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SLANG Worldwide Inc.

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PRESENTATION

Operator

Good morning. My name is Sharon, and I will be your conference Operator today. At this time, I would like to welcome everyone to the SLANG Worldwide Second Quarter 2019 Financial Results Conference Call. All lines have been placed on mute to prevent any background noise.

After the speakers' remarks, there will be a question-and-answer session. If you would like to ask a question during this time, simply press *, then the number 1 on your telephone keypad. If you would like to withdraw your question, press the # key. Thank you.

Mr. John Vincic, you may begin your conference.

John Vincic — Investor Relations, Vincic Advisors, SLANG Worldwide Inc.

Thank you, Operator. Good morning, everyone. Our speakers on today's call will be Peter Miller, Co-founder and CEO of SLANG Worldwide; Billy Levy, Co-founder and President; and Kelly Ehler, Chief Financial Officer. Joining them for the Q&A session will be Mike Rutherford, VP of Finance.

Today's call includes presentation slides. Viewers of the webcast may download a PDF of the slides from the webcast's interface, and dial-in participants can also log in to the webcast or visit SLANG's investor website at slangww.com to download the presentation.

Before we begin, I would like to remind listeners that certain statements made during this conference call presentation may constitute forward-looking information and forward-looking statements within the meaning of applicable securities laws. These statements involve known and unknown risks, uncertainties, and other factors which may cause the actual results, performance, or achievements of SLANG Worldwide and its subsidiary entities or the industry in which it operates to be materially different from any future results, performance, or achievements expressed or implied by such forward-looking statements. When used in this conference call presentation, such statements use words such as may, will, expect, believe, plan, and other similar terminology. These statements reflect management's current expectations regarding future events and operating performance that speak only as of the date of this presentation.

These risk factors are disclosed—or pardon me—are discussed in detail under the heading Risks and Uncertainties in SLANG's Management Discussion and Analysis dated August 27, 2019, and filed on SEDAR. The Company undertakes no obligation to update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise, other than as required under securities legislation.

And now, I'd like to turn the call over to Peter Miller.

Peter?

Peter Miller — Chief Executive Officer, SLANG Worldwide Inc.

Thanks, John, and good morning, everyone. Welcome to the SLANG Worldwide Q2 earnings call. We're going to talk about our performance in the quarter, discuss what underpinned that performance, and how our activity has continued laying groundwork for further success in future quarters.

Suffice to say that public cannabis companies have all seen share price depreciation to some extent during the quarter, regardless of individual performance, strategy, or communications with the market, and SLANG has not been immune to these forces. There is plenty of capital market punditry to consume, and there are many opinions on the drivers behind the cannabis capital markets.

However, we are going to focus on SLANG and how it is approaching the current environment. This discussion will include the rationale for the up-to-date tactics that will support the existing long-term strategy and how that will affect guidance.

Before we dive into performance and tactics, I'd like to take a moment to remind earlier shareholders how we make money and walk newer shareholders through our business model. SLANG is a consumer packaged goods company. We develop, produce, and wholesale a variety of branded cannabis products to medical and recreational cannabis operators and consumers around the world. These products come in multiple form factors and are enjoyed by consumers of diverse demographic makeup.

SLANG generates revenues, income, and cash flows by selling certain ingredients, components, and some finished cannabis products. We generally sell these products to licensed filling and assembling operations and, in the case of finished products, to retailers.

SLANG develops, licenses, or acquires all intellectual property behind our products and the systems that get those products to market. We call the supply chain that gets these products to market the SLANG Network. The SLANG Network includes regulated businesses that grow, extract, manufacture, and distribute our brands, getting our products to retailers around the world. SLANG owns equity or options to own equity in many of these businesses. What is most important, however, is that the SLANG Network operates efficiently in the pursuit of delivering the most branded units and branded servings of SLANG products as possible.

More detail about the SLANG Network can be found in our MD&A. However, the most important thing to understand is that the Network supports the strong performance of our business.

Organic growth drove revenue up by more than 40 percent in Q2 over Q1 as approximately 810,000 servings per day of our products, on average, were consumed, for a total of 74 million servings. While we expect continued organic growth, we also announced acquisitions and initiatives during the quarter that will bring both new brands and products into the portfolio while also supporting further growth of our existing portfolio.

We have seen significant price volatility many times before as public cannabis company executives and we expect to see it many more times in the future. But what we haven't seen before is so much consumer demand, cultural interest, political momentum, and market opportunity around the world. Nonetheless, the capital markets and our access to them as a company must be carefully monitored, analyzed, managed, and respected.

Our current analysis is that the market has very limited interest in injecting significant new equity capital into the sector, and that cash must be managed accordingly. Our approach has not changed strategically and will not. We are still focused on delivering branded servings of our products to the market as broadly as possible. Tactically, however, we believe that it is important to engage with the cannabis market like snipers in this environment. Cash is our ammunition; each bullet must be carefully fired and each shot must be thoughtfully considered before being taken. We do not expect the bullets we have to be our last. However, we must respect the trust that our investors placed in us as stewards of their capital and remain especially focused on efficient use of that capital.

It is with this in mind that we will lay out the strategic priorities for the near term and reiterate our strategic priorities for the long term. Strategic focus on organic growth will continue to be a major theme of this call. In a competitive landscape of mixed results in terms of organic growth, we are proud of the organic growth that we delivered in Q2.

The organic growth profile of a particular farm, facility, or retail location arcs to a high point, at which time new growth cannot be achieved without physical expansion. In contrast, the organic growth profile of a brand is limited only by the overall market size and a brand owner's ability to leverage the supply chain within that market. That is to say, with our business model, we believe that the organic growth opportunity is massive within the global cannabis market.

In the markets where we have the longest track record of performance, we are still seeing strong growth. These markets continue to grow; however, we are deploying strategies that create growth for SLANG beyond the growth of the market itself. In other words, we are increasing our dollar share even in the most mature markets like Colorado, where we grew our dollar share by 17 percent year over year, while the overall Colorado market grew 10 percent.

In new markets, we also saw some very interesting dynamics in Q2. In Canada, for example, we watched biomass become more freely available after extreme constraints in early Q1, the first after recreational legalization went into law. Our Network partner, Agripharm, saw prices of biomass decline by over half in the quarter and by another half subsequently. Firms fixated on putting up the largest revenue figures out of the gate spent heftily to do so, and their losses were evident.

As the Canadian market matures and new products enter the marketplace, we feel incredibly well-positioned to benefit from these dynamics. Canada is not alone in experiencing these whiplash supply-demand dynamics, as Michigan, Massachusetts, and even California continued to find their footing in the quarter.

The early bird may get the worm, but the second mouse usually gets the cheese. At SLANG, we have demonstrated an ability to be early in a market with great partners, while also growing into markets responsibly and in a controlled manner. In Q2, our partnership with industry leader Trulieve began generating revenue from the state of Florida. We are incredibly proud to work with such diligent executors and look forward to supporting our brand in that market in the long term, driving value for our partner and our shareholders.

Additionally, we announced another capital-efficient partnership to help us access the Oklahoma market. We are incredibly excited to bring our products to those markets and many more in the future, in a controlled and scalable manner.

We talk about scalability a lot and it is important to talk about the concept of scale in the context of cannabis. Many in our industry, and certainly on our team, have backgrounds in the technology and commodity sectors. In those sectors, conventional wisdom calls for a race to scale at almost any cost. With scale, it is hard for competitors to offer prices as low or even reach a market as broad as the firm with scale. As long as capital is freely available and the markets are liquid, pursuing this strategy is not controversial in cannabis. However, when the markets aren't so liquid and capital is not so freely available, tripping in the race to scale can be lethal.

One of the great things about cannabis is that it isn't a commodity, nor do its brand owners need to be the biggest to serve their customers profitably or to build their customer bases over time. The door will not close on a great company offering a great product while delivering on its brand promises. In fact, in consumer packaged goods, scale has hurt brand affinity when mismanaged, as we have seen with certain large companies who have placed scale and cost cutting above innovation and service.

SLANG is a firm that can use capital to accelerate growth; however, it can also be agile in an ever-changing capital and cannabis market landscape. So let me be clear, we do plan on being a very large and very profitable company with broad market reach and massive customer adoption. That said, we are not an oil and gas company, nor are we a technology or social media platform. There will be thousands of winners of varying scale in the cannabis industry, and we plan on being a leader among them in branded packaged goods.

Being a leader means not always following the trends of the quarter. SLANG and its management have been early to and set many trends over the brief but dynamic history of legal cannabis. Most importantly, though, we've chosen not to pursue many early opportunities. In an industry so full of promise and action, curating opportunities can be as difficult as creating opportunities.

We mentioned early market supply-demand dynamics and how they affect the supply chain and the profitability of the operators along it. In simple terms, rapid growth at the outset of a new market opportunity is incredibly expensive, and in some cases, a significant money loser, even on a unit basis. Infrastructure is expensive to build, expensive inputs drive COGS to painful levels, and ultimately, the decision to aggressively invest at this stage of a market's maturity is one of how much capital a group is willing to put at risk.

In weighing the decision to put significant capital at risk in order to pursue aggressive early market growth, we have to consider the signals we are getting from the capital markets and the opinions of stakeholders, both internal and external. Top-line revenue is being inconsistently rewarded in share price. A theme of speed-to-profitability is gaining support and equity financings are not frequently getting done. In light of this, we have decided to prioritize our efforts on markets where we are winning today and see significant room to grow, over markets that we have tested and determined do not reflect the same near-term opportunity.

We firmly believe in the long-term opportunity of these markets and will continue to grow into them at a responsible pace. This measured approach, however, will result in new guidance of 70 million to 100 million of annualized revenues for 2019. As much as we would like to maintain the aggressive pursuit of top-line revenue, we believe that it would be irresponsible to ignore market signals, risking long-term value creation in the process.

In the creation of organic growth this quarter, we tested promotional strategies that saw immediate and significant ROI in dollar terms. Early market growth can be headline grabbing in percentage terms, but our ability to grow even in a mature market represents an important fact. We have found ways to continue growing our business organically in the most mature markets, while also expanding strategically and responsibly into new markets. The ability to grow and thrive in a mature market requires focus and diligence. The ability to deliver this organic growth will ultimately be a greater point of differentiation between firms in the space.

I would now like to hand it over to my colleague, Kelly, to walk you through the financial highlights from the quarter.

Kelly Ehler — Chief Financial Officer, SLANG Worldwide Inc.

Thank you, Peter. We are very pleased at the progress in our operations in this, our second quarter as a new public company. During the quarter, we focused on advancing the integration of our acquisitions which were completed with the closing of the IPO. We continue to focus on synergies and integration to ensure that these businesses will meet our expectations over the long term, and to scale as the industry continues to grow. As a reminder, our six-month financial figures include only about 5.2 months of operations from these businesses.

For the second quarter, we recorded revenue of 7.2 million on sales of approximately 1.1 million SLANG-branded units and nearly 74 million branded servings. This compares to a negligible amount of revenue in Q2 2018, and pro forma revenue of 5 million in Q1 2019, adjusting for a full quarter of Firefly and NCG operations.

We continue to focus on driving branded units and branded serving volumes when we look at how our business is performing. During Q2 2019, we sold 1.1 million branded units, representing nearly

74 million branded servings based on a 5 mg serving size. Our MD&A and presentation material has a table showing branded unit volumes.

We are also pleased to note that sales started into our distribution channel in Florida during the quarter, with product available on retail shelves early in July. Volumes and revenues also benefit from a change in product mix, with customers in California and Colorado in particular shifting to larger-format products with a larger number of servings per unit.

We recorded a Q2 gross profit of 3.3 million, equivalent to a gross margin of 45 percent, compared to an unadjusted negative gross profit of 200,000 in Q1 and an adjusted gross profit, excluding noncash inventory adjustments of 2.2 million or a 56 percent margin. Q2 gross margin was lower than Q1 adjusted gross margin as a result of increased costs to import certain product components from China.

Our EBITDA of negative 2.1 million includes certain items which we expect will not recur in the future. As a result, we disclosed an adjusted EBITDA of negative 1.6 million. While the gross EBITDA loss is larger than Q1, we are pleased that the EBITDA margin has improved as the operating leverage from improved volumes to offset declines in gross margin noted above.

We continue to expect the business to grow rapidly over the coming quarters and are investing and ensuring our brands are well-positioned to take advantage of growth in our core markets. Our goal remains to become EBITDA-positive in the near future and be focused on the path to profitability of our core businesses. Integrating ACG and NSH, as well as our announced acquisitions will help us to realize additional synergies, economies of scale, and to take advantage of our strong marketing and branding capabilities.

We reported a net profit of 17.5 million for the period compared with a net loss in the first quarter of 16.1 million. Our bottom line was impacted by the factors noted previously in respect of gross margin and EBITDA, as well as a 26 million fair value adjustment in respect of our options on ACG and NSH. The amount of this fair value adjustment is tied to the value of our share price and is a noncash item which will fluctuate quarter to quarter while the options for these businesses are outstanding.

We also saw a reduction in costs related to start-up and corporate development. We will continue to be active on the corporate development front and we will continue to incur certain consulting and advisory costs related to these activities.

As to the previous quarter, we recorded a significant depreciation charge as the timing of our foundational transactions means that of the acquired assets—which would be our brands, proprietary know-how, and distributor relationships—were required by the accounting rules IFRS to be recognized at fair market value at the time of close rather than the share values at the time the transactions were negotiated. Keep this in mind when considering the Company's results for this and future quarters, as the depreciation will occur over 5- to 10-year periods.

Our financial position is strong. With 18 million in the bank at quarter-end, helped by the addition of approximately 10 million in cash from the previously announced warrant acceleration, this positions us well to meet our obligations for the foreseeable future, as well as to continue to pursue additional transactions that fit well with our business model.

At this time, I will turn the call back to Peter for some concluding remarks.

Peter Miller

Thank you, Kelly. To reiterate, in markets and categories in which we already operate, we believe there is still significant room to grow. As we extend brands into new categories and subcategories within markets, we see very exciting paths forward. We expect to announce at least one new product line in Q3 and many more beyond. These brand extensions will typically track the growth of categories and, in some cases, be totally innovative.

Our passion for this business and our optimism for its future is stronger than ever. Regardless of macroeconomic sentiment or cannabis capital market dynamics, we believe that our industry still represents one of the great secular opportunities of our time, and our business model is optimized to benefit.

This concludes our prepared remarks. I would now be pleased to take any questions, along with my colleagues. I'll ask the Operator to open the lines for questions.

Q&A

Operator

If you would like to ask a question at this time, please press *, then the number 1 on your telephone keypad. We'll pause for just a moment to compile the Q&A roster.

First question comes from Noel Atkinson with Clarus Securities.

Noel Atkinson — Clarus Securities

Hi. Good morning. Thanks for taking my call. I wondered if you could explain the methodology on your annualized 2019 pro forma revenue. Does that 70 million to 100 million of pro forma revenue assume that all of Organa Brands and the Lunchbox and the Arbor Pacific acquisitions were owned at the start of 2019?

Kelly Ehler

Yes.

Noel Atkinson

Okay. Can you give us a sense of how much of the 22 million pro forma revenue in Q2 came from Lunchbox and Arbor Pacific?

Peter Miller

The majority of that revenue came from products in the existing portfolio, Noel.

Noel Atkinson

Okay. And then, so you guys had 22 million pro forma revenue in the quarter; that's 88 million annualized. So that's sort of right in the middle of your 2019 guidance. So SLANG had really good growth in total servings in Q2. Your prepared remarks talked about what Kelly just said in terms—about ongoing expected growth, new product launches, that sort of thing. The annualized pro forma guidance that's new suggests that you're expecting, at best, modest growth sequentially over the rest of 2019. So what's happening in your markets now? Are you slowing down in existing markets? Have you hit capacity constraints in existing markets? What's happening here?

Billy Levy — Co-founder and President, SLANG Worldwide

Yeah. It's a good question, Noel. And something just related to the revision on guidance; as a management team, it's not something that we take lightly, and it was something that we reviewed internally with the team and looked at existing market dynamics and previous guidance. There were a few factors that went into that. The first being, when we—previous to making that guidance, we expected vapes and edibles to be available on the Canadian market for Q4. Subsequent to putting out that guidance, we've learned that it was going to be coming out for regulation much later than that. Given vapes and edibles are the strongest parts of our portfolio, we expect Canada to be a very strong market for us. That said, the opportunity is now deferred and that has an update on the guidance that you're seeing.

Secondly, to the point you just made, we're observing just kind of macro market dynamics in some of what we consider the emerging markets we operate in, like Massachusetts and Michigan. So while we're seeing good growth in our core markets, as Peter mentioned in his remarks, in the longest-standing recreational market of Colorado, we're growing and gaining market share beyond that of what that market is growing. The other markets that will have a lot of promise, like Massachusetts and Michigan, are maturing a lot slower and have interesting supply-and-demand dynamics that put pressure on margins and profitability in those markets.

So strategically we've made the decision to slow down investing in growth in those markets that we consider emerging, and really focus on expanding and extending our brand of leadership in our core markets. The result of those strategic decisions kind of also reflects the uptick to the guidance.

And then thirdly, we have a big pipeline of new products that we're bringing to market, some of which we had previously planned for the back half of this year. As we are watching the different dynamics in the market, we're making the strategic decision to push some of those new product launches into 2020 to allow our existing products and portfolio time to gain market share and customer bases in those markets.

The collection of kind of those reasons kind of resulted in the updated guidance. And again, in providing that updated guidance, it's not something—we needed to put something out there that we were confident in that we could hit, based on the performance and what we're seeing in the business today, and continue to grow responsibly as an approach for sustained growth and profitability, as opposed to growth at any cost and just driving top-line revenue, which is ultimately a vanity metric.

Noel Atkinson

Okay. Thanks. Can you also give us any of the financial terms of the Lunchbox and Arbor Pacific acquisitions that are pending?

Billy Levy

Yeah. I mean, we'll be—we haven't publicly announced those yet. We're in the process of closing all the transactions. We expect Arbor Pacific to close here probably the soonest. And as we close those, we'll report the terms. In a macro sense, they're of varying degrees and not very material.

Noel Atkinson

Okay. I'll get back in the queue. Thanks very much.

Billy Levy

Thanks, Noel.

Operator

Next question comes from Bobby Burleson with Canaccord. Please go ahead.

Bobby Burleson — Canaccord Genuity

Yeah. Good morning, guys.

Peter Miller

Good morning.

Bobby Burleson

So I guess, just on that, you've got a flexible model and you guys are making some near-term adjustments to reflect market conditions, and you've talked a lot about organic growth. Can you just kind of walk us through the organic second half growth expectations? What you think the seasonality is in your markets and what you think you might be doing versus that seasonality? Maybe picking up some share? That kind of thing.

Peter Miller

Yeah. Sure. I mean, seasonality, Q3 basically up until American Thanksgiving tapers off a little bit. But I think even despite that we're going to continue to see growth, partially through some products entering the market that are more iterative in nature from our current portfolio and a lot of growth that we're seeing come online from new markets like Florida.

So a huge driver of the organic growth that we talked about has been strategies like increasing our inside sales activities and replacing boots on the ground that were basically doing kind of gimme reorders while having all the expenses, both gas, travel, et cetera, and commission associated with more lead-generating and door-opening-type activities. So that has driven a lot of new accounts in markets like Colorado, Oregon, and California.

So there is a little bit of seasonality. But regardless of that, we still have a good line of sight on organic growth through Q3 and Q4.

Bobby Burleson

Okay. And then do you have sort of a range of expectations for your organic growth? Is the split of the organic business stripping out acquisitions first half to second half?

Peter Miller

Yeah. I think it's going to continue to be heavily weighted to the organic growth side of things.

Bobby Burleson

Okay. And then if we think about where you've made adjustments and pushed some stuff out to 2020, can you quantify the amount of maybe CapEx or other kind of savings that you've delayed there? Spending you've delayed there?

Peter Miller

Probably not going to get into deep detail on CapEx other than to say it can cost as much as a few million dollars to stand up a fully serviceable lab that can do basic extraction, but most importantly bring materials in for formulation, assembly, and shipment. And we deferred at least one of those activities in the new market.

And in terms of product launches that are significant into 2020, it's mostly OpEx, just buying the materials and whatnot. But it's more strategic to make sure that those get the biggest opportunity they can when they launch, as Billy mentioned.

Bobby Burleson

Okay. And then just last one from me. When we think about the product mix, just edibles, vape, et cetera, is there a change in terms of what that mix is going to look like in the second half organically versus previous expectations with some of these changes that you guys have made, some of these delays that you're implementing?

Peter Miller

Yeah. So a couple of interesting things that people can pull from third-party kind of market data that are worth mentioning are the growth of those categories. We talked about our product growing kind of with the market in terms of proportionality within the portfolio. Vape was up over 44 percent year over year in Colorado as a category, flower was up by single-digit percentages, and gummies continue to thrive at the expense of things like gelcaps and tinctures. So we think that the product mix and the proportionate contribution will kind of track statistics like that.

We're seeing and we saw a tonne of growth from our O.pen RESERVE line, which is distillate-based with botanical terpenes. It's a value product, a lot of servings per unit, and it was extremely successful in its launches into our existing markets. So that certainly drove servings in a big way and that is something we expect to continue seeing in Q3.

Bobby Burleson

Okay. Thanks.

Peter Miller

Thank you.

Billy Levy

Thank you, Bobby.

Operator

Next question comes from Greg Miller with National Institute. Please go ahead.

Greg Miller — National Institute for Cannabis Investors

Hi, Peter. Thanks for taking the question. I want to follow up on what Neil (sic) [Noel] and Bobby were talking about because I think there may be a mismatch between what you're saying today and what I think we're hearing today. If you look at your annualized revenue forecast and you look at this quarter's pro forma revenue, 22 million of pro forma revenue, that kind of implies 22 million of pro forma revenue in the third quarter, 22 million in pro forma revenue for the fourth quarter, and that gets you pretty close to your 85 million right there if you throw in the first quarter. And that implies really no organic growth, but you're talking obviously about organic growth, about selling products in Florida, about growing share in Colorado. So could you sort of square things up there and talk about, maybe specifically, what are you seeing so far this quarter as a number, what are you seeing next quarter. Are we hearing it right that 20 million to 25 million is a good fourth quarter number?

Billy Levy

Yes. We expect to continue to—we've had a good quarter, we're happy with the performance of the business through this quarter and expect continued growth through the rest of the year. So we're doing so, though the main message is in as a sustainable manner with a focus on profitability, and not just driving the top line and putting a pressure on profitability and cash in other areas. So again, we understand that revising guidance is never a good thing and the optics associated, and we take that to heart. But given the realities of certain of those more emerging markets, where we're kind of taking the foot off the gas for the moment and focusing on growth in the core markets, it was the range that we feel very comfortable with. And that does still include the variables of those transactions closing, so we have to take that into consideration as well.

Greg Miller

Okay. That may change things a little bit, obviously, because—but that's just converting pro forma revenues into actual revenues. We're still trying to get a sense for what is organic growth going to look like for the rest of the year over this 22 million pro forma you did this quarter.

Peter Miller

Yeah. I mean, I think the organic growth you saw quarter over quarter was really strong for any business. Inside sales in Q3, we're not—I mean, I'll caveat this with saying—going to sort of preannounce anything to date in Q3 in too tangible a way, but our store penetration through inside sales in Q3 has been significant. So if that store penetration converts into revenue, we'd expect similar type growth on a handful of fronts but we're not going to do any sort of mid-quarter reporting. And to Bobby's point, there is some seasonality. Q3 still is typically pretty strong in the first part, but in September when everyone's back to work, et cetera, it does taper a little bit. So we just want to be responsible in how we guide things.

Year over year, the organic growth will be exceptionally strong, but there will be seasonality, and, therefore, we don't want to overstate things.

Greg Miller

Okay. All right. Thank you.

Operator

Once again, if you'd like to ask a question, please press *, 1 on your telephone keypad.

We have a question from Noel Atkinson with Clarus Securities. Please go ahead.

Noel Atkinson

Hi. Thanks for taking my follow-ups. Just two quick ones. You're talking about focusing on the core markets and the CapEx and that sort of thing. Are you capacity-constrained in any of your key states right now?

Peter Miller

Well, where we—

Noel Atkinson

In terms of—

Peter Miller

Yeah.

Noel Atkinson

—in terms of production.

Peter Miller

Yeah. Thanks, Noel. We saw some capacity constraints with the California supply chain which we resolved by basically taking certain space we were using for distribution, converting it to manufacturing, and then leveraging some third-party distribution support. So effectively, it allows us to increase our servings significantly. And we're also exploring co-manufacturing options in every market on just a general basis at any given time, which will allow us to further increase servings. But we definitely don't build for significantly more growth than we have sort of quarterly line of sight on because we have seen in certain markets what seem to be capacity-constrained environments can basically switch into having too much capacity, and the capital invested in those markets will usually increase that swing.

So in Oregon, for example, where cultivation got overbuilt somewhat over time, there was a huge price response over the past couple years, but we've seen very promising swings in the other direction, and that's over kind of five years. In Canada, we saw extreme constraints turn into quite a bit of surplus in some parts of the supply chain. So all of that is to say we're pretty careful about building significantly more capacity than we see a need for a quarter or two out, but when it happens that we reach that capacity limit, we've been pretty capable at increasing capacity with third parties.

Noel Atkinson

Great. And then lastly, just, you folks had launched—I believe you launched the CBD products into the Greenlane channel in the quarter. Can you talk at all about performance there and your outlook for that product line?

Billy Levy

Yeah. We announced with Greenlane. We put our first products under the RESERVE CBD vape line into their channel at the end of the quarter. It's a new entry into a new category for us. We're encouraged by early results and we're planning to expand the health and wellness CBD offering throughout the remainder of the year. That includes the release of a—which we've talked about previously—the Firefly Mini CBD vape through the Greenlane channel, and also continuing, as we bring some of the other companies into the SLANG portfolio that have CBD products, bringing those and doing some direct-to-consumer stuff online as well.

So we think it's an initiative that will see continued growth through the rest of this year. And it's one of the things, as we introduce more CBD products, some of those will be shifted into 2020 as we focus—our primary focus is growth in our core markets and with our THC products.

Noel Atkinson

Okay. Thanks very much.

Operator

Once again, if you'd like to ask a question, please press *, 1 on your telephone keypad.

And we have a question from Emily Jonynas with Canaccord.

Joe Skoff — Canaccord

Hey, guys. It's actually Joe Skoff. Just a really quick one, and the other guys kind of touched on it, just on the reprioritizing of select initiatives into 2020. Obviously, you guys have a very capital-light model. So just for example, like stuff getting pushed out in Michigan and Massachusetts. Can you just rationalize exactly what kind of is being reprioritized for newer markets, since it is a fairly capital-light model where it doesn't require you to go out and spend? For example, an MSO who has to spend up front before they see revenues. Just again, it all makes sense strategically, but I just didn't maybe just quite understand what markets kind of were in focus that maybe are not, just given the focus on core markets in the very near term. Thanks.

Billy Levy

Yeah. Hi, Joe. We see great potential as the rest of the industry and operators in those markets do for those markets. The reality that we are all looking at is they're rolling out slower than expected in terms of store openings, licensing, and there's a supply-demand imbalance, and some pretty extreme wholesale prices. And as we make finished goods, ultimately, at the end of the day, that has an impact on our margins.

So given the capital-light nature of our model, we're not in a situation where we need to be investing in infrastructure there in terms of, we're not opening stores, we're not building out cultivation spaces. So things, if we were putting a pause on those projects, would totally impact our ability to generate revenue and succeed in those markets. As other people whose primary business is cultivation and retail continue to build and open, that complements our business model. So we need to give those markets time to catch up and those operators more stores to open, more supply coming online which lowers our cost of raw materials and increases our margin and profitability in those markets.

So by no means, it's not lost opportunity; it's just kind of being deferred. Rather than participating in the current market environment and continuing to invest and put product in market there, it just puts pressure on margins and profitability and our overall growth profile. So Massachusetts, Michigan, and Canada are all three really big, new recreational markets where we're seeing those dynamics, which strategically we're deciding on extending our brand leadership and performance in the core markets that are more mature, like Colorado, Nevada, California, Oregon, and Washington.

Joe Skoff

That's helpful. Thanks. That's all I had.

Billy Levy

Okay. Thank you.

Operator

Once again, if you'd like to ask a question, please press *, then the number 1 on your telephone keypad.

And we do not have any telephone questions at this time. I will turn the call over to the presenters.

Peter Miller

Great. Thanks a lot, everybody. I really appreciate everyone's time tuning in, and we'll be happy to take any other questions or follow up online. As always, we would like to make ourselves available to our shareholders, so please don't hesitate to reach out to us through our Investor Relations team.

Operator

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