

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

Hello, and thank you for standing by. My name is Regina, and I will be your conference operator today. At this time, I would like to welcome everyone to the SLANG Fourth Quarter and 2023 Full Year Conference Call. [Operator Instructions] I would now like to turn the conference over to Phil Carlson at KCSA. Please go ahead.

Philip E. Carlson

Kanan, Corbin, Schupak & Aronow, Inc.

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 Plus. 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 fourth quarter and full year 2023 conference call to discuss our financial and operational results for the fourth quarter and fiscal year ending in December 31, 2023.

I am pleased to report that our focused growth strategy has continued to yield strong results throughout 2023, by prioritizing and developing high-margin revenue streams from our core market operations and advancing into emerging markets through strategic partnerships, we've continued to solidify SLANG's position as a leading operator in the cannabis industry, in both the near and the long term.

In 2023, SLANG continued to differentiate itself by advancing the build-out of our national brands while continuously improving our financial standing. Our success underscores our ability to navigate financial challenges and maintain market leadership, distinguishing us in a competitive peer group whose growth remains constrained by financial challenges and pressures as they expand across the U.S.

Throughout 2023, we demonstrated the underlying value of our streamlined operational infrastructure and ability to effectively manage overhead costs. The success of our disciplined approach to growth is clearly evident in the following financial metrics.

First, we continued to increase our gross profit and gross margin year-over-year with gross profit before fair value adjustment of biological assets, growing 6.0% to \$18.68 million and gross margin before fair value adjustment of biological assets reaching 52% for the full year of 2023 compared to \$17.62 million and 46%, respectively, in 2022.

We consistently maintained higher gross margins than the industry average in 2023 achieving gross margins in the range of 51% to 54% throughout the year. Our strong gross margins will support our path towards consistent profitability going forward.

Another testament to our business model was displayed in a significant reduction of our operating expenses, which were down by \$6.72 million year-over-year or 21% to \$24.61 million in 2023 from \$31.33 million in 2022. While we were successful in scaling our operations in an efficient and flexible manner to achieve these financial metrics, our overall revenue for the full year and fourth quarter of 2023 was negatively impacted by a continued downturn in our core market sales due to challenging market conditions in both Colorado and Vermont.

It is worth noting that our fourth quarter is also typically our slowest quarter due to seasonality. Regardless, we are confident that our continued streamlining of operation has set the stage for greater top and bottom line growth in 2024, despite slower sales in Colorado throughout 2023, we were successful in uncovering pockets of growth within the state by leveraging our unique expertise and market awareness to innovate and lead in those areas.

In July of 2023, we launched our 2-gram disposable vape line and large-format vaporizers, quickly positioning SLANG as leaders in the category. We followed our success in the large format subcategory with a revitalization of the full O.pen product offering and now offer distillate, live resin and live rosin products across the full spectrum of formats.

The Vermont retail landscape has also evolved due to an increase in the number of retail licenses operating in the state. We have strategically adapted to the rapid increase in retail licenses and stores by focusing on developing our wholesale sales channel to serve the growing cannabis retail market.

In 2023, we were successful in establishing a leadership position within the wholesale market and created another powerful channel for continued high-margin revenue growth. Vermont wholesale sales reached \$1.04 million since launch. Our wholesale operations will continue to be a leading catalyst for growth in Vermont going forward, enhancing our overall leadership position in the state as we expand our retail operations.

We have also continued to build a leading presence in emerging markets across the country through our strategic partners. As we drive sales from our vertically integrated core market operations in Vermont and Colorado, our established partnership model provides us with a broad reach across the country in a capital-light manner.

Partnerships with leading operators such as Trulieve support our entry into today's most competitive cannabis markets without carrying the heavy cost to enter and operate. In 2023, we continue to demonstrate our ability to strategically enter these key markets with entry into Maryland and West Virginia.

We are now in the process of planning our entry into yet another emerging market with the launch of our vape brand, O.pen, in Arizona in partnership with Trulieve. Our THC-free product line represents an opportunity that I am particularly excited about as we enter 2024. This product offering now includes a wide array of vape hardware products under the O.pen brand, including our O.pen Sesh as well as our Firefly 2+ dry herb vaporizer and our highly sought Alchemy Naturals CBD Gummies.

We are increasingly leveraging our e-commerce sales channel to provide increased flexibility and profitability of our THC-free product line to generate stronger margins while reaching a wider customer base. Our Alchemy Naturals CBD Gummies are proving to be a key growth driver in this category, contributing \$1.2 million in e-commerce sales during 2023, representing a 54% growth year-over-year.

Before turning over the call to Mike, I would like to provide an update on our efforts to explore strategic initiatives to maximize shareholder value. In November 2023, we retained PGP Capital Advisors to assist in this review of strategic alternatives available to the company, which may include, but are not limited to, 1 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 that may be identified during our strategic review.

The company continues to evaluate these opportunities in order to explore synergies which may reduce the overhead costs associated with being publicly traded, may provide opportunities to rapidly increase scale and market share, and we'll 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 fourth quarter of 2023, revenue from continuing operations was \$7.42 million compared to revenue of \$11.78 million in the fourth quarter of 2022, representing a 37% decrease. The reduction was primarily driven by a decrease of \$4.13 million in core market sales and a decrease of \$0.92 million in distribution sales, partially offset by an increase of \$0.3 million in emerging market sales and an increase of \$0.3 million in our e-commerce sales.

Within the core market segment, the company experienced sales reductions in Vermont of \$2.47 million and in Colorado of \$1.66 million. It's important to note that in our fourth quarter of 2022 financial results for the comparative purposes, it reflected the immediate success of the opening of our Ceres Collaborative dispensary in October of 2022, Vermont's first recreational cannabis store in Burlington, Vermont.

For the full fiscal year of 2023, revenue from continuing operations decreased to \$35.68 million from \$38.19 million in fiscal 2022, representing a 7% decrease year-over-year. The reduction was primarily driven by a decrease of \$2.65 million in our distribution sales, and a decrease of \$1.27 million in our emerging market sales, partially offset by an increase of \$0.7 million in core market sales and an increase of \$0.66 million in our e-commerce sales.

Within the core market segment, the company experienced growth in Vermont with sales increasing by \$3.06 million, which was offset by a reduction of \$2.36 million in sales in Colorado. Gross profit for the fourth quarter of 2023 was \$3.8 million with a gross margin of 51% compared to \$4.7 million with a gross margin of 40% in the fourth quarter of 2022 representing a 19% decrease in gross profit and an 11% increase in gross margin year-over-year.

Gross profit for fiscal year 2023 was \$18.62 million with a 52% gross margin compared to \$16.45 million and a 43% gross margin in fiscal year 2022, representing a 13% increase in gross profit and a 9% increase in gross margin year-over-year. Adjusted gross profit, which we define as gross profit before fair value adjustments of biological assets was \$3.8 million in the fourth quarter of 2023 with a 51% adjusted gross margin compared to \$5.7 million with a 48% adjusted gross margin in the fourth quarter of 2022, representing a 33% decrease in gross profit and a 3% increase in gross margin year-over-year.

Adjusted gross profit in fiscal 2023 was \$18.68 million, with a 52% adjusted gross margin compared with \$17.62 million and a 46% adjusted gross margin in fiscal 2022, representing a 6% increase in adjusted gross profit and a 6% increase in adjusted gross margin year-over-year.

Despite our revenue being down year-over-year and quarter-over-quarter, our ability to increase our gross margin continues to demonstrate our success in driving more profitable revenue to support our long-term financial growth.

The company experienced increases in gross margin and adjusted gross margin due to the following 2 factors: the acquisition of Hi-Fi in August 2021, followed by the opening of the Ceres Collaborative dispensary on October 1, 2022, bringing higher-margin sales and a decreased raw cannabis input cost in Colorado.

Total operating expenses for the fourth quarter of 2023 were \$6.63 million compared to \$8.17 million in the fourth quarter of 2022, representing a decrease of 19%. For the full year 2023, total operating expenses were \$24.61 million compared to \$31.33 million in 2022, representing a decrease of 21%. 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.

Over the past 2 years, we have effectively advanced a more efficient and streamlined organization. As we move forward, we believe we will continue to see similar results as we advance these streamlined operations across our national footprint.

Fourth quarter 2023 adjusted EBITDA loss was \$1.48 million compared to an adjusted EBITDA loss of \$56,000 in the prior year period. The reduction in adjusted EBITDA is primarily attributable to a decrease of \$2.07 million in gross profit before fair value adjustments of biological assets, offset by a reduction of \$0.65 million in operating expenses.

EBITDA loss in the fourth quarter of 2023 was \$2.09 million compared to an EBITDA loss of \$1.82 million in the fourth quarter of 2022. The reduction in EBITDA is primarily attributable to a \$1.07 million decrease in gross profit, offset by a reduction of \$0.81 million in operating expenses such as salaries and wages, consulting and subcontractors, share-based payments and insurance.

The company reported an adjusted EBITDA loss of \$1.9 million in fiscal 2023 compared to an adjusted EBITDA loss of \$3.65 million in fiscal 2022. The improvement in adjusted EBITDA is primarily attributable to an increase of \$1.02 million in gross profit before fair value adjustments of biological assets and a reduction of \$0.73 million in operating expenses.

EBITDA loss in fiscal 2023 was \$3.05 million compared with \$8.7 million in fiscal 2022. The improvement in EBITDA is primarily attributable to a \$2.14 million increase in gross profit and a reduction of \$3.52 million in operating expenses, such as insurance, salaries and wages and consulting and subcontractors as well as share-based payments.

Our balance sheet remains strong with \$9.04 million in combined restricted and unrestricted cash as of December 31, 2023, compared to \$11.92 million on December 31, 2022. I'd like to turn the call back to John now for some concluding remarks. John?

John Moynan
CEO & Secretary

Thanks, Mike. Our ability to strategically expand our operations with a streamlined operational foundation for ongoing financial growth continues to position SLANG ahead of our peer group. Our proven business model and lean operational structure allow us to advance key near-term growth opportunities and reach our goal of achieving profitability.

As we move forward in 2024, we remain confident in our ability to maintain our leadership position in our core markets with our refined product offering. Meanwhile, our emerging and THC-free channels will continue to provide us with a path to high-margin brand performance on a national scale. We look forward to updating you with our continued progress. Thanks.

Operator

Everyone, this will conclude our call today. Thank you all for joining, and you may now disconnect.

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