SLANG Worldwide

Second Quarter 2020 Investor Call

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PRESENTATION

Operator

Welcome to the SLANG Worldwide Q2 2020 Investor Call.

At this time, all participants are in a listen-only mode. After the speakers' presentation, there will be a question-and-answer session. To ask a question during this time you will need to press star, then one on your telephone. If you require any further assistance please press star, zero.

I would now like to hand the conference over to Mr. John Vincic. Please go ahead.

John Vincic

Thank you, Operator, and good morning, everyone.

Our speakers on today's call will be Chris Driessen, President, and CEO of SLANG and Mike Rutherford, Chief Financial Officer. Joining them for the Q&A session will be John Moynan, General Counsel and Chief Operating Officer, and Peter Miller, Executive Chairman.

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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The Company undertakes no obligations 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.

Now, I'd like to turn the call over to Chris Driessen. Chris?

Chris Driessen

Thank you. Good morning everyone and thanks for taking the time to join our Q2 2020 earnings call. It's only been about seven weeks since we reported Q1 results. At that time we had a good idea of how Q2 was shaking out.

I'm pleased to report that the expectations we set were accurate, but came with significant pain as we took a punch with the brunt of the COVID-19 crisis impacting us in April and May. That said, we finished the quarter strong and started to emerge from the depths of the crisis. More importantly, the comeback we saw in June has continued through the summer.

Second-quarter revenues and gross margins were both consistent with the first quarter. My gut tells me this isn't too shabby as we were dealing with the effects of the COVID-19 shutdowns for the full quarter compared to just the last few weeks of March. Remember Colorado was one of the first hotspots in North America.

We are widely distributed in some of the most desirable resort communities on the continent, places like Aspen, Vail, Telluride, not to mention cities like Las Vegas and various other resort communities up and down the west coast.

When COVID hit these communities, which have a huge amount of tourism, were disproportionally impacted by shutdown orders that were implemented in many markets. This was especially tough for us as this was the peak of the ski season, which historically is one of our most active times of the year.

As we described last quarter, we maintained our operations throughout the shutdown as we were deemed essential, but some of our retailers who sell our products were affected. Most of the licensed dispensaries were also deemed to be essential and stayed open during the pandemic, albeit with numerous restrictions. However, many other locations like smoke shops, tobacco shops, and other alternative stores, which sell a lot of our hardware products, were forced to shut down in many states.

Many of the dispensaries that did remain open, saw a significant drop-off in sales, particularly if they were in locations that are highly dependent on tourism, many of which saw revenue declines in excess of 80%. Dispensaries and non-tourism areas were also affected as they had to pivot in short order to curbside delivery or online-only models.

The other key factor that affected our Q2 results was our ongoing business transformation from what we call a core market model to an emerging market model in states like California and Massachusetts.

We're confident this emerging market approach of licensing and strategic partnerships will deliver sustainable and profitable growth, all while expanding market and brand leadership positions. However, during the transition period, it effectively means that while our products remain available in certain dispensaries, we are not generating new revenue for the Company in those markets. That's the main reason for our year-over-year revenue decrease in Q2 2020 versus Q2 2019.

Those two factors, the COVID fiasco and our recalibration in certain markets, led to significant headwinds in the quarter, but we're a scrappy bunch and never lead out of fear or shy away from a challenge. We did two different things to offset these challenges.

First, we took decisive actions to streamline our operations. This process actually began last fall when we started pulling out of unprofitable markets. In total, we have taken out more than $10 million-plus of annual costs from the SLANG Network. Mike will go into greater financial details later in the call.

Secondly, we kept our foot on the gas in our core markets of Colorado and Oregon. We have more control over our destiny in these markets, and they represent the majority of our consolidated revenue. The order pace in these markets not only returned to pre-COVID levels over the summer but in some cases, it has increased 100% over even the 2019 levels.

I know our investors will want to know what's happening with our pending acquisitions, and we've announced some super important developments in both of these markets over the past couple of weeks, but I'll get back to that in a minute. It'll be worth the wait. I promise.

First, I'd like to address a couple of the strategic initiatives we have underway, which I expect are a key area of focus for our investors. We said last quarter that we expect to see growth in the second half of the year in comparison to the first half. One of our core values is the ultimate accountability for victories and mistakes. I'm pleased to tell you that we will deliver on that promise, so far Q3 has been kinder than Q2 and Q4 is shaping up to be even better.

Lately, you may have noticed that we've been squawking more than usual in regards to news releases, with the progress made in each of the key areas that will enable us to grow, including product innovation, strategic partnerships, and corporate development.

As a quick refresher, I'll start with new products. Last week, we launched Live Resin cartridges in Colorado, as an extension of our market-leading O.pen brand. Live Resin has been exploding in popularity recently, especially amongst sophisticated cannabis consumers who appreciate the loud flavor and full spectrum effects. As a consumer myself, I'm damn proud of this product. The taste is great and we expect it will continue to widen the gap between us and whoever's number two in Colorado.

This product was our opening salvo into the live resin space, and we planned to take advantage of our hydrocarbon processing capabilities to introduce more products. We will also take the show on the road as we have the infrastructure to produce live resin products in Oregon as well.

We also launched Cookies Terp Sauce cartridges in Colorado in July, and that follows the June launch of Cookies branded flower in Oregon. As many of you know, Cookies is one of the best-known brands in cannabis, and they've been working with SLANG because of the distribution capabilities we can offer in our core markets and beyond.

Firefly 2+ vaporizers are now available at Trulieve Florida locations. This is existing hardware or a non-cannabis product for SLANG, but it demonstrates yet another way that we can grow by bringing our products into new markets or channels. Trulieve is the leader in Florida, now with 57 dispensaries that account for approximately half of the flower sold in the state. That makes it a natural fit for Firefly 2+, which offers Florida patients a first-class way to enjoy Trulieve flower in high fidelity. Our Trulieve partnership has been a very successful one that demonstrates the potential for our emerging market strategy, which we have repeated in multiple markets across the continent.

Like any CPG product, these product introductions and brand extensions take some time to build awareness in new markets. We expect to generate a growing revenue stream over time, which we have demonstrated over and over again.

Another key success factor for SLANG is our ability to execute on partnerships, particularly in our emerging markets. In July, we announced that our products are now available for sale in Oklahoma, through our partner in that state, Elite Cultivation and Processing. This follows new strategic partnerships we announced during Q2 in Michigan with Gage Cannabis, earlier this year with Wellness Connection of Maine and in Ohio with Standard Wellness.

We also announced that our investee company, Agripharm, received a sales license required to sell SLANG branded products in Canada. They subsequently signed a supply agreement with the Ontario Cannabis Store, which is currently the biggest cannabis buyer in the world. These agreements with both Ontario and British Columbia paved the way for O.pen and Firefly branded products to be sold into dispensaries located in those provinces.

All of these recent emerging market partnerships are consistent with our capital-light strategy, which is designed to grow our branded unit sales, branded servings, and total points of distribution, all while generating strong margins and our high returns on capital.

I'll turn now to our recent progress on the corporate development side. Out of all of our recent announcements, the biggest potential impact on our financials is likely to come from two recent regulatory decisions in our core markets of Colorado and Oregon – finally. In Colorado, we were recently approved for suitability. That means SLANG can own and operate licensed plant-touching businesses for the first time. This will allow us to start recognizing plant-touching revenue in Colorado.

In Oregon, this morning's earnings release included confirmation that our proposed acquisition of Lunchbox Alchemy has been approved by the Oregon Liquor Control Commission. That was among the final requirements we've been waiting on to complete that transaction, which we first announced last year. This will allow us to start recognizing plant-touching revenue in Oregon.

In contrast to emerging markets where we license our IP to strategic partners, our strategy in core markets is to consolidate our supply chain. In other words, we plan to own the manufacturing distribution and potentially some cultivation assets in addition to the brand IP we already own. Basically, we want to be vertically integrated up through wholesale.

The core market strategy offers multiple benefits, starting with the unit economics. Under a consolidated model, we can recognize wholesale revenues, which are typically several times higher than the licensing revenue we recognize today.

The gross margin percentage typically is a bit lower, but we expect overall gross profit and cash flows to increase materially. From an operations standpoint, we will gain better control over resources and production planning with opportunities to benefit from efficiencies and economies of scale. By consolidating supply chain assets in our core markets, we not only—we will not only recognize a higher top line but can also optimize profit through the consolidation and integration of disparate assets.

With the recent regulatory approvals in hand, supply chain consolidation activities have the potential to make a meaningful impact on our revenues as early as the fourth quarter of this year and certainly in 2021.

I will now ask Mike to provide further details about our financial performance in the quarter. Mike?

Mike Rutherford

Thanks, Chris.

As Chris mentioned, our second-quarter revenue and gross margin were comparable to those of the first quarter. Our cost reduction efforts led to meaningful sequential improvements in operating expenses, EBITDA, and cash use.

Revenue was $4.6 million in the second quarter compared to $4.7 million in the first quarter. This reflects a similar operating environment in both quarters. As Chris described, we felt the effects of COVID-19 for most of Q2 with signs of recovery starting in June. Revenue decreased 36% year-over-year compared to Q2 2019 revenue of $7.2 million. The decrease is primarily due to the recalibration in emerging markets, such as California, a strategic decision we described in detail last quarter.

It's worth noting that we grew our business in several key areas. We grew in our core markets of Colorado and Oregon. As Chris mentioned, our hardware sales recovered significantly from the first quarter when the COVID shutdowns at the end of the quarter caused delays in some expected major orders. Lastly, we have seen our licensing revenue increase as our emerging market strategy gained traction through June and into Q3.

Our gross profit in the second quarter was $2.8 million, with margins of 62%. Those figures are consistent with Q1 results of $2.9 million and 61%, reflecting a similar mix of business throughout the first half of this year.

On a year-over-year basis, we saw a significant improvement in gross margin from 45% in Q2 of 2019 to 62% this past quarter. This reflects our increased emphasis on higher-margin licensing revenues, which is consistent with the priority we have placed on sustainable and profitable growth in our emerging markets. We have the opportunity to maintain strong margins as we continue to grow the licensing business.

I'll turn now to the expense side. Since late last year, we have been focused on streamlining our operations and scaling the business appropriately for the changing market environment. We spoke last quarter about sequential reductions from Q4 2019 to Q1 2020 across most of our expense line items. As expected, that trend has continued into the second quarter.

We realized further reductions in salaries and consulting fees. Marketing expenses decreased as we transitioned focus from digital marketing to affiliate marketing, as well as a reduction in other initiatives, such as sponsorships in print media. The largest decrease in terms of dollars was to credit losses. First-quarter results included much of the impact of collectability. No significant credit losses are expected throughout the remainder of the year.

Depreciation was comparable to the first quarter, but down significantly from Q2 of last year. As mentioned last quarter, we wrote down a significant amount of our intangible assets as part of the 2019 year-end audit, resulting in lower depreciation expense going forward.

In total, operating expenses in the second quarter were approximately $2 million lower than in the first quarter. Expense reductions helped drive an improvement in EBITDA loss, which was $1.8 million in Q2 2020 compared to $2.7 million in the first quarter.

EBITDA also improved compared to a loss of $2.1 million in Q2 2019, despite significantly lower revenues this past quarter. The year-over-year improvement reflects both cost savings and the benefit of our shift to a higher margin business model, as well as prioritizing the goal of profitability over top-line revenue.

As mentioned last quarter, cost reduction initiatives to date are expected to result in approximately $10 million of annualized savings within the SLANG Network. We believe that we have the appropriate cost structure in place to achieve profitability as our growth initiatives generate results in the coming quarters.

Turning to our balance sheet. We had total cash, equivalents and marketable securities of $11.1 million on June 30, 2020, which increased from $10.4 million on March 31. Our use of cash is decreasing due to the impact of cost reductions, as well as the more capital efficient emerging markets business model.

As we mentioned in last quarter's disclosure, most of the cash use occurred in April and May when we felt the most severe impact of COVID-19 restrictions. June was a stronger month. While we anticipate further fluctuations in monthly cash use, we are trending in the right direction. We remain confident that our financial resources are sufficient to fund our business plan. We continue to operate with minimal debt, which contributes significantly to our financial flexibility.

To conclude, we are through the worst of COVID-19 headwinds. If anything, the timing of that crisis when we were already in the midst of evolving our strategy towards the core and emerging markets model resulted in us becoming even more disciplined around expenses and cash. As a result, we have emerged with a lean cost structure that is appropriate for the current environment, while still affording us the resources to execute on our growth strategy.

Given our focus on disciplined cost management, combined with a strong balance sheet, nimble operating model, and the expected realization of new revenue opportunities, we are confident and optimistic for the second half of 2020 and beyond.

At this time, I'd like to turn it back to Chris for the concluding remarks.

Chris Driessen

Thank you, Mike.

We're very well-positioned for the second half of the year. Multiple growth initiatives are now showing expected progress and providing intended results. In most cases, they have been in the works for months and we can now look forward to the positive impact on our business.

It's been a long time coming, but the gains in performance we have long been expected to deliver are on our doorstep. Even more exciting is that we have reduced costs, marching ever closer to our goal of consolidated profitability along the way.

We continue to stay on our path, expanding into new markets, developing new market-leading products, and continuing to demonstrate brand leadership positions in markets across the country. The operating environment is rapidly improving as we start to move past the challenges of the past 12 months.

We're about eight weeks into the third quarter and so far the results are very encouraging. June was the best month in Q2 and July was stronger than June, with August looking to be even better than July. As I said earlier, Q2 was tough, so far Q3 has been far kinder to us and Q4 with the close of some of our pending acquisitions will be even stronger than Q3.

We are on the upswing and I encourage everyone to be patient with our progress as we are on the right path. Our brand leadership positions in multiple markets provide a market share scoreboard that doesn't lie. We can't wait for Q3 earnings calls and beyond where we expect to announce meaningful improvements in revenue, and then further down the road, profit. Investors looking for growth catalysts in the coming months can watch for several things.

Some of the final hurdles that have been cleared for us to complete acquisitions in our core markets and we look forward to providing details on these acquisitions upon closing. We are in active discussions to expand our list of strategic partnerships into several new markets, as well as working with existing partners to get products on the shelves. We throw punches in bunches. We are constantly evaluating new markets, new strategic partners, and new ways that we can generate profitable revenue. We have internal goals to sign and activate one new strategic partner per quarter, and we hate not achieving our goals.

Our product and marketing teams are hard at work, developing new products, and refreshing some of our existing brands. You will see the results of these efforts throughout Q4. Without giving too much away, we have some exciting new products coming to market in multiple categories. If you like weed, you're going to love what we've got cooking in the lab. I know, I sure do.

While no one knows what the elections in the United States will provide, we do know that cannabis will be a talking point amongst both candidates. There are simply too many voters that approve of cannabis, too many dollars changing hands, and too many people being unfairly penalized for possessing a plant, not to have some form of positive change. There are several pieces of legislation being discussed, many of which have a positive impact on the cannabis industry as a whole.

In short, we will be very active for the rest of 2020. Like I said, we throw punches in bunches. We're on the precipice of making good on the opportunity that this business has always represented and you can bet we're going to make that happen. The SLANG gang, which is what I call our team, is a group of fighters. We don't like to lose. We damn sure don't back down from a scrap. COVID gave us the fight of our lives, but we overcame the adversity. They say adversity doesn't build character, it reveals it and I think that holds true with us. We took the punch, we adjusted, we figured it out and we're now in a position to demonstrate results that we can be proud of, and that's just what we're going to do.

We will now be happy to take any questions or comments from folks on this call.

Operator

At this time, ladies and gentlemen, to ask a question please go ahead and press star, then the number one on your telephone keypad. Again that's star, one, to ask a question.

Your first question today comes from the line Noel Atkinson with Clarus Securities. Please proceed with your question.

Noel Atkinson

Good morning. Thanks for taking my question. It's great to hear some positive momentum coming out of SLANG here going into Q3.

What do you guys need to do to now to close the LBA and ACG acquisitions? Like what are now the next milestones? Is it just sort of final documentation?

Chris Driessen

Yes. Good morning, Noel. Thanks for jumping on and thanks for the question.

I'm going to pass that over to our General Counsel, John Moynan, and also COO who's our closest to that situation.

John Moynan

Yes. Thanks, Noel.

Each of the transactions, in addition to the other consolidation acquisitions that we have planned for Colorado and Oregon, are in different stages of the timeline. As we mentioned, we received suitability approval in Colorado, which is the first of two stages that—of regulatory approval that you see in that state. Then by far the most significant hurdle to overcome from a regulatory perspective. But it means that each of those transactions can be submitted for the change of ownership approval, which we expect to happen on a much more expedited timeline than suitability. In Oregon, it's just a one-stage approach, and we've received that approval from the OLCC as we announced. We expect that to move into the final stages of closing, and it's purely transactional at that point.

Noel Atkinson

Okay. Great.

Colorado, so it's the second-largest cannabis market in the world. We've seen some really impressive year-over-year growth in the last few months as reported by the Department of Revenue down there at the retail sale level. The Company treaded water for a while in terms of its branded servings that were sold in Colorado for like the last four or five quarters. Now, what do you do to really ramp scale to win market share? Is it just—do you need to be able to capture more dispensaries—what do you do now to really start taking some substantial market share out of—probably, I don't know, $1.5 billion wholesale markets in Colorado.

Chris Driessen

Yes. Great question.

Colorado's long been our fortress. It's where Organa brands started. It's our home. It's where I'm standing. It's where I sleep at night. I think it's important to remember when you say treaded water on the branded share or branded servings and branded unit sales, we've been number one in vaping in Colorado since they kept score, period. And are extending on that position, obviously with new carts coming out for Cookies, new things coming out with Live Resin. We are expanding it.

You bring up a great point that over the summer, Colorado has had a really nice bounce back. April was tough for everybody here. We've got so many resort towns here and when they shut down the ski areas in early March, really had an outsized economic impact, because there are so many dollars that change hands. There are so many tourists that come in here to go to those places, spend money, consume cannabis, etc. Especially for the folks that were in those towns, these guys and ladies are friends of mine. People I know well. It was tough, not just for cannabis, but just in general for the economies of those towns.

They are starting to come back. They are becoming more frequently traveled and visited. You've got a lot of local tourism that's now going up to those places. You've seen a really nice bounce back, just in general, in those mountain towns, and we're subject to the same. When you have the largest market share, particularly in a vape, we're disproportionately impacted when things are bad and the same is true on the flip side. We're disproportionately impacted in a positive way on the comeback.

We expect to maintain that number one market position in vape. We also run the leaderboard top three, top five, top 10, with several of our other brands and products and categories. As I said, we expect to keep our foot on the gas and widen that. The way we do that, Noel, is with great products, and really maintaining great relationships with our retailers here. You absolutely should expect the gap to widen between us and number two.

Noel Atkinson

Does that mean that you expect to be able to get into more dispensaries? I'd be interested to know sort of what your penetration rate is of Colorado dispensaries today.

Chris Driessen

Yes. We are in—pushing about 300 dispensaries, primarily adult-use dispensaries, although we do have medical licenses here. It's not our core focus. We've already experienced that. We've seen our penetration go up. We've seen our average sales go up. We've seen our market share expand, particularly coming out of April.

If you look back—you mentioned the Department of Revenue, April was a brutal month for cannabis. It was a brutal month for the state. It was a brutal month for the world, and Colorado wasn't an exception, but we've rocketed back out of that. One of the things where we benefit, as people that weren't, unfortunately, able to hold on, weren't able to make it through the crisis, that market share was up for grabs. We've done a really good job of bringing that back to our house. New products, the ability to weather the storm to take that punch, and gobble up that market share during the rebound has been very important for us.

We've also got some really cool things coming up with our brands. I mentioned the refresh early on in the call. We've got some really cool things that are happening with O.pen, happening with vape, happening with District Edibles, which we expect to be even more of a catalyst to gain that market share.

We want to maintain our lead in vape and widen it. But we're really focused on our other products – our diversification of our portfolio, whether that's working with Cookies on their products, getting those into the market and into more places, whether that's working on concentrates with Live Resin, getting rosin out into the market. We've got some really exciting things that are coming down the pipe and so far have been extremely well received internally. I expect those things to all be catalysts for growth, moving here into the second half of the year and really setting us up pretty nice as we come into 2021.

Noel Atkinson

Okay. Great. Okay.

Then the cost reduction side, so you've mentioned you're tracking to $10.5 million of annualized cost reductions. I think the number—one of the filings says it's about $6.5 million, I think was the number. Do you expect to see sort of sequential declines again in SG&A in Q3 and Q4?

Chris Driessen

You bet. I'm going to kick it over to Mike for some detail there. But at a high level, we started focusing on these things, it's been almost a year ago. Whether it was salary reductions, position eliminations, but more so than that just cost optimization, really getting our hooks into our supply chain and understanding where do we have some leverage to lower our costs.

We were started on that project, long before really COVID took place. COVID certainly—and thankfully we have been doing that. COVID certainly expedited a lot of that. You better figure it out or you didn't survive, and so, pleased to announce obviously that we did survive and thrive on the backside of it, really set us up well, and you're going to continue though as we complete these acquisitions you'll see a meaningful step up in revenue.

But what I think a lot of people don't understand is once all of these things are under our belt, that consolidation activity really starts to take hold. There are so many opportunities to optimize profit versus how it's having to be done today because they're not all under our umbrella yet. I think that's going to be when you really see those profit numbers take root.

The first thing you'll see is just an increase in Q3 because the Q3 has been kinder than Q2 as I mentioned. Q4, you'll see that meaningful step up in revenue as those acquisitions get done and we start to recognize the revenue. Then in Q1, Q2 of next year, that's when we really get our hooks into optimizing the profit, because you've got now all of those entities under one umbrella.

I'll pass it over to Mike as far as SG&A and talking specifics on the numbers. But I do expect obviously to become more and more positive as time goes on.

Mike Rutherford

Yes. Thanks, Chris.

Well, that is the—the ten-plus million includes the effects of the previously announced acquisitions, so, what we would call the SLANG Network and the six-plus million, which is within the existing owned assets that SLANG owns today. Those figures are annualized savings, so realized over the course of 12 months. We did realize a portion of those in Q2 and we'll continue to do so over the course of the following next 12 months.

Noel Atkinson

Okay. Great. All right. I'll get back in the queue. Thanks very much, guys. Well done.

Chris Driessen

Thank you, Noel.

Operator

Your next question today comes from the line of Bobby Burleson with Canaccord. Please proceed with your question.

Bobby Burleson

Hey, guys.

Just curious about the asset-light licensing approach outside of the core markets. How should we think about how that positions you strategically over the long-term for a pivot of that model if we get federal legalization.

Chris Driessen

Yes. Good morning, Bobby, and thanks for joining.

Going into these markets in a capital-light way really allows us to affect the three things that outside of your financial numbers, that we really grade ourselves on. Those CPG metrics, those KPIs that we're constantly looking at, branded unit sales, how many finished goods did you put out there into the world? Branded servings – how many times did somebody have a moment or experience with one of your products and then last, but not least total points of distribution. An easy way to understand TPD is the number of brands you have times the number of places that they can be found.

For us, as you look at national legalization, it's our belief that you're going to see a consolidation of different supply chain assets. If you're allowed to have interstate commerce when and if that becomes possible, what are we really talking about? Do you need all these facilities and all these places and all these infrastructures and all these different states and provinces, are you going to be able to produce at a regional level? It's our belief that market share then becomes more important than say square feet of processing space or square feet of cultivation. That remains to be seen. Certainly, nobody has a crystal ball to understand that timeline.

But I think it kind of goes back to what we've been saying about the brand. When you look at more mature, more mainstream industries, typically there's a much larger multiple placed on brand-focused companies than say retail or distribution focused companies. It's our belief that that'll kind of become more and more in focus for the cannabis industry. Once some of our oddities of being federally illegal, but still being essential, are ironed out, and that's our opportunity. We're very much about branded unit sales, branded servings, and total points of distribution and a capital-light entry in emerging markets allows us to really impact those metrics.

Bobby Burleson

Great.

Then if we think about the half-on-half growth that you expect here in the second half over the first. Can you give us a sense of the order of magnitude? I mean, can you give us some markers here in terms of what the monthly trends have been and whether you expect things to accelerate above what they were in July and what they look like in August.

Then, is there a new product contribution that you're counting on here to really drive that growth? Is a decent percent of the mix coming from new products, in the outlook? Thanks.

Chris Driessen

Yes. Sure.

A couple of things. When you look historically at what we were doing, particularly in our core markets prior to COVID, let's just say the baseline from 2019, we've seen—when COVID hit, we took a hit of—between 40% and 80%, depending on where you were looking at, emerging market, core market, et cetera. Coming out of the COVID crisis, with it more in our rearview mirror, we saw not only that those volumes in those places returned, but particularly in our core markets even increased.

Case in point when you're looking at July and now we're almost through August, so we've got the pretty idea of what's happening—good idea of what's happening there. Some of our core markets are up 100-plus percent over the original baseline in 2019. That bodes really, really well, obviously. That kind of at least gives you directionally that where we're headed.

Certainly, as we get into our private calls, we can work with you on the models. We're not providing guidance obviously for Q4, but we've got a pretty good idea of what that means on the step up and so happy to work with you and your team to work with you on that model. But just directionally speaking, Q3 even on the same business model without either of those acquisitions, has been kinder. As I mentioned in the call because the order paces have returned, which of course, means our licensing and strategic partnership revenue has increased over Q2.

Moving into Q4, the big jump obviously is going to be that we start to recognize the revenue from these acquisitions that we expect to close. Depending on the state, depending on where you're at, it's a bit of a tricky question to answer, which is why we'll get into specifics in the model with you privately. But it's a big jump. It is a very sizable jump. Obviously, when we put those things out and officially close them—the reason I'm being a little bit coy on that, does that close tomorrow? Does that close next week? Does that close at the end of October?

Tough to tell you specifically. I know what it is once they close, but we need to know what the final numbers—or when the final dates are. Like I said, we're in the bottom of the ninth inning of those things happening. Once they do, then we're in a great position to answer that with a little bit more detail.

Bobby Burleson

Okay. Great. Thank you.

Chris Driessen

Thank you, Bobby.

Operator

Again, ladies and gentlemen, that is star, then one in order to ask a question.

Your next question comes from the line of Paul Piotrowski with M Partners. Please proceed with your question.

Paul Piotrowski

Hey, good morning guys.

We saw the Florida Department of Health released its guidelines for edibles yesterday. Can you guys talk about your partnership with Trulieve, what this means for District?

Chris Driessen

Yes. You bet. Thanks for asking that.

We saw that come through pretty late in the day yesterday, and I did a little happy dance in my office. The reason being is obviously we've got a great partnership with Trulieve, they're the 800-pound gorilla in Florida. The great thing about working with them is just their operational expertise. They've got huge infrastructure. They plan ahead. They're smart about how they do things. We'll see what the final, final, final is.

For instance, what is it going to be assembled that needs to be on this edible? There's little kind of ticky-tack things like that, just to be able to be compliant that we'll need to work through, which are all—kind of just what comes along with the territory. But the reality is we've got the infrastructure there now. We've got the equipment there now. We've got the know-how. We've got the—everything basically lined up to be one of the first movers in that market. As you guys know, Trulieve does nothing small. Absolutely the minute that we're able to move into that market, we are locked, loaded, and ready for action in Florida. Obviously being partnered up with Trulieve there, it gives us a great opportunity to demonstrate yet again, brand leadership, and a huge stake. We're ready.

Paul Piotrowski

That's great.

Can you guys—can you give me more of a timeline like, because this happened this quarter or is it too hard to say?

Chris Driessen

It's all up to DOH down there. They just haven't provided the final, final guidelines. As I said, little ticky-tack stuff on—does assemble need to be actually on the edible itself, or can that just simply be on the packaging? There's a lot of just little kind of ticky-tack compliance things that we need the final answers on before we can go. But like I said, the equipment, the biomass, the ability to do this once we've got those final guidelines from them, are all in hand. We're not waiting really on anything other than what the final—kind of the final answer is from DOH.

Look, edibles are going to be huge. Generally speaking, one of the three largest categories in almost any cannabis market. Florida has pushing 30 million people in it. Everybody is familiar with what's happening down there, which is awesome for us. Certainly being able to move with a known entity, a known brand like District, getting a first-mover advantage, and having Trulieve be our partner down there. I mean, it all sets up to be ultra, ultra-positive, not only for our District Edibles brand but for SLANG and Trulieve as firms.

Paul Piotrowski

Okay.

Is it safe to say the priority is still District Edibles or is there room for Pressies, Magic Buzz, and other brands?

Chris Driessen

Yes. There's room for more brands. Trulieve has been great to work with. They want to bring on more products, but they're also servicing hundreds of thousands of patients. I think they're up to like 57 stores, and they're a machine as far as turning out stores servicing patients in that state. We're always looking at what's the next best thing to do. We've already got a couple more things lined up, and I'll leave those to be little surprises to come up later on, but we're always working with them on what's next. How do we do this? What's the next promotion? How do we take better care of patients? How are we driving deeper market share in the Florida market in general?

Again, we make sweet music with those guys. We're fortunate to have them as partners. Look, District's going to be awesome once it gets to market there. The scalability of that product, the automation that our systems provide for, and obviously, the demonstrated success that it's had in other markets, expect the same thing in Florida.

Paul Piotrowski

Okay. Yes. That's it for me. Thanks, Chris.

Chris Driessen

Thank you. Appreciate it, Paul.

Operator

There are no further questions in queue. I turn the call back to Mr. Driessen for any closing remarks.

Chris Driessen

Thank you, everyone, for joining us in our second-quarter results call. We're happy to continue the discussion offline if anybody has additional questions, and look forward to speaking with those that are interested. Thank you.

Operator

This concludes today's conference call. Thank you for your participation. You may now disconnect.