, expectations or intentions. These forward-looking statements are based on current expectations that are subject to a number of risks and uncertainties that may cause actual results to differ materially from those expressed or implied in such statements. Factors that could cause actual results to differ materially include, but are not limited to, the risk factors contained in the company's filings with SEDAR. Please also note, any forward-looking statements made here are as of today and, except to the extent required by law, the company assumes no obligation to update statements as circumstances change.

Now I'd like to turn the call over to Mr. John Moynan, CEO of SLANG. John, please go ahead.

John Moynan

CEO & Secretary

Thank you, Phil. Good morning, everyone, and thank you for joining us on our first quarter 2023 conference call to discuss our financial and operational results for the quarter ending March 31, 2023.

Just a few weeks ago, we announced our fourth quarter and full year 2022 fiscal results, which reflected the tremendous success the SLANG team has achieved in profitably scaling our business across multiple channels. Not only did we demonstrate consistent sales growth in Q4, we also shared a key milestone of our success as we reported our first quarter of positive operational cash flow.

I am pleased to report today that in addition to producing our second consecutive quarter of positive operating cash flow and positive adjusted EBITDA in our first quarter of 2023, we also achieved our first quarter of positive EBITDA and produced our highest quarterly adjusted margins to date of 52%. These results are a clear testament to the strength of the SLANG business model and our team's ability to successfully execute a growth strategy that elevates our market position while consistently improving both our top and bottom line results.

Our priority is to utilize best-in-class distribution to support the performance of our brand on a national scale. While similar to an MSO in that we are positioned in markets across the country, our business model allows us to employ flexible distribution under a wide array of structures.

Rather than building and engage in all aspects of the supply chain within each market, we carefully evaluate each specific market, its cost to entry, competitive landscape, legislation, and establish a competitive position by either integrating licensed assets or otherwise driving branded sales through strategic partnerships. In this manner, we are extremely unique in our ability to be flexible and scalable, allowing us to participate creatively in each structured market. Our success in following this strategy has enabled SLANG to thrive in the most competitive cannabis markets while maintaining the near- and long-term ability to achieve profitable revenue.

Over the past 2 years, we have refined our approach in our core markets to operate more efficiently. As a result of our success in streamlining our operations, these key markets have become the financial backbone of our company, driving profitability and cash flow, and allowing us to be aggressive in expanding and creating brand performance in both emerging and THC-free markets across the country.

As I stated earlier, distribution remains a key priority for the company, with the biggest near-term growth opportunity currently represented by the Vermont wholesale market. We have already secured a leadership position in Vermont with the opening of the state's first recreational store in Burlington. With this first-mover advantage and sales steadily increasing quarter-over-quarter as demand continues to build, we are strongly positioned to leverage the success and drive continued profitable growth.

In Colorado, we have developed our O.pen brand to become one of the most demanded vape products in the state, winning industry awards and becoming a key driver of the company's sales growth year-over-year. We have recently seen a significant jump in our sales due to the successful rollout of our promotional programs centered on O.pen achieving 10 years of success.

In the first quarter, Colorado sales increased 12% year-over-year due to the increased demand for our products over those of our competitors. We are now advancing a new strategic approach, which focuses on structured, brand-driven promotions during key sales periods throughout the year.

Our refined operational infrastructure in Colorado affords us with the ability to consistently develop, produce and distribute new products and brands that complement O.pen to lead Colorado's cannabis market and other evolving product category. We are specifically focused on diversifying our portfolio within the vape category, where we have consistently demonstrated a unique expertise in meeting consumer demand as it evolves.

The 11 states that we operate today as emerging market, as well as our THC-free channel, both provide us with a platform for building strong brand performance and expand our reach across the country in a capital-light manner. Through our strategic partnerships with leading cannabis players, we have created a national distribution network, positioning our brands in the country's most competitive cannabis market.

In effect, we have established a very thoughtful and purposeful business model which focuses on adapting our operating strategy to the mechanics of each market in order to ensure success. We will continue to demonstrate what it means to be a flexible, lean operator in cannabis. As we continue to follow this model, we will further differentiate ourselves from our peer group, both operationally and financially.

We are on a steady path of financial growth demonstrated by our achievement of positive EBITDA and 2 consecutive quarters of positive operating cash flow. We remain focused on building on the success, leveraging our core market operations to build a profitable distribution network across the country.

I'd now like to hand the call over to our CFO, Mike Rutherford, to discuss our financial results in more detail. Mike?

Mikel Patrick-Alexander Rutherford
Chief Financial Officer

Thanks, John. For the first quarter of 2023, revenue from continuing operations was \$10.82 million compared to revenue of \$8.37 million in the first quarter of 2022, representing a 29% increase. The primary drivers of the increase were an increase in our core market sales of \$2.05 million in Vermont and \$0.78 million in Colorado, offset by a reduction in our emerging market sales.

Gross profit for the first quarter of 2023 was \$5.72 million with a gross margin of 53% compared to \$3.66 million with a gross margin of 44% in the first quarter of 2022, representing a 56% increase year-over-year. On a sequential basis, gross profit increased 21.7% from \$4.7 million in the fourth quarter of 2022.

Adjusted gross profit, which we define as gross profit before fair value adjustments of biological assets, was \$5.68 million for the first quarter of 2023 with a 52% adjusted gross margin compared to \$3.64 million with a 43% adjusted gross margin in the first quarter of 2022, representing a 56% increase year-

over-year and an adjusted gross profit of \$5.7 million, a 48% adjusted gross margin in the fourth quarter of 2022.

Total operating expenses for the first quarter of 2023 were \$5.78 million compared to \$7.49 million in the first quarter of 2022 and \$8.17 million in the fourth quarter of 2022. The reduction in our operating expenses demonstrates our focus and ability to streamline operations with continued attention on profitability.

First quarter 2023 adjusted EBITDA was \$0.74 million compared to an adjusted EBITDA loss of \$1.64 million in the prior year period and an adjusted EBITDA loss of \$56,000 in the fourth quarter of 2022. The improvement in adjusted EBITDA is primarily attributable to \$2.04 million increase in adjusted gross profit and further reductions in operating expenses such as consulting and subcontractors.

EBITDA in the first quarter of 2023 was \$0.68 million, EBITDA loss of \$2.36 million in the first quarter of 2022 and an EBITDA loss of \$1.82 million in the fourth quarter of 2022. This is the first quarter of positive EBITDA, and our continued improvement in EBITDA is primarily attributable to an increase in gross profit of \$2.06 million.

Our balance sheet remains strong with \$11.67 million in combined restricted and unrestricted cash as of March 31, 2023, compared to \$11.92 million on December 31, 2022. As John discussed earlier, this is our second consecutive quarter of positive operating cash flow, which excludes the deferred cash consideration of \$0.33 million paid this quarter in connection with the company's acquisition of HiFi.

I'd like to turn the call back over to John for some concluding remarks.

John Moynan

CEO & Secretary

Thanks, Mike. I am incredibly proud of the work that the team at SLANG has put in to produce these financial results. I believe the milestone achievement of positive EBITDA and our second consecutive quarter of positive operating cash flow clearly demonstrate the underlying value of the SLANG business model. We look forward to updating our shareholders on our progress going forward as we continue to increase sales in high-growth markets where, acting as a lean and flexible state operator, we can achieve stronger financial results and position SLANG to be one of today's only profitable cannabis players.

Thank you, and have a great day.

Operator

This concludes today's conference call. You may now disconnect.

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