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PRESENTATION

Operator

Good morning. My name is Janika, and I will be your conference operator today. I would like to welcome everyone to the Cronos Group's Third Quarter 2020 Earnings Conference Call. Today's call is being recorded.

At this time, I would like to turn the call over to Shayne Laidlaw, Investor Relations. Please go ahead.

Shayne J. Laidlaw - *Cronos Group Inc. - Director of IR & Strategy*

Thank you, Janika, and thank you for joining us today to review Cronos Group's Third Quarter 2020 financial and business performance. Today, I am joined by our President and CEO, Kurt Schmidt; our Executive Chairman; Mike Gorenstein; our CFO, Jerry Barbato; our EVP of Legal and Regulatory Affairs, Xiuming Shum.

Cronos Group issued a news release announcing our financial results this morning, which are filed on our EDGAR and SEDAR profiles. This information as well as the prepared remarks will also be posted on our website 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, including as a result of the factors described in the cautionary statement and risk factors included in the company's earnings release and regulatory filings, including the company's most recent annual report on Form 10-K/A and quarterly reports on Form 10-Q, by which any forward-looking statements made during this call are qualified in their entirety.

In addition, during this call, certain financial measures may be discussed that are not recognized under the U.S. Generally Accepted Accounting Principles referred to by the Securities and Exchange Commission as non-GAAP measures. We believe these non-GAAP measures assist management in planning, forecasting and evaluating business and financial performance, including allocating resources. Reconciliations of these non-GAAP measures to their closest reported GAAP measures are included in our earnings press release furnished to the SEC, which is available on the Press Room section of our website, the cronosgroup.com. These non-GAAP measures may not be comparable to measures used by other issuers.

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I'd also like to note that we are conducting our call today from our respective remote locations. As such, there may be brief delays, crosstalk or minor technical issues during this call. We thank you in advance for your patience and understanding.

We will now make prepared remarks, and then we'll move to question-and-answer session. With that, I'll pass it over to Cronos Group's Executive Chairman, Mike Gorenstein.

Michael Ryan Gorenstein - Cronos Group Inc. - Executive Chairman

Thank you, Shayne, and good morning, everyone. I'm proud to speak to you today as Cronos' Executive Chairman. As many of you know, after careful planning and thoughtful consideration, we expanded our leadership structure with the appointment of Kurt Schmidt as our new President and CEO in September. And I have transitioned to the Executive Chairman role, where I will lead the Board and work with Kurt to continue to drive Cronos Group's strategy going forward.

I am incredibly confident that Kurt will help Cronos build on our strong track record of growth and lead us towards many more industry-defining accomplishments. Kurt is a highly experienced consumer packaged goods executive with the expertise to push Cronos even further. During his 3-plus decade career, Kurt has built a track record of driving outstanding performance at some of the most respected global consumer goods company, including Blue Buffalo, Nestlé, Gerber and Kraft Foods. He has demonstrated tremendous success partnering with founders and start-ups to accelerate growth, and we are excited to leverage his expertise as Cronos continues to expand.

When I met Kurt as part of my year-long search for someone to take over the CEO role, it was immediately apparent that he is uniquely suited to drive the company's next phase of growth and uphold our commitment to lead the industry forward responsibly. He is a passionate believer in our mission and the potential of our incredible company. I'm excited to partner with Kurt to leverage Cronos' strength and continue to deliver best-in-class brands and products to our consumers. Our industry is new, but that doesn't mean we can't learn from seasoned executives from adjacent sectors.

In addition to Kurt, we further strengthened our senior leadership team by adding Shannon Buggy as Senior Vice President, Global Head of People. Before joining Cronos, Shannon was the SVP of Global Human Resources for Nielsen, where she led HR strategy for Nielsen Media. With over 25 years of experience, Shannon has a proven track record of leading and managing global human resources teams. As we prepare for the next chapter, ensuring our employees throughout the organization are taken care of is of the utmost importance.

We've come a long way, and the industry at large has evolved in a short period. Together, we've forged a truly differentiated business model with great brands, technology, strategic partners, a strong balance sheet and importantly, a great team focused on driving results.

As I look at Cronos today, it's clear that the opportunities before us are more exciting than ever. We look forward to continuing to launch innovative cannabinoid products in Canada and to foster our portfolio of U.S. hemp-derived CBD brands. Internationally, we're excited to bring our products to more pockets of the world as regulations evolve and continuing to establish ourselves as industry leaders.

I want to thank the talented teams at Cronos, who have brought us this far and continue to push us forward. I also want to thank our investors and the analyst community for your commitment to our industry. I know that Kurt is looking forward to working with all of you more closely in the future, and I know all of you will be excited to hear him on this earnings call. So without further ado, I'll pass the call over to our new President and CEO, Kurt Schmidt.

Kurt Thomas Schmidt - Cronos Group Inc. - President & CEO

Thank you, Mike, and good morning, everyone. I hope everyone is staying safe and healthy during these turbulent times. It's rare in a career to be able to have the opportunity to join two fast-paced growth companies with very high ceilings for expansion. I had my first shot with Blue Buffalo, which worked out very well. And I think we have a similar opportunity here with Cronos Group to take it to the next level.

What Mike and the team have achieved in a short period of time is truly impressive. Cronos is an incredible growth opportunity in a new exciting industry. So I couldn't pass up the chance to join this fantastic team to help write the next chapter. I want to thank Mike and the Board for bringing me into this family. I appreciate Mike's trust in me to lead this company, he and the team have worked so hard to build, literally from the ground up. Mike has embraced his new role as Executive Chairman, and we are lucky to be able to leverage his vision and expertise as we navigate this continually evolving industry.

Everyone told me that this industry moves at an incredible pace and that 1 week would feel like 1 month, and I must admit that is true in the best possible sense. Over these past 2 months, I've had a crash course in the industry, its challenges and opportunities as well as things that matter most to Cronos and how my expertise can help push us forward. For those of you who do not know me well, I want to share some of my key beliefs and leadership principles.

I believe in creating high-quality products for consumers and the importance of building brands that exceed consumer expectations. I've seen companies rally around products and feel immense pride in bringing quality products to consumers. Cronos' mission, to improve lives by unlocking the full potential of cannabis, aligns with my core belief in the power of innovation. To thrive and continue to be successful, we need to lead change and support our innovation practice to be at the forefront of this emerging industry.

I also believe in a winning team and the work ethic and accountability that comes with them. I believe in the power of people with an organization to foster a culture that is focused on quality, innovation and supporting and recognizing each other. I'm a brand builder at heart and have extensive experience working in regulated and upstart markets. I'm passionate about brands, and I'm inspired by Cronos'.

I see joining as CEO as an opportunity to bring my skills as a brand builder to the organization to nurture our existing portfolio and the high-performance teams that support them to drive results. What I've learned in my first two months is that we have remarkable potential with our brands. Our Chief Innovation Officer, Todd Abraham, and his team, backed by marketing, sales and many other groups throughout the organization, are doing incredible work to bring new and innovative products to markets in which we operate around the world. Todd and I have similar backgrounds working at large-scale CPG companies. I look forward to working with him to continue building a CPG infrastructure for innovation and brand marketing at Cronos.

In the Canadian market, I look forward to sharing more details soon on innovation launches to the adult U.S. market. Our innovation team has been working diligently under Todd to hone our next generation of product for our brands. Bringing them to more consumers is a focus of mine as the Canadian market continues to grow in sophistication and size.

In the U.S. hemp-derived CBD market, I look forward to supporting our luxury CBD brand, Lord Jones. And despite recent performance, we remain confident we can build out the brand portfolio in the U.S. hemp-derived CBD market. We have an opportunity to improve this brand's performance as we work to bring innovative products to adult consumers across both DTC and brick-and-mortar channels. I started to dig into this business, evaluating both its strengths and opportunities and believe I can pull from my experience to help navigate this business to further success in the future.

Last month, we launched Happy Dance, a new CBD skincare and personal care brand co-founded with actress and New York Times best-selling author, Kristen Bell. This new collection features a body butter, a coconut melt and a bath bomb, all formulated with Kristen Bell's favorite ingredients and high-quality full-spectrum hemp-derived CBD extract. Offered initially through the DTC channel, with plans to enter the brick-and-mortar channel in the future.

Happy Dance products are perfectly suited for the CBD enthusiasts and anyone experiencing CBD for the first time. Although it's in its early innings, our U.S. team has done a phenomenal job in the launch phase. And additionally, we are encouraged by the positive reaction consumers are having towards Happy Dance.

Moving to our operations in Israel. Following the launch of dried flower in the Israeli market under the PEACE NATURALS brands in the second quarter, I'm happy to report that Cronos Israel has received all necessary certifications required for cultivation, production and marketing of pre-rolls and oils as well. And as of October, Cronos Israel is in market with PEACE NATURALS branded dried flower and oils. Although I've not been able to get to

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our Israeli operations due to COVID, we have had extensive virtual team meetings, and I look forward to working with them in person. We have an excellent opportunity to be leader in this rapidly growing medical market as well as the potential adult-use market when it opens up.

I've had the opportunity to spend time with Todd and our partners at Ginkgo regarding our fermentation market. As a former pharma executive, I have significant experience in the fermentation of key ingredients, and I am encouraged by this project and how transformative it can be. I'm pleased with the progress to date and look forward to sharing more updates in the future. I share Mike's sentiment about how transformative this project can be for our business, both on margins and on the innovation side. We remain confident in our original target of achieving commercialized scale of cannabinoids by September 2021, which will allow fermented cannabinoids to be utilized in future finished products.

Lastly, regarding U.S. election, our organization, like many of you listening to this call, is interested to see what unfolds from a cannabis regulatory, legalization standpoint. Regardless of the party controlling various branches of government, it was clear during this election that cannabis is gaining popularity across the United States, which is a continuation of the positive momentum for the industry. We are pleased to see that in both Red and Blue states. All adult-use and medical cannabis ballot initiatives are moving forward, and that is a win for the industry. We are watching it closely and crafting plans for us to be ready for different potential scenarios.

Like Mike, my focus is on creating long-term shareholder value by developing disruptive intellectual property and building iconic brands. And just like Mike, I want to encourage long-term thinking, especially in today's economy. Cronos is building for the future. Our value will come from technology breakthroughs and branded sales that will help establish a relationship with our consumers.

There is top-tier talent across this organization, and I'm excited to lead this impressive team into the next phase of growth.

With that, I'll turn the call over to our CFO, Jerry Barbato.

Jerry Filomena Barbato - Cronos Group Inc. - CFO

Thanks, Kurt, and good morning, everyone. Turning to our financial results. The company reported consolidated net revenue in the third quarter of 2020 of \$11.4 million, a 96% increase from the prior year period. Revenue growth year-over-year was driven primarily by the continued growth in the adult-use Canadian cannabis market. The inclusion of Redwood's financial results, our U.S. hemp-derived CBD business that was acquired in September of last year and the sale of PEACE NATURALS branded cannabis products to the Israeli medical market, partially offset by nonrecurring wholesale revenue in the Canadian market in Q3 of 2019 and strategic price reductions on various adult-use cannabis products in certain Canadian provinces in the third quarter of 2020.

Consolidated gross loss for the third quarter of 2020 was \$1.5 million, a \$1.6 million decrease in losses from the third quarter of 2019. The improvement versus prior year was primarily driven by the increase in revenue and incremental gross profit contributions of the Redwood acquisition, offset by an increase in cost of sales, primarily driven by a higher volume of adult-use sales and the associated third-party purchase flower and a decline in wholesale sales.

Reported operating loss for the third quarter of 2020 was \$41.2 million, representing a \$10.5 million increase in losses from the third quarter of 2019. The increase year-over-year was primarily driven by increased share-based payments related to separation agreements with Redwood employees; impact from a full quarter of U.S. segment results; increased G&A expenses, inclusive of review costs and costs related to the company's restatement of our 2019 interim financial statements; higher sales and marketing costs, primarily related to brand development; and R&D spending, partially offset by the improvement in gross loss.

Turning to our reporting segments. In the Rest of World segment, we reported net revenue in the third quarter of 2020 of \$9.7 million, a 90% increase from the prior year period. Revenue growth year-over-year was driven primarily by the continued growth in the adult-use Canadian cannabis market and the sale of PEACE NATURALS branded cannabis products to the Israeli medical market, partially offset by nonrecurring wholesale revenue in the Canadian market in Q3 2019 and strategic price reductions on various adult-use products in certain Canadian provinces in the third quarter of 2020.

Looking briefly at the expansion in the Canadian cannabis market, we are encouraged to see the continued growth of new retail locations in provinces such as Ontario, providing more convenient options for consumers to purchase cannabis products responsibly.

Gross loss for the Rest of World segment was \$2.2 million, a \$1.4 million decrease in losses from the third quarter of 2019. The improvement year-over-year was primarily driven by an increase in revenue, partially offset by an increase in cost of sales, driven by a higher volume of adult-use sales and the associated third-party flower purchases and a decline in wholesale sales. As we work to create an efficient global supply chain through 2020 and beyond for our Rest of World segment, we anticipate that gross margin will continue to fluctuate as price and mix change from quarter-to-quarter.

Reported operating loss in the Rest of World segment for the third quarter of 2020 was \$18 million, representing a \$3.2 million decrease in losses from the third quarter of 2019. The improvement was primarily driven by a decrease in general and administrative costs, driven by a reclassification of \$4.6 million to the corporate expenses in the third quarter of 2020, which had no effect on the company's consolidated statement of net income and an improvement in gross loss, partially offset by an increase in R&D spending.

Turning to the U.S. segment. Reported net revenue in the third quarter of 2020 was \$1.6 million, a 143% increase from the third quarter of 2019. The increase year-over-year is primarily driven by a full quarter of results in the third quarter of 2020 as opposed to 25 days in the third quarter of 2019. Despite some weakness due to COVID restrictions, we won't accept that as an excuse, and we aren't pleased with our performance in the U.S.

As we look into Q4 and beyond, we have revamped our advertising and promotional efforts. Having Kurt be part of the plan for Q4 and laying out what we need to do in 2021 has been helpful to the team. Todd's organization has also taken a bigger role in the U.S. business, which we think will yield positive results over time. And as Kurt mentioned, we launched our new brand, Happy Dance, in October. We are excited to bring this new brand and its great products to a broader audience.

Gross profit for the U.S. segment was \$0.7 million, representing a gross margin of 41%. Reported operating loss in the U.S. segment for the third quarter of 2020 was \$12.2 million, the loss was primarily driven by an increase in share-based payments related to separation agreements with Redwood employees.

Sales and marketing costs incurred in relation to the development and launch of the Happy Dance brand as well as new products under the Lord Jones brand and an increase in general and administrative expenses, driven by salaries and wages to support growth initiatives across a variety of functions, partially offset by an increase in gross profit.

Overall, Cronos Group reported a decrease in net income versus the prior year period, primarily due to the change in fair value of the financial derivative liability associated with Altria's investment, which is described in more detail in the 10-Q.

In the third quarter of 2020, the company recorded a non-cash gain of \$105.3 million related to the change in fair value of these financial derivative liabilities. Cronos continues to expect there may be significant reported earnings volatility, primarily driven by the fair value quarterly adjustments related to the movement of Cronos Group's stock price.

Turning to the balance sheet. The company ended the quarter with approximately \$1.3 billion in cash and short-term investments, which held relatively flat from the second quarter of 2020. Capital expenditures for the quarter were \$8.3 million. This spending includes investments related to Cronos Fermentation, the PEACE NATURALS campus, our Israeli facility and our new ERP system. We remain committed to deploying capital in a disciplined manner and only in ways that align with our strategic priorities.

Now I would like to provide an update on our remediation efforts in relation to the material weaknesses that we disclosed in our fourth quarter of 2019 filings. We, as a company, are committed to instituting best practices for financial reporting. Our management with oversight from the Audit Committee has completed internal testing on all of the 8 controls identified in its remediation plan. The testing by our independent auditor is in process on certain controls and will progress on to testing the remainder of the controls throughout 2020.

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Lastly, following the implementation of our new ERP system across our Canadian business, which went live in July, we have also commenced work to broaden the reach of our ERP system to our U.S. business, which is expected to be launched in the first half of 2021. I continue to be encouraged by the work our teams are doing globally.

With that, I'll turn it over to Kurt for closing remarks before Q&A.

Kurt Thomas Schmidt - Cronos Group Inc. - President & CEO

Thank you, Jerry. Over the course of my first two months with Cronos, I've been encouraged by the talent throughout the organization. I look forward to bringing my experience and learnings gathered throughout my career and applying them to this industry as I help to make Cronos a long-term leader in the cannabis space. Cronos is built on a foundation to drive bold change in this industry. We'll continue to lead in innovation while taking calculated risks to drive this industry forward responsibly. We have the team, leadership, organizational capabilities and the financial strength to be a leader in the cannabis industry, and I'm excited to be leading Cronos on this journey.

With that, let's now open the line for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And your first question comes from the line of John Zamparo of CIBC.

John Zamparo - CIBC Capital Markets, Research Division - Associate

I was hoping if you could give us a better understanding of the puts and takes on gross margin and when you ultimately see that turning positive, either consolidated or by region?

Jerry Filomena Barbato - Cronos Group Inc. - CFO

Yes. Thanks, John. I think you've really got to separate those two between Canada and the U.S. So in the Canadian market, what you're seeing is continued price deflation across the Canadian cannabis market where a lot of the producers are lowering their net prices and offering larger format size offerings. We've done our own internal review and looked at our brands and compared them against our competitive set by product type and have lowered some of our prices, different in each of the provinces, so quite strategic in nature. And as we continue to refine our global supply chain throughout 2020 and into 2021, we expect gross margins are going to continue to fluctuate as price and mix can change from quarter-to-quarter.

In our U.S. business, I think it's a little bit different. We've had a heightened promotional activity related to COVID. We decreased that promotional activity in the third quarter. Margins did improve sequentially. And we remain confident in the long-term viability of this U.S. CBD market.

And I think the other thing that you saw was we had some premium pay as COVID started in the second quarter that was phased out over the third quarter. But I think you have the same situation where we've launched a new brand, and you'll see continued fluctuation in the margins based on mix.

Kurt Thomas Schmidt - *Cronos Group Inc. - President & CEO*

Yes, John, this is Kurt. Just to add a point to that. I think what you're seeing is the deflationary pricing is really driven by the inventory situation. So I think that's something that people are working through. And I think once that alleviates, that's, to me, a short-term problem versus anything that's long-term.

John Zamparo - *CIBC Capital Markets, Research Division - Associate*

Okay. Got it. And then my second question is more broad, and it's more about your M&A strategy and in particular in the U.S. So we're still kind of unsettled on the election, but if there is a split between White House and Senate, maybe we don't get that transformational reform that you need to get cannabis off the Controlled Substances Act. So if that's the scenario, does that make you think differently about M&A? Do you start maybe looking at other countries with more urgency? Or do you maybe push the gas pedal a little more on CBD? Just like to get your sense on how potential regulatory reform or lack of it changes your strategy in the next 12 to 18 months.

Kurt Thomas Schmidt - *Cronos Group Inc. - President & CEO*

Yes, good question. I think on the first half, obviously, our balance sheet certainly provides us some flexibility. And regardless of the political changes in the U.S., the regulatory landscape is evolving, and we're evaluating. I think one of the really important things about the changes we've done is elevating Mike to the Chairman role, as Mike's focus, and he can speak to this, is going to be on our strategy with the U.S. And I can't think of a better person to have in this role, so -- to be able to guide us on this. So I think that's important, and I think that supports our strategic markets versus looking at alternative markets right now. So Mike, I don't know if you want to add anything.

Michael Ryan Gorenstein - *Cronos Group Inc. - Executive Chairman*

Yes. Exactly what Kurt is saying, our focus and my focus has always been sort of endgame, #1 priority is the U.S. THC market. We expect that's the biggest profit pool. And looking at different scenarios and different structures, for us, it's about how we enter, not whether we enter. And of course, the regulatory environment will certainly dictate when and how that is, but it's top of mind for us.

Operator

Your next question comes from the line of Andrew Carter of Stifel.

William Andrew Carter - *Stifel, Nicolaus & Company, Incorporated, Research Division - Associate VP*

So I want to double-click on that gross margin question because I think we all see the price competition on flower and understand you're kind of lowering your prices kind of to keep your price in line. But what I'm unclear on is kind of the third-party costs, and you mentioned a lot of inventory. Is it an issue where the third-party high-quality flower costs are not decreasing at the same rate? I guess, I would ask if that's just before. Are you upside down on prices? And how do you see that alleviating kind of like the high-quality flower and being able to kind of get your supply chain in line where you have the cost to serve the Canadian adult-use market?

Kurt Thomas Schmidt - *Cronos Group Inc. - President & CEO*

Yes. I'll let Jerry comment as well. But this pricing issue is from a couple of quarters ago. So I think going forward, you're seeing better raw material pricing, but we still -- we've got this inventory from the past. So I see that alleviating itself as we move forward as demand gets more in sync -- supply gets, excuse me, gets more in sync with the demand side. Jerry, I don't know if you want to add something?

Jerry Filomena Barbato - Cronos Group Inc. - CFO

Yes. Andrew, just to add a little bit more to that. We are seeing that our third-party purchases, the price per gram is coming down even for the high-quality high THC, but you really have to separate that inventory based on flower and oil and where it's going. And we use a weighted average cost, so that cost will go down over time. But like I talked about and Kurt has said, in the short run, there's just a lot of deflationary pressures in the Canadian market that we have to work through.

William Andrew Carter - Stifel, Nicolaus & Company, Incorporated, Research Division - Associate VP

Okay. Got it. And then second, I wanted to ask about Israel because I think you reported 500,000 sales outside of North America. So I wanted to understand, I think, Israel's kind of -- my estimate is about \$250 million annualized market. What could that business look like for next year? And could Israel actually be a bigger driver of growth potentially next year than Canada?

Kurt Thomas Schmidt - Cronos Group Inc. - President & CEO

Yes. This is Kurt. Yes, we're really positive on Israel. I mean it's early stages yet, but the patient count continues to grow. So we see that growing at a pretty good clip. And then we are, I think, positioned very well there. We just received our certifications required for cultivation and production and marketing of dry flower, free wells and oil drops in Israel. And we're now selling dry flower and oils in the PEACE NATURALS brands, which has been well received.

So we're really bullish on the market. I don't want to get into where I see how big it will get. The one thing about this industry, I learned is estimates are -- forecasting is not an easy thing to do. But we like where it's going. We like where the legal environment is going. We like the active nature of the Israeli government in the industry and support.

So I think this is a very good opportunity, and we have a very good organization on the ground.

Michael Ryan Gorenstein - Cronos Group Inc. - Executive Chairman

Yes. Just to layer on that, I'll say, directionally, things are extremely positive in Israel. So you're seeing great momentum, not just in the medical market, but also in regulatory progress. So I think in the framework we had today, there's a great growth opportunity. But part of what Kurt spoke about why it's forecasting so hard if CBD is rescheduled or if adult-use opens up, that certainly makes an exponentially larger growth opportunity.

Kurt Thomas Schmidt - Cronos Group Inc. - President & CEO

So we will be ready for it.

Operator

Your next question or comment comes from the line of Vivien Azer of Cowen.

Vivien Nicole Azer - Cowen and Company, LLC, Research Division - MD & Senior Research Analyst

So my first question is a follow-up to one of the earlier questions. Just a clarifying statement, if you will, Mike, I think, for you. Your base case -- what was your base case expectation assuming a blue wave? Because certainly, like our house view was not a deschedule even if the Democrats represent it in the White House. So I'm just curious whether you guys share that opinion or if you were more optimistic?

Michael Ryan Gorenstein - *Cronos Group Inc. - Executive Chairman*

Well, I think -- look, I think that's a timing issue. I think that one of the important things, and I've always maintained this, was getting past the election and allowing, from just a political process perspective, everyone to sit down and look at what's the best way to put in regulations and put in policies, whether that's a stimulus or building up industries that can help rebuild some of what the economy lost over the last year. And it's very difficult to do that when you're in an election year. So for us, it wasn't -- it's something going to happen immediately after. I think that always sounds better than what the actual practice is. But getting past the election was a big catalyst regardless of who won blue wave split, and I think we'll see that starting with stimulus. And I think the cannabis, you see with the ballot initiatives, whether it's red or blue where the popular opinion is. You see the need for jobs. You need -- we need tax revenue. We need social justice reform. And there is just a very simple and elegant solution, and that is advancing cannabis legislation.

Kurt Thomas Schmidt - *Cronos Group Inc. - President & CEO*

And the other good part that has impressed me about this company is, our group in Washington is very much engaged on these issues. So we're -- I'm very confident that we'll be able to see the directions as possibly we can go.

Vivien Nicole Azer - *Cowen and Company, LLC, Research Division - MD & Senior Research Analyst*

Okay. I appreciate that clarification. And my actual question is about the strategic pricing adjustments that were made in the quarter. Can you expand on that a little bit? And in particular, I'm curious about how you guys were thinking about the magnitude of those pricing adjustments and what you were using as a reference point? Was it competitive pricing, managing price gaps, price elasticity, price gaps relative to the illicit market? Any incremental color would be helpful.

Kurt Thomas Schmidt - *Cronos Group Inc. - President & CEO*

Go ahead, Jerry.

Jerry Filomena Barbato - *Cronos Group Inc. - CFO*

Yes. What I would say, as a typical of most CPG companies, we perform a regular strategic review of the landscape and look at differentiation amongst our brands, both COVE and Spinach by product format and price point. And during that, we found that we wanted to better align our pricing versus our desired competitive set. So we adjusted to better fit into the group for our respective brands. The pricing adjustments have only been in place for a few months, and we have some early positive results, but we'll continue to evaluate the situation and adjust as we see fit.

Operator

And your next question comes from the line of Rahul Sarugaser of Raymond James.

Rahul Sarugaser - *Raymond James Ltd., Research Division - MD and Equity Analyst of Healthcare, Biotechnology & Cannabis*

So I guess my first question is really around Lord Jones and Happy Dance. And Jerry, you alluded to the fact that you guys have not been super happy with the ramp of CBD products. So given that the U.S. market, the CBD, relatively disaggregated, most of the products are out there really kind of these cottage industry brands. What is your strategy to really drive differentiation of what I assume are your big brands versus these cottage industry brands? And when can we start to see sort of an inflection point in that U.S. revenue?

Kurt Thomas Schmidt - *Cronos Group Inc. - President & CEO*

Yes. This is Kurt. Thanks for that question. Yes, I think, fundamentally, we believe in our brands. I think Lord Jones, we're not happy with the results, obviously, of the past quarter, but we feel confident that we have the right plans to correct that. We're really focused on the branding and the branding experience. Obviously, COVID has hit the CBD sector heavier than on the THC side. We have an innovation -- we're building an innovation funnel. We're looking at our marketing mix model to make sure we're hitting the right platforms.

And Happy Dance, we're very excited about. It's early days, but that launch was very exciting and well executed. And the beginning -- we're in the early innings, but it has really been positive momentum, and we're going to carry that forward.

Rahul Sarugaser - *Raymond James Ltd., Research Division - MD and Equity Analyst of Healthcare, Biotechnology & Cannabis*

Terrific. And then so my follow-up would be around the fermentation, of course. So we're now 3 quarters from what you're projecting in terms of Cronos' first products coming from the fermentation facility. Are you on track with that? Are there specific product formats that we should be thinking about? And how is Cronos planning on plugging these products into the Canadian market versus the U.S. market given the different regulatory paradigms of cannabinoids beyond CBD in each of these markets?

Kurt Thomas Schmidt - *Cronos Group Inc. - President & CEO*

Yes. Thank you for the question. Yes, we are on track. We're getting close. We think that we'll be producing our first CBGA product, which exhibit similar characteristics to CBD. And we're going to be -- our target has and remains to produce fermenting cannabinoids at commercial scale in September of 2021. And after that, we're going to follow with the fermented cannabinoids to be utilized in finished products, obviously, Canada first, but we'll have to figure out the regulatory environment. But this is a key strategic underpinning, and so we're looking forward to that. And we will -- we are on track, and you should start to see that in September of '21.

Michael Ryan Gorenstein - *Cronos Group Inc. - Executive Chairman*

And just to follow up on that. I think it's important to reiterate that we do see the -- from a supply chain perspective, fungibility. So when we think about the derivative products and how we'll use the fermented cannabinoids, it doesn't necessarily have to be a completely new product format. That product format and without kind of showing our hand on our 2.0 product pipeline, that product could be something that you see before we're using fermented cannabinoids. It could be something that's launched later. We see it as something that we can fully integrate into our supply chain.

And on the U.S. side, I would say that the main division that we will be thinking of is whether or not the cannabinoid we're thinking of is subject to the Controlled Substances Act or not. So some of those cannabinoids, THC, THCV, we think, it would be. But of course, CBD, CBG, we think would not be.

Operator

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

Tamy Chen - *BMO Capital Markets Equity Research - Analyst*

Most of my questions have been answered, so I just have one. I'm just curious if at this point, relative to some of your peers in Canada, you do have a smaller presence. So I'm just curious if at this point, you're seeing anything interesting emerge in that market to invest more in or to acquire.

Kurt Thomas Schmidt - *Cronos Group Inc. - President & CEO*

We believe in the brands we have and the brands as -- I think of performance of Spinach, for example. We think we have a lot of runway in the growth in our brands, and we'll be driving that through in-market presence and the innovation funnel we have. I'm not really going to speak to M&A. I'm not going to speak to that on the phone, but we always look for opportunities and something makes sense for us, and it's with what we're trying to do. We have the capability to do it.

Operator

And your next question comes from the line of Graeme Kreindler of Eight Capital.

Patrick Sullivan - *Eight Capital, Research Division - Analyst*

This is actually Patrick Sullivan on the line for Graeme. Most of mine have been answered already, but I guess I just wanted to touch on the CBD side of business again. So you said you guys were refreshing the marketing campaign and with kind of direct input from Kurt Schmidt. I'm wondering if you could just elaborate on that a little bit more, what exactly new strategies are you trying or what are some of the things that are sort of in the pipeline for that.

Kurt Thomas Schmidt - *Cronos Group Inc. - President & CEO*

Yes. I think it's just accelerating what we -- what the team has been working on. So again, that will be marketing investment side, it will be distribution side and it will be innovation side as we lay out the innovation funnel, which will be an important piece, and you'll see that develop over the next 12-months.

Operator

And your final question comes from the line of Bill Kirk of MKM Partners.

William Joseph Kirk - *MKM Partners LLC, Research Division - Executive Director*

Mine relates to reporting adjustments, just to clarify some things. Was the U.S. separation equity comp adjusted out of the U.S. segment adjusted operating loss? To me, it doesn't appear so, but then I see the share-based comp adjustment to consolidated EBITDA. So I guess, can you help me understand how that U.S. separation comp was treated in the adjustment segment number versus the adjusted consolidated EBITDA number?

Jerry Filomena Barbato - *Cronos Group Inc. - CFO*

Yes, sure. Thanks for the question. No, we did not adjust it out. So it's included in that adjusted operating loss in the U.S. segment. And we have to be consistent, we adjust share-based comp out of our adjusted EBITDA number.

William Joseph Kirk - *MKM Partners LLC, Research Division - Executive Director*

Okay. So not adjusted to segment, but adjusted to consolidated.

Jerry Filomena Barbato - *Cronos Group Inc. - CFO*

Adjusted to the consolidated EBITDA number, yes.

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Operator

And there are no further questions in queue. Do we have any additional closing remarks?

Kurt Thomas Schmidt - Cronos Group Inc. - President & CEO

No. Just thanks, everybody, and I look forward to working with all of you in the future.

Operator

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

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