

**S&P Global**  
Market Intelligence

# **SLANG Worldwide Inc.**

CNSX:SLNG

## *Earnings Call*

*Thursday, August 24, 2023 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

Good morning. My name is Chris, and I'm your conference operator today. At this time, I'd like to welcome everyone to the SLANG Worldwide Q2 2023 Earnings Conference Call.

[Operator Instructions]

Thank you. Phil Carlson, Managing Director of KCSA, you may begin.

## 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. Mikel 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 second quarter 2023 conference call to discuss our financial and operational results for the quarter ending June 30, 2023.

We believe our results through the first half of the year demonstrate that our business model is working. We continue to leverage our vertically integrated operations in our core markets as the financial engine for our organization, which supports a leaner and more flexible distribution strategy in our emerging markets in THC-free channels.

In the second quarter of 2023, we have driven strong financial performance during a period that presented significant challenges for cannabis operators across the country. I'm proud to report that SLANG has continued to thrive despite difficult market conditions. We have done so by thoughtfully introducing new products and consistently focusing on our core areas of expertise. We have clearly differentiated playing in the first half of 2023 and we look forward to building on this momentum as the year progresses.

Despite a 15% year-over-year decline in our second quarter sales due to the challenging state of Colorado cannabis market, we preserved and retained our highest ever adjusted gross margin, reaching an impressive new milestone of 54%. This marks a substantial improvement from the 43% adjusted gross margin recorded in Q2 of 2022. Our margin expansion was driven by our now proven ability to reduce operating expenses, streamline our vertically integrated operations and introduced new higher-margin revenue channels in our core markets. We have not yet seen any other cannabis operator advance in this manner or replicate what we have done.

It is important to note that despite Colorado's lower growth, we are still outperforming our competitors in the State with O.p.en maintaining its #1 ranking as a top performing vape cartridge brand in the State throughout Q2 according to BDSA. Additionally, when looking at the first 6 months of 2023, we saw a 16%

increase in unit sales of O.pen cartridges from the comparable period of 2022. We also used the first half of 2023 wisely in devoting a significant amount of time towards enhancing and expanding our portfolio of award-winning cannabis brand to adapt to today's evolving consumer trends.

In June, we launched our new 2-gram disposable, and I am pleased to say that we exceeded our expectations by producing over \$570,000 in sales since launch. We recognize the immediate opportunity within the cannabis disposable category and acted accordingly by rapidly making the decision to further expand our portfolio with a new 1 gram disposable cartridge, which we began selling in July.

The disposable category is one that we're very excited about as we enter the second half of 2023. The disposable category in Colorado, in particular, continues to thrive, increasing by 37% in April and May 2023 from April and May 2022. The timing of the introduction of our disposable products in line with the category's overall growth speaks to the experience, resourcefulness and adaptability of our team.

We have continued to perform strongly in Vermont as well, increasing revenue by \$1.8 million and \$3.87 million for the respective 3-month and 6-month period ending June 30, 2023. In addition, we successfully advanced a key near-term growth opportunity within the wholesale market. This segment of Vermont cannabis industry is experiencing significant growth. And by entering at the right time, we increased wholesale sales in the second quarter by 380% from the first quarter of 2023.

By integrating sales from our wholesale channel, we are effectively addressing market saturation in Vermont and supporting healthy and consistent gross profit due to higher margins we have achieved in the wholesale business. We will continue to build on this key growth opportunity, leveraging our first-mover advantage in Vermont by staying ahead of the curve and leading the charge on product offering, pricing power and revenue channel diversification. We also continue to advance our strategic partnership model through Q2, leveraging relationships and collaboration in strategic markets to expand in the most capital-efficient way.

We recently entered the Maryland adult-use market through our long-standing partnership with Trulieve as soon as the State legalized adult-use cannabis in July. Finally, we continue to focus on distributor relationships and e-commerce channels to support our THC-free business with the opportunity to broadly distribute our growing portfolio of THC-free brands, which include our new line of Alchemy Naturals CBD gummies and a full suite of new offerings across the O.pen brand, including a new 2-gram Delta 8 all-in-one vaporizer in 5 different strengths. We are purposefully building a leading position within each of today's fastest-growing cannabis market.

Our business model, which combines vertically integrated operations within our core markets and the low-cost entry and distribution in emerging markets through our strategic partners affords us the unique opportunity to adapt our operating strategy to the mechanics of each specific market.

This business strategy has proven to deliver stronger returns as we can operate in a more flexible manner taking into account each market, specific laws, maturity and competition. In effect, we are operating like no other cannabis player. And as you can see, we are increasingly showing differentiated financial and operational results.

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*

Thank you, John. For the second quarter of 2023, revenue from continuing operations was \$8.44 million compared to revenue of \$9.87 million in the second quarter of 2022. The year-over-year decline was primarily driven by a reduction of \$1.63 million in our distribution sales and \$0.96 million in our emerging market sales, partially offset by \$1.05 million increase in our core market sales driven by growth in Vermont.

For the 6 months ended June 30, 2023, revenue from continuing operations increased 5.6% to \$19.3 million from \$18.2 million in the prior year 6-month period. Gross profit for the second quarter of 2023

was \$4.4 million with a gross margin of 52% compared to \$4.5 million with a gross margin of 46% in the second quarter of 2022.

For the 6 months ended June 30, 2023, gross profit increased by 23.5% to \$10.1 million from \$8.1 million in the comparable period of 2022. Adjusted gross profit, which we define as gross profit before fair value adjustments of biological assets was \$4.5 million for the second quarter of 2023 with a 54% adjusted gross margin compared to \$4.3 million with a 43% adjusted gross margin in the second quarter of 2022, representing a 6.3% increase year-over-year.

Adjusted gross profit for the 6-month period was \$10.2 million with a 53% adjusted gross margin compared to \$7.9 million with a 43% adjusted gross margin, representing a 29.2% increase year-over-year. Total operating expenses for the second quarter of 2023 were \$6.2 million compared to \$7.1 million in the second quarter of 2022 representing a 12% reduction in total operating expenses. Total operating expenses for the 6 months were \$12 million compared to \$14.6 million, representing a 17.6% reduction. The reduction in our operating expenses demonstrates our focus and ability to streamline operations with continued attention on profitability. The company reported a second quarter 2023 adjusted EBITDA loss of \$0.76 million compared to an adjusted EBITDA loss of \$0.7 million in the prior year period.

The reduction in adjusted EBITDA is primarily attributable to a \$0.19 million increase in operating expenses, excluding depreciation expenses, expected credit losses and share-based payments offset by a \$0.13 million increase in adjusted gross profit. Adjusted EBITDA loss for the 6 months ended June 30, 2023, was a loss of \$22,000 compared to an adjusted EBITDA loss of \$2.3 million in the comparable period of 2022, with the improvement primarily attributable to a \$2.04 million improvement in adjusted gross profit and a \$0.29 million reduction in operating expenses, once again, excluding depreciation, expected credit losses and share-based compensation.

EBITDA loss for the second quarter of 2023 was \$1.2 million compared to an EBITDA loss of \$1.1 million in the second quarter of 2022 with the reduction in EBITDA being primarily attributable to 0.28 million reduction in gross profit, offset by a \$0.21 million reduction in operating expenses, both of which exclude depreciation costs. For the 6-month period, EBITDA loss was \$0.49 million compared to an EBITDA loss of \$3.5 million, with the improvement being primarily attributable to a \$1.64 million improvement in gross profit and a \$1.33 million decrease in operating expenses, both of which also exclude depreciation costs.

Our balance sheet remains strong with \$10.07 million in cash and restricted cash as of June 30, 2023, compared to \$11.92 million on December 31, 2022 and \$11.67 million on March 31, 2023. Our cash position has been further improved since the end of the second quarter as we received an additional \$1.63 million in employee retention tax credits from the Internal Revenue Service.

As of August 15, 2023, we have \$11.23 million in cash and restricted cash, pricing SLANG in a strong financial position. For the 6 months ended June 30, 2023, cash flows used in operating activities was \$0.49 million compared to cash flows used in operating activities of \$3.6 million for the 6 months ended June 30, 2022, an improvement of \$3.12 million.

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

**John Moynan**  
*CEO & Secretary*

Thanks, Mike. Despite a temporary dip in sales this quarter, I am confident that the overall positive trend in our results do reflect the power of our unique business model. We have achieved our highest ever adjusted gross margins and have the financial strength to advance our leading portfolio of cannabis products.

We remain consistent in our ability to deliver today's most demanded cannabis brands across the country. We are confident that we have the necessary momentum to continue driving both top and bottom line growth, and I look forward to updating you on our continued progress.

**Operator**

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

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