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## PRESENTATION

### Operator

Good morning. My name is Ursula, and I will be your conference operator today. I would like to welcome everyone to the Cronos Group's 2020 Fourth Quarter and Full Year Earnings Conference Call. Today's call is being recorded. At this time, I would like to turn the call over to Shayne Laidlaw, Investor Relations. Please go ahead.

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

Thank you, Ursula, and thank you for joining us today to review Cronos Group's 2020 fourth quarter and full year financial and business performance. Today, I am joined by our President and CEO, Kurt Schmidt; our CFO, Jerry Barbato; our Executive Chairman, Mike Gorenstein; and our EVP of Legal and Regulatory Affairs, Xiuming Shum. 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 Kurt, I would like to remind you that our discussion during this conference call will include forward-looking statements that are based on assumptions that are subject to risks and uncertainties that could cause actual results to differ materially from those projected in the forward-looking statements, including as a result of the factors described in the cautionary statement and risk factors included in the company's earnings release and regulatory filings including the company's most recent annual report on Form 10-K filed today, by which any forward-looking statements made during this call are qualified in their entirety. In addition, during this call, certain financial measures may be discussed that are not recognized under the U.S. generally accepted accounting principles referred to by the securities and Exchange Commission as non-GAAP measures. We believe these non-GAAP measures assist management in planning, forecasting and evaluating business and financial performance, including allocating resources. Reconciliations of these non-GAAP measures to their closest reported GAAP measures are included in our earnings press release furnished to the SEC, which is available in the press room section of our website, the [cronosgroup.com](http://cronosgroup.com). These non-GAAP measures may not be comparable to measures used by other issuers.

I'd also like to note that we are conducting our call today from our respective remote locations. As such, there may be brief delays, cross-talk or minor technical issues during this call. We thank you in advance for your patience and understanding. We will now make prepared remarks, and then we'll move to a question-and-answer session. With that, I'll pass it over to Cronos Group's President and CEO, Kurt Schmidt.

**Kurt Thomas Schmidt** - Cronos Group Inc. - President & CEO

Thank you, Shayne. As we turn the page to 2021 and reflect on 2020, the accomplishments the Cronos team achieved, especially given the complex operating environment, were impressive. I'm credibly excited to see what we can accomplish in 2021 and beyond. I want to take this moment to recognize and thank our global team for persevering through the challenges the world faced in 2020 and continue to face in 2021.

I'm going to start this morning's call by reflecting on a few highlights from 2020 and to discuss our strategy to win in 2021. Since joining Cronos 6 months ago, I've made it my focus to help accelerate growth and plan for our future strategy. With the help of Mike and our passionate senior leadership team, we've honed in on the areas we want to concentrate on as an organization. In 2021, we plan to focus on 4 main pillars to drive business results and growth across the organization.

The first pillar is to ensure we're continuing to build a winning team. I plan on supporting our employee base by fostering a collaborative performance-focused culture that strives to win. We know that this burgeoning industry requires talented and driven employees and I plan to continue to instill a spirit of winning and collaboration to enable our teams to execute as we grow in existing markets, enter new markets, support our brands and continue our R&D work in 2021.

The second pillar is having a keen focus on building disruptive technology and innovation, which has always been a core strategy priority for Cronos. We continue to believe that investing in innovation and breakthrough research will unlock the potential of cannabis and provide us with a long-term competitive advantage.

The third pillar, as I mentioned on our previous call, is to build great cannabis brands. I'm a marketer at my core, and in 2021, we plan to continue to innovate with our brands with the goal of meeting the needs and exceeding the expectations of our consumers. I'm incredibly proud of how we are developing our brands across our markets. We'll be focused on robust marketing strategies and new retail partnerships to reach more consumers in 2021.

The fourth pillar is to strengthen our ability to compete, which is supported by the first 3 pillars. We will focus on building a competitive advantage through R&D capabilities, strategically placed global infrastructure and engaging in the legislative process in the markets that matter to us. This includes sharpening our strategic focus in Canada, Israel and the U.S. to ensure we're driving long-term value and preparing the company for new opportunities as they arise in 2021 and beyond. It was a busy year, but we're excited to continue delivering on our strategy and drive long-term value for shareholders. And 2021 is also shaping up to be an important time for U.S. cannabis legislation.

I want to share a few thoughts on legalization efforts and how Cronos is taking part to ensure that we have a seat at the table. Legalization in various forms continues to spread across U.S., with the vast majority of Americans now living in states where cannabis has been legalized in some form, whether medical, adult-use, or both. As many Americans express support for cannabis legalization in some form this past election, momentum continues to build at both the state and federal level. We believe cannabis should be legal at the federal level and that a comprehensive and reasonable federal regulatory framework should be put in place for the industry. We think the framework should create product and safety standards for the industry, and address critical societal considerations, such as youth access prevention and social justice issues.

As part of our focus and our participation in these efforts, it was announced a few weeks ago that Cronos is joining industry colleagues as a founding member of the U.S. Cannabis Council, or USCC. With representation from leading cannabis and social justice organizations in North America, the USCC will be the premier trade association for cannabis thought leadership, innovation and social responsibility in the U.S. We look forward to partnering with our industry peers to advance cannabis legalization in the U.S.

As previously discussed, Mike Gorenstein's priority in his role as Executive Chairman, is looking at U.S. opportunities and the best way for us to participate. He has commissioned a team internally to analyze the various opportunities in the market at different potential strategies for us to enter. We are confident that with our balance sheet strength, existing CBD infrastructure, and our strategic investor, we will be a best-in-class cannabis company in the U.S.

Jerry will focus on the fourth quarter results, but I wanted to take a moment to highlight the annual performance. In fiscal year 2020, on a consolidated basis, we increased revenue 97% year-over-year to \$46.7 million, with strong performance across all regions. Our Rest of World segment recorded net revenue in fiscal year 2020 of \$37.2 million, representing an 83% increase year-over-year. And lastly, the United States segment, in its first full year of operations under the Cronos umbrella, recorded net revenue in fiscal year 2020 of \$9.5 million. After a modest third quarter, the U.S. team came back strong in the fourth quarter and executed. Although our U.S. CBD business continues to navigate turbulent times due to retail closures and other impacts due to the COVID-19 pandemic, we are confident the team will continue to successfully operate in this environment.

A critical component to our U.S. CBD business results was the successful launch of Happy Dance, our new skin care and personal care brand in partnership with Kristen Bell. Today, we announced an exciting expansion for Happy Dance by securing its first major U.S. retailer, ULTA Beauty, marking the brand's first brick-and-mortar retail rollout. Happy Dance features an easy-to-use line of clean and cruelty-free, hemp-derived CBD bath and body products. The full collection expected to launch in the coming weeks on [ulta.com](https://www.ulta.com), followed shortly thereafter in store at over 550 ULTA locations across the U.S. We're incredibly excited to be partnering with ULTA and look forward to bringing the brand to a broader audience through ULTA's retail network. Broadening our distribution capabilities is an important next step in the evolution of this brand, which will be followed by additional product launches to expand variety for our consumers.

In Q4, Lord Jones, our prestige position U.S. CBD brand, launched a new whole plant formula CBD lip balm, which has been well received by consumers. Introducing entry-level products to the Lord Jones portfolio improves the accessibility of the brand and increases trial. The Lord Jones Acid Mantle Repair Cream was awarded the prestigious Refinery29 Beauty Award in Q4 2020. The self-care and beauty segment offers a respite from daily stressors, and we are fortunate to be able to continue to bring high-quality products to consumers in the U.S. during this time.

We plan to continue to expand our innovative product portfolio in 2021. In Canada, we continue to broaden our distribution across the retail landscape. We let consumer insights drive our decision-making, while leveraging our robust R&D and innovation teams to bring products to market that consumers desire. Our innovation funnel is vast at the top, but it's our consumer insights that enable us to focus on what the consumers want today while keeping an eye on what they may want in the future. To that point, as segments of the industry have grown and consumer adoption increases, we are excited to tackle these additional opportunities with innovative products in 2021.

Our Spinach brand continues to perform well. In this past quarter, Spinach's Dancehall Strain was awarded Best Hybrid Dried Flower of the Year by KIND Magazine. This award is especially appreciated as budtenders across our Canadian retail network nominated us. Although COVID-19 limits our ability to engage face-to-face, retail marketing opportunities will be an area of focus for our adult-use brands, and we are excited to meet more consumers in retail spaces in 2021 as our marketing strategies are expected to focus heavily on this channel.

Moving to the Israeli medical market. We are excited to see the market continue to expand, now with roughly 80,000 medical patients in the country. In Q4, Cronos Israel began selling PEACE NATURALS-branded oil, along with the previous launched flower products to the medical patients. These successful launches have enabled Cronos Israel to quickly build their distribution network and brand awareness through a growing network of pharmacies.

In February 2021, Cronos Israel signed a distribution agreement with the largest pharmacy chain in Israel, Super-Pharm, which has over 250 branches in Israel. As we grow our share, the size of the pie is also expanding, with the number of pharmacies in Israel wanting to carry medical cannabis products increasing, which presents a great growth opportunity for the industry. The PEACE NATURALS brand has already been recognized by the Israeli Marketing Association for its successful marketing strategy at launch in 2020 to generate exposure for the PEACE NATURALS brand for patients as well as for differentiating and highlighting the brand's high quality amongst its competitors. We're incredibly pleased to see the sales volume and resonance amongst patients in this region.

A critical component to our R&D and innovation initiatives continues to be our biosynthesis work taking place at Cronos fermentation in Winnipeg in partnership with Ginkgo Bioworks. Following the successful fermentation of CBG in our Winnipeg R&D labs at research scale in the second quarter of 2020, the team has continued to optimize for scale and downstream processing in preparation for commercialization. Cronos is prioritizing rare cannabinoids such as CBG, over common ones, such as THC and CBD, and plans to sequence commercial production and subsequent product launches based off this approach. Canada is an important platform for us to develop innovative products to be ready for other markets such as the

U.S. and Israel as regulations allow. We look forward to leveraging our R&D, innovation and consumer insights to drive the creation of differentiated products through consumer learnings as part of the commercialization plan.

On the innovation side, we believe providing rare cannabinoids at a meaningful scale could elevate and differentiate the consumer experience. We look forward to leveraging current insights and building future ones on consumer acceptance of these innovative products over time.

In short, this past quarter is the summation of the hard work our teams have put into the past year plus. As we look to 2021, I'm incredibly excited about the teams we have supporting our brands and all the R&D, innovation and exciting plans we have in store. With that, I'll turn the call over to our CFO, Jerry Barbato. Jerry?

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**Jerry Filomena Barbato** - Cronos Group Inc. - CFO

Thanks, Kurt, and good morning, everyone. Before discussing our financial performance, allow me to briefly touch on a change in the metrics we are reporting on. We are shifting away from reporting segment level operating income results in favor of reporting adjusted EBITDA at the segment level. We believe this is a more representative view of our business and aids in management's review of performance and capital allocation. We also hope it further helps the investment community evaluate our business performance. We review these results on an adjusted basis, which excludes certain noncash items that may be highly variable, unusual or infrequent that can distort underlying business trends and results. For more details regarding our calculation of adjusted EBITDA, please refer to our earnings press release which is available on our website, the [cronosgroup.com](http://cronosgroup.com) on the Investors page.

Turning to our financial results. The company reported consolidated net revenue in the fourth quarter of 2020 of \$17 million, a 133% increase from the prior year period. Revenue growth year-over-year was primarily driven by the growth in the adult-use Canadian cannabis market, sales in the Israeli medical market and growth in our U.S. hemp-derived CBD business, partially offset by nonrecurring wholesale revenue in the Canadian market in the fourth quarter of 2019 and strategic price reductions on various adult-use cannabis products in Canada in the fourth quarter of 2020.

Consolidated gross loss for the fourth quarter of 2020 was \$14.9 million, a \$5.2 million decrease in losses from the fourth quarter of 2019. The improvement versus prior year was primarily driven by lower inventory write-downs and increased gross profit contribution from the U.S. segment. This was offset by an increase in cost of sales, primarily driven by third party purchased flower and a decline in wholesale sales in the Canadian market. We may incur further inventory write-downs due to pricing pressures in the marketplace.

Adjusted EBITDA loss for the fourth quarter of 2020 was \$53.1 million, representing a \$1.5 million increase in losses from the fourth quarter of 2019. The increase in losses year-over-year was primarily driven by increased general and administrative expenses and an increase in R&D spending.

Turning to our reporting segments. In the Rest of World segment, we reported net revenue in the fourth quarter of 2020 of \$13.5 million, a 193% increase from the prior year period. Revenue growth year-over-year was primarily driven by the continued growth in the adult-use Canadian cannabis market and growth in the Israeli medical cannabis market, partially offset by nonrecurring wholesale revenue in the Canadian market in the fourth quarter of 2019 and strategic price reductions on various adult-use products in Canada in the fourth quarter of 2020. Gross loss for the Rest of the World segment for the fourth quarter of 2020 was \$16.7 million, a \$4.8 million decrease in losses from the fourth quarter of 2019.

The improvement year-over-year was primarily driven by lower inventory write-downs, offset by an increase in cost of sales, primarily driven by third party flower purchases and a decline in wholesale sales in the Canadian market. As we work to create an efficient global supply chain through 2021 and beyond for our Rest of World segment, we anticipate that gross margins will continue to fluctuate as price and mix change from quarter-to-quarter.

Adjusted EBITDA loss in the Rest of World segment for the fourth quarter of 2020 was \$36.4 million, representing an \$11 million decrease in losses from the fourth quarter of 2019. The improvement was primarily driven by a decline in gross loss, reduced sales and marketing costs and a decline in general and administrative expenses.

Turning to the U.S. segment. We reported net revenue in the fourth quarter of 2020 of \$3.5 million, a 30% increase from the prior year period. Revenue growth year-over-year was primarily driven by the growth in existing product lines, introduction of new hemp-derived CBD products and strength in our direct-to-consumer business driven by holiday promotions.

Gross profit for the U.S. segment for the fourth quarter of 2020 was \$1.8 million, a \$400,000 increase from the fourth quarter 2019. Adjusted EBITDA loss in the U.S. segment for the fourth quarter of 2020 was \$11.8 million, representing a \$10.6 million increase in losses from the fourth quarter of 2019. The increase in losses was primarily driven by increased sales and marketing costs in relation to brand development and increased general and administrative expenses. Overall, Cronos Group reported a decrease in net income versus the prior year period, primarily due to the change in fair value of the financial derivative liability associated with Altria's investment, which is described in more detail in the 10-K.

In the fourth quarter of 2020, the company recorded a noncash loss of \$53.5 million related to the change in fair value of these financial derivative liabilities. Cronos continues to expect there may be significant reported earnings volatility primarily driven by the fair value quarterly adjustments related to the movement of Cronos Group's stock price.

Turning to the balance sheet. The company ended the quarter with approximately \$1.3 billion in cash and short-term investments, which held relatively flat from the third quarter of 2020. Capital expenditures for the quarter were \$11 million. This spending includes investments related to Cronos fermentation, the Peace Naturals Campus, our Israeli facility and our new ERP system. We remain committed to deploying capital in a disciplined manner and only in ways that align with our strategic priorities. I continue to be encouraged by the work our teams are doing globally. With that, I'll turn it over to Kurt for closing remarks before Q&A.

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**Kurt Thomas Schmidt** - Cronos Group Inc. - President & CEO

Thank you, Jerry. What's clear is that our products are winning with consumers and our brands continue to resonate in the markets we operate in. This past year has offered opportunities to grow despite the unprecedented effects of the pandemic, and we're incredibly motivated to continue that growth in 2021. With a focus on continuing to build successful teams, perfecting regional strategies, supporting our breakthrough technologies and R&D projects and building leading brands, I know we can continue to win as an organization and lead the global cannabis industry into its next phase of growth. With our strong balance sheet, a best-in-class strategic partner and the team that is built to win, I'm excited about the opportunity to lead Cronos in the next chapter. With that, let's now open it up for the line of questions.

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## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions) Your first question comes from Andrew Carter with Stifel.

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

I wanted to start off with asking about the gross margin. On the gross margin side, I understand the expected continued fluctuations. But excluding the charge, the margin would have showed its progress. So first off, kind of where do you think your inventory levels are? But then also throughout the year, you do have internal supply for GrowCo coming online and you have Israel domestic coming online. So should we see in Rest of World like significant gross margin expansion at least on an underlying basis throughout 2021?

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**Jerry Filomena Barbato** - Cronos Group Inc. - CFO

Andrew, thanks for the question. I think you're still going to see some fluctuation in that gross margin as price and mix change from quarter-to-quarter. And what -- to really touch on that, that mix change is not only the products that we have in the Canadian market, but as you point out, the change in the Israeli market when you think about the ROW segment. And we're in the early innings in Israel, it's just ramping up. So I think as that becomes

a bigger portion, you'll also have some mix changes as we launched oil in that category. And as you know, we took some price decreases over the second half of 2020. Different products have different margin profiles in different provinces in Canada, which also leads to some of that mix change. And while we are buying third-party flower every quarter, the prices continue to come down. You need to play through that inventory that you bought in previous quarters so we expect that our cost per gram on the flower side of the business now, depending how mix changes, will have an impact to that. So I think it's hard to predict what it will be in the future, but we definitely see some volatility in margin going forward.

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**Operator**

Your next question comes from Vivien Azer with Cowen.

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**Vivien Nicole Azer** - *Cowen and Company, LLC, Research Division - MD & Senior Research Analyst*

I want to follow-up on that line of questioning, please, if you don't mind. Just trying to get a better sense of the output that you guys are producing now, plus your inventory. Because I think like we're hearing like slightly mixed messages around price deflation. I think net for the entire category on a weighted average basis, yes, it's deflationary because you and many other competitors have introduced value and devalue. But I'm not hearing as much price compression as premium segments. So I'm just trying to understand what you guys are producing now, is that at risk of price deflation, too? And then what's the incremental risk that's still sitting on your balance sheet?

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**Jerry Filomena Barbato** - *Cronos Group Inc. - CFO*

Yes, sure, Vivien. Thanks for the question. I still think the Canadian market is deflationary across all price points, whether it be premium, the mid-tier or the value players, you're seeing that across all categories. And so as we've looked at our brand offerings of both COVE and Spinach and try to make sure that we're at a price point that's competitive, you've seen that we've taken some of these price changes across the second half of the year. And I don't know when that ends. As for the inventory, I think our inventory is at a reasonable place. I mean, we're only slightly higher than we were at the end of 2019. And we have, as Kurt alluded to it in his prepared remarks, almost 100% growth on that revenue channel. So I feel comfortable that the amount of inventory on hand is appropriate for the size of our business.

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**Operator**

Your next question comes from Rahul Sarugasger with Raymond James.

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**Rahul Sarugasger** - *Raymond James Ltd., Research Division - MD and Equity Analyst of Healthcare, Biotechnology & Cannabis*

Kurt, Mike, Jerry. So one of the bright lights we saw was essentially the doubling of revenue in the U.S. CBD channel. Kurt, you referred to sort of challenges around retail in the U.S. Of course, without having a crystal ball as to what happens post-COVID, can you maybe talk about how you see that trajectory? Do you look at -- are you looking at a continuing doubling quarter-over-quarter? And any more color on expansion in that channel?

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**Kurt Thomas Schmidt** - *Cronos Group Inc. - President & CEO*

Yes. Well, I think the COVID impact of store -- restricted store openings and other related things to the pandemic has certainly hurt. But as the vaccination rolls out, we believe things are going to start turning, right? And we're already seeing green shoots in that area. It really comes down to the brand strength and investment. And for -- in the U.S., for Happy Dance, we're very pleased. We just announced the ULTA partnership, which is certainly going to be an accelerant to that business. And you're going to see investment in marketing on both our Lord Jones and Ulta brands. So again, our focus is on growth. And as we get through this pandemic, when it comes to the U.S., I think that the second half of the year, everybody

is feeling fairly confident that we'll be fairly well -- with the vaccine, fairly well penetrated. So we should see the retail sector continuing to open up, and that's a good sign. Obviously, a good sign for us.

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**Rahul Sarugasar** - *Raymond James Ltd., Research Division - MD and Equity Analyst of Healthcare, Biotechnology & Cannabis*

Terrific. Terrific. And then just as a follow-up, one area, as you know, that we're quite interested in is the partnership with Ginkgo and the biosynthesis initiative. You talked about focusing on CBG. Mike had previously referred to September being the timeline -- target timeline for having first products from fermentation starting to hit shelves. Is that still the time line that you're looking at? And what can we think about in terms of product format and potentially broadening of fermentation-based cannabinoids into your products?

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**Kurt Thomas Schmidt** - *Cronos Group Inc. - President & CEO*

Yes. Yes, we currently expect to achieve commercialization by the third quarter of 2021. And we're -- as you said, we -- as I said in my opening remarks, we really are prioritizing the rare cannabinoids because we believe that's going to be a greater ability to innovate and provide consumers with differentiated products. And so we're really excited about that. I don't want to go on the exact products right now, but we're well on our way. So again, we are on track, and we're feeling very good about it. And obviously, the rare cannabinoids offer some really unique differentiated consumer products and benefits that we obviously want to focus on.

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**Operator**

(Operator Instructions) Your next question comes from John Zamparo with CIBC.

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

I wanted to ask about the creation of the internal team looking at the U.S. markets. And specifically, do you have levers you can pull today to deploy capital into the U.S. without a full-scale legalization, whether it's optionality deals or arrangements with CBD brands or potentially partnerships with retailers? Just any thoughts or observations on that front would be helpful.

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**Kurt Thomas Schmidt** - *Cronos Group Inc. - President & CEO*

Yes. This is Kurt. I'm going to kick it off, but I think this is important to hear from Mike. So Mike will comment on this as well. As you guys know, when it comes to active or really direct investments in the U.S., it's important that we get federal action that removes cannabis or THC as a controlled substance. Also on that is the operations side, and there's a number of targeted bills that allow for really streamlining and making an effective industry. And again, Mike is looking at a range of entry strategies besides these active investments so I -- it'd be great that Mike comments on that at this point.

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**Michael Ryan Gorenstein** - *Cronos Group Inc. - Executive Chairman*

Sure. Thanks, Kurt. John, so when we think of the U.S., there's really 3 phases that we try to think of. The first would be the phase that we're in now where the legal regime, as Kurt noted, means that we can't directly and actively enter but I think there are certain levers that can still be pulled. The next phase is really what you hear talk about the government right now where cannabis prohibition in the U.S. ends, and that would allow us to actively and directly participate in states that have put in place responsible cannabis frameworks. And then finally, a responsible and comprehensive framework that at the federal level that provides for interstate commerce and high product standards. And then when we think about that third phase, that's really where our strategy is focused on, on positioning ourselves right now so that we can eventually deliver value there. And we still believe it's going to be authentic brands that are built on technology that differentiate the products, and that's what's going to ultimately drive

terminal value. So any levers or anything that we're looking to pull now is really thinking in the future, how are we best set up to win. And that's really where our focus is.

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

Okay. That's helpful. And if I could follow-up on that subject on the formation of the USCC, I would have thought maybe the -- at first, that the goals of those parties might -- the parties involved might differ a little bit. So what does that say about the fact that there's American and Canadian participants coming together to work together on this? And I guess, what are the priorities near-term on the USCC? Is it -- is it getting something done like the SAFE Banking Act? Or is it or maybe more of a transformative goal than longer term goal?

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**Kurt Thomas Schmidt** - Cronos Group Inc. - President & CEO

Yes. This is Kurt. Good question. Our view is it really needs to be a comprehensive approach, right? And that includes a bunch of areas such as addressing historic injustice for communities of color, which have disproportionately faced in this area. It could include executive orders that we believe should be coordinated between the various departments, which would be very important, such as the DOJ, Treasury, FDA and HHS. And legislative action would provide additional clarity, right? And there are several directions congress can take. And through the counsel and what -- and through our partnership with Altria, we are very much focused on being -- having a seat at the table and being able to deliver on that. But in essence, we do need a comprehensive approach in order to really create the right environment for the market and for the various issues that are happening right now in the U.S. And we're reasonably confident that it's starting to move in the right direction.

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**Operator**

Your next question comes from Michael Lavery with Piper Sandler.

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**Michael Scott Lavery** - Piper Sandler & Co., Research Division - Director & Senior Research Analyst

Just curious if you can elaborate a little bit on CBG. And it sounds like you've got the biosynthesis part down, but as far as the consumer, how much education do you have to do on the benefits of that? And how do you plan to go-to-market with it?

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**Kurt Thomas Schmidt** - Cronos Group Inc. - President & CEO

Good question. We have tremendous capability in our consumer insights group. So in parallel to developing these rare cannabinoids, we are looking at the product innovation side and how we're going to talk about it, what products we're going to put that in. I don't want to get into what exactly we're going to do, but all that is well on its way. I will say another thing that's interesting about these rare cannabinoids is you can google these products on THCV and CBN and CBG, and you're going to get a wealth of knowledge and a wealth of how people are talking about these and the benefits of these products. So in some ways, consumers are really focused on these, and they understand some of the benefits and these things. So that's sort of built-in right now. So but again, it's very difficult. They're called rare cannabinoids because they're very difficult to get and scale. And that's what we believe we can deliver. And then we could use our innovation and consumer insights and our innovation team to develop some really unique products to deliver on those consumer promises.

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**Michael Scott Lavery** - Piper Sandler & Co., Research Division - Director & Senior Research Analyst

Okay. That's helpful. And then just on GrowCo and adding capacity here, you're somewhat unique in the industry doing that these days. Can you just give a sense of the industry landscape and how you see capacity broadly? Has it been rightsized? Or is there still excess capacity? And is your initiative primarily just to ensure quality product? What's some of you're thinking on just bringing that online?

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**Kurt Thomas Schmidt** - Cronos Group Inc. - President & CEO

Well, you can think of a kind of a hybrid model. So there's -- that we can source from GrowCo, we can source from other third-party biomasses. So we want that flexibility on it. GrowCo received their license in 2020, cultivation license. So we expect that facility to become operational in phases beginning in the first half of '21. And what they benefit for us is that's partnering with an ag expert, which they're an expert in the field, and they can provide high-quality biomass at a low cost. But it really is managing this hybrid model in the Canadian market at this point. And it's kind of an approach we've taken in Israel as well.

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**Operator**

Your next question comes from Matt Bottomley with Canaccord.

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

Just curious if you can provide any more color on any of the dynamics you're seeing in the adult-use market with respect to your brand penetration, whether that -- the sequential, I guess, movement in how many orders the province has been buying from you? And then if you have further data on how your products are selling to end consumers this quarter relative to last out of the retail touch points directly?

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**Kurt Thomas Schmidt** - Cronos Group Inc. - President & CEO

Well, we don't give revenue -- yes, Jerry, you want to take that?

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**Jerry Filomena Barbato** - Cronos Group Inc. - CFO

Sure. Yes, we don't give forward-looking revenue guidance, but I think some of the impacts of COVID that you've seen, especially in Ontario, where they had store closures and go to curbside pickup. I think you saw that early on in COVID when it first happened that you saw the growth slow a little bit. And so you saw that in December and January across the categories. We think our brand penetration has been quite good. I mean, you saw the growth sequentially every quarter in 2020. And I think we're making great strides in that area.

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

Perfect. And do you have any estimate? I know you don't provide it, but potentially not, but any sort of goal posting of where you think your market share is in Canada right now on a branded level and how that's moved in the last year or so?

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**Jerry Filomena Barbato** - Cronos Group Inc. - CFO

Yes, there's not a lot of good data in Canada to try to really get that. So in normal CPG, there's Nielsen data or some other quantitative metric. I mean, we try to monitor ourselves internally, but it's difficult. And it's also difficult to look at because of all these big value players and larger formats coming into the market. It's a bit challenging to us -- for us to look at it that way. So we're really focused on growth of those brands and revenue growth.

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**Operator**

Your final question comes from Thea Wang with Jefferies.

**Thea Wang** - Jefferies LLC, Research Division - Equity Associate

I'm asking a question on behalf of my analyst, Owen Bennett. So just want to briefly touch on the product mix because currently, the majority of the sales are still from the cannabis flowers, and there's very limited increase sequentially from the extract. So I wonder what's your outlook on the product mix? And do you expect that to kind of stay at the current like proportion level going forward?

**Kurt Thomas Schmidt** - Cronos Group Inc. - President & CEO

Yes, good question. This is Kurt. Well, one of the things we're seeing is the trend during COVID, right, and Jerry just talked about that. We have consumers on lockdown and generally less mobile. And so we definitely have seen that preferences have shifted towards buying more volume in the flower category over vapes or even pre-rolls because it's better to-go solution. And since, unfortunately, in the last 3 months, no one's really been going anywhere. So this has driven our sales as well in the Canadian market to be more heavy-oriented towards flower categories. However, as things start to get better and we start opening up retail and people have more mobility, we don't expect this to persist long term. So again, we look forward to launching new and innovative products across the 2.0 spectrum over the course of 2021, so we do have plans. And again, very hopeful as the vaccination starts rolling out and we start getting back to normal, we'll start seeing the market develop as we saw pre-COVID.

**Operator**

Ladies and gentlemen, thank you for participating in today's conference. This concludes today's call. You may now disconnect.

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