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SLANG Worldwide

Q3 2020 Investor Call

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Bobby Burleson, *Canaccord Genuity*

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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by, and welcome to the SLANG Worldwide Q3 2020 Investor Conference 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 the session, you need to press star, one on your telephone keypad. If you require any further assistance, please press star, zero.

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

John Vincic

Thank you, Operator, and good morning, everyone. Our speakers on today's call will be Peter Miller, Executive Chairman, 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.

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 and speak only as of the date of this presentation. These risk factors are discussed in detail under the heading Risks and Uncertainties in SLANG's management discussion and analysis dated November 27, 2020, 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.

Now I'd like to turn the call over to Peter Miller. Peter?

Peter Miller

Thanks, John, and thanks, everybody, for tuning into our conference call. Last week, many of us celebrated Thanksgiving and had a moment to reflect on the difficult time we find ourselves in, but also think about what we're grateful for.

As we announced a very positive quarter and a very supportive financing, I'm extremely grateful to be working in an essential business with a great team in an industry that is growing during a global crisis when millions of other businesses are struggling.

In addition to our operating team, I'm also extremely grateful for our shareholder base, both institutional and retail, who have shown great support for SLANG as they've watched us continue to execute and deliver.

Notably, we announced an equity financing this morning, and I'd like to provide some context. While SLANG remains a business that doesn't require as much capital to achieve its goals as the majority of the peer group, we have recently seen more opportunity than ever and felt that a small minimally dilutive equity injection would help us take advantage of that opportunity.

Our balance sheet remains clean with no material debt, and it remains our goal to only support our balance sheet with capital that supports growth and doesn't hinder momentum or near and long-term upside for our shareholders. The alignment of our long-term interest with the investors in this financing informs the structure of the financing. We've done at a small discount to Friday's close with no warrants and in the full spirit of supporting ongoing momentum.

In summary, these are long-term shareholders who have demonstrated ongoing support to the business, and that provides me with a great sense of confidence as we continue aggressively pursuing our strategy with their support and the support of the broader market. I believe it should provide all of you with confidence as well.

Speaking of confidence, I'd like to hand things off to our CEO, Chris Driessen, who has been doing an incredible job executing our operating strategy with the rest of our team, and who will provide further insights into our performance. Chris?

Chris Driessen

Thank you, Peter. Good morning, everyone, and thanks for taking the time to join our Q3 2020 earnings call. I'm very excited to share the positive results of our third quarter with you this morning. I'm even more excited to share with you how we have positioned ourself for growth throughout 2021.

We told everyone that we expected the second half of 2020 to be much stronger than the first, and as you will hear on this call, we were right. The third quarter had several highlights, including revenue of $7.9 million which was a 73% increase over Q2 and positive Adjusted EBITDA, which was a first for SLANG.

Even though we faced a couple of challenging quarters to start the year, we never lost sight of our overall goals. Our main focus has been, and continues to be, profitability and generating positive cash flow. The SLANG gang has worked hard to lower our cost of doing business, expand into new markets with best-in-class strategic partners, develop and launch new products and grow organically in our core markets of Colorado and Oregon. These efforts, combined with the closing of our plant touching acquisitions, has put the Company in a strong position to execute into the future.

I'll start with an overview of our core markets of Colorado and Oregon. As we reported on our Q2 call three months ago, we saw the beginnings of recovery from COVID shutdowns in June. Both markets have been strong ever since. Overall, we grew our core market revenues by 78% from Q2 to Q3. Although both markets have seen record growth over the summer, I'm especially proud to report that we have outpaced the market at large.

We've been able to capture an outsized share of market growth as consumers continue to turn to brands that they trust. We have close to 50% market penetration between the two markets, and it continues to grow. This large distribution footprint allows us to reach the majority of retailers in these markets. We have also had success with new product launches, including O.pen Live Resin carts in Colorado and seasonal offerings in both hardware and edibles.

Our partnership with Cookies continues to be a success with revenue being generated from the distribution of both Cookies and SLANG branded products, including flower, throughout Colorado and Oregon. As we consolidate our Colorado and Oregon supply chains, we expect to further strengthen our position in these markets. As our plant touching acquisitions close in these markets, we expect our costs to go down while our revenue and profits go up.

Now, for our emerging markets. Our emerging markets experienced similar success in our core markets in Q3. In fact, our emerging market revenue increased almost 3x over Q2. We continue to sign and activate new partners across the country. Existing partners continue to expand their SLANG branded product offerings.

This is further proof that our capital-light business model is thriving. Several strategic partnerships that we announced earlier this year, including Ohio, Maine and Oklahoma, are all contributing recurring revenue. SLANG branded products can now be found in over 50 accounts in Oklahoma, one of our fastest-growing markets. Our partners, Elite Cultivation and Processing expect to launch District Edibles into that market by year-end.

In Ohio, Standard Wellness has begun selling the Firefly Mini. The main market has now transitioned fully into recreational sales, which is expected to be a catalyst for our partners there, Wellness Connection of Maine. We expect to launch District Edibles into the Maine market early next year. Our partnership with Gage Cannabis in Michigan is gearing up to go live by summer of 2021. Our existing partnerships also continue to show growth with our products.

In Florida, the O.pen brand continues to grow with the introduction of more strains with our Reserve product line. We expect District Edibles to launch very soon, maybe even by the end of the year. In Puerto Rico, you can now find SLANG branded products in over 70 dispensaries on the island. We are gearing up for the launch of District Edibles in that market as well.

Agripharm, our minority-owned licensed producer in Canada has recently introduced O.pen products in British Columbia and signed a supply agreement with the province of Ontario. Finally, we are thrilled about two of our newest strategic partnerships with Natura Life and Science in California and our old friends, Trulieve in Massachusetts. Our partnership with Natura will mark our reentry into the California market, where SLANG branded products have been available since 2012. The size of the Natura facility in Sacramento, which is over 200,000 square feet and is capable of producing our entire portfolio of products, will allow for us to capture expected demand in the largest cannabis market in the U.S.

We will begin by introducing District Edibles next year in Q1. District was once the best-selling gummy in California, and we expect big things as we introduce both sweet and sour formulations back into the market.

Our deal with Trulieve in Massachusetts is special for a few different reasons. First, it marks the second market where we will work together. We will look to repeat the success we have both enjoyed in Florida.

Secondly, Massachusetts will be the first time that SLANG and Trulieve will work to create wholesale products together. Wholesaling is a core competency of SLANG, and we expect products to be available this summer. Both of these markets, in addition to Michigan will add meaningful financial contributions in 2021.

We are in several conversations with other groups, some being MSOs, about other markets. Our goal is to sign a new strategic partner—our goal is to sign at least one new strategic partner every quarter. This planned growth as well as existing strategic partners continuing to add products create a constant growth catalyst that will be enjoyed throughout 2021.

Our capital-light strategy continues to be validated and is a unique differentiator of SLANG versus our peers. Hardware sales through distributors like Greenlane and through our own direct-to-consumer e-commerce channels, sprang back to life in the third quarter. Our hardware sales increased, led by the Firefly 2+ and have continued to add profitable revenue. When COVID started, many retail establishments like smoke shops, vape shops and other alternative stores were shut down and deemed nonessential. Even with the resurgence of COVID in many states, these businesses have remained open. I'm pleased to report that these channels have returned to normal ordering patterns.

New product innovation is an important part of the SLANG growth story. It is important to respond to constantly changing consumer demands, and that is just what SLANG has done.

We have always been leaders in the infused product space and will continue to be in 2021. We have launched O.pen Live Resin, which is currently available only in Colorado, but will be expanded into other markets in 2021. This product is significant, not only for its revenue contribution, but it also marks our entry into the hydrocarbon product category. Customers love the loud flavors, and it continues to gain traction every week.

We also continue to see growth with our District Edible sours line, which is now available in Colorado, Oregon, Nevada and New Mexico.

Even though we launched it in October, I want to let you know about the success of the Bakked Gyro, our unique spill-proof container for dabbing enthusiasts. Our initial launch of this Live Resin dabbing product sold out in hours in Colorado and continues to grow, outpacing expectations. We have several new products that will come to market in 2021 and even a few white label and co-packing opportunities too, but I'll save that good news for another call.

Even with all the momentum and positive developments that I've already spoken to, the number one thing I get asked about is the status of acquisitions in both Oregon and Colorado. The consolidation of these supply chain assets allows us to enjoy improved unit economics due to being vertically integrated through wholesale.

First, we closed Peoria Partners, an infused product manufacturer and distributor in Colorado. This acquisition marked the first time SLANG will generate plant touching revenue. Although this deal didn't close until September, it will be additive in the scaling of our business in Colorado and provide meaningful revenue contributions in subsequent quarters.

We also closed Lunchbox Alchemy in Oregon. This didn't happen until October 1, and therefore, we will begin to recognize that revenue in the fourth quarter. We also signed a deal to acquire Colorado cultivator, Pleasant Valley Ranch. This acquisition will be instrumental in lowering our cost of raw material in our biggest market. This outdoor and greenhouse cultivation facility can be expanded to continuously provide raw material at a fraction of the cost that it can be purchased for in the open market. This addition will improve an already healthy bottom line in Colorado.

Last but certainly not least, is the pending acquisition of Allied Concessions Group or ACG. For those that don't know, ACG is where all O.pen, Bakked, Pressies and Firefly products are made. It is an infused product manufacturing license that includes two facilities that cover hydrocarbon extraction, CO2 extraction and distribution. This acquisition is moving along as planned and should close imminently.

Once complete, we will be able to recognize all plant touching revenue in Colorado, and I expect this revenue recognition to begin in the first quarter of next year.

As you can see, we've been busy this past quarter, and I'm pleased to report—I will now ask our CFO, Mike Rutherford, to provide further details about our financial performance in the quarter. Ruth?

Mike Rutherford

Thanks, Chris. As Chris mentioned, we delivered significant improvements in revenue and EBITDA performance in the third quarter. I'll provide some more color on those line items as well as other key metrics.

Revenue was $7.9 million in the third quarter, up 73% from $4.6 million in the second quarter. The growth reflects strength across our core business with double-digit or even triple-digit percentage gains in each major category, core markets, emerging markets and hardware sales.

In dollar terms, the single largest increase came in our core markets of Colorado and Oregon.

The Peoria Partners acquisition was completed in early September and contributed approximately $200,000 of revenue to our reported Q3 results. In other words, the $3.3 million of sequential growth was almost entirely organic. Distribution of all SLANG products will begin through Peoria in Q4.

On a year-over-year basis, revenue was down by 15% from Q3 2019. As we've described for the past few quarters, the decrease is largely the result of a recalibration in emerging markets such as California. We recently announced that we will be back in the California market next year with a new strategic partner Natura.

Our gross profit in the third quarter was $4 million with a margin of 50%. Gross margin is down from 62% in the second quarter of 2020, largely due to a combination of product mix as well as a onetime write-off of inventory.

In particular, we had a high proportion of hardware sales in Q3, such as the Firefly 2+ vaporizer, which typically sells at a premium price for us, but lower gross margins when compared to our licensing activities.

On a year-over-year basis, gross margin held relatively steady at 50% compared to 49% in Q3 of 2019. An increased emphasis on higher-margin licensing revenues helped offset the impact of higher hardware sales and reduced revenues year-over-year.

As our business model continues to consolidate with the roll-up of our supply chain assets, we expect to see ongoing variation in our margins, with the level of fluctuation narrowing as the assets are integrated. Once fully integrated, we expect to see a higher gross profit with a slightly lower gross margin than we reported in Q3.

I'll turn now to the expense side. We continue to realize the benefits of operational streamlining processes we began last year as those changes are fully implemented. Several Opex line items have been trending downwards over the past several quarters.

Sequential decreases in Q3 included salaries and wages, G&A, depreciation, professional fees and marketing. We did see increases in consulting and subcontractors expense and share-based payments as a result of a onetime nonrecurring accrual required. But effective overall cost management, along with the increases in revenue and gross profit enabled us to break even at the Adjusted EBITDA level for the first time.

Adjusted EBITDA was $57,000 in Q3, and as Chris mentioned, this was the first time we've reported positive Adjusted EBITDA as a public company. While there will continue to be fluctuations in EBITDA, we view this as an important milestone in our ongoing progress towards profitability. We continue to believe we have the right cost structure in place to achieve profitability as our growth initiatives deliver improved results.

Turning to our balance sheet, we had total cash, equivalents and marketable securities of $5.5 million on September 30, compared to $11.1 million at the end of Q2. As you saw in today's news, we raised an additional $5 million subsequent to quarter end, while our modeling still showed a path to cash flow positivity funded with our existing cash resources, the additional capital provides us with greater flexibility.

At the operations level, we are getting closer to the point of being cash flow positive. The continued revenue growth trend is currently very favorable as we continue to see positive momentum across the business. This, combined with our cost reduction efforts, is reflected in our Adjusted EBITDA figure. We said last quarter that our—that we anticipate further fluctuations in monthly cash flows, but we are trending in the right direction. This statement still holds true.

We continue to monitor cash very closely. Our focus on controlling expenses has been very successful, and we operate with minimal debt. As always, we benefit from a capital-light business model that does not require significant Capex or working capital investments even in times of significant growth.

In conclusion, the second half of 2020 has been unfolding as we expected. We've seen strong revenue growth while maintaining effective control of expenses, resulting in significant improvements at the Adjusted EBITDA level. We expect to realize similar operating leverage as the business continues to grow, both organically and through the addition of acquired companies.

I'd like to turn it back to Chris now for some concluding remarks. Chris?

Chris Driessen

Thanks, Mike. As you can see, we've been busy this past quarter. I'm pleased to report that we haven't slowed down our quest for cannabis CPG domination in the fourth quarter either. I expect we'll have another positive call in a few months.

I told you before, but I'll tell you again, the SLANG gang is a scrappy crew. We throw punches in bunches. We work hard, never quit and never stop dreaming.

Thank you, everyone, for joining us on our third quarter results call.

Operator

At this time, we would like to take any questions you may have. To ask a question, please press star, one on your telephone keypad.

Your first question is from Noel Atkinson with Clarus Securities. Your line is open.

Noel Atkinson

Hi. Good morning, guys. Well done in the third quarter. Can you tell us a little bit about LBA? So the close October 1, can you provide us some detail about the revenue and the profitability of that entity?

Chris Driessen

Yes, sure, Noel. Good to talk to you as always. Yes, so LBA closed on October 1, and it's significant, obviously, because now we're going to be able to recognize all plant touching revenue in Oregon. So certainly, that's much higher than the licensing revenue we had generated out of that state before. I'll kind of spare you until the fourth quarter call, so we can announce the results on what that exactly means. But suffice it to say, it's a significant positive shift over what we were doing from a licensing standpoint.

Profitability in that market, it's a bit of a loaded question, especially in states that have large outdoor cultivation. As you're aware, we make a lot of significant investments in Q4 towards things like raw material, particularly in a place that has a lot of outdoor cultivation. So that—a bit ebbs and flows depending on the quarter, but suffice it to say, it is a positive shift by both revenue and profit when you look at it on an annualized basis.

Noel Atkinson

Okay. Good. Secondly, so SG&A, so you had other than those one-time items, the costs continue to go down. Do you expect to have sequential decline again in SG&A in Q4? If we back out those onetime numbers, do you wind up having a materially higher Adjusted EBITDA for Q4?

Mike Rutherford

I can jump in here. As a part of the Adjusted EBITDA, which you can see in the calculation in the material that we posted online, Noel, but we did normalize for those one-off adjustments, which is—which factors into the Adjusted EBITDA number. We are expecting to continue to see decreases on a line-by-line basis, but it's not going to remain consistent in terms of sequential decreases going forward. But to summarize, those one-off adjustments have been normalized in the Adjusted EBITDA figure.

Noel Atkinson

Okay. In terms of the sequential increases, how much more, not necessarily into Q4, but over the next couple of quarters, say, so net of all your pendingor recently done acquisitions, how much more per quarter of savings do you expect to achieve?

Mike Rutherford

We've realized on an annualized basis, for the most part, the significant portion of our decreases that we've implemented from a cost reducing strategy. So, I don't expect it to continue to be large percentage decreases in expenses from here on out. We've done—we've implemented most of the cost-cutting initiatives that we can—that we have been able to at this point.

Noel Atkinson

Okay. Then the last one for me. So, can you talk at all about revenue seasonality going into Q4? Like do you expect to see retailers, especially sort of starting to order in first ski season?

Chris Driessen

Yes. We're right on the front end of that, actually Noel. Ski season historically fires up right around, in the U.S., Thanksgiving. This year, a little bit different. A lot of the operators have just different, I guess, precautions in place, how they're going to socially distance, how they're going to do some of those things. I spend a lot of time up in the mountains and have been up there actually over the past couple of weeks. So, really encouraging to see more people there.

Business—I was in one of our really great partners in Summit County this past weekend. They were busy, which was great to see as well. So, you really start to see that fire up over Thanksgiving, but in particular, over the Christmas holidays, one of the busiest weeks of the year is the timing between Christmas and New Year's Eve.

So far, things—even with some ratcheting up of COVID, seem to be on track and in a much better place than they were in the Spring.

So typically, you start to recognize a lot of that, although it does pop in it very, very late Q4. It's really just the last week or two of the quarter. So Q1 is really kind of prime time for ski season. So far, it looks to be on track. So fingers crossed at the world and COVID and all those folks stay on that track.

Noel Atkinson

Okay, great. All right, thanks for taking my questions.

Chris Driessen

Thanks, Noel.

Operator

Your next question is Bobby Burleson with Canaccord Genuity. Your line is open.

Bobby Burleson

So just curious on Q4. How should we think about December in terms of how much typical Q4 revenue is driven by December? I mean, obviously, it's more than a third of the total.

Chris Driessen

Yes. I would tell you that Q4 seasonally, as I was just telling Noel, Bobby, is that generally, Q4 seasonally is a bit softer certainly than Q3. That being said, this year is going to be a bit of an anomaly for us because we have closed on those plant touching assets or are several of them at least. So, the delta you're going to see this year versus last year is, obviously, we're getting plant touching revenue in Oregon, and a piece of that through Peoria Partners in Colorado. So I expect it to be good. Again, demand has been strong. So, we expect to have a very positive Q4.

Bobby Burleson

Yes. I was asking December. How much—I apologize if it wasn't clear, of Q4, typically, does December represent?

Chris Driessen

Yes, it's pretty close to a third. October is usually the high point in Q4, November is typically the low point. I will say, obviously, it's the last day in November, we've had a pretty decent November, better than in years past. So, I would tell you that December's average, October high, November is low, but our low has been higher than what it normally is, if that makes any sense.

Bobby Burleson

No, that does make sense. Then when we think about your servings, number of servings versus where you guys were in Q3 of 2019, can you guys get back to—or just can you get back to, in general, peak servings with what you're doing in California? Or, does it require this partnership, if that's ramping in Massachusetts as well?

Chris Driessen

No. Actually, I would tell you that I expect it to blow right past what we did in 2019, for a few different reasons. One, obviously, that included California numbers, which, of course, is the largest market in the U.S. That partnership, although it's been signed, and we're working diligently to bring it on board is not going to hit until Q1. But I fully expect that not only will we match what we did in 2019 and 2021, I think we're going to blow right past it, and that's before you throw the gas on the fire with what we're going to do with Trulieve in Massachusetts, and Gage in Michigan. So, I fully expect that we not only meet those numbers, but blow right pass those. It's a bit like a snowball. It's rolling down hill, the critical mass is getting bigger, and these things are also what we look forward to in 2021.

Bobby Burleson

Great. Are there any costs, I know you guys are capital-light in the way you approach these expansion markets—these emerging markets, but are there any costs that we could expect to kind of hit you guys prior to the ramps in California and Massachusetts?

Chris Driessen

No, the big cost you generally see for us, particularly in core markets is raw material planning. For those that don't know, you obviously harvest just like every other crop in the Northern Hemisphere, late Q3, early Q4. So, that's typically because there's such a glut of supply is typically the cheapest time that you can secure material.

As you go throughout the year, the demand gets stronger while the material becomes more scarce. So savvy operators know that, "Hey, I want to be able to wind up some capital, bring in some capital so I can make some of those purchases in Q4." So that obviously exacerbates your cost a bit. However, that really comes out in the wash for you come Q2, Q3 when that material becomes more scarce. So, that's kind of that—kind of the ebb and flow of how things work, particularly in states that have large outdoor cultivation, places like Oregon, but also Colorado. We make a lot of products that are non terpene dependent that rely on bulk outdoor cultivation inputs. So, we're pretty savvy in the way that we plan to bring those things in just to keep our costs low throughout the year.

Bobby Burleson

Great. Then the last one for me, and it has two parts. If we think about your partnerships and the strong performance you guys saw, I think you talked about a 3x improvement there. How can we think about that in terms of new partnerships versus the contribution from existing partnerships? Can you just remind us of how you recognize revenue there? Is it as it's built in those channels or as it's sold through?

Chris Driessen

Yes, a couple of different things there. So one, it's both, to answer the last part of that question directly. We recognize revenue when we sell strategic partners, things like components, packaging, etc., which is the majority of what was being done or the entirety of what was being done in 2019. John Moynan has been instrumental and basically kind of shifting that paradigm to where not only do we generate revenue when we sell those components and packaging like we always have, we now also benefit when those products are physically sold in their respective markets by way of getting a rip of the wholesale or retail sales of those products. So, we basically get two bites of the apple there.

Bobby Burleson

The split in terms of that strong performance between new and existing partners, is it mainly driven by existing partners?

Chris Driessen

Yes, absolutely. This past quarter, yes. Look, there was a couple of caveats there, right? Look, Q2 was rough for a lot of people for a lot of reasons with COVID. Q3 historically is stronger than Q2, full stop, but particularly this year, as people felt more confident going out and about, and were a little bit more secure in their financial situation. Those all led to improved numbers over Q3.

However, I will tell you that the way our business model works, is, again, back to that snowball analogy. As existing products, you heard me say District Edibles about 147 times in the new product or the new market update—or emerging market update, rather. That's as more people bring on more products, the critical mass gets larger. So, every time you add a new strategic partner to that fold, you're just building a bigger snowball more or less, and as that snowball rolls downhill, it gathers more and more mass by adding new products and adding new markets. So, it should be an exponential growth factor as it relates to our emerging market strategy.

Bobby Burleson

Great. Thanks. Congratulations on turning the corner here.

Chris Driessen

Thanks a lot, Bobby. I appreciate that man.

Operator

We do have a question from Paul Piotrowski with M Partners. Your line is open.

Paul Piotrowski

Good morning, guys. Congrats on the improvement this quarter. Can you guys expand on the types of opportunities you're seeing and how you're thinking about deploying the capital you're raising?

Chris Driessen

Yes, absolutely. As I mentioned, we're doing raw material planning right now. So, we're in the process of closing an acquisition in Colorado to shore up that raw material supply. But, just like I was saying earlier, now is the time. If you're out there with cash, if you're out there able to negotiate deals for your bulk raw material supply throughout the year, you're going to be rewarded for that, particularly come Q3 when there's a scarcity of material and a material increase in demand.

It happens every year, so when you're in a position to be able to strategically deploy that capital to keep your cost basis low throughout the year, that just benefits you. Again, you got to kind of look at this on an annualized basis because, as Mike was saying earlier, it is a bit lumpy. Look, I've got to buy and secure a lot of this material now when the demand is a bit softer than it is, say, mid-summer. The rub is, the material is not ready in mid-summer, you've got to be allocating and planning for those things now. We make such a wide scope of products that some of these require indoor inputs, for example, our terpene dependent products, which, obviously, if you're growing indoors, there's a constant supply. If you're growing in greenhouses, you can a bit accommodate a constant supply. When we do that, Pleasant Valley Ranch once it closes, will be additive for us there, too. It's feeding our hydrocarbon lab, or soon to be our hydrocarbon lab at ACG.

So, it really is just how are you thinking about these things on an annual basis, but it does require, provided that you've got access to the capital and can strategically deploy it in Q4, you will be rewarded for that strategy come Q3 in the following year.

Paul Piotrowski

Great. Yes. I mean—it makes perfect sense. Thanks for the breakdown and congrats again.

Chris Driessen

Appreciate it, Paul. The other thing I would add is, for us, components, packaging, etc., people familiar with working with Asian supply chains, you're going to come up on Chinese New Year. It's always an opportunity for us to ramp inventory to see us through that time. We want to be overly sensitive to some of the shipping dates, those kind of things, particularly this year, with kind of COVID still lingering.

So, we've been very strategic in the way that we are not only going about our raw material planning, but also our inventory planning to make sure that there's no interruptions in supply chain. Because we've been really early to the game this year, we don't expect that to be an issue.

Operator

We have no further questions at this time. I turn the call back to presenters for closing remarks.

Chris Driessen

Yes. Well, thank you, everyone, for joining us on our third quarter results call. We're happy to continue the discussion off-line with anybody that's interested or has additional questions. Thank you again very much. We look forward to talking to you again after our—for our Q4 call in 2021.

Operator

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