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CORPORATE PARTICIPANTS

Michael Ryan Gorenstein *Cronos Group Inc. - President, CEO & Chairman*

Robert L. Madore *Cronos Group Inc. - CFO*

Shayne J. Laidlaw *Cronos Group Inc. - Director of IR & Strategy*

CONFERENCE CALL PARTICIPANTS

Gaurav Jain *Barclays Bank PLC, Research Division - Research Analyst*

John Zamparo *CIBC Capital Markets, Research Division - Associate*

Matt Bottomley *Canaccord Genuity Corp., Research Division - Analyst*

Michael W. Freeman *Raymond James Ltd., Research Division - Senior Associate*

William Andrew Carter *Stifel, Nicolaus & Company, Incorporated, Research Division - VP*

PRESENTATION

Operator

Good morning. My name is Amanda, and I will be your conference operator today. I would like to welcome everyone to Cronos Group 2022 First Quarter Earnings Conference Call. Today's call is being recorded.

At this time, I'd like to turn the call over to Shayne Laidlaw, Investor Relations. Please go ahead.

Shayne J. Laidlaw - Cronos Group Inc. - Director of IR & Strategy

Thank you, Amanda, and thank you for joining us today to review Cronos Group's 2022 first quarter financial and business performance. Today, I am joined by our Chairman, President and CEO, Mike Gorenstein; and our CFO, Bob Madore.

Cronos Group issued a news release announcing these financial results this morning, which are filed on our EDGAR and SEDAR profiles. This information as well as the prepared remarks will also be posted on our website under Investor Relations.

Before I turn the call over to Mike, let me remind you that we may make forward-looking statements and refer to non-GAAP financial measures during this call. These forward-looking statements are based on management's current expectations and assumptions that are subject to risks and uncertainties that could cause actual results to differ materially from those projected in the forward-looking statements.

Factors that could cause actual results to differ materially from expectations are detailed in our earnings materials and our SEC filings that are available on our website, by which any forward-looking statements made during this call are qualified in their entirety. Information about non-GAAP financial measures, including reconciliations to U.S. GAAP, can also be found in the earnings materials that are available on our website.

We will now make prepared remarks, and then we will move into a question-and-answer session. With that, I'll pass it over to Cronos Group's Chairman, President and CEO, Mike Gorenstein.

Michael Ryan Gorenstein - Cronos Group Inc. - President, CEO & Chairman

Thanks, Shayne. I don't know if you missed me as much as I've missed all of you, but since this is a one-way line, I'm just going to go ahead and dive right in. I founded Cronos because of the once-in-a-lifetime opportunity to help build and shape an industry that has the potential to improve countless lives. As CEO, I am committed to re-instilling a startup culture with the founder's mentality across all levels of the organization.

I want to thank our dedicated employees who have worked very hard and continue to bring their passion for the industry and for Cronos to work with them every day as we navigate our strategic realignment. We have set a strong foundation for ourselves. We have a lot more work ahead of us in continuing to execute our vision.

Since this is my first call back as CEO, I will start off by explaining Cronos' strategy, then I'll outline my 4 immediate priorities and finish with some color on our encouraging results this quarter.

The evolving legalization of the cannabis industry presents a lot of opportunities for value creation in different verticals such as agriculture, ingredient supply, branded products, distribution and retail. While many of the most well-known cannabis companies are characterized by pursuing an asset-heavy vertically integrated model, Cronos is different. We believe that by focusing our resources on being the best branded products company, we will be able to win with consumers versus companies trying to be all things to everyone. There is more than enough opportunity in the cannabis industry to create tremendous shareholder value by winning in any one vertical, and ours is branded cannabinoid products.

When I started Cronos 7 years ago, I picked Canada because it was the first federally legal market, and that created a unique opportunity to develop intellectual property, building an elite team and ultimately have a leading branded portfolio of disruptive borderless products that we could deploy in other markets like the U.S. as they open up. That is still our strategy today. And as I'll discuss later, we are starting to see the results with consumers in Canada and Israel.

Creating an iconic branded cannabinoid product is about identifying a consumer need and building a product that hits that need. Like other consumer products, cannabinoid products are differentiated by taste, aroma, appearance, the look/feel of the product and the story of the brand. But perhaps the most important point of differentiation for us is the effect. There are well over 100 unique cannabinoids that individually and in combination deliver different effects. And we continue to advance a disruptive platform that can deliver differentiated experiences, leveraging rare cannabinoids through custom tailored delivery systems that delight consumers in ways that legacy cannabis products could not.

We're aware that winning in the brand and product vertical is not an easy task, and I want to address that head on. There is fierce competition in every mature legal market, and the illicit market is extremely resilient. But most of that competition is focused on price rather than quality and differentiation.

As a legal cannabinoid company, we have a natural cost disadvantage to the illicit market in North America with the tax and regulatory framework. But we also have a unique advantage to deliver iconic branded products because we have the resources to think long term and innovate. That is why it's so important for us to take the time to create the best products because it enables us to win on quality rather than competing in a race to the bottom. We believe that better will beat first, and we've seen that through the performance of our leading borderless innovations in the market today, like SOURZ by Spinach and Spinach FEELZ. And we believe that these superior borderless products will win with consumers in other markets as well.

Now that we've level set the Cronos identity and strategy, I want to discuss my 4 key priorities: first, delivering margin-accretive growth focusing on adult-use products. During my first stint as CEO, you heard me primarily focus on building our platform, doing research and developing a great pipeline of branded products. After years of hard work and investment, we now have a solid platform, great institutional knowledge of what consumers want and what cannabinoids can do and great branded products hitting the market. My first priority is validating the Cronos investment thesis by delivering top line growth. We want to outgrow the industry in both Canada and Israel, and I want to make sure we are growing in the right way, and that means margin accretive growth.

I've talked in the past about being okay with having higher OpEx and variable costs in the beginning of our product launch cycle to prove out the demand and get to critical mass. With the results we've been seeing from our products that are in market today, we're able to start focusing on improving margins.

Second, increased operational efficiencies, disciplined expense management and leading a successful transition from our Peace Naturals campus to a more agile supply chain. Our business model was never to be the farmer. The wind down of our operations at our Peace Naturals campus

further aligns us with our priorities of focusing on brands and R&D. We now feel confident that the industry and our supply chain in Canada are at a maturity level where we can implement this approach.

The Peace Naturals campus is where it all began for us, so the closing is sad for me personally. I want to take a moment to recognize the contributions of the team members there. We wouldn't be where we are today without their hard work and dedication, and we will always think of them as part of the Cronos family. Optimizing our supply chain is a great start, but I want to make sure that we get back to operating like a lean scrappy start-up, so we will continue to evaluate our cost structure across all areas of the business.

Third, focusing investments on the highest return opportunities, specifically borderless investments. We will continue to invest in our innovation pipeline to bring consumers the products they want and novel products that can surprise and delight. It is important to us to have superior branded products that we can consistently replicate, produce and distribute in multiple jurisdictions as they open up in the future.

We're creating borderless innovations that we test, learn and improve in the Canadian market with our Spinach brand. The success of Spinach is proof that we have the fundamentals right and our borderless products winning in Canada is one of the best ways to be prepared for legalization in other markets.

We also want to continue to drive rare cannabinoid development and commercialization. Rare cannabinoids give us the ability to differentiate our products by delivering unique effects that hit specific consumer needs. Launching our rare cannabinoid sub-brand, Spinach FEELZ, a platform designed to deliver unique and enhanced experiences made possible through proprietary blends of rare cannabinoids is a great example of a borderless product.

Our cultured CBG gummy and vape product lineup are doing well in market, and we're just getting started. I want our company to be mission ready to execute on bringing our amazing borderless products to new markets with speed and efficiency, and we have a very exciting innovation pipeline to execute on. And last but certainly not least, positioning Cronos to ultimately win in the U.S. cannabis market.

We bring most of our adult-use products to consumers in Canada, but we continue to conduct extensive consumer insight work in all the regions in which we operate with a specific focus on the adult-use market in the U.S. The U.S. remains a great place to learn more about the evolution of consumer preferences, while we focus on creating approaches and strategies to win in the markets we operate in today.

During my time serving as Executive Chairman, I was focused on assessing opportunities in the U.S. The deal we did with PharmaCann sets a strong foundation for entry into the U.S., and we will continue to foster potential strategic relationships that we expect will enable adult-use success in the U.S. With our evolving product portfolio and the most robust balance sheet in cannabis, I believe we sit in a solid position to execute on the branded cannabinoid product opportunity in the U.S., both through organic product development and disciplined and opportunistic M&A.

Turning to our results, I want to highlight the progress in our Rest of World segment, which is led by strong performance in both Canada and Israel. First, in Canada, we continue to streamline our branded adult-use portfolio to focus on Spinach and continue to organically grow market share across Canada. According to Hifyre data in the first quarter of 2022, Spinach held an approximate 17% market share in the gummies category. The 3 original SOURZ by Spinach gummies all ranked in the top-10 for market share in Canada.

In March, we launched the fourth flavor of SOURZ by Spinach, Cherry Lime, which is also quickly climbing the market share ranks. Given we launched our first gummy in July of '21, the rapid consumer adoption of SOURZ demonstrates our theory that first isn't always best and our strong ability to deliver differentiated borderless products. We continue to bolster our Spinach flower offerings to meet consumer demand for larger formats that don't compromise on quality. We recently launched Wedding Cake and we'll continue to bring our highly sought-after strain-specific large-format SKUs to market.

Our growth is coming from branded products, not a value play that is an outlet for lower-quality flower. Our success in the flower category is the culmination of years of genetic breeding work, allowing us to now launch these great strains in market. Similar to the agriculture market, we think the long-term value created in the flower category will largely come from breeding proprietary genetics. And as we've seen from our success in Israel, we believe this is the best way to create successful borderless flower products.

Vape is an area where we don't want to just compete, we want to win. Following the switch to offering 1-gram formats and the launch of our CBG vape, we are starting to see market share pick up in this category. According to Hifyre data, in April, our Spinach vape portfolio entered the top 10 in market share in Ontario. Following this achievement, we are launching new vape products in May in Alberta, BC and Manitoba, including Cosmic Green Apple and Polar Mint Vortex in an effort to continue to expand national market share within the category.

Pre-rolls are a category we think we can win in as well. Long term, we expect pre-rolls to become an increasingly more important category and believe there is a lot of opportunity to differentiate. Like gummies, we don't need to be first to market. We want to be the best. We're working on several developments within this category and look forward to sharing more news with you when the time comes.

Now I want to turn to one of the most underappreciated aspects of the Cronos story, Israel. The Israel market is the best example of how quickly the cannabis industry can reach its potential with the right regulatory framework. The Israeli cannabis regulator, the Yakkar, has done a great job of setting up a regulatory framework that provides superior patient access to cannabis and also a great opportunity for sustainable industry growth.

For Cronos, Israel isn't an opportunity to place excess supply from Canada. It is a core market for us to deliver branded products that meet the needs of our consumers. We believed and invested early in Israel back in 2017 and have boots on the ground actively manufacturing and selling Peace Naturals products.

Our strong position in Israel has helped Cronos gain recognition in the market with pharmacy operators and consumers and led to us achieving top 3 market share. These efforts have resulted in revenue within Israel of \$9.1 million in the first quarter, up approximately 90% from fourth quarter of '21 and approximately 260% from the first quarter of '21.

Our results compare to an overall Israeli market that experienced an approximate 40% year-over-year growth in kilos sold in the first quarter. We are confident we have a long runway of growth ahead of us in Israel, both from our products that are already in market and the opportunity to launch more borderless products.

As a reminder, we started this year by undertaking a realignment of the business to better position Cronos to drive profitable and sustainable long-term growth. This realignment puts our brands and products at the focal point. We announced 2 primary changes to the organizational structure. First, we centralized functions under common leadership, which is already bearing fruit in cost savings and driving faster decision-making. And second, we announced the planned exit of our Peace Naturals campus in Stayner to further drive our asset-light model.

With a substantial portion of our Canadian manufacturing moving to Cronos GrowCo, while we continue to maintain other third-party manufacturing relationships, we are working fast to build out our own space within GrowCo to support our needs moving forward. We are incredibly pleased with the cultivation operations at GrowCo and continue to purchase high-quality dried flower from them. This marks a milestone in the evolution of our supply chain, and you're seeing some of the beneficial COGS show through in the margin, which Bob will speak to about at greater length during his remarks.

High level, we were able to purchase high-quality flower from GrowCo for less than what our internal cost of cultivation was at the Peace Naturals campus. And since we also own 50% of the equity, there is additional upside to the margin improvement we get from shifting to GrowCo that will show up through bottom line contribution.

GrowCo is more than just a part of our supply chain. It is an underappreciated asset with hidden value. GrowCo is really just getting started, and while we are their largest customer, if you exclude our purchases they still had revenue of approximately \$7 million this quarter to non-Cronos customers. Given GrowCo's current and expected performance, we are confident in the total of approximately \$97 million in senior secured loans that we made to GrowCo and the Mucci's in 2019, and GrowCo has already started repaying the loan. That only strengthens our already leading industry balance sheet of approximately \$1 billion in cash and short-term investments.

Turning to appointments within the organization. I'm excited to announce that Terry Doucet was appointed General Counsel after serving in an interim capacity since December of '21. Terry has been with Cronos since 2018 and has been a critical player in helping build the organization to where it is today. Terry has guided Cronos through significant growth over the last few years, including the build-out of our legal and regulatory

affairs teams, our strategic investment from Altria, our Ginkgo collaboration, our investment in PharmaCann and our many product commercialization initiatives.

As we realign the organization to match our go-forward strategy, our primary focus will continue to be elevating our brand by utilizing borderless innovation that can be deployed in new markets.

With that, I'd like to pass it over to Bob to take you through our financials.

Robert L. Madore - Cronos Group Inc. - CFO

Thanks, Mike, and good morning, everyone. The company reported consolidated net revenue in the first quarter of 2022 of \$25 million, which is a 99% increase from the first quarter of 2021. Revenue growth year-over-year was primarily driven by an increase in net revenue in the Rest of the World segment, driven by growth in the Israeli medical market and the Canadian adult-use market.

Consolidated gross profit for the first quarter of 2022 was \$6.9 million, representing a \$9.9 million improvement from the first quarter of 2021. Gross margin was positive 28%, up from a negative 23% last year. The improvement versus prior year was primarily driven by increased gross profit in the Rest of the World segment, which I'll get into in more detail shortly.

Consolidated adjusted EBITDA for the first quarter of 2022 was a negative \$18.9 million, representing a \$17.7 million improvement from the first quarter of 2021. This improvement versus the prior year was driven primarily by an improvement in gross profit and a decline in sales and marketing and research and development expenses in association with our strategic realignment plan.

Turning to our reporting segments. In the Rest of the World segment, we reported net revenue in the first quarter of 2022 of \$22.7 million, a 123% increase from the first quarter of 2021. Revenue growth year-over-year was primarily driven by growth in Israel, which was up 263% year-over-year, largely attributable to the cannabis flower category and growth in Canada, which was up 79% year-over-year, led by our cannabis extracts category, which received a boost through the introduction of our gummies platform, which did not exist in the prior year as well as an introduction of a 1 gram vape, which provides a great value to the consumer.

Gross profit for the Rest of the World segment for the first quarter of 2022 was \$6.7 million, representing a \$10.8 million improvement from the first quarter of 2021. Gross margin was positive 30%, up from a negative 41% last year. The improvement versus the prior year was primarily driven by increased cannabis flower revenue, the introduction of additional cannabis extract products that tend to carry a higher gross profit margin than other product categories, lower inventory valuation adjustments and lower depreciation expense as a result of the lower fair value of our Peace Naturals Campus, which is in connection with the impairment we took in Q4 2021 related to our restructuring plan. And lastly, we experienced lower cannabis biomass costs. As we begin to further leverage our joint venture arrangement with GrowCo, which, as Mike pointed out, it's been very successful thus far. We're very happy with it.

Adjusted EBITDA in the Rest of the World segment for the first quarter of 2022 was a negative \$3.4 million. That represents an \$18.8 million improvement from the first quarter of last year. The improvement versus the prior year was primarily driven by an improvement in gross profit as discussed and a decline in sales and marketing and research and development expenses in association with our strategic realignment.

Turning to the U.S. segment, we reported net revenue in the first quarter of 2022 of \$2.3 million, which represents a 5% decrease from the first quarter of 2021. The decrease year-over-year was primarily driven by a reduction in volume as a result of the decrease in promotional spend as the company works through its review of the U.S. business as part of the strategic realignment.

Gross profit for the U.S. segment for the first quarter of 2022 was \$200,000, representing a \$1 million decline from the first quarter of 2021. Gross margin was a positive 9%, down from a positive 48% last year. The decline year-over-year was primarily due to increased inventory valuation adjustments, higher shipping costs and unfavorable sales mix.

Adjusted EBITDA in the U.S. segment for the first quarter of 2022 was negative \$7.1 million, representing a \$2.4 million improvement from the first quarter of 2021. The improvement versus the prior year was primarily driven by a decline in sales and marketing and research and development expenses, as we previously pointed out in association with our strategic realignment plan.

Turning to the balance sheet, the company ended the quarter with approximately \$1 billion in cash and short-term investments, which is down approximately \$23 million from the fourth quarter of 2021. Capital expenditures for the quarter were \$700,000, down 90% year-over-year, driven primarily by reduced spending on property, plant and equipment across our facilities in the rest of the world segment. We remain committed to deploying capital in a very disciplined manner and only in ways that align with our strategic priorities and return requirements.

With that, I'll turn it back to Mike.

Michael Ryan Gorenstein - Cronos Group Inc. - President, CEO & Chairman

Thanks, Bob. I have full confidence in our people, our strategy and our future, and I'm excited to keep working with our talented teams to build our highly differentiated branded cannabinoid platform and drive long-term value.

To sum things up, I am pleased with the results of this quarter. Our gummies are a clear consumer favorite, hitting the top of the charts in Canada. We are executing in Israel and driving strong revenue growth, and we're making great strides in improving the margin profile of our business. I can't wait to see a future where people around the world get to enjoy our next-generation cannabinoid products.

With that, I'll open the line for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from the line of Michael Frieden with Raymond James.

Michael W. Freeman - Raymond James Ltd., Research Division - Senior Associate

Welcome back, Mike. Good to see you, Bob and Shayne. Congratulations on this quarter. The evolution of the business is beginning to really show us through. So congratulations on this. First question is on the transition from Peace Naturals campus to GrowCo. I'm glad to hear that the transition is going well, and you are seeing a COGS benefit there. I wonder if you could describe, I guess, the proportion of Cronos' biomass that's derived today from GrowCo versus from wholesale or contract growers.

Robert L. Madore - Cronos Group Inc. - CFO

Yes. So in this quarter, we actually purchased about \$3 million of biomass from GrowCo. That amount will continue to increase as demand warrants. We're in the process of winding down our Stayner transition, right? So we're finishing our last cultivation in harvest, and we'll finish production of that product, et cetera, as we're ramping up GrowCo at the same time.

And we believe one of our big gross margin opportunities going forward is really leveraging the GrowCo relationship in the economics around cultivation of biomass, which is a big percentage of what we do, what we sell. But more to come on that, and we anticipate that being a bigger piece of our gross margin improvement going forward.

Michael W. Freeman - *Raymond James Ltd., Research Division - Senior Associate*

All right. That's really helpful. And now a follow-up. Through our coverage of Ginkgo Bioworks, we see, of course, that you have CBG on the market. You've received CBGVA producing microbe from Ginkgo. Wondering if you could give us an update on your progress in the sort of rare cultured cannabinoid segment? And how you expect this to fold into Cronos' borderless IP strategy? And if there are some additional considerations for exporting these particular cannabinoids?

Michael Ryan Gorenstein - *Cronos Group Inc. - President, CEO & Chairman*

Sure. Thanks. And so, when we look at it, right now, CBG is performing well, and it's still early, but just for the single SKU under SOURZ -- sorry, FEELZ we have 2.5% market share. We're seeing great traction with the CBG vapes. And so, what we're seeing is that as we introduce rare cannabinoids into some of the delivery systems we already have on the market, they're performing well, and we see them as incremental and not cannibalistic.

I'd say that we're also progressing really well as far as getting new cannabinoids into our platform. And I think you'll see new cannabinoids get introduced this year. So we're really excited not only to get CBG out in other product formats but also new cannabinoid combinations in different formats.

And as far as borderless products, and we see this as kind of, there's 2 things that go into borderless products. There's a delivery system and that can be something like the gummy platform. We'll have a number of other really disruptive delivery systems that we're launching, and then there's the actual mixture of cannabinoids, and that's where the rare cannabinoids come in. So we see that really touching all parts of our borderless products, the exception being just dry flower. But we're really excited. We think that there won't be an issue with getting them into other federal legal markets as they open up. And so, it's one of the most exciting things that we have to look forward to over the next year or 2.

Operator

Our next question is from John Zamparo from CIBC.

John Zamparo - *CIBC Capital Markets, Research Division - Associate*

Welcome back, Mike. I wanted to start on Israel. It was a remarkable number in the quarter on the top line. I want to get a sense of what's the repeatability of this type of result. And I assume you don't want us using that as a baseline for future quarters, but just would like to get a sense of how volatile you expect results to be from Israel in the coming quarters?

Michael Ryan Gorenstein - *Cronos Group Inc. - President, CEO & Chairman*

Sure. Thanks. It's a great question. Just as a reminder, when you think about our business in Israel versus some of our peers, this isn't lumpy B2B wholesale transaction. This is really driven by branded sales that we're making through pharmacies. So we actually see it as consistent. We've kind of been -- we've been expecting to see growth for quite some time. And Israel is a great market. I think our brand is extremely well received. We've got a good team that's pushing things forward. So we're very optimistic about the future in Israel, and we don't see things as lumpy, and we think that there's additional opportunities as the market continues to grow, both from the products we already have on market and being able to launch more products in the market. But we think there's a great opportunity, especially because of the fact that we aren't competing with an illicit market the same way that we compete with an illicit market in North America.

John Zamparo - CIBC Capital Markets, Research Division - Associate

Okay. That's helpful. And then as a follow-up on the CBG side, it does seem like you have really positive reception of these products, both on gummies and vapes. I wonder if you have any data or any insight on how much of this is from novelty of these products, I think, which does exist to some extent versus repeat purchases. Is there anything you can share on that front?

Michael Ryan Gorenstein - Cronos Group Inc. - President, CEO & Chairman

Yes. I think you get a lot of great feedback on the actual experiences that you're getting or the consumers are getting from the CBG products. So we don't see it as simply a novelty or trial. I think when we get that type of feedback and we got that feedback from the consumer insight work we did early on, we really do expect this to be something again that's additive and something that we see more growth in. And we think that there is more to come with some of the other cannabinoids as well.

Operator

Our next question is from the line of Andrew Carter from Stifel.

William Andrew Carter - Stifel, Nicolaus & Company, Incorporated, Research Division - VP

First question I wanted to ask about the shipments in Canada. It looks like they were down 24% sequentially. Our Headset data says your consumption was down 12%. So I guess could you unpack that a little bit in terms of, was there any discontinuation of COVID there? Was there pricing? And are there any inventory reductions at the provinces going on?

Michael Ryan Gorenstein - Cronos Group Inc. - President, CEO & Chairman

Yes, I'd say just to start off, when you look at it, I think from Q4 to Q1, there's certainly seasonality and we see that every year. I think year-over-year, you saw a lot of improvement. But certainly, there's some of that we saw in the industry. I think one thing that we are happy about called a silver lining as we still did gain market share in the quarter. But we think there's a lot of additional levers we can pull to continue growing revenue and not just market share. So I'll take it over to Bob for some of the other nuances.

Robert L. Madore - Cronos Group Inc. - CFO

Well, no, the other encouraging thing is a lot of our new product innovations have turned into kind of hero SKUs for us at the end of the day, particularly a lot of our SOURZ line, but other new product innovations too. And with the margin increase in the quarter, it's just an evolution of what we think the opportunity is going forward also, right, not just in Canada, but for rest of the world and the business in general.

So Mike pointed out a little bit of the seasonality between Q4 and Q1 in Canada, in particular. But what we've seen, particularly as Mike pointed out, with market share gains are extremely encouraging. And the fact that the business was up what it was in the quarter is encouraging to couple that with the margin improvement, we feel like we're really moving this business in the right direction. In line with the strategy, it's been pretty consistent, right? So we're excited about it.

William Andrew Carter - Stifel, Nicolaus & Company, Incorporated, Research Division - VP

Yes. I understand seasonality, and that's where I started with consumption was down 12%. I'm asking the shipments were down 24%. And what I'm saying is, specifically, I'm looking at extracts, they're up 5%. Your edibles were up 15% sequentially. Are you getting your fair share of shipments at the provincial level? Or did there are any orders? And I'm guessing as well as Spinach is doing, it's probably short on inventory at the province and you might be wanting to increase. Anything you can help me out on that side?

Michael Ryan Gorenstein - Cronos Group Inc. - President, CEO & Chairman

Yes, Andrew, I think sometimes you do see lumpiness in how the provinces order. We have great relationships with retailers. And I think the most important thing is making sure that the retailers are pulling through and selling. And when you see that, I think that sort of normalizes with how the provinces tend to order after. So I think we're seeing, especially towards the end of the quarter, things picked up, and we think that progress should continue through going forward.

William Andrew Carter - Stifel, Nicolaus & Company, Incorporated, Research Division - VP

Fair enough. Last one for me today. You mentioned something about evaluating the U.S. CBD business. And I'm looking, I think, I guess it's like \$11 million of cost or so for the quarter. How does that work with Altria going forward? I mean in terms of this environment right now, the quasi-federal legal, you're only doing that, do you all still see an opportunity to work together in this environment? Or does this evaluation just consider, hey, we might not be able to create value here, just conserve resources for full THC?

Michael Ryan Gorenstein - Cronos Group Inc. - President, CEO & Chairman

Yes. I think look, having Altria is a very powerful tool and they're a great partner. And I think we think about it in a very aligned way. If we don't see the opportunity to create value, and I don't think either one of us would push it. What we want to do is make sure we have a product offering that we know consumers really want before we turn on the type of distribution that they have. And so, we're valuing all types of things, different products.

I think when we looked at what we did with Canada to get back to growth, a lot of that had to do with focusing on a few kind of core hero SKUs, which strengthen things and also looking at rare cannabinoids as a driver. And so those are going to be some of the levers we'll look to pull. We certainly are focused on some bottom-line optimization, especially in this environment. So that will come into play. But we kind of have a similar view. At the end of the day, we want to make sure that anything we're doing for top line growth, it's ultimately margin-accretive.

Operator

Our next question is from the line of Matt Bottomley from Canaccord.

Matt Bottomley - Canaccord Genuity Corp., Research Division - Analyst

Welcome back, Mike. Just wanted to get maybe more of a higher-level indication from you of where the international opportunities are going for Cronos. Israel seems to be clipping along well, a couple of other public companies that seem to be making headway as that country potentially goes towards full legalization. So I'm just wondering if you could touch on other market opportunities that might come into the fray here in the next 12 months as well as your prospects for adult use in Israel.

Michael Ryan Gorenstein - Cronos Group Inc. - President, CEO & Chairman

Sure. So one of the things that we've learned is making sure that we're focused and we're entering the right markets is really, really important. So we do still have a presence in Germany. And when we look at opportunities that are going to open up, I don't want to say it's necessarily opportunity to enter adult use in the next 12 months, but we do know that there's legislation starting to move. And so, we want to make sure that anywhere we go into for the amount of cost and time it takes, it's something that's really exciting, and we can ultimately start getting the results that we're getting in Israel.

So I'd put Germany towards the top of the list, but we're not really looking for some of the smaller medical opportunities that we don't see translating into adult-use formats. We do think a lot of the medical markets are sort of beginning of a transition to adult use when you start to get upside. So I would highlight Germany, we certainly monitor a number of other markets and have optimism, but there's a lot of things moving in the world, especially in Europe right now that can tend to derail some of that progress, and so we'll be cautious.

As far as Israel, what's interesting is everyone does ask about adult use, and we do think that that will happen at some point. But we don't need adult use to continue to see sustainable, really durable growth there. So I think there's a lot of runway in the medical market over the next year or 2 years. We know that there's been a lot of discussion and a lot of excitement for adult use, both from consumers and from regulators. So I wouldn't expect it in 2022. I do think it's on the horizon, but I don't think that should slow down our growth there.

Matt Bottomley - *Canaccord Genuity Corp., Research Division - Analyst*

Okay. Understood. And then just maybe a follow-up, just in terms of the company's philosophy on capital investment or strategic investment into various markets. Obviously, you guys are sitting on a good chunk of change. And when you look at the potential for THC exposure for Cronos in the U.S., that could be a year away, it could be who knows 3, 4 years away. How do you decide between sitting on the cash reserves that you have or potentially the home run of U.S. THC versus maybe getting inroads in some of these other less headline type of markets, but ones that are starting to open up outside of North America?

Michael Ryan Gorenstein - *Cronos Group Inc. - President, CEO & Chairman*

Yes, that's a great question. Overall, I think you have to look at where things will go long term. And whether it's the U.S., whether it's a market in EU, I do think it's going to be branded products that are going to matter. So it really depends on how the market evolves and how we'll invest.

Ultimately, the most important thing we can do is have the best branded product portfolio. And so that's when we think about borderless investments, making those investments now and getting the product offering right, we're able to move into a market and get those products to consumers, we will win in markets when we go in.

Now that might take additional investment around either manufacturing or distribution, depending on how the market and the regulation is set up, and that's a lot of what the capital will be used for. But you're right, there will be a valuation of whether or not it makes sense to employ in the U.S. or other markets. I do think we have optionality from our balance sheet that it's not necessarily either/or, it's just looking what is the ROI on the investment. But when we look at the U.S. from a philosophy perspective, we aren't going to be looking to buy licenses or just to say how many licenses are in X state, what's the math. It's making sure we just have the opportunity to get our products and our brands out to consumers.

And also, if we see brands that are performing well that are additive to our portfolio, that's something that we'll look to invest in or require. But I think it's a little bit of a different strategy than what you see most of the headline U.S. investments to be. And I think over the coming quarters, you'll see as supply starts to catch up with demand and a lot of the limited license states that will also become a branded game.

Operator

(Operator Instructions) Our next question is from Gaurav Jain from Barclays.

Gaurav Jain - *Barclays Bank PLC, Research Division - Research Analyst*

And apologies if this question has already been asked. But your EBITDA loss this quarter is probably the lowest that it has been in a long time, if ever. So is this a new run rate which we should assume if Israeli revenues are going to continue on a steady basis, which was mentioned earlier. So that's my question number one.

Robert L. Madore - Cronos Group Inc. - CFO

I'm sorry, Gaurav. You kind of came in and out a little bit. So can you repeat your question, please?

Gaurav Jain - Barclays Bank PLC, Research Division - Research Analyst

Sure. Apologies for that. So I'm asking that this \$18 million EBITDA loss that you have reported for Q1, is that a good run rate for the next 3 quarters?

Michael Ryan Gorenstein - Cronos Group Inc. - President, CEO & Chairman

So we're not going to give good guidance on what the EBITDA run rate should be going forward. We're just generally not giving guidance right now. I will say that we have a lot of cost savings programs that we put in that haven't fully hit yet, and we expect to start coming in the back half of the year. And it's something that we are very focused on, not only for what we've announced, but also additional cost-saving initiatives. So with that being a focus, you can expect us to put a lot of work in trending to continue to improve EBITDA.

Gaurav Jain - Barclays Bank PLC, Research Division - Research Analyst

Sure. And my second question is just on the stock price and where it is and the EV of the company is almost equal to the cash balance on the balance sheet. So is there a way for you to deploy the cash flow and share repurchases? Or that's not something you will consider?

Michael Ryan Gorenstein - Cronos Group Inc. - President, CEO & Chairman

Look, I think my focus right now is on doing what we can to improve the business fundamentals, make sure that we're set up for growth in the future. I think if we do that, we tend to have the stock price follow, but focus today is really on the business and end market performance. And hopefully, all the analysts on the call can help communicate with the stock markets you do to follow it.

Operator

I am showing no further questions at this time. This does conclude today's conference call. Thank you for participating. You may now disconnect.

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