VIAVID
communications simplified.

SLANG Worldwide

Year-End 2020 Conference Call

April 29, 2021

CORPORATE PARTICIPANTS

Phil Carlson, *KCSA Strategic Communications*

Peter Miller, *Executive Chairman*

Chris Driessen, *President, Chief Executive Officer & Director*

Mike Rutherford, *Chief Financial Officer*

CONFERENCE CALL PARTICIPANTS

Noel Atkinson, *Clarus Securities*

Bobby Burleson, *Canaccord Genuity*

Paul Piotrowski, *M Partners Inc.*

PRESENTATION

Operator

Ladies and gentlemen, welcome to the SLANG Worldwide Year End 2020 Conference Call. My name is Charlie and I will be coordinating your call today.

I will now hand it over to your host, Phil Carlson and from KCSA to begin. Phil, please go ahead.

Phil Carlson

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 and 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 security 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 and 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 can 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 headings Risks and Uncertainties in the management discussion and analysis for the full year and three months ended December 31, 2020, and other disclosure documents available on the Company's profile on SEDAR at www.sedar.com. 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, CEO. Chris, please go ahead.

Chris Driessen

Thank you, Phil.

Good morning, everyone, and thank you for joining us on our results call for the year ended December 31, 2020.

I'm excited to announce that we had a great quarter where revenues improved through strong brand performance. We closed on several acquisitions, further consolidating our supply chain in core markets, which positions the Company for continued success.

I also want to clarify some of our results, which may have gotten lost in translation with the pre-announcement we put out a couple of weeks ago. Let's dive into the details. On our last quarterly call, we discussed how we were experiencing a return to growth in the second half of last year. I am pleased to report this continued into the fourth quarter with revenue of $9.7 million, a 22% increase over $7.9 million in Q3 2020, and an 11% increase over $8.7 billion in Q4 2019. In fact, this momentum carried through the first quarter of 2021, where we expect to report revenues of $9.9 million, a whopping 112% increase over Q1 2020, and a marginal increase over Q4 2020.

Our cash balance has remained strong through Q1 as well, sitting at $12.4 million as of March 31. This strong year-end performance was the result of our corporate repositioning initiatives to establish a capital efficient and scalable strategy that we implemented throughout the year to drive top line and bottom line results.

Our strategy included the decision to reposition California as an emerging market, not a quarter market, and other cost reductions implemented over several quarters. While this resulted in lower revenues in the start of the year as we scaled down certain operations, it enabled us to significantly reduce our cost space, streamline operations, and establish a leaner, more efficient business with approximately $8.5 million of cost savings during the full year 2020.

What SLANG does really well and how we measure ourselves internally is through brand performance. The SLANG network spans across 2,200 points of retail distribution across 15 States, Canada, and Puerto Rico. Also, our CBD products are available nationwide in over 600 stores, and more recently, through our e-commerce channel, which launched in February.

Additional brand highlights include, O.pen is the number one selling vape pen brand in Colorado for six years running. Lunchbox Alchemy is a top 10 selling gummy in Oregon. Firefly Mini is a top five disposable in Colorado, and more recently, has become a top selling disposable vape in Ontario, landing at number one for several weeks according to the OCS. SF Weekly recently named Lunchbox Alchemy CBD, the best sleep gummy in America.

Firefly 2+ is now available across Europe, including on Amazon. In the second half of the year, our strategy started to pay off as we generated higher sales, primarily driven by our assets in the core Colorado and Oregon markets, as well as increased branded servings in almost every state where we had products available above 2019 and 2020.

Our growth strategy in our core markets of Colorado and Oregon has centered around continuing to drive brand performance and consolidating supply chain assets in order to strengthen unit economics. We use our core markets to develop products and demonstrate success before introducing our products to our emerging markets.

To achieve this, we are vertically integrating the supply chain to include cultivation, manufacturing, distribution, and wholesale. This is expected to deliver several benefits, including greater control over production and distribution planning, and improved efficiency across the organization. In Colorado, our recent acquisitions of Peoria Partners in September and Pleasant Valley Ranch in December are enabling us to recognize higher top-line wholesale revenues.

Peoria Partners is a licensed cannabis producer and distributor of our District Edibles brand, and will also be where Lunchbox Alchemy products are produced for the Colorado market. Pleasant Valley Ranch is a licensed cultivator with a site consisting of four greenhouses across five acres of outdoor grow space, including 3,600 plants, with the ability to expand significantly in future years.

We plan to produce a significant portion of our raw material needs through the facility in 2021 and going forward. These acquisitions, together with the general post-COVID recovery, will propel our growth in Colorado in 2021. In Oregon, our acquisition of LBA Global Corporation, which closed in October, has contributed to increased revenues and gross profit in Q4 and is expected to be a driving force in 2021.

With this acquisition, we added Lunchbox Alchemy's complimentary portfolio of top selling products along with robust cannabis extraction, manufacturing, and distribution capabilities. We're investing in these acquired businesses to ensure that they have the capital, the focus, and the scale to maximize their ROI.

As an example, subsequent to the year end, we launched a new e-commerce site for Lunchbox Alchemy CBD products, representing a new revenue channel for our Company that allows us to capture improved unit economics. Lunchbox Alchemy CBD products are also experiencing profitable growth with products now available in over 600 stores across the U.S.

In 2020, we grew our core market revenues by 6.7% in Colorado and 82.9% in Oregon. Going forward, SLANG will be fully consolidating the economics of our recent acquisitions as well as driving organic growth by focusing on velocity per store and by managing points of distribution supported by our inside sales team to expand on existing relationships and to leverage our distribution footprint.

With the acquisition of Peoria Partners in Colorado and LBD in Oregon, SLANG was able to start wholesaling and distributing all SLANG branded products in both our core markets of Colorado and Oregon. In previous periods, we were only recognizing the packaging and hardware revenues as well as licensing fees. This represents a significant shift in our business model as the Company is now plant touching and recognizing wholesale revenue from sales directly to dispensaries.

To further accelerate our core market growth in 2021, we have a pending acquisition of Allied Concessions Group or ACG, a manufacturing and distribution business based in Colorado. We will begin fully consolidating the economics of ACG as of January 1, 2021.

We brought new product skews to market in 2020, including our Bakked Gyro live resin dabbing solution in the fourth quarter. This follows the introduction of O.pen live resin cartridges to the Colorado market. We expect both of these products to enter into several new markets in 2021, including Oregon.

As you can see, we achieved a great deal on the latter part of 2020 and have entered 2021 with a very strong operation to accelerate our growth. Our large distribution footprint allows us to reach the vast majority of retailers in our core markets. It is expected that SLANG's financial performance will continue to improve both from the sale of cannabis in core markets, as well as from sales in emerging markets.

Emerging market sales will also continue to increase as we implement our strategy to create brand value and expand our presence in these markets via our asset light strategy of forming strategic parts. During the year, we made excellent progress executing against the strategy. In 2020, the Company made the decision to reposition its focus in the California market from a core market to an emerging market in order to reduce costs and streamline operations.

In the fourth quarter, we entered into a strategic partnership with Natura Life + Science, which has allowed us to reenter the California market in a profitable way. The size and scope of the infrastructure at Natura's Sacramento facility allows for multiple product lines to be produced in volume sufficient to support the California market, the largest in the United States.

Products, beginning with District Edibles, which is the previous best-selling gummy in California, are expected to be available in Q2 2021. We also reentered the Massachusetts market through our strategic partnership with Trulieve to supply branded products, which was signed in the third quarter. This is the second market in which SLANG and Trulieve will partner building on our mutual success in Florida.

Products are expected to be available this summer. In Florida, our products continue to be sold at all 81 Trulieve stores. We're looking forward to launching District Edibles gummies and both sweet and sour formulations in Q2 2021, which will allow us to continue to grow market share in the Sunshine State.

In Canada, our minority-owned licensed producer, Agripharm, began selling branded products in British Columbia and also signed a supply agreement with the province of Ontario. Subsequent to quarter end, our O.pen and Firefly Mini line of products became available in Ontario. The Firefly Mini is currently a top selling disposable vape in Ontario.

Our partnership with gauged cannabis is expected to help us to bring products to Michigan in Q3 2021. We have also launched District Edibles gummies in both sweet and sour formulations in Oklahoma across almost a hundred stores with more products like O.pen Cured Resins coming soon.

More recently, District Edibles has become available in both Maine and Puerto Rico. As you can see, we have made major strides throughout the year, positioning the Company for significant growth in 2021. These initiatives are expected to expand our product distribution and drive branded units and branded servings.

I'll now turn the call over to Mikel Rutherford, CFO, to talk through our financial results. Mike?

Mikel Rutherford

Thanks, Chris.

As Chris mentioned, we continued to demonstrate a return to growth in the fourth quarter and overall throughout the full year 2020. I'll provide some more color on those line items as well as other key metrics. Revenue for full year 2020 was $26.8 million, compared to $29.2 million in Fiscal Year 2019.

Revenue for the fourth quarter of 2020 was $9.7 million, an increase of 22% over Q3 2020 revenue of $7.9 million, and an increase of 11% compared with $8.7 million in Q4 of 2019. The growth in Q4 2020 revenue reflects the excellent progress made by the Company throughout the year. The primary driver of sequential growth was a rebound in demand in the Company's core markets of Colorado and Oregon.

Similar strength in the Company's emerging markets also contributed to sequential growth as did the successful launch of new products.

As mentioned by Chris, revenues were down earlier in 2020, partially as a result of the recalibration in emerging markets, such as California, as well as underlying factors due to the COVID-19 pandemic. We are pleased to have seen a return to growth in the second half of the year.

Our gross profit in full year 2020 was $12.8 million with a 48% gross margin, compared to $13.1 million with a 45% gross margin in Fiscal Year 2019. Gross profit for the fourth quarter of $3.2 million with a margin of 33% compared to $5.5 million and a 63% gross margin in Q4 2019. The decrease in margin in Q4 is a result of two key drivers, product mix in the Colorado and Oregon supply chain. In terms of product mix, the Company increased sales to our emerging markets, which are lower margin by nature as we sell packaging and hardware and receive a royalty on branded product sales in exchange for support to those strategic licensees.

For our core markets, Colorado and Oregon, during Q4, SLANG was purchasing its branded finished goods from our manufacturing partner at wholesale prices, as opposed to manufacturer's costs in each market, then distributing the finished goods, which compressed margins. Starting in Q1 2021, the Company will begin fully consolidating the economics from the assets in Colorado. 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 margin than we reported in Q4.

I'll turn now to expenses. We continue to realize the benefit 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 Q4 and for the full year 2020 included salaries and wages, G&A, depreciation, expected credit loss, professional fees, and consulting and marketing. We did see increases in insurance and share-based payments in our full year numbers as a result of one time non-recurring accruals required, but effective overall cost management along with increases in revenue enabled us to report negative Adjusted EBITDA of $1.1 million in Q4 2020 compared to negative $1.5 million in Q4 2019.

Adjusted negative EBITDA of $1.1 million in Q4 2020 compared with a positive Adjusted EBITDA of $57,000 in Q3 2020 was primarily due to the compressed margin dynamics related to our core market sales. Adjusted EBITDA was negative $5.5 million for the full year 2020 compared to negative $5.6 million in Fiscal Year 2019.

Turning to our balance sheet. We had total cash and cash equivalents of $6.5 million at year end and $12.4 million unaudited as of March 31, 2021, compared to $8.9 million as of December 31, 2019. Subsequent to the year end, we closed a private placement for $11.9 million, which provides the Company with the financial flexibility to execute against our growth strategy. The steady revenue growth trend is currently very favorable and we expect to see continued positive momentum across the business. We've said on previous calls that we anticipate further fluctuations in monthly cashflow so we are trending in the right direction, and this statement still holds true.

We continue to monitor cash very closely and we operate with minimal debt in line with our ethos of strong cost control. We continue to benefit from our capital light business model that does not require significant Capex, the working capital investments, even in times of significant growth.

In conclusion, the full year and three months ended December 31, 2020, were very eventful and very successful. We've seen strong revenue growth while maintaining effective control of expenses resulting in a significantly improved net loss. 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 the call over to the Operator for the Q&A session of the call now.

Operator

Our first question comes from Bobby Burleson of Canaccord. Your line is open. Please go ahead.

Bobby Burleson

Sorry, guys. I was asking if you could hear me okay and I was muted, so I guess not. A couple of quick questions on the margins. You have two drivers of the gross margin pressure. How would you kind of split those two out in terms of the larger contributor, product mix versus you guys needing to consolidate those production assets?

Mikel Rutherford

Hi, Bobby. It's Mikel Rutherford. The majority of it's distributed to our core market sales and specifically in Colorado. The vast majority of our revenue is derived from those core market sales and therefore the greater proportion of the impact is in relation to those assets.

Bobby Burleson

Okay, and then the time to integrate, it seems like the operations are consolidated correctly, as of early January, but there's an integration period first.

Mikel Rutherford

As of January 1, yes. Sorry to cut you off there. As of January 1, our ACG, our supply chain asset, which we've referred to a number of times, although the acquisition won't be fully closed, we'll be consolidating the full economics with the facto control on that asset as of January 1 going forward.

We'll continue to get in—our margins will continue to fluctuate as we fully consolidate all the assets of both of our core markets, but we expect to see that variation start to narrow as our business model starts to streamline quarter-over-quarter with the consolidation of those supply chain assets.

Bobby Burleson

The margins, I would assume are directionally moving higher, right? They're not just variable. It sounds like there's a margin expansion path rather than just a variable margin dynamic?

Mikel Rutherford

That's right. That's right. We expect to see our margins on full consolidation increase over Q4 2020.

Bobby Burleson

Okay, and then how should we think about...

Mikel Rutherford

Sorry if that wasn't clear.

Bobby Burleson

No problem. How should we think about the gross margin and EBITDA margin kind of on a normalized basis in the emerging markets when we kind of eliminate the effect of California? What are the fundamental margins these days on those emerging markets?

Mikel Rutherford

By nature, our emerging markets are our inner margins. It's a volume business model. We drive volume through our emerging markets and receive a royalty in support of supporting our strategic licensees. By nature, they are thinner margins in what we've actually seen as a consolidated Company in 2020, but the combination of both our emerging market and core markets should bring us back up to similar margins that we've seen on a year-over-year average historically.

Bobby Burleson

Okay. Normally, when one thinks of a royalty business, it's higher margin. Can you just walk through structurally what's actually behind the margin structure because licensing in a royalty business usually is a lower revenue business at a higher margin business?

Is this more of a packaging sales business fundamentally and we're talking about it as a royalty business, or what is the real relationship in terms of the transactions that are occurring and what's driving the margin for that business?

Mikel Rutherford

That's a good question. You're right, that of royalty, I mean, if you think of just a royalty by itself, there's not many costs that go against that and therefore, just the royalty itself is a very high margin revenue stream, which holds true for us. When we consider the entire relationship though, with our strategic licensees, we don't just take that royalty.

We do a lot more for our strategic licensees in terms of supporting them either through sales and marketing, but also specifically by selling them and realizing economies of sales, selling them packaging and hardware, so that they have the inputs needed to ultimately produce our products in their markets, and ultimately sell them.

When we consider those, when I talk about the margins in relation to the emerging markets, I considered the totality of that. The way that we typically structure that is that the margins attributable to the packaging and hardware are typically pretty thin so that we can help support that strategic licensee, and then where we really make—where we receive our value in that relationship is supporting the strategic licensee once again, through either sales and marketing as well as economies of scale and getting that royalty.

The overall emerging market, if you consider all of that margin, is lower. If we looked at just our royalty revenue, it would, of course, be a higher margin revenue stream on its own.

Bobby Burleson

Okay, and it sounds like you guys have lots of branded unit and servings volume in these emerging markets. I know it's gotten down in California, but it's on its way back up again here shortly. If we just look at the non-California business, you guys talk about your share and your core markets but don't really talk about it much in these emerging markets.

With those kinds of volumes, where do you see your market share? Are there any market share targets or anything that you can kind of—additional color that you can provide there in a market share basis?

Chris Driessen

Hey, Bobby, this is Driessen. I'll take that one. Good question. When you normalize for California, our unit sale 2020 over 2019 went up 22%, and our branded servings went up 17%. Impressive growth there. What that doesn't factor is that we'll be going into Michigan, we'll be going into Massachusetts, we'll be going into California, we'll be going into Washington. We've already announced all of those partnerships.

All of that is obviously increased torque on what we expect to see. Quarter-over-quarter, year-over-year, you're going to see those units and those branded servings continue to rise, which again is just a testament to the stewardship of our brands and the continued performance of those brands.

Kind kind of a way that whole snowball works. I mean, you already know this, but just for those who may be listening at home, the snowball gets bigger when we introduce existing products into existing markets, and then you're throwing basically more torque on that as you introduce new products and new markets.

The critical mass continues to roll downhill, continues to get bigger and bigger, and that's where you're going to see the sequential growth from us quarter-over-quarter, year-over-year, as it relates to both units and servings.

Operator

There are currently no further questions in the queue so, I will hand the call back over to Chris Driessen.

Chris Driessen

Thank you, Charlie. Well, thank you everyone for joining us on today's call. During the year 2020, we made excellent progress throughout the year, accelerating our path to profitability by identifying cost reduction opportunities, including a rebalancing of the workforce, continued optimization of SLANG network relationships, and consolidating our supply chain assets.

We entered 2021 with the strongest position we have ever been in, supported by a lean, efficient, business model, excellent partnerships, and newly acquired infrastructure that will generate strong revenue growth in both core and emerging markets. We expect our financial performance will continue to improve in 2021 and beyond.

The bottom line is this, our revenues are increasing, our losses are narrowing, our brand performance continues to improve in almost every market we compete in. When you consider that we are also continuing to expand into new markets with new and existing products, there's never been a more exciting time for the SLANG gang. Thank you very much, everyone.

Operator

Ladies and gentlemen, this concludes today's call. Thank you for joining. You may now disconnect your lines.