SLANG Worldwide Inc.

First Quarter 2020 Results Call

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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by and welcome to the SLANG Worldwide First Quarter 2020 Results Call. At this time, all participants are in listen-only mode.

After the speakers' presentation, there'll be a question-and-answer session. To ask a question during the session, you'll need to press *, 1 on your telephone. If you require any further assistance, please press *, 0.

I would now like to hand the conference over to your speaker today, John Vincic. Please go ahead.

John Vincic — Investor Relations, SLANG Worldwide Inc.

Thank you, Operator, and good morning, everyone.

Our speakers on today's call will be Peter Miller, CEO and Chairman of SLANG Worldwide; Chris Driessen, President of SLANG USA and incoming CEO, Co-founder and President; and Kelly Ehler, Chief Financial Officer. Joining them for the Q&A session will be Mike Rutherford, incoming CFO; John Moynan, General Counsel and incoming Chief Operating Officer; and Billy Levy, President and Co-founder.

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 and 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.

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And now, I would like to turn the call over to Peter Miller. Peter?

Peter Miller — Chief Executive Officer, SLANG Worldwide Inc.

Thanks, John, and good morning, everyone. Thanks for taking the time to join our Q1 2020 earnings call.

In addition to me, you will hear commentary from incoming CEO, Chris Driessen, and Kelly Ehler this morning, and have the opportunity to speak directly to us during Q&A. As always, we'll do our best to be available after the call to shareholders or analysts who may have further follow-up questions or anything they want to discuss beyond the schedule window of this call.

Due to reporting delays associated with COVID-19, we are in the interesting position to discuss Q1 with the benefit of more context than normal. We've been able to observe and analyze macro events that straddled Q1 and Q2 and gain some additional insights into our business' ability to navigate and emerge stronger than we entered them.

Chris and Kelly will walk us through more detailed analysis, but I'm very proud to say that the team continued to organize our activities appropriately between core and emerging markets, along with strategy we announced almost a year ago. The reasons laid out for embarking on that strategy were validated by the way we weathered the initial storm created by the pandemic and the way we took full advantage of the return of demand at the end of Q2.

Between the resilience of our core markets and the risk mitigation strategy of leveraging partnerships in emerging markets, we left Q2 with our first month of positive cash flow from operations and our highest revenue month of the year. That's not to say that this will be the case every month, or that we will stop being extremely aggressive about profitability. But it is a strong indication that the things we are doing are working, and that we've turned an important corner.

There are many reasons for optimism and excitement in the second half of the year, and Chris will get into some of those, along with further analysis of the quarter.

Chris?

Chris Driessen — President, USA, SLANG Worldwide Inc.

Thanks, Peter. Q1 was a quarter of evolution in many ways for SLANG Worldwide. The Company's number one objective is profitability across all entities on a consolidated basis. Due to a host of factors, including potential of profitability, specific market conditions, and capital requirements, the Company has made the intentional pivot to form a strategic partnership with proven operators to bring our portfolio products to market.

This emerging market strategy preserves capital, time, and resources, while also optimizing revenue for the greatest opportunity at profitability. We are constantly analyzing data, both internal and external, to identify how to best drive value for our shareholders. We believe that delivering consistent profit and being cash flow positive represents the best way to drive that value in the long term.

The quarter saw us continue to execute on our business transformation strategy by continuing its progress to transition from core to emerging markets, specifically in California, Michigan, and Massachusetts. The Company previously intended to pursue a licence in wholesale products in each of these markets to develop it into a core market.

This core market strategy requires intensive time, capital, and resource commitments to bring to reality. The emerging-market strategy has been executed on by SLANG many times in the past, including, most recently, with Standard Wellness in Ohio, Wellness Connection of Maine, Elite Cultivation in Oklahoma, and Gage Cannabis in Michigan. We expect to announce more progress on our emerging market strategy very soon.

Core markets are defined as markets where the Company and its associate companies manufacture and distribute products at the wholesale level. This model naturally has a higher top-line revenue potential due to wholesale. The Company also receives licensing revenue, in addition to wholesale revenue.

The key factor in determining whether a market is core or emerging is our ability to generate profit. This decision is based on a host of both internal and external factors, including tax regime, regulations, access and intensity of capital deployment, bandwidth, infrastructure, local leadership, cost of entry, pricing dynamics, and size of the market.

The Company’s revenue composition is directly related to it being a core or emerging market. Emerging markets always have a lower top-line revenue than that of a core market. Ideally, SLANG will work to convert emerging markets into core markets, when and where possible, to realize healthy top and bottom line, while being conservative with our capital. That said, we do not expect to convert any more core markets into emerging markets and, conversely, we do not expect to convert any emerging markets to core markets in 2020.

In the first quarter, we showed positive revenue growth, year over year, but declined quarter over quarter as we transitioned California, Massachusetts, and Michigan to the emerging markets model. And while these markets are more profitable to SLANG once fully transitioned, it did adversely affect our revenue in the short term.

In addition to lowered revenue due to the previously mentioned market transitions, we also faced headwinds due to the impact from the global pandemic, COVID-19. The effects of COVID-19 were felt into the second quarter, as many states enacted stay-at-home orders for extended periods of time.

And while most states deem cannabis businesses essential, many of our markets experienced steep declines in customer visits, as dispensaries switched to a delivery or curbside-pickup model. And while we did see a short but sharp increase in late March, it was not sustained, as almost 40 million Americans subsequently lost their jobs. Our revenues were affected in both the dispensary channel and the ancillary market via our distribution partners.

SLANG sells non-cannabis products, like our Firefly 2+ dry herb vaporizer, O.penVAPE 2.0 batteries, and various other items through both distribution and direct-to-consumer from our various e-commerce initiatives. Non-cannabis product distributors sell primarily to smoke shops, tobacco shops, and other alternative stores. These locations were not deemed essential during the pandemic and were not open for long periods of time in many states. All of these factors contributed to the decline in revenue quarter over quarter.

But enough about our challenges. It’s management’s job to overcome whatever obstacles might come our way, and we will do just that. We have many great things happening around the Company which will continue to be additive to our success in the future.

I’m pleased to report that we have already begun to address these obstacles by entering into strategic partnerships in Michigan with Gage Cannabis, and we expect to make announcements regarding Massachusetts and California in the coming weeks.

We are also excited about the eventual closings of our previously announced acquisitions of network partners in both Colorado and Oregon. This bolstering of our core market strategy will not only increase revenue but support our long-term profitability goals.

We did see remarkable gains in our core markets in Colorado and Oregon in the first quarter, both quarter over quarter and year over year. Revenue in these core markets increased by 181 percent, quarter over quarter, and 757 percent, year over year. We have also diversified our product offering to include flower through our partnership with Cookies.

Our SLANG network partner, Allied Concessions Group in Colorado, recently opened a new hydrocarbon and rosin production facility, which will allow SLANG to enter into popular and growing concentrate categories in the coming months.

We expanded our District Edibles line to Oregon, where we have already seen early success with both gummies and sours. Our brands continue to have leadership positions across multiple categories and multiple markets.

We continue to possess a strong balance sheet, even today. We had cash and cash equivalents on June 30th which were higher than they were on June 1st. This demonstrates our ability to execute on our strategic plan with prudent use of capital, pivot our strategy quickly and efficiently when necessary, and still demonstrate brand leadership in most markets.

In all, I'm very pleased with the Company's ability to overcome obstacles that come our way, even in the midst of a global pandemic, civil unrest, and a reeling economy. We're a scrappy company that's designed to generate profit and brand leadership over the long term.

I feel more conviction than ever that we are on the right path to profitability. Our strategy is definitely starting to take root, and we expect positive gains in both core and emerging markets in the second half of 2020.

Finally, I'm extremely excited to transition into the role of President and CEO for SLANG Worldwide. With all the good work we have done to improve our margins, optimize our core and emerging market strategy, and diversify our product offering, there has never been a better time to be paying attention to SLANG. Expect us to keep swinging, punches and bunches, keeping our head down, and continuing to execute. Work hard, never quit—that's what this great company is all about.

And now, over to Kelly for a financial review. Kelly?

Kelly Ehler — Chief Financial Officer, SLANG Worldwide Inc.

Great. Thank you, Chris. March 31, 2020, marks our first full quarter as a public company for the comparable result for March 31, 2019.

I would note that the comparable quarter includes the results of NCG and Firefly from January 22, 2019, so results are not fully comparable.

Where relevant, I will make the appropriate comparisons to the fourth quarter of 2019, as this information is most relevant in terms of the financial direction and operational focus of the Company.

With respect to revenue, first quarter 2020 revenue increased 17 percent to 4.7 million compared to the first quarter of 2019 revenue of 4 million.

When compared to the fourth quarter of 2019, revenue declined by approximately 4 million, driven primarily by several factors: rental payments which are recognized annually, the decision to exit the wholesale business in California, and the beginning of the impact of COVID-19 in our markets.

Despite the overall revenue decrease, there were several bright spots which point to the opportunity for future growth and support our decision to focus on the core markets of Colorado and Oregon.

Revenue in these markets increased by 181 percent over the fourth quarter 2019, and by 750 percent over the first quarter of 2019.

We also saw significant growth in licensing revenue, with 64 percent growth compared to the first quarter of 2019, and a 5 percent increase compared to the fourth quarter of 2019, in spite of the significant market headwinds between these periods.

One area where COVID-19 impacted most heavily was in hardware sales, which were down 81 percent when compared to the fourth quarter of 2019. Normally, our customers submit their refill orders near the end of the quarter. But as many customers were shut down in March, we did not see the same level of restocking as in prior periods. As markets reopen, we expect that there will be a catch-up activity in future quarters.

In terms of gross margin, the first quarter of 2020, gross profit of 2.9 million represented a 61 percent gross margin, increased by 32 percent when compared to adjusted gross profit of 2.2 million in the first quarter of 2019, with a gross margin of 56 percent.

That said, gross margins on our product and licensing business improved to 53 percent in the first quarter of 2020, from 47 percent in the fourth quarter of 2019, again, as a result of our refocus on the core markets of Colorado and Oregon, as well as the ongoing cost reduction initiative.

EBITDA—and I'll turn now to the expense side.

We have been keenly focused on adjusting our overall cost structure in order to align with the rapidly changing business environment since the latter part of 2019, and as we've integrated our acquisitions. The most significant decreases have been salary and consultant cost reduction, among other cost-saving measures, the impact of which began during the fourth quarter of 2019, but will not be fully realized until later in 2020.

EBITDA loss was 2.7 million in the first quarter of 2020 compared with the first quarter of 2019 adjusted EBITDA loss of 8.8 million and fourth quarter 2019 adjusted EBITDA loss of 1.5 million.

Nearly every expense line item declined from fourth quarter 2019 to the first quarter of 2020, with the exception of non-cash expected credit losses, depreciation, and share-based payments.

However, during the first quarter of 2020, our revenue and, thus, gross profit declined due to the issues discussed above, including COVID-19, while our SG&A cost rationalization measures continued to reduce costs into the second quarter for the year.

As noted above, measures taken during the fourth quarter of 2019 and first quarter of 2020 are expected to result in additional savings in future periods, and our recently announced changes in executive management, which will further reduce overhead costs.

The overall reductions in salaries and consultant costs will result in savings of approximately 6.8 million on an annualized basis once salary and benefits continuation and other costs related to the changes have been fully realized.

While we face continuing challenges in the second quarter of 2020, due primarily to the impact of COVID-19, these cost reductions are expected to position the business well as revenues pick up.

As we move to talk about our cash and financial position, we think it's important to note that we were cash flow positive during the month of June. This is a great testament to the resilience of our model, as well as the positive impact of the cost savings implemented over the last several months.

We had total cash and cash equivalents of 10.4 million at the end of the first quarter of 2020, and this reflected a deployment of approximately 8 million cash during the first quarter.

Included in this cash deployment were a number of significant one-off cash expenses in the first quarter, with 1.6 million used for D&O insurance and then 2.8 million of cash advanced to network partners in order to fund operating expenses. The balance is operating costs.

While we continue to expect fluctuations in monthly cash burn, we are moving in the right direction and will continue to closely manage our cash. We are confident that we have sufficient financial resources to continue to fund our business plan. We continue to operate with minimal debts, which contributes significantly to our financial flexibility.

We continue to be focused on identifying additional opportunities for cost saving, efficiently generating incremental revenues, and maintaining a nimble operating model.

Turning now to our bottom-line results, we reported net income of 23.5 million at the first quarter. Net income arose primarily as a result of changes in option valuation. The primary driver of option valuations is the SLANG share price.

Options will continue to be valued quarterly until expired or acquisition's complete. We've announced our intention to exercise the option to acquire ACG, where we have informed the owners of NSH that we do not currently have any intention to exercise the options so far in this business.

Depreciation has significantly declined in the first quarter of 2020, when compared with the prior year. We completed an impairment evaluation of our intangible assets as part of the 2019 joint audit and, as a result, significantly wrote down the intangible assets. As a result, depreciation will continue to be lower going forward.

Outlook. We are excited about the outlook for the business. We faced significant headwinds from COVID-19 during April and May in particular. However, we believe that we are starting to see the light at the end of the tunnel.

June results have shown encouraging improvements over the previous two months, including positive cash flow, and give us confidence that our actions over the last several quarters have been the right ones in order to position the business for the future.

At this time, I will turn the call back to Peter for more discussion of our outlook and some concluding remarks.

Peter Miller

Thanks, Kelly, and thanks, Chris. As you've heard, we remain very focused on our operating strategy, especially after seeing its durability during difficult times and its leverage in a robust market environment.

We're looking forward to the growth catalysts and potential tailwinds of Q3 and are happy to take any questions or comments from folks on this call.

Q&A

Operator

At this time, I'd like to remind everyone, in order to ask a question, please press *, and the number 1 on your telephone keypad.

Your first question comes from the line of Noel Atkinson from Clarus Securities. Your line is open.

Noel Atkinson — Clarus Securities

Hi. Good morning, guys, and thanks very much for taking our questions this morning.

I have a few questions here. Okay. First off. Okay. So congratulations on the Q1 strength in Colorado and Oregon. Does that relate to restocking after a slowdown related to the vape crisis in Q4?

Peter Miller

Good question. I'm going to let Chris speak to the specific dynamics of Colorado and Oregon. I would say, as a headline, I wouldn't attribute that as the primary driver. But Chris can give some great colour on the local Colorado and Oregon markets.

Chris Driessen

Yeah. I'd agree with that. Hey. Good morning, Noel. Yeah. The vape crisis was kind of largely in the rearview mirror as we started Q1, and I think the strength you saw there really was just a tightening of our strategy, as we continued to introduce new products and increase our market penetration. So you're just seeing that momentum build in those core markets. But, no, I wouldn't attribute that to a restocking after the vape crisis.

Noel Atkinson

Are you able to give us any more detail on that? So it sounds like, then, you're making good headway in these core markets. But I'd be interested in Colorado in particular because it's been such a big piece of your total servings and your total units for the last year. So can you give us a sense of product mix on a high level that you're seeing good momentum in, things like that?

Chris Driessen

Yeah. Absolutely. So as you mentioned, Colorado is certainly one of our strongholds. We're really widely distributed in Colorado, with really large collectives, and what we've really seen was kind of a shift. One of the real strengths of our company is the diversification, not only in the categories that we serve, but the segments within those categories.

So an example of that would be we sell premium products. We've sold through premium products. We sell value-based products. So there's different demographics walking into different stores. The demographic of somebody walking into a store in Aspen, for example, is not buying the same products that somebody might be buying in a place like Pueblo. So for us, one of those strengths is that we've got the ability to go back and forth and service both sets of customers.

So when people are primarily focused in one of those categories and, more specifically, one segment within those categories, we've got the ability to diversify what we do and service a lot of different demographics and a lot of different places, which really has been one of the core strengths that we have in Colorado and in other places.

Noel Atkinson

So we've seen, in Canada, a significant shift towards the value part of cannabis flower in particular since COVID started. So are you saying that your value lines have outperformed, basically, during the COVID epidemic in your core markets?

Chris Driessen

Yeah. Absolutely. That's dead on. So we saw a massive shift just in consumer preference, as a lot of people lost their jobs, became more sensitive about their financial position. It wasn't that people stopped using cannabis. They may just be purchasing something a little differently than they have in the past.

So we saw larger format items, for example, like a one-gram cartridge, instead of a half-gram cartridge, really shoot up—our value line's a product called the O.penVAPE RESERVE line. And so we saw those percentages massively increase, which was a testament that, hey, people are still consuming. They just may be buying something a little differently.

We benefitted from that because we also sell products in a lot of different categories, and particularly in vaping and many different segments within that category. So as peoples' consumer sentiment and buying preferences started to shift, we were able to capture that as they changed.

Noel Atkinson

Okay.

Peter Miller

And, no, I think that's a good comment about Canada, in that we've seen, in Colorado and these core markets where we've operated for many years, some of the dynamics of a new market like Canada, which we're very excited about, having just received a sales licence at our partner company to sell directly to retailers in provinces. But that Canadian market dynamic is kind of where Colorado was five, six years ago. So that experience is built in.

I'd also say, though, to Chris's point about diversification, it was still uncertain and difficult times financially for folks when we dropped our first Cookies flower SKUs. And that was definitely at the very high end of the spectrum. We still saw those products sell out immediately and also, very importantly, created pull for our value brands at the wholesale level, meaning stores really wanted an allocation of those premium products because they had a strong sense they would sell through, which they did. And to compete for those allocations, they carried more of our other products as well on the value side.

So it was a great synergy and a great example of how premium can still sell in even a mature market. Canada hasn't proven that yet. But I think it's both bullish for our ability to weather the macro choppiness in mature markets like Colorado, and I think is promising for everybody in a market like Canada.

Noel Atkinson

Okay. Just one more quick thing before you move on to another question.

So you bring up Cookies, which I think is probably one of the most significant partnerships for SLANG going forward. So are you able to ramp up your production of some of these high-demand products, whether it's your value lines, or your vapes, or your larger format vapes, or the Cookies flower? Are you guys able to ramp up now to serve that demand?

Peter Miller

Yeah. We are going to scale all of those things based on market demand, but I'll give Chris the floor to give you some detail around how.

Chris Driessen

Yeah. Absolutely. The direct answer is yes. So whether it's in raw material allocation and procurement to service our existing lines of in-house brands—Cookies, we've got great cultivation partners, both in Oregon and Colorado, that are well prepared to grow as the market demand warrants. So yeah, the answer's yes.

And one of the things I would point out there, that these markets ebb and flow. Peoples' financial situation, their consumer preference of what they're wanting to purchase, changes over time. And we've seen this play out again and again and again as we enter new markets. And so, largely, everybody kind of moves down the same timeline, but they're all on different place of value (phon), depending on the maturity of their market.

But the short answer is yes. We do have capacity. We are able to scale up as demand warrants and, more importantly, do that in a cost-effective way.

Noel Atkinson

Okay. Great. Two more quick things. Based on your comments at the start of the call, plus the comments in the financials, should we be inferring that revenue will be declining sequentially in Q2 from Q1?

Peter Miller

We're not offering any guidance on that directly. We want to work closely with the market to help guide them to a good understanding. So we're not offering full forward guidance at this point on Q2.

Noel Atkinson

Okay. And then, yeah—well, okay. So we'll try one other thing. Can you guys give us—

Peter Miller

Yeah. No. And I'm not trying to speak in riddles, Noel. Like, revenue was impacted. The pandemic that straddled these quarters, we felt it early, earlier than most, possibly, because Colorado, Denver was a bit of a vector right off the top due to, sort of, the travel hub that it is. But of course, for most people, it went into the next couple of months most aggressively.

Now we saw some very encouraging things at the end of the quarter, which we alluded to. One of the strongest months on the revenue side we've ever seen and positive cash flow. So that, I think, was very encouraging in terms of the sort of exit rate from that period of time. And we're optimistic that the future response will be—to a second wave, or anything like that—will be supported, kind of, by the experience and the way that people learn to operate during a very difficult period.

So there's no question that it was difficult throughout the pandemic. And I know that, that is kind of a unique commentary, because a lot of cannabis companies, especially public ones that are in limited-licence markets with a lot of suburban customers, or at least customers with only a few options for shopping, didn't see that same impact.

But you have to remember, in these mature markets, some of the most coveted retailers to be in include prime time, sort of, main street real estate that are anchored by office buildings, or tourist destinations. And during a pandemic, those become a lot less attractive relative to, kind of, the lower-tier suburban dispensaries, which were well set up for curbside, large parking lots, et cetera.

So we said in the press release that revenue was adversely impacted in Q2. We're just not giving specific guidance on the year.

Noel Atkinson

Okay. And then, finally, another question on Q2. So can you—you guys have made significant progress on cost cutting, as shown in Q1. You say you're cash flow positive in June, so well done there. So can you give us a sense of the amount of incremental cost savings you're hoping to achieve in Q2? Or even—or a sense of—

Peter Miller

Sure. Yeah. I think—

Noel Atkinson

—the magnitude?

Peter Miller

Yep. I think there's an interesting sort of narrative around the overall cost savings, we can speak to, if we don't dive into Q2 specifically. And I'd invite Kelly to speak to some of the macro cost savings we've made.

But I'll say, thematically, that everything that we've been doing, going back to almost a full year ago, when we identified—I believe it was in an August conference call—that certain markets just weren't there yet. And as we saw in the fall, the capital markets were not going to be the same as they had been historically, that we weren't going to play a high-risk game of gambling on the possibility of a refinancing of potential debt which we were offered, ultimately decided not to take; nor did we expect that the ability to raise equity would be the same in this time period than it was in previous.

So we did start making some aggressive streamlining decisions even back then, which is why we communicated the core versus emerging dynamics, talking about Massachusetts early, ultimately making those changes we discussed in California. But they went top to bottom, so whether it was pay cuts on the HR side, or pay reductions, hiring freezes, et cetera, at different times, top to bottom, as you've also seen in the market.

But I'll let Kelly quantify some of those numbers more specifically.

Kelly Ehler

Yeah. So just to reiterate what Peter was saying is, I mean, we started the process, I think, ahead of the curve, with respect to a lot of companies, where last fall we looked at the Company and the operations and said we have to start realigning our costs to the current market conditions and our cash flow abilities.

So we've gone through, like, a number of, I would say, months of reassessing costs and salaries and compensation, starting back in October of last year. And as you know, we sort of did the first round in the fourth quarter of 2019, so a lot of times, some of them were continuation pay, some were, like, immediate cost-saving reductions. In the winter, we went through a second round of looking at the overall cost structuring, looking at salary reductions and, into the latter part of Q1, doing some additional sort of rounds of rationalizations.

And a lot of these things, in terms of Q1, they started positively impacting Q1 and have positively impacted Q2 to a greater degree. And we have further savings that will kind of roll into Q3 and Q4. So in my presentation, I talked about 6.8 million of overall kind of annualized savings. And that number, in terms of network-wide, is approximately about $10 million.

So we've made some very significant strides in terms of aligning our cost structure to the business, and as we see revenues kind of pick up again, that we feel pretty confident in terms of how we're aligning where we are today in terms of our overall staffing and costing.

Peter Miller

Thanks, Kelly.

Noel Atkinson

Okay. Great. That's it for me. Thanks very much.

Peter Miller

Thanks, Noel.

Operator

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

Your next question comes from the line of Paul Piotrowski from M Partners. Your line is open.

Paul Piotrowski — M Partners

Hey, guys. Thanks for taking my questions.

Peter Miller

Hey. Thanks, Paul.

Paul Piotrowski

Can you guys elaborate on the positive sales trends in June? And if you're seeing that across the portfolio? Or any specific market?

Peter Miller

Yeah. Definitely. I'll let Chris go straight to that one.

Chris Driessen

Yeah. I think it was a mix of things, Paul, and good morning. You just started to see consumer confidence come back. I think we've started to see more people in the streets. I know that's vague. But there's just a widespread sentiment, particularly in our core markets of Colorado and Oregon that, hopefully, the worst is behind us, or at least that's the general feeling. And with that, you saw more people more or less coming out of hibernation, on top of, we had Cookies, for example. We've dropped several new products that have been very well received. So I think it was really kind of a perfect storm of, hopefully, COVID at least starting to be in the rearview mirror.

I know there's been some recent flare-ups, primarily in the southern United States, where we don't have a whole lot of exposure—places like Texas, for instance. But yeah, we did see that come in June. We did see some pent-up demand and people feeling a little bit more confident about their financial situation, people feeling a little more confident about their safety and their ability to go out and go into these stores.

And so, yeah, I think there was some pent-up demand from, kind of, the depths of primarily April and into May that, largely, people seem to be overcoming. So we're very confident moving forward, and we continue to see that progress even now. So I think a lot of it really was just people just feeling better about coming out and purchasing cannabis in larger volumes than more tradition sales trends that we've seen historically.

Paul Piotrowski

Is it also fair to say that premium came back in a big way?

Chris Driessen

Yeah. Absolutely. As people either started to get their jobs back or just felt a little bit more confident about their financial situation, we did see that. Cookies, of course, was a huge benefactor there. It is a premium product. It is extremely high demand. But we've also seen a really nice drag-along with the Cookies brand of customers that maybe—or consumers that maybe hadn't tried our products before are now being exposed to those, just due to our relationship with Cookies. So we've seen a nice bounce back, really across the board, across all categories and all segments.

Peter Miller

Yeah. I think the—

Paul Piotrowski

Okay.

Peter Miller

—product diversification that Chris alluded to is an important catalyst as well because the diversification, especially up the quality chain, is something that we're excited about in new markets. And those Cookies soft cartridges, for example, sold very well, and we have a few more high-rent products on the solvent-less side and on the live side that we're really excited about in Q3.

Paul Piotrowski

Okay. And is the positive cash flow in June sustainable moving forward?

Peter Miller

We'll see. I think we're going to be very aggressive about profit, still. So what we saw with all of the changes that we made, even with a reduced top-line number, put us in a relatively strong EBITDA position in Q1. So when that revenue came back, we were holding everything else the same. We saw that positive cash flow. So I think it's more likely we see more typical market dynamics like we saw in June, than we see more kind of black-swan events like we did towards the end of Q1, beginning of Q2.

So we're certainly not guiding to it, but it was a great indication that we hit this turning point, and we're building from a great place. And it takes an already strong balance sheet and just makes it more secure in the direction of its balance.

Paul Piotrowski

Okay. Great. Just one last one, I guess. Where you stand right now—and obviously, you don't have a crystal ball—but what do you think could close first? ACG? Or Lunchbox Alchemy?

Peter Miller

Yeah. I think that's a pure crystal ball question because we don't want to be making any assumptions or be the least bit speculative on what the regulators will do. But both of them are with the regulators, and we're seeing really strong back-and-forth in both Colorado and Oregon.

Paul Piotrowski

Okay. That's it for me. Thanks, guys.

Peter Miller

Thanks, Paul.

Chris Driessen

Thank you, Paul.

Operator

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

There are no further questions at this time. I'll turn the call back over to the presenters.

John Vincic

Great. Well, thank you, everybody, for participating. As I said earlier, we'll be happy to make ourselves available at our earliest convenience to anybody that has follow-up questions or wanted to speak directly outside the context of this Q&A. And we appreciate you calling in and look forward to communicating again very soon. Thank you very much.

Operator

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