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Cronos Group Inc.

Third Quarter 2018 Earnings Conference Call

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PRESENTATION

Operator

Good morning. My name is Sharon, and I will be your conference Operator today. I would like to welcome everyone to the Cronos Group's Third Quarter 2018 Earnings Conference Call. Today's call is being recorded.

At this time, I would like to turn the call over to Anna Shlimak, Investor Relations and Communications. Please go ahead.

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

Thank you, Sharon, and thank you for joining us today to review Cronos Group's third quarter 2018 performance and business update. I am joined by our Chairman, CEO, and President, Mike Gorenstein; and our CFO, William Hilson.

Earlier this morning, Cronos Group issued a news release announcing our financial results, which are all filed on our SEDAR and EDGAR profiles. This information, as well as the prepared remarks, will also be posted on our website at www. cronosgroup.com under Investor Relations.

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 speak only as of the original date of this call, and we undertake no obligations 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 most recent MD&A and Annual Information Form by which any forward-looking statements made during this call are qualified in their entirety.

We will now make prepared remarks, and then we'll move to a question-and-answer session.

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. During my remarks, I will provide an overview of the Company's strategy and the progress we are making on our objective to build a leading innovative global cannabinoid company. But first, I want to take a moment and acknowledge the watershed event that took place for our company, our industry, and for Canada.

As we all know, less than once month ago Canada became the first G7 country to legalize cannabis sales for adult use, and Cronos Group is a major participant in that market.

The regulatory structure and legal framework that the Canadian government has created is part of the reason I left my life in New York, and convinced members of our management team to leave their careers and move to Canada. What we understood 2.5 years ago when we set out on this journey was the value of operating a fully legal environment that would allow us to learn, build, and create a company that has the potential to be a global industry leader.

That is our opportunity in Canada today. It is to research and develop new innovative products that we can pilot into a large, diverse consumer market and collect consumer insights and continue to refine our product offering, and then to create a turnkey solution that we can roll out into our expanding global platform as regulations evolve.

At Cronos, we take pride in leading the industry forward responsibly, and are motivated to create meaningful products that bring our consumers enjoyment and improve their quality of life.

As excited as we all are about this milestone and our participation in this new market, it's truly just the beginning. The growth opportunities for Cronos are vast and extend across the globe as markets open.

With our commitment to cannabinoid innovation, our differentiated brands, global footprint, and growing production capacity, Cronos is well positioned to realize these opportunities.

The recent initiatives we launched with Ginkgo Bioworks and Technion are great examples of how we intend to use innovation and our growing IP portfolio to develop new applications for cannabinoids across a range of categories.

To help set the table for our earnings call, I want to briefly review each pillar of our strategy. We are establishing infrastructure in order to create an efficient global production footprint; we are developing a diversified global sales and distribution network; we are creating and monetizing disruptive IP; and growing a portfolio of iconic brands that resonate with consumers.

Let me touch on each one of these strategic priorities and provide an update on what we are doing to drive it forward.

I'll start with capacity. First, of course, is B4, our state-of-the-art production and research facility at the Peace Naturals campus, our wholly owned licensed producer and our centre of excellence. B4 is the largest purpose-built indoor cannabis facility in the world. It was licensed and populated shortly after our Q2 earnings call, and will have its first harvest this year.

This facility operates as a manufacturing operation, and at full run rate B4 will have a harvest every three days. This harvest schedule will allow us to control and maintain consistent inventory levels while optimizing our labour force and utilizing our facility in a highly efficient manner. We expect to be harvesting at full annualized run rate in the second quarter of 2019. We are very proud of this facility, and what we were able to build in such a short amount of time.

Our approach to further scaling our capacity involves taking our genetics, growing methodologies, and best practices developed at Peace to create co-manufacturing relationships with some of the most sophisticated agricultural operators around the world.

In Canada, we launched a joint venture called Cronos GrowCo with a group of investors led by Bert Mucci, a leading Canadian large-scale greenhouse operator. As a reminder, Cronos GrowCo is constructing an 850,000 square foot purpose-built GMP-standard greenhouse, which is expected to produce up to 70,000 kilos of cannabis annually. Construction of the greenhouse has begun, and we are tracking on schedule for a second half 2019 completion.

I also want to provide an update on Cronos Australia and Cronos Israel. For Cronos Australia, we are currently reviewing alternative facility designs, given current and anticipated market opportunities, which may include an expansion of the previously announced indoor facility.

To satisfy interim demand, Cronos Australia has applied for an import licence to import and sell Peace Natural's branded medical products in the Australian market as we finalize the new facility design and construction plans.

Cronos Israel is currently constructing Phase One of our construction plans at Kubbutz Gan Shmuel. As a reminder, the first phase involves in building a 45,000 square foot greenhouse that is expected to produce up to 5,000 kilos and a 17,000 square foot manufacturing facility. Construction of the greenhouse and manufacturing facility are well underway, and we anticipate that construction of the greenhouse will be complete in the first half of 2019, and construction of the manufacturing facility will be complete in the second half of 2019.

We purposely planned our construction in Israel through a phased approach to allow for adjustment and developments in the regulatory framework and market demand. Although we expect Israel to allow for export in the near future, we believe the Phase One production could be used to meet the cannabis consumption demand within Israel.

We've also brought our capacity model to Latin America. At the end of August, we announced a joint venture agreement with AGI, one of Colombia's leading agricultural service providers with over 30 years of research, development, and production operations. This partnership establishes the newly formed entity, NatuEra.

NatuEra will be Cronos Group's production hub in Latin America that will develop, cultivate, manufacture, and export cannabis-based products for LATAM and global markets. We're very excited that NatuEra will be led by AGI's executive team, Andres Nannetti and Nicolas Nannetti, who have extensive experience managing large-scale horticultural operations for export from Colombia. We searched extensively for the right partner in Latin America and are pleased to have found the AGI team.

NatuEra intends to become a leading production platform for premium-quality cannabis-derived products, creating the cannabis industry's first contract manufacturing organization in Latin America. The facility is currently under design, and construction of a GMP-standard facility remains subject to obtaining all the necessary licences, relevant permits, and other customary approvals. In August 2018, NatuEra was granted a licence to cultivate non-psychoactive cannabis plants.

This quarter, the lead-up to this earnings call and conversations for a number of quarters to come will be dominated by Canada legalizing the cannabis recreational use market, thus opening an exciting, evolving, and new distribution channel for Cronos Group and the cannabis industry.

Starting on October 17th, Cronos launched its recreational products in Ontario, British Columbia, Nova Scotia, and PEI. We took a calculated approach to which provinces we supplied for launch in order to make sure we met the demand and could support our provincial partners with adequate supply.

As everyone is now very much aware, there is still more demand than supply in every product category launched to date across every province. For the provinces we are supplying, we continue to build and establish our brands and ship product as quickly as we can. We are in the process of obtaining additional listings for new SKUs in the four provinces we currently serve, and are also in discussions with new provinces to list our brands in those markets.

This is an evolving area for Cronos, one that we will continue to approach in a prudent and strategic manner, understanding the balance of demand and based on our supply as Building 4 continues its ramp.

Our priority is to maintain a constructive and open relationship with the provinces while providing the consumer with the highest-quality product.

Our MedMen Canada joint venture is currently in the process of obtaining the necessary licences, permits, and retail locations to create a premium MedMen-branded retail experience, modelled after the iconic concept in the US.

We look forward to reviewing the regulations for private retail in Ontario, which we expect imminently. As we have seen in Ontario, regulations are evolving, so our plan is to stay nimble yet ready when we have a more definitive understanding of the private retail landscape in Canada.

In the third quarter, we also announced a supply agreement with Cura Select Canada. Cura signed a five-year take-or-pay supply agreement to purchase a minimum of 100,000 kilos of cannabis from Cronos GrowCo over five years.

As new distribution channels open, we have to balance supporting our existing global footprint and meeting the demand of the newly created channel. At this stage of our business, we are very cognizant of this delicate balance while our supply grows to meet the demands of our global distribution.

We see Germany as extremely important for our global reach, and plan to continue to grow and open this channel through our Peace Naturals-branded medical products. To that end, we are pursuing regulatory pathways for additional non-smokable products with our partners at Pohl-Boskamp who have expertise in the registration of new drugs in Germany.

Additionally, in partnership with Delfarma, a pharmaceutical wholesaler and our exclusive distributor for the Poland market, we have identified the Peace Naturals products for export. In October 2018, the applications for import and marketing authorization were submitted by Delfarma to the local authorities, and we are awaiting their review for a new drug.

Cronos is excited for the prospects of this new market, and we are taking the necessary steps that will open this channel in due time.

On the last earnings call I set the stage for what we want to accomplish and what we are striving for under the intellectual property pillar of our strategy. On this call, we have a lot to discuss in this area, but first I want to reiterate the strategy.

We are dedicated to creating, monetizing, and building a moat around disruptive intellectual property. At Cronos, we seek to build the world's most innovative cannabinoid company, where we develop and research efficient processes to effectively produce and formulate the full spectrum of cannabinoids, not just THC and CBD.

Our goal is to use the plant as a blueprint in order to learn and then create differentiated active ingredients by reconstituting cannabinoids in combinations that have specific psychoactive effects and/or therapeutic benefits. We'll then formulate those active ingredients to optimize bioavailability, and customize them to fit into the appropriate delivery systems.

One of the ways we'll accomplish this goal is through our strategic partnership with Ginkgo Bioworks, which we announced in early September. We believe this landmark R&D partnership has the potential to disrupt the industry.

For the benefit of new followers to the Cronos story, I'd like to briefly explain the significance of this announcement and the power of partnering with an unparalleled company like Ginkgo.

Ginkgo is a 10-year-old company, although true to their entrepreneurial spirit, they still call themselves a start-up. The Company was founded by Tom Knight, who is referred to as the father of synthetic biology, and four of his PhD students from MIT. The company is well capitalized, having raised approximately US$430 million to date and partners with innovative industry leaders who are building disruptive technology for the future.

Ginkgo understands that biology is the most advanced manufacturing technology on the planet. Biology is self-assembling, self-replicating, and self-repairing, biology builds renewably. Ginkgo's scientists and engineers learn from nature to develop new organisms using genetic engineering that can efficiently produce products using industrial fermentation. And that is where the cannabis industry and Cronos Group come in.

Our landmark R&D partnership with Ginkgo was created to produce cultured cannabinoids at commercial scale. This not only includes THC and CBD, but also rare cannabinoids that are economically impractical or near impossible to produce at high purity and scale through traditional cultivation.

Now let's pause here and talk about cultivation. Our reality is that cannabis cultivation is expensive, time-consuming, and difficult to scale quickly. Cannabis plants have long growth cycles and require expensive and time-consuming post-production processes to produce pure cannabinoids. Rare cannabinoids are present in less than 1 percent by dry weight within a plant. Moreover, there is currently no efficient agricultural or post-production process solution to generate rare cannabinoids at commercial scale.

And going back to our strategy, we at Cronos believe that rare cannabinoids are key to product differentiation, but today they are nearly impossible to produce commercially. Simply put, by using fermentation, Cronos and Ginkgo could reduce the cost of cannabinoid production at commercial scale and enable the production of rare cannabinoids.

Using this production methodology, we could leverage existing fermentation infrastructure, like breweries or pharmaceutical CMOs, rather than incurring heavy CapEx to build and manage new cultivation and extraction facilities. Perhaps most importantly, we believe this technology will make it easier for us to deliver product consistency.

The partnership is focused on eight cannabinoids. Ginkgo will design microorganisms which can produce these cannabinoids at scale using fermentation. The partnership is aligned to incentivize each party.

Cronos common shares will be issued to Ginkgo when each of the eight cannabinoids can be produced for less than 1,000 US per kilo of pure cannabinoid at a scale of greater than 200 litres. In total, 14.7 million shares will be issued in tranches based on each cannabinoid. In addition, Cronos will fund R&D and foundry expenses, which are expected to be 22 million US.

We think it'll take up to three years to reach the equity milestones I described for the targeted cannabinoids. Upon reaching these milestones, Cronos will have the exclusive right to use and commercialize the key patented intellectual property related to the production of the targeted cannabinoids, perpetually and globally.

We strongly believe this is what the future of cannabinoid production for derivative products will look like. We are learning from the cannabis plant and generating blueprints or recipes that can be made through either fermentation or extraction. We know that flower will continue to be a desirable and significant consumer product, but we believe the production of derivative products will be achieved using cultured cannabinoids.

While we believe that cannabinoids will be produced in a more direct method through biosynthesis in the future, extraction methodology is an important aspect of our business today, one that we are focused on optimizing and using best practices in order to achieve the highest-quality products.

To that end, we filed a US provisional patent application called Plant Extracts and Methods for their Production. In conventional extraction methodology, heat is used in order to convert THCA into THC or to remove solvents. However, this process of applying heat will cause chemical reaction and volatility in any terpenes present, which can alter the character, effect, and aroma of the extracts.

With our patent-pending extraction technology, we were able to extract material from cannabis in a way that reduces terpene loss. Our extraction methodology results in extracts that better preserve the terpene in cannabinoid profiles of the cannabis plant, therefore resulting in similar therapeutic synergies achieved by the flower, also known as the entourage effect.

These extracts are currently used to produce our highly rated strain-specific oils, and could be adapted for derivative products as they become available for use.

Another area where our strain-specific oils will be used and applied for research purposes is through a partnership we announced last month. Cronos is sponsoring research with the Technion Research and Development Foundation to explore the use of cannabinoids and their role in regulating skin health and skin disorders.

The preclinical studies will be conducted by Technion over a three-year period, and will focus on three skin conditions: acne, psoriasis, and wound healing. The research will be led by Technion faculty members, Dr. Dedi Meiri and Dr. Yaron Fuchs, two of the world's leading researchers in cannabis and skin stem cell research. Dr. Meiri heads the Laboratory of Cannabis and Cancer Research with vast experience in cannabis and endocannabinoid research. Dr. Fuchs heads the Laboratory of Stem Cell Biology and Regenerative Medicine, with years of experience in biology of the skin and its pathologies.

The endocannabinoid system and the cannabinoid that modulate its activity are believed to have an important role in regulating skin health and skin disorders. The research will utilize Dr. Meiri's extensive cannabis strain database and our strain-specific cannabis oils to investigate the effects of isolates and combinations of cannabinoids, including rare cannabinoids.

To discover treatments for acne, psoriasis, and wounds, the research will use stem cell-derived organoid cultures developed by Dr. Fuchs' laboratory and mouse models. We expect to be able to adapt the cannabinoid isolates and/or cannabinoid combinations to develop products for each of these three applications and to receive an exclusive worldwide licence to market and manufacture them.

All that being said, we certainly can't explain our products to consumers in that level of technical detail. So last but not least, I'm going to talk about the execution of our brand strategy.

We are focused on providing consumers with a premium, high-quality product, whether it's in the flower and oil market today or in the future through our derivative product offerings. We have launched two consumer brands in the Canadian recreational market.

The first brand, COVE, is positioned as an explorer brand targeting permissible indulgence occasions with non-irradiated dried flower and turbine rich extracts. COVE products target affluent Millennial and Gen-X consumers that seek to make each experience a discovery during relax-use occasions.

We have high expectations for our second brand, Spinach, that targets a very different consumer category and use occasion. Spinach is our social, mainstream rec brand that is positioned to appeal to light-hearted, fun-loving consumers. The brand itself is playful and is focused on offering farm-to-bowl products that bring friends together and make activities more enjoyable.

Our differentiated brands are targeted and tailored to offer authentic experiences for our diverse customer base. We leverage psychographic and demographic data to create products and brands that will resonate with the consumer they are geared towards.

At the end of the day, our objective is to offer consumers a high-quality product and a brand that is genuine and uniquely tailored to how they want to explore the recreational market.

We have always believed that ultimately the winning brands will be chosen by the consumer. Our focus continues to be to differentiate ourselves through quality and authenticity. We have the unique opportunity to be one of the only available brands consumers try at the outset of the recreational market, and we refuse to cut any corners to seize on that opportunity.

In conclusion, during the third quarter we made clear strides on each of our strategic pillars and are energized by our progress and the opportunities ahead. We are at the outset of our potential, and are focused on executing our strategic plan to continue our growth and create value for our shareholders, partners, and consumers.

With that, I'll turn it over to Billy to discuss this quarter's financial results.

William Hilson — Chief Financial Officer, Cronos Group Inc.

Thanks, Mike, and good morning, everyone. The figures I am reviewing today can be found in our financial statements.

We continue to see revenue growth in the third quarter ended September 30, 2018. The Company reported revenue of 3.8 million versus 1.3 million the same quarter in fiscal 2017, representing a 186 percent increase. Additionally, revenues increased 11 percent quarter over quarter. This increase was due to continued growth of Peace Naturals sales to our medical patients.

We also saw strong growth in our cannabis oil sales, which represent 29 percent of total revenue in the third quarter and began shipments into the domestic adult-use recreation market.

Kilograms of cannabis sold increased 213 percent from 164 kilograms in the third quarter of 2017 to 514 kilograms in the third quarter of 2018. Quarter over quarter, kilograms sold increased 8 percent. The change was largely due to increased production output.

Average selling price for the third quarter of 2018 was $7.32 versus $8.01 the previous year. The slight decrease in ASP was driven by a shift in products sold to the four provincial governments we are supplying, wholesale for the new recreational adult-use channel. As Mike mentioned, we are still in the launch mode for this new channel and are seeing unprecedented demand in every province in every product category across our brands.

Moving on to gross profit, I wanted to spend a bit of time walking through how we are thinking about this, both from a business standpoint and an accounting standpoint. Our cost of sales before fair value adjustments consist of two main categories: production costs and processing costs.

Production costs are capitalized to biological assets as costs directly attributable to growing the plants, which are recognized as cost of sales when the inventory is ultimately sold. These costs include direct costs such as nutrients, soil, and other consumables, as well as other indirect such as utilities and other supplies; also an allocation of indirect labour, property taxes, and depreciation of equipment used in the growing process.

All direct and indirect costs of biological assets are capitalized as they are incurred, and they are subsequently recoded within the line item cost of sales before fair value adjustments on the statement of operations in the period that relate to the product being sold.

Furthermore, processing costs are also capitalized to inventory and then recognized as cost of sales when the inventory is sold. These costs represent postharvest costs per gram included to bring harvested cannabis to its salable condition, which includes drying and curing, testing and packaging, and overhead allocation.

Our fair value adjustments included in gross profit also consist of two main categories: One, the unrealized change in fair value of biological assets; and two, the realized fair value adjustments on inventory sold. These two line items represent the effect of noncash fair value adjustments to biological assets or inventory, and exclude any capitalized production costs.

We believe gross profit before fair value adjustments provides useful information to understand and evaluate operating performance by excluding the noncash fair value adjustments associated with biological assets.

That being said, for Q3 2018 the gross profit before fair value adjustments of 2.1 million as compared to 0.09 million for Q3 2017 represents a 144 percent increase. The increase in gross profit is largely driven by the 213 percent increase in kilograms of cannabis sold in the third quarter, or the comparable period last year, and is also partially offset by a lower overall ASP.

On the other hand, gross margin before fair value adjustments decreased from 65 percent for Q3 2017 to 55 percent for Q3 2018. The decline in gross margin before fair value adjustment is driven by the lower average selling price for Q3 2018 and a higher unit cost of sales as compared to the prior year. This is largely due to the incremental costs associated with onboarding our new production facilities while actual production output from those new facilities is realized over time.

Operating expenses for the third quarter, including salaries and benefits of nonproduction staff, stock-based compensation, general and administrative, sales and marketing, and depreciation expenses totalled $7 million, representing an increase of 4.9 million from the same period last year.

The increase in OpEx is primarily driven by the rapid growth of the Company, including the hiring of new employees and onboarding new dedicated functions in procurement, information technology, sales and marketing, and operations, as well as an increase in professional and consulting fees for services rendered in connection with various strategic initiatives and strengthening the Company's governance and internal controls.

This quarter we updated the assumptions in our biologic asset model, which I would like to explain further. Historically, we had used the forward-looking average sales price assumption of $8.50 per gram to determine the fair values adjustments in our biological assets, which impacts both our balance sheet position of inventory and biological assets, as well as our fair value adjustments on the statement of operations.

After further revenue and analysis, we have adjusted the forward-looking ASP used for biological assets from 8.50 to $7 per gram. The rationale for this change is the impact of absorbing the new $1 per gram excise tax applied to both medicinal and recreational sales, as well as the lower average selling price associated with the new recreational sales to provinces.

For the third quarter, the Company reported a comprehensive loss of $7 million as compared to income of 1.1 million for Q3 for 2017, representing a decrease of 8.1 million during the period. The change in total comprehensive income results from the factors I described earlier, in particular the noncash impact to the fair value adjustments resulting from the change in the ASP assumption in the biological assets model.

Turning to the balance sheet. As of September 30th, total liquidity amounted to $73 million, comprised of 44 million in cash and 29 million of additional borrowings available under the construction loan.

And finally, turning to cash flows. During the third quarter, the Company used 12.6 million of cash in operating activities compared to 2.2 million of cash provided in operating activities in Q3 2017, representing an increase of 14.9 million. Of note, 6.1 million of cash used in operations was attributable to prepaid deposits on equipment for B4 construction activities.

In addition, during Q3 2018 the Company used 35.9 million of cash in investing activities, primarily due to 34 million in capital expenditures related to building for construction.

This concludes my review of the financials for the quarter ended September 30, 2018.

As Mike has stated, we are making great strides towards executing against our strategy, which will translate to our financial results in the future.

Will turn it back to you, Mike.

Mike Gorenstein

Thanks, Billy. With that, we'll open it up to questions.

Q&A

Operator

If you would like to ask a question at this time, please press *, 1 on your telephone keypad. Please limit yourself to one question and one follow-up.

Your first question comes from Tamy Chen with BMO Capital Markets. Your line is open.

Tamy Chen — BMO Capital Markets

Hi. Good morning. Thanks. So my first question is could you quantify the volumes that you shipped to the adult-use market both this quarter that's been reported? And how that's trended in October? And also how your pricing has been?

Mike Gorenstein

Sure. So I'd say it's … it was a major part of our revenue for the quarter, but we haven't really seen the real effects of adult use yet. I think we'll see that over the coming quarters. It's been

… I think it's been trending very well. We're thought of October the month where we're working through kinks and making sure that all the areas of the supply chain are smoothing.

We've also been very pleased with the demand we're seeing. It's, I'm sure you know, very significant. And prices, we would just note, they certainly range depending on province and what the product mix is, so it's something that's evolving. And we'll be able to give a better update of what that looks like at the end of Q4.

Tamy Chen

Okay. Thanks. And my follow-up is just on your cash balance. Think during the quarter your cash went down by about, is it 50 million, and so you've got, I think, around 45 million to 50 million on the balance sheet at the quarter-end? Could you talk about your cash needs going forward? Any plans regarding financing for production ramps? And also your Gingko partnership and the capital costs that you may have to incur for the Mucci greenhouse?

Mike Gorenstein

Sure. So we have a number of options available to us in terms of capital. I'd note we still have the credit facility that we have not drawn on yet. But any decision we make will be with an eye towards enhancing long-term value for Cronos shareholders.

When we think of some of the different JVs, I think it's also worth mentioning that there are funding options that come in externally from Cronos specifically from joint venture partners and from other sources of non-equity capital.

Operator

Once again, if you would like to ask a question, please press *, then the number 1 on your telephone keypad.

And we have a question from Martin Landry with GMP Securities. Your line is open.

Martin Landry — GMP Securities

Hi. Good morning, guys.

Mike Gorenstein

Good morning.

Martin Landry

I was wondering, Mike, if you can give us more details or colours on how your COVE brand is doing in Ontario?

Mike Gorenstein

Sure. We think it's doing very well. COVE, it was positioned really to capture the top 15 percent of the market. We think the response has been solid, and are very pleased with the sales velocity we're seeing.

I think that the insights that we've received have shown a good positioning. One of the things that I will note that really across any brand and SKU, right now we're seeing such high sales velocity and demand that parsing out nuances for each SKU it's still early. But overall, we're very, very pleased with the reception.

Martin Landry

Okay. And it looks like and you mentioned it in your opening remark that there's more demand than supply here. Are you thinking about bridging the gap in your production by buying from third-party suppliers?

Mike Gorenstein

No. When we think about the opportunity we have, it's really building brand equity. And so we will not sacrifice any brand equity by bringing in product that we don't consider up to our standard. So if we were, it would be in very special circumstances and it would be with heavy quality control.

I think for flower, it's something that we really do think needs to come from our facility, but we would look at opportunities to give some of our specific genetics out and then make sure that those are grown under our controls. We also … we were entering into a pretty rapid ramp up of capacity and building 4, which we think will help meet demand.

Operator

And once again, if you would like to ask a question, please press *, then the number 1 on your telephone keypad.

And once again, that's *, 1 to ask a question.

We do not have any questions over the phone line at this time. I will turn the call over to the presenters.

Mike Gorenstein

All right. Thank you, everyone, for joining, and enjoy the day.

Operator

This does conclude today's conference call. You may now disconnect.

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