

Cronos Group Inc.

Strategic Partnership with Altria Conference Call

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PRESENTATION

Operator

Good morning. My name is Chris, and I will be your conference Operator today. At this time, I would like to welcome everyone to Cronos Group's Strategic Partnership with Altria Conference Call.

Today's call is being recorded.

All lines have been placed on mute to prevent any background noise.

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

Anna Shlimak, Investor Relations, you may begin your conference.

Anna Shlimak — Head of Investor Relations and Communications, Cronos Group Inc.

Thank you, Chris, and good morning, everyone. Thank you for joining us to discuss our strategic partnership with Altria. Cronos and Altria both issued press releases this morning, and the Cronos release, along with our company's slide deck, are available on the Investor Relations section of the Cronos website. Today's call is also being webcast and the webcast is available on our website.

Joining me today is our Chairman, CEO, and President, Mike Gorenstein. Before I turn the call over to Mike, I would like to remind you that our discussion during this conference call will include forward-looking statements that are based on assumptions that are subject to risks and uncertainties that could cause actual results to differ materially from those projected in the forward-looking statements.

Management can give no assurance that any forward-looking statement will prove to be correct. Forward-looking statements during this call speaks only as of the original date of this call, and we undertake no obligation to update or revise any of these statements except as required by applicable law.

Management refers you to the cautionary statement and risk factors included in the Company's disclosures.

With that, I'll turn it over to Mike.

Mike Gorenstein — Chairman, Chief Executive Officer, and President, Cronos Group Inc.

Thank you, Anna, and good morning, everyone. We were thrilled to announce this partnership with Altria, which is a resounding vote of confidence in our strategy and leadership in the growing global cannabis market.

Starting briefly on Slide 3. We believe Altria is the ideal partner for Cronos to fortify our position as a leading global cannabis platform. Altria provides Cronos with financial resources, product development, and commercialization capabilities, as well as a deep regulatory experience to meaningfully accelerate our strategic growth.

Turning to Slide 4, we'll dive into more detail about each of these attributes and the benefits of the transaction. In connection with Altria's investment, we will receive approximately C\$2.4 billion in cash. These proceeds will enable us to more quickly expand our global infrastructure and distribution footprint, while also increasing investments in research and development and brands that resonate with our consumers. Indeed, the growth opportunities for Cronos Group are significant and will extend across the globe as cannabis markets open.

With Altria's backing, we expect to be even better positioned to capture these opportunities and accelerate the execution of our strategic initiatives, including investments in cannabinoid innovation, developing differentiated products and brands across medicinal and recreational categories, and expanding our global footprint and production capacity.

Equally important, Altria shares our vision of driving long-term value through innovation, and we look forward to continuing to differentiate in this area. Our research collaborations with Ginkgo Bioworks and the Technion Research and Development Foundation are examples of how we are using innovation and our growing IP portfolio to develop new applications for cannabinoids across a range of products and categories.

These partnerships really unlock our ability to capitalize on a market that is transitioning from flower-based products into a market that offers consumers choice across a range of value-added categories like vaporizers, edibles, topicals, beverages, and traditional pharmaceutical formats. We believe that these products will be further differentiated through our research in cannabinoid and terpene formulations. As an adult-use innovation leader, Altria is also very excited about these opportunities.

A third important benefit of this agreement is that it enables us to leverage Altria's product design, manufacturing, marketing, and distribution capabilities and expertise. Altria has significant expertise that can serve as building blocks for cannabis vape products. And Altria also brings considerable experience with large-scale manufacturing, automation, pre-roll technology, and supply chain management.

Similar to how we expand our capacity footprint globally, by setting manufacturing with agricultural partners, we share a belief for working with local farmers to create value throughout the supply chain. Additionally, by investing the incremental capital from this transaction, we believe we will become a more attractive partner to other medicinal and consumer-facing focused products and companies who want to further expand their product offerings to include cannabinoid-based formulations.

Another key benefit that we see is the decades of experience that Altria brings in successfully navigating complex regulatory landscapes. That expertise, which spans taxation, product registration, shipping, and other legal issues, will be critical to us as cannabis markets develop and open around the world.

Moving to Slide 5. The terms of the agreement are fairly straightforward and enable us to raise capital at a premium valuation, while still allowing our shareholders and all of our stakeholders to participate in the future upside of Cronos. In particular, Altria has agreed to acquire 146 million shares at a price of C\$16.25 per share. This price per share represents a 42 percent premium to the 10-day view of our unaffected share price on November 30, 2018.

Altria will also receive warrants to acquire an additional 10 percent of the Company, subject to adjustments. The warrants will be exercisable at a premium over the next four years, at a price of C\$19 per share.

The transaction also includes various exclusivity rights and support agreements. Altria has agreed to make Cronos Group its exclusive partner for pursuing cannabis opportunities throughout the world. At closing, Cronos Group and Altria will also enter into commercial support agreements, under which Altria will provide services related to marketing and brand management, government affairs, regulatory affairs, and research and development.

Turning to approvals and closing. We expect the transaction to be completed in the first half of 2019. It is subject to customary closing conditions, including regulatory and Cronos shareholder approvals. As you saw in the press release, our Board of Directors has unanimously recommended that shareholders vote in favour of the agreement.

Upon completion of the transaction, Cronos Group will remain a Canadian company headquartered in Toronto and listed on the TSX and NASDAQ. Our management team will remain in place, and I will continue to serve as Chairman, President, and CEO. The Cronos board will be expanded from five to seven directors, four of which will be designated by Altria, and one of whom will be an independent director.

We are very excited to partner with Altria. They've been excellent to work with as we put this transaction together, and I look forward to continuing to build on our relationship and driving innovation further.

Turning to Slide 6, you can see the four pillars of our strategy. Altria's investment and partnership meaningful advances our ability to execute in each. Since we set out on this journey in the cannabis sector, Cronos Group has been focused on building an industry-leading company. To do this, our four pillars emphasize: establishing infrastructure to create an efficient global production footprint; developing a diversified global sales and distribution networks; creating and monetizing disruptive IP; and growing a portfolio of iconic brands that resonate with consumers.

Altria brings scale, expertise, and complementary capabilities in each of these areas that we believe will enable us to expand the scope and enhance the scale of our company. Our commitment to cannabinoid innovation remains unchanged, and Cronos Group will continue to focus on leading this industry forward responsibly and creating meaningful products that excite our consumers and bring happiness and an improved quality of life for both the medicinal and recreational markets.

As we finish up on Slide 7, and we're extremely excited about the tremendous benefits that this transaction creates and the upside value we expect for our shareholders. We look forward with enthusiasm and are focused as ever on delivering results for all of our stakeholders.

With that, we'll open it up for questions.

Q&A

Operator

At this time, I would like to remind everyone, in order to ask a question, press *, then the number 1 on your telephone keypad. We ask that you limit yourself to one primary question and one follow-up question before returning to the queue.

Your first question comes from Martin Landry of GMP Securities. Your line is open.

Martin Landry — GMP Securities

Hi. Good morning, and congratulations on that investment to the whole team.

Mike Gorenstein

Thanks, Martin. Good morning.

Martin Landry

My first question, Mike, is just wondering. The partnership with Altria, does it limit you from partnering with other strategics such alcohol or pharma?

Mike Gorenstein

Thanks. That's a great question. No, this does not limit that. In fact, we think this partnership makes us collectively a more attractive partner. One of the—one of the things we loved about Altria is their core businesses, they're adjacent to cannabis, not competitive. And we think that all the capabilities we've discussed here do in fact make us well positioned to go for anything that is accretive to Cronos collectively, going forward.

Martin Landry

Okay. And my follow-up question was, how rapidly could you deploy that cash once the transaction closes?

Mike Gorenstein

We'll always continue to be very disciplined with capital deployment. So I think a lot of the speed at which we deploy will really be based off of how regulatory frameworks develop and results from various R&D that we're conducting.

Martin Landry

Okay. Thank you, and congratulations again.

Mike Gorenstein

Thank you.

Operator

Your next question comes from Tamy Chen of BMO Capital Markets. Your line is open.

Tamy Chen — BMO Capital Markets

Thanks. Hi, Mike. My first question is, there's a lot of opportunities in this global market or this global industry between IP, product developments, expanding internationally. So could you talk a bit more about how you're thinking about and where you're focused on, in terms of deploying and allocating this capital?

Mike Gorenstein

Sure. So we really will continue to approach things the way that we have to date. And we think the most important thing is to focus on innovation and developing IP because that IP really is something we can transfer to any market. So I think that's the primary focus.

And as markets open up, having that broad range of product offerings allows us to have conversations and make sure that we're not just being reactive but also pushing for regulatory change. We really believe in the medicinal value of cannabinoid-based products, and this is something that allows us to accelerate the data set to be able to give meaningful information to regulators to open up new markets.

Tamy Chen

Got it. Okay. And my follow-up is, could you talk a bit about, from Altria's perspective, what do you think it was that attracted them to Cronos as a partner versus other licensed producers?

Mike Gorenstein

I can't speak for other licensed producers, but I think we had a strategic vision alignment in terms of how we approach things and where we see value. We both really, strongly believe in innovation and increasing choice for consumers. I think notably, the model of working with different small groups or farmers throughout the supply chain, and focusing on downstream products or upstream genetics, is something that we shared. And making sure that we had a model that was scalable is really important.

So I think that was a key alignment, making sure we were focusing on where the industry will be versus where it is today. And when we were strategically planning how we would enter cannabis years ago, one of the companies that we looked at and had a lot of respect and admiration for was Altria.

And we noticed, and as I'm sure you're quite aware, a lot of people talk about how important capacity is and growing in cannabis, and tobacco, we think, is really comparable. And I think it's worth noting that Altria does not grow their own tobacco. We think that, that model of growing your own plants is very difficult to scale and to execute well.

So we thought that, that was something we were very aligned with, and we were really excited, just given how successful their model has been for creating value for shareholders. Long-term growth is a focus and also, creating value for different parts of the supply chain, that we were able to partner.

Tamy Chen

Right. Okay. Got it. Thanks. I'll get back in queue.

Operator

Your next question comes from Vivien Azer of Cowen. Your line is open.

Vivien Azer — Cowen and Company

Hi. Good morning. Congratulations.

Mike Gorenstein

Thanks. Good morning, Vivien.

Vivien Azer

So Altria, clearly best in class in tobacco and a name that I'm well acquainted with. But they are strictly, today now, a US operator. So curious to hear how you guys are thinking about leveraging them from a global standpoint, given number one, their US focus and number two, current kind of regulatory constraints in the US?

Mike Gorenstein

Sure. So again, when we think about what's in front of us and the opportunities, the global market is still very young, and things are still developing. So again, we believe that what's most relevant is having the—developing the IP, developing the different processes, and understanding how to bring new and innovative products into different markets. And that template and that framework really is something

we think is transportable. And we'll continue working with local partners in different markets to make sure that we're able to adjust our model for different countries.

But ultimately, we do see that as really a benefit and something again, another example of how we're complementary, that you could sort of think of us as having been focused on rest of world and Altria having a presence in the US—we think that it's a great fit. And following sort of all the things we've discussed, and all their expertise is something we'll use and draw from that experience as we enter other markets.

Vivien Azer

Terrific. And then just as a follow-up. As you guys were engaging in your discussions, were there any discussions around a potential relationship with Phillip Morris as you thought about broader global aspirations?

Mike Gorenstein

No. No. We really focused on sort of our business plans, on how we would move forward together. We hadn't really talked about anything outside of there with Phillip Morris. Our focus is sort of on what Altria and Cronos can and will do together, really starting day one.

Vivien Azer

Terrific. Thanks very much.

Operator

Your next question comes from Matt Bottomley of Canaccord Genuity. Your line is open.

Matt Bottomley — Canaccord Genuity

Good morning, everyone. Congrats on the deal. One of the things that stuck out to me right away was, potentially, the experience that Altria has on the regulatory standfront (sic). So can you just expand

a little more on what that brings to the table versus your experience dealing with Health Canada, compared to how that overlays with processes in the tobacco industry? And if you think that can expedite growth even more so with them on board?

Mike Gorenstein

Thanks. Yeah. That's a great question. I think when you look over what our experience is with Health Canada, and one of the advantages, is just learning some of the nuances of cannabis and cannabinoids, and how regulators approach that. That's very important.

Altria's experience, though, it's again, very, very wide-ranging, not just in tobacco, but in adult beverages, in different categories. And decades of experience in how to bring different products to market, making sure that you're checking all the boxes, thinking about issues from shipping, from taxation, packaging. Thinking about the way you're marketing, how to make sure that you're doing everything in a responsible way. And as we think forward to new and innovative products, that experience, we think, is going to be very important as we try to accelerate new product categories and into new markets.

Matt Bottomley

Great. Appreciate that. And maybe just on the allocation of capital. Do you think that most of it is going to be on the IP front versus expanding into other regions? Is any of this earmarked for potentially the Canadian rec opportunity? Is there any way to carve up the magnitude of where capital might go?

Mike Gorenstein

Sure. I think one thing that we look at in any growth industry, and especially in this one, one of the most important assets people don't talk about enough is people and the human capital. We think that the opportunity is making sure that we build out and continue to assemble the best talent, whether that's

in engineering, in regulatory, in marketing, in legal, finance, from across all sectors and continuing to draw cross-disciplinary expertise. So that's something that we're very focused on.

Certainly, IP and marketing is something we're focused on. We really aren't thinking of splitting something out by geography. Again, focused on product IP branding first. And geography, really, it's going to be dependent on how regulations evolve, as far as timing and allocation.

Matt Bottomley

Okay. Thanks, Mike.

Mike Gorenstein

Sure.

Operator

Your next question comes from Graeme Kreindler of Eight Capital. Your line is open.

Graeme Kreindler — Eight Capital

Yeah. Hi. Good morning. Thanks for taking my question. I was just—it's been mentioned on the call here earlier about Altria's experience in the US market. So I was wondering if there's been any discussions about what that could mean for Cronos in the event of a passing of a farm bill here, on a strategic initiative there?

Mike Gorenstein

Sure. I think any market, it's great being able to draw from that experience. One of the things that we found is going to be really important is the experience that Altria has dealing with agencies like the FDA and making sure that, again, we follow all the steps, we follow the right processes to make sure that we're bringing products on in a responsible fashion and in collaboration with regulators. So I think that will be very, very important for us.

Overall, regardless of market, it's important to make sure that in a new product category, that we're thinking over the long term and creating long-term value, building strong relationships, and making sure that we're launching products in a sustainable way. So I think that that experience that they have will translate, really, across the world.

Graeme Kreindler

Okay. Great. Thanks for that. And then just a follow-up here. Mentioned in the press release about Altria holding an equity investment in Anheuser-Busch, which has been one of the names that's circulated on rumours of people possibly entering the cannabis sector moving forward. I'm just wondering if that has any implications for—we've talked about future partnerships—in terms of what Cronos might be looking for in the future?

Mike Gorenstein

Yeah. I think the biggest implication, Matt, is just showing that Altria is a very attractive partner to just about every adult-use category, even sector leaders like ABI. And really, what we've been focused on is making sure we evaluate every opportunity and do what's ultimately accretive over the long term for Cronos and our shareholders.

Graeme Kreindler

Okay. Great. Thank you very much for that and congratulations.

Mike Gorenstein

Thank you.

Operator

Your next question comes from Jason Zandberg of PI Financial. Your line is open.

Jason Zandberg — PI Financial

Thanks very much and congratulations again, Mike. This is obviously a huge deal here in the space. Most of the questions that I had prepared here have been answered, but I just wanted to maybe touch base again on this deployment of this cash. Are there—I know this is probably pretty premature, but is there any initial expectation of how this capital could be deployed in the Canadian market?

Mike Gorenstein

Yeah. Again, we don't really think of it as market specific. So our centre of excellence, Peace Naturals, is in Canada. So as far as R&D and those activities, that will continue to be our centre of excellence and really, the nerve centre for all of our operations and future product development. So we're very excited about that, and from that perspective, I think you will see us continue to deploy capital. But R&D and product development is a very, very large priority for us.

Jason Zandberg

Okay. Great. And congratulations again.

Mike Gorenstein

Thank you.

Operator

That was our final question. I'll now return the call to our presenters.

Mike Gorenstein

Thanks, everyone, for joining. I have to say, this is the most excited I've ever been on a Friday to get back to work.

Operator

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