

**S&P Global**  
Market Intelligence

# **SLANG Worldwide Inc.**

CNSX:SLNG

## *Earnings Call*

*Thursday, May 30, 2024 3:00 PM GMT*

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# Call Participants

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## EXECUTIVES

**John Moynan**  
*CEO & Secretary*

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

## ATTENDEES

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

# Presentation

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## Operator

Thank you for standing by. My name is Jill, and I will be your conference operator today. At this time, I would like to welcome everyone to the SLANG First Quarter 2024 Earnings Conference Call.

I would now like to turn the conference over to Phil Carlson, Managing Director. You may begin.

## Philip E. Carlson

*Kanan, Corbin, Schupak & Aronow, Inc.*

Thank you, operator, and good morning, everyone. Welcome to SLANG Worldwide's First Quarter 2024 Earnings Conference Call. 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 the applicable security 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 2024 conference call to discuss our financial and operational results for the quarter ending March 31, 2024.

We entered 2024 with a strong foundation for continued growth, leveraging a streamlined infrastructure to efficiently support a more diversified revenue profile. While our first quarter financial results fell below our expectations due to the continued softening in the Colorado market and increasing saturation in Vermont, our brand performance remained strong, and we continue to find success by uncovering new growth opportunities across multiple product categories.

SLANG remains an established cannabis leader, and our ability to strategically manage overhead costs and scale our diversified operations in an efficient and flexible manner positions us for long-term financial viability. Despite softer sales within our core market operations, we recognized stronger sales growth from new higher-margin revenue channels which are increasingly becoming a larger contributor to our overall sales.

In the first quarter of 2024, revenue from our e-commerce business segment, which is our THC-free sales channel, increased by approximately \$260,000 or 45% from the comparable period of 2023, demonstrating the strength of our Alchemy Naturals CBD gummy product line. Our Alchemy Naturals CBD gummies have been well received by a wide consumer base, and contributed \$0.46 million in e-commerce sales in Q1 2024 compared to \$0.3 million in Q4 2023, representing 53% growth quarter-over-quarter. We believe that we have clearly solidified a leading position within the THC-free market due to the quality, efficacy and flavor of these products. Our emerging markets operations also outperformed in the first quarter, increasing 43% year-over-year to approximately \$736,000.

We have proven the value of our disciplined growth strategy and our lean operational structure, which you can see in our quarterly results over the past 2 years. We remain steadfast in efficiently growing

our business. These strategies should allow us to maintain higher-than-average industry growth margins and provide us with a clear path towards profitability. We are pleased to report that we have maintained adjusted gross margins, which we define as gross profit before fair value adjustment of biological assets, of over 50%, reaching 52% in the first quarter, proving that these stronger gross margins are sustainable going forward.

In addition, we continue to reduce operating expenses year-over-year and quarter-over-quarter, providing further proof of our ability to operate in a lean and efficient manner. Total operating expenses decreased by 4% to \$5.5 million in the first quarter of 2024 compared to \$5.8 million in the comparable period of 2023 and decreased by 16% from the fourth quarter of 2023. We continue to uncover cost savings, which allow us to run the company as efficiently as possible, contributing to the financial viability in the long term.

As we move forward in 2024, we believe several growth catalysts will be key to driving both our top and bottom line performance. First, our wholesale sales channel in Vermont has opened up a powerful stream of high-margin growth. Year-over-year, we have increased wholesale sales by approximately 417%, reaching \$310,000 in the first quarter of 2024 compared to \$60,000 in the first quarter of 2023.

Upon entering this segment of Vermont's cannabis market in January of 2023, we immediately established a leadership position and have generated consistent growth quarter-over-quarter. In fact, our growth within this segment correlates with the overall growth of the Vermont cannabis market. As the number of retail licenses operating in the state continues to increase, we continue to capture the increased wholesale business to meet further product demand. As such, we are able to offset some of the decline we are seeing in our Vermont retail sales due to this increased market saturation.

Another growth catalyst is the increasing opportunity that lies within our e-commerce sales channel. We are utilizing this business segment more and more as a means to achieving increased flexibility and profitability of our THC-free product line. Through this initiative, we are reaching a wider consumer audience with our evolving THC-free product line, achieving an avenue for consistent, much higher margin sales.

As discussed in our previous quarter conference calls, we are in the process of exploring strategic initiatives to maximize shareholder value. Since retaining PGP Capital Advisors in November 2023 to assist in the review of strategic alternatives, we have identified several interesting opportunities, which may include, but are not limited to, one or more of the following: a business combination, sale, divestiture, acquisition or merger that may involve all or part of our business or assets, restructuring, recapitalization, refinancing or any other strategic transaction. We will continue to evaluate these opportunities to explore synergies, which may reduce the overhead costs associated with being publicly traded, provide a path to rapidly increase scale and market share and to expand the overall product offering and footprint of SLANG.

Before I turn over the call to Mike to discuss our financial results, I'd like to mention the announcement on April 30 regarding the U.S. Drug Enforcement Administration, or DEA, issuing a proposed rule to move cannabis from a Schedule I drug to a Schedule III, following the August 2023 recommendation from the U.S. Department of Health and Human Services. Rescheduling cannabis to a Schedule III drug would have significant positive effects for legal cannabis businesses across the U.S., including the elimination of the overburdensome 280E tax. As the DEA continues to review the recommendation, we look forward to the day when cannabis is a Schedule III drug, and we believe that doing so will have a positive impact not just on SLANG, but on the industry as a whole.

With that, I'd like to now 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 2024, revenue from continuing operations was \$7.03 million compared to revenue of \$10.82 million in the first quarter of 2023, representing a 35% decrease year-over-year. The reduction was primarily driven by a decrease of \$4.0 million in core market sales and

a decrease of \$0.25 million in distribution sales, partially offset by an increase of \$0.26 million in e-commerce sales and an increase of [ \$0.2 million ] in emerging market sales. Within the core market segment, the company experienced a reduction of \$2.61 million and \$1.39 million in sales in Colorado and Vermont, respectively.

Gross profit for the first quarter of 2024 was \$3.36 million with a gross margin of 48% compared to \$5.72 million with a gross margin of 53% in the first quarter of 2023, representing a 41% decrease in gross profit and a 5% decrease in gross margin year-over-year. Adjusted gross profit, which we define as gross profit before fair value adjustments of biological assets, was \$3.65 million for the first quarter of 2024 with a 52% adjusted gross margin compared to \$5.68 million with a 52% adjusted gross margin in the first quarter of 2023, representing a 36% decrease in adjusted gross profit, while maintaining a stable adjusted gross margin of 52% year-over-year.

Total operating expenses for the first quarter of 2024 were \$5.54 million compared to \$5.78 million in the first quarter of 2023, representing a 4% decrease year-over-year and a 16% decrease quarter-over-quarter. The reduction year-over-year was primarily driven by a decrease in salaries and wages, consulting and subcontractors, general and administrative and insurance. The reduction quarter-over-quarter was primarily driven by a decrease in share-based payments, general and administrative, salaries and wages, professional fees and depreciation and amortization.

Our ability to consistently decrease operating expenses quarter-over-quarter and year-over-year is a true testament to our dedicated focus on managing our costs to achieve profitability. Given our success in rightsizing our business to operate more efficiently, we will continue to focus on strategically reducing costs in the near term to support our long-term growth.

First quarter 2024 adjusted EBITDA loss was \$1.06 million compared to adjusted EBITDA profit of \$740,000 in the first quarter 2023. The reduction in adjusted EBITDA is primarily attributable to a decrease of \$2.07 million in adjusted gross profit excluding depreciation costs, offset by a reduction of \$0.27 million in operating expenses excluding depreciation costs, expected credit losses and share-based payments.

Our balance sheet remains strong with \$8.32 million in cash and restricted cash as of March 31, 2024 compared to \$9.04 million on December 31, 2023.

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

**John Moynan**  
*CEO & Secretary*

Thanks, Mike. We have efficiently navigated a weaker first quarter, which we believe will allow us to deliver stronger results in the months ahead. We are rapidly advancing key business channels that are proving to drive both sales and margin.

As we expand our reach across the country through our e-commerce business as well as with our strategic partners, we will continue to elevate our market position and build our leadership position in new important cannabis product categories. We continue to lead in Colorado and Vermont, and remain positioned to succeed due to the operational efficiency that we have maintained. We are strategically advancing each of our business segments and look forward to reporting our continued progress during our next quarterly call. Thank you.

**Operator**

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

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