

S&P Global
Market Intelligence

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

Ladies and gentlemen, thank you for standing by. My name is Abby, and I will be your conference operator today. At this time, I would like to welcome you to the SLANG Worldwide Third Quarter 2023 Earnings Conference Call. [Operator Instructions]

Thank you. And at this time, I will now turn the conference over to Phil Carlson, Managing Director, 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. 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 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. The 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 third quarter 2023 conference call to discuss our financial and operational results for the quarter ending September 30, 2023.

Once again, we are reporting another quarter of strong financial results with each of our business segments on a stand-alone and operational basis producing positive EBITDA and cash flow. Not only did we see year-over-year growth in both our top and bottom line, we achieved similar success quarter-over-quarter. Third quarter 2023 revenue from continuing operations increased 11.4% year-over-year and 7.8% quarter-over-quarter to \$9.1 million, while our gross profit increased 34.8% year-over-year and 5.7% quarter-over-quarter to \$4.86 million.

The strong results that we have continued to produce throughout 2023 are a direct result of our proven business model, which combines SLANG's financial backbone of vertically integrated core market operations to support our brand performance in emerging markets across the country. As a result, we are one of the very few cannabis players that can maintain both brand performance and financial viability in an industry that is challenged by strong competition, a fractured market landscape and high volatility.

Our differentiated financial results reflect the flexible strategy that we have utilized to effectively operate in our core and emerging markets. This growth strategy which we have consistently implemented over the past 2 years focuses on adapting to the mechanics of each specific market to successfully grow our business. Our established vertically integrated operations in our core markets continue to fuel our overall growth while we utilize our strategic partners to enter emerging markets in a cost-effective manner to expand our national reach and build our brand.

A key indication of our uniquely defined business model and flexible growth strategy is the continued improvement we are seeing in our cash position. Our cash position at the beginning of the quarter was

\$10.07 million and was \$10.82 million at September 30, 2023. Another strong metric that highlights SLANG's success is our ability to consistently produce strong adjusted gross margin for all 3 quarters of 2023 in the range of 52% to 54%. Gross margin for the third quarter of 2023 was 53%, up 9% year-over-year.

Our sales growth speaks to the core strength of the SLANG management team, which is our effectiveness in identifying specific categories within the extensive cannabis industry that are the strongest performers even in challenging environment.

For example, in Colorado, the market as a whole is still feeling the effects of an economic downturn due to oversupply, decreased demand and reduced pricing. Sales are down over 20% from 2021 to 2022 according to the City and County of Denver. However, even in Colorado's weakened market, our core market operations continue to thrive. We remain successful in Colorado because we can leverage our core areas of expertise to uncover pockets of growth, and we have become very effective at leaning into them in order to drive continued performance in challenging, highly competitive markets such as Colorado.

We have recently demonstrated this unique capability with our prioritization of the all-in-one category and large-format vaporizer growth in Colorado. We capitalized our ability to find pockets of growth with the introduction of our 2-gram disposable vape line and large-format vaporizers, which were introduced in July 2023. Sales for both categories are significantly up year-over-year, demonstrating our ability to read our consumer audience and effectively deliver to meet demand and outperform our competitors in the country's most competitive market.

In Vermont, we are confronted with a highly saturated retail market. However, due to our first-mover status and our prioritization of Vermont's wholesale market, we can continue to thrive. We view Vermont as an MSO blind spot, a market where we can enter, establish a strong position and continue to leverage that position to strategically expand our operations and build consistently strong returns.

Our position in the wholesale market is proving the strength of our growth strategy in Vermont. This new business channel has introduced a new avenue for high-margin sales and is becoming a larger segment of our total sales in the state and has become a main catalyst for the company's growth in Vermont. In the third quarter, Vermont wholesale sales increased to \$0.42 million, representing a 24% increase quarter-over-quarter.

Turning to our emerging markets. We continue to expand in the most capital-efficient manner, working with our strategic partners to bring our products to the forefront of today's fastest-growing cannabis market. We are now in 13 states, recently entering Maryland and West Virginia through our long-standing partnership with Trulieve. With each new market we enter, we continue to see the value of our emerging market growth strategy as we recognize stronger brand metrics and sales growth. And we will continue to prioritize these channels and demonstrate the value we add, particularly in competitive wholesale markets.

Before turning the call over to Mike, I would like to mention our recent announcement relating to our strategic initiative to explore additional opportunities to maximize shareholder value. As you may have seen in the press release last week, we have retained PGP Capital Advisors to assist this review of strategic alternatives available to the company 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 the business or assets, restructuring, recapitalization, refinancing or any other strategic transaction that may be identified during our strategic review.

The company is evaluating these opportunities in order to explore synergies, which may reduce the overhead costs associated with being publicly traded, provide opportunities to rapidly increase scale and market share and to expand the overall product offering and footprint of SLANG.

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 third quarter of 2023, revenue from continuing operations was \$9.1 million, representing an 11.4% increase from revenue of \$8.17 million in the third quarter of 2022 and a sequential increase of 7.8% from \$8.44 million in the second quarter of 2023. Year-over-year and quarter-over-quarter revenue growth was primarily driven by an increase of \$0.95 million in core market sales and \$0.19 million in e-commerce sales, partially offset by a decrease of \$0.18 million in our distribution sales and a decrease of \$0.03 million in emerging market sales.

Within the core market segment, the company experienced growth in Vermont with sales increasing by \$1.58 million, which is offset by a reduction of \$0.63 million in sales in Colorado. For the 9 months ended September 30, 2023, revenue from continuing operations increased 7.4% to \$28.36 million from \$26.41 million in the prior year 9-month period.

Gross profit from the third quarter of 2023 was \$4.86 million with a gross margin of 53%, a year-over-year increase of 35% from gross profit of \$3.6 million with a gross margin of 44% in the third quarter of 2022. For the 9 months ended September 30, 2023, gross profit increased by 27% to \$14.92 million from \$11.75 million in the comparable period of 2023.

Adjusted gross profit, which we define as gross profit before fair value adjustments of biological assets, was \$4.75 million for the third quarter of 2023 with a 52% adjusted gross margin compared to \$4.02 million with a 49% adjusted gross margin in the third quarter of 2022, representing an 18.2% increase year-over-year. Adjusted gross profit for the 9-month period was \$14.97 million with a 53% adjusted gross margin compared to \$11.92 million with a 45% adjusted gross margin, representing a 25.6% increase year-over-year.

Total operating expenses for the third quarter of 2023 were \$5.96 million compared to \$8.59 million in the third quarter of 2022, representing a 30.6% reduction in total operating expenses. Total operating expenses for the 9 months were \$17.98 million compared to \$23.17 million, representing a 22.4% reduction. The reduction in our operating expenses demonstrates our focus and ability to streamline operations with continued attention on profitability.

The company reported a third quarter 2023 adjusted EBITDA loss of \$0.31 million compared to an adjusted EBITDA loss of \$1.24 million in the prior year period. The improvement in adjusted EBITDA for the 3-month period is primarily attributable to a \$1.15 million improvement in gross profit before fair value adjustments of biological assets, offset by a \$0.22 million increase in operating expenses.

Adjusted EBITDA loss for the 9 months ended September 30, 2023 was \$0.33 million compared to an adjusted EBITDA loss of \$3.59 million in the comparable period of 2022 with the improvement primarily attributable to a \$3.18 million improvement in gross profit before fair value adjustments for biological assets and a \$0.08 million reduction in operating expenses.

EBITDA loss for the third quarter of 2020 was \$0.38 million compared to an EBITDA loss of \$3.43 million in the third quarter of 2022 with the reduction in EBITDA being primarily attributable to a \$1.67 million improvement in gross profit and a \$1.38 million reduction in operating expenses. For the 9-month period, EBITDA loss was \$0.87 million compared to an EBITDA loss of \$6.89 million with the improvement being primarily attributable to a \$3.31 million improvement in gross profit and a \$2.71 million decrease in operating expenses.

Our balance sheet remains strong with \$10.82 million in cash and restricted cash as of September 30, 2023 compared to \$11.92 million on December 31, 2022 and \$10.07 million on June 30, 2023. In the third quarter, we received \$1.63 million of employee retention tax credits from the internal revenue service.

For the 9 months ended September 30, 2023, cash flows used in operating activities were approximately \$0.29 million compared to cash flows used in operating activities of \$6.35 million for the 9 months ended September 30, 2022, an improvement of \$6.61 million. This improvement was achieved due to increased gross profit, the receipt of \$1.66 million in ERTCs and the reduction of expenditures during the period.

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

John Moynan

CEO & Secretary

Thank you, Mike. As you can see, this has been a strong quarter. And even with the headwinds the industry as a whole continues to face such as the 280E tax and a lack of interstate commerce, we continue to demonstrate the power of our proven business model. As we plan for 2024, we remain steadfast in our mission to build our product portfolio with today's most demanded cannabis brands in today's most critical cannabis markets.

Operator

And ladies and gentlemen, this concludes today's call. We thank you for your participation. You may now disconnect.

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