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Cronos Group, Inc. (CRON.CA)

Q2 2026 Earnings Call

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OTHER PARTICIPANTS

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Indigo Baylis
Analyst, Canaccord Genuity Corp.

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning. My name is Hailee, and I will be your conference operator today. I would like to welcome everyone to Cronos 2026 Second Quarter Conference Call. Today's call is being recorded.

At this time, I would like to turn the call over to Harrison Aaron, Senior Director of Investor Relations and Corporate Development. Please go ahead.

Harrison James Aaron

Senior Director-Investor Relations, M&A, Cronos Group, Inc.

Thank you, Hailee, and thank you for joining us today to review Cronos' 2026 Q2 financial and business performance. Today I am joined by our Chairman, President and CEO, Mike Gorenstein; and our CFO, Anna Shlimak.

Cronos issued a news release announcing our financial results this morning, which is filed on our EDGAR and SEDAR profiles. This information and the prepared remarks will also be posted on our website under Investor Relations.

Before I turn the call over to Mike, let me remind you that we may make forward-looking statements and refer to non-GAAP financial measures during this call. These forward-looking statements are based on management's current expectations and assumptions that are subject to risks and uncertainties that could cause actual results to differ materially from those projected in the forward-looking statements.

Factors that could cause actual results to differ materially from expectations are detailed in our earnings materials and our SEC filings that are available on our website, by which any forward-looking statements made during this call are qualified in their entirety. Information about non-GAAP financial measures, including reconciliations to US GAAP, can also be found in the earning materials that are available on our website.

Lastly, we will be making statements regarding market share information throughout this conference call and unless otherwise stated, all market share data is provided by HiFyre. We will now make prepared remarks and then we'll move to a question-and-answer session.

With that, I'll pass it over to Cronos' Chairman, President and CEO, Mike Gorenstein.

Michael Ryan Gorenstein

Chairman, President & Chief Executive Officer, Cronos Group, Inc.

Thanks, Harrison. Cronos delivered a stellar second quarter, organically achieving records across net revenue, gross profit, and adjusted EBITDA, as our borderless products strategy continues to gain momentum across each region in which we operate.

Yesterday, the Trade Levies Commissioner of the Israeli Ministry of Economy and Industry announced that it had opened a new investigation into alleged dumping of medical cannabis imports from Canada. This announcement follows the previous investigation by the Commissioner which did not result in the imposition of an anti-dumping duty. We dispute the allegations underlying the investigation. We will cooperate fully with the Ministry and are confident the facts support us. Our position has not changed - Cronos has not engaged in dumping.

During the last investigation of these same allegations, we provided the Trade Commissioner with comprehensive pricing and cost data that demonstrated that our pricing in the Israeli market was not below our pricing in Canada. We stand behind that evidence fully.

Over the last few years, there have been a number of geopolitical and regulatory issues that have made operating in Israel uniquely difficult. However, we will stay committed to Cronos Israel as we have been since 2017, when we obtained our medical cannabis license.

We have built strong infrastructure in Israel, investing over ILS 100 million in building a greenhouse, manufacturing facility, and cannabinoid R&D lab. And we're one of the largest cannabis manufacturers in Israel with a team of approximately 80 people. And that team has been incredibly resilient, consistently delivering record results despite the aforementioned challenges.

And this quarter was no different with Cronos Israel delivering our 10th consecutive quarter of record net revenue, growing 60% year-over-year, or 32% growth on a constant currency basis.

The PEACE NATURALS brand continues to expand its lead in the Israeli medical cannabis market based on pharmacy data collected by Cronos. This is the second quarter of Lord Jones sales in Israel with the brand gaining momentum in the premium flower space.

Turning to Canada, we delivered record net revenue with our brands generating 25% year-over-year retail sales growth relative to industry-wide sales growth of 1% according to HiFyre.

The Spinach brand had another excellent quarter with our product portfolio continuing to demonstrate the success of our innovation efforts through significant share gains. In Canada, Spinach held its number one position in vapes for the second consecutive quarter with total vape market share expanding to 10.6%.

And within the vape cartridge category specifically, Spinach remained number one for the third consecutive quarter with market share expanding to 11.8%. In the disposable vape category, Spinach ranked number two in

Q2 with share expanding to 8.2% driven by our PUFFERZ all-in-one innovation which launched in late Q4 of 2025.

We launched three new PUFFERZ flavors in the second quarter: Strawberry Burst, Peach Iced Tea, and Grape Gas. We also introduced the Spinach Orange Vanilla Twist 1 gram cartridge, the brand's first limited-time vape cartridge offering for the summer season.

In edibles, Spinach remained Canada's number one brand for the eighth consecutive quarter with market share steady at 20.8% and share within gummies of 22.5%. In Q2, SOURZ by Spinach Fully Blasted offerings were five of the top 10 edible SKUs in Canada, including the number one edible nationwide, the Fully Blasted Blue Raspberry Watermelon 10 Pack.

In flowers, Spinach ranked number three in Canada with market share expanding to 5.4%. Two Spinach flower strains, GMO Cookies and OG Kush, were among the top six selling flower products nationally in the quarter.

In pre-rolls, Spinach rose to number seven in Canada with market share rising to 3.1%. Within infused pre-rolls, Spinach climbed to number six with market share increasing to 3.5%. In traditional pre-rolls, Spinach also rose to number six with market share increasing to 2.9%.

This quarter, Spinach STIX, the brand's first cylindrical-style pre-roll, became more widely available across additional provinces in Canada.

Turning to our other international markets outside Israel, we delivered record net revenue, which increased 88% year-over-year led by strong demand in Germany. The breadth of our international footprint continues to provide meaningful growth, as we execute our borderless products strategy.

Building on our international momentum, this week I had the opportunity to meet with the CanAdelaar team in the Netherlands and the business is performing in line with our expectations. We are prepared to close the acquisition of CanAdelaar upon receipt of regulatory clearance in the Netherlands and satisfaction or waiver of the remaining closing conditions.

We expect the acquisition to close in the second half of 2026. We have not been informed of any specific issues with our regulatory clearance submission. And while it's taken longer to close than we had hoped, based on the information available to us, the timing appears to reflect the ordinary course of the Dutch regulatory review process for a transaction of this nature.

As a reminder, CanAdelaar is the largest company operating within the Netherlands' legal Adult-Use Cannabis Program. We're excited and eager for CanAdelaar to join the Cronos family.

We continue to execute on our capital allocation priorities and remain active under our share repurchase program, which we believe represents an attractive use of capital. Backed by an industry-leading balance sheet and positive cash flow from operations, we are well positioned to invest in our growth strategy while returning capital to shareholders and maintaining optionality to be opportunistic as attractive opportunities arise.

Now, I'll turn it over to Anna to walk you through our second quarter financials.

Anna Shlimak

Chief Financial Officer, Cronos Group, Inc.

Thanks, Mike, and good morning, everyone. I'll now review our second quarter 2026 results. The company reported consolidated net revenue of $53 million, a 58% increase year-over-year. The net revenue increase was primarily driven by higher cannabis flower sales in Israel, Canada, and other countries, specifically Germany, and higher cannabis extract sales in the Canadian market.

Gross profit in the second quarter was $28.5 million, representing 96% year-over-year growth from Q2 2025's gross profit. The year-over-year increase was primarily due to higher average sales prices, largely driven by a mix shift to Israel and other countries, which carry no excise taxes, and higher sales volumes. Higher sales volumes led to both higher net revenue and efficiencies from overhead cost absorption. This quarter's gross margin demonstrates what our business looks like when it's firing on all cylinders with Q2 also benefiting from seasonally better growing conditions.

However, gross margins may vary from quarter-to-quarter due to factors including seasonality, product and geographic mix, production volumes, and potential price compression. Accordingly, we believe our gross margin performance over a trailing 12-month period provides more useful context than any single quarter.

Total operating expenses were $21 million in the quarter, a year-over-year increase of $1.2 million driven by increases in sales and marketing, R&D, and G&A expenses. Note that $0.5 million of the $1.2 million year-over-year OpEx increase was driven by transaction costs primarily related to our pending acquisition of CanAdelaar.

Adjusted EBITDA in the second quarter was a record $13.1 million, an improvement of $11.4 million year-over-year, driven by higher gross profit partially offset by higher operating expenses.

Turning to the balance sheet and cash flow statement, the company ended the quarter with $827 million in cash, cash equivalents, short-term investments, and non-current interest-bearing deposits, up $5 million from Q1 2026, driven primarily by $24 million of positive cash flow from operations, partially offset by $16 million of share repurchases and $2 million of CapEx spend.

In addition to this $827 million, we hold $17 million of loans receivable, a $15 million current income tax receivable, and $5 million of other investments.

In summary, we delivered record net revenue, gross profit, and adjusted EBITDA in Q2. A testament to our focused strategy, the underlying momentum of our business, and the team's continued strong execution.

With that, we'll now open the call for questions.

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] Our first question comes from the line of Bill Kirk from ROTH Capital Partners. Your line is now open.

Bill Kirk
Analyst, ROTH Capital Partners LLC

Q

Hey, good morning, everyone. I wanted to ask about the Spinach brand. The brand has shown strength that's allowed it to kind of transcend across product formats. And I was hoping, if you could talk about, how you envision the brand and its potential to maybe cross borders and transcend borders where an adult-use brand might eventually make sense?

Michael Ryan Gorenstein
Chairman, President & Chief Executive Officer, Cronos Group, Inc.

A

Sure. Thanks. That's a great question. I think part of what made Spinach strong in different categories is, we haven't really rested on the laurels of the brand category by category. We focus on each product as if we were launching it new and making sure it's a best-in-class product. And I think, in every single market you still have to win consumers and as long as we take the same approach I think we'll be able to do that.

I think we've shown the ability for the products to translate to other markets already. But it's certainly something that we're planning and it's one of the reasons that we're so excited about the CanAdelaar acquisition. It's an adult-use market where we think Spinach will have a great opportunity to be able to perform and see those products like SOURZ and PUFFERZ translate over.

Bill Kirk
Analyst, ROTH Capital Partners LLC

Q

And then if I can on Germany, the market has gotten a little tougher for some – on some price compression but you're showing strong growth there. So, can you help us maybe understand your route to market into Germany? And was the unlock for Germany getting bigger for you, was that really the additional capacity at GrowCo and you're just now satisfying demand that you had there? But can you talk about the German market, how your product gets into Germany and how you're positioned there?

Michael Ryan Gorenstein
Chairman, President & Chief Executive Officer, Cronos Group, Inc.

A

Sure. It's really not that different in terms of what we're succeeding based on versus Canada, Israel, where also you can kind of look at data and it's competitive. It's tough. I think it just comes down to having the right value proposition to patients or to consumers.

And while we don't have boots on the ground like we do in Canada and Israel, I think ultimately if you have a great product, I think that it finds a way to have demand. So, we understand the backdrop and competitiveness, but from my perspective, it's actually not as competitive yet as some of the other markets, we're in. And yeah, I think that is the unlock.

We aren't really running from competition. We want to make sure that we win in whatever market we're in. I think having the discipline to keep adapting and making sure you win sort of sharpens and improves the offering you have. And now that we have additional capacity, there's much more of a focus on Europe than there has been in the past.

Bill Kirk
Analyst, ROTH Capital Partners LLC
Q

Thanks, Mike. And Anna, can I round out a question on gross margin? It expanded more than we expected, which obviously is a great thing. And you broke it into some buckets which included average selling price and mix. Could you help us maybe which bucket was the largest contributor behind the year-over-year gross margin expansion?

Anna Shlimak
Chief Financial Officer, Cronos Group, Inc.
A

Sure. Happy to provide a bit more context. So, like I said, we benefited from seasonally better growing conditions and that translates to both higher yields and more high-quality Grade A flower to sell. So obviously more flower contributes to efficiencies as fixed overhead costs are spread over greater volumes.

So, I would say that's your – probably your largest contributor. And then you have that geographic shift to higher ASPs to Israel and international market. So higher ASPs, no excise tax.

And then lastly, in Canada, we've experienced such tremendous growth in our vape portfolio. And that carries the best margin in the portfolio. So, kind of all those factors together was that perfect storm of favorability. But, as I mentioned in the prepared remarks, we believe that our gross margin performance over that trailing 12-month period provides better context than this one particular quarter.

Bill Kirk
Analyst, ROTH Capital Partners LLC
Q

Thank you. I'll pass it on.

Operator: Thank you. Our next question comes from the line of Derek Lessard from TD Cowen. Your line is now open.

Derek J. Lessard
Analyst, TD Cowen
Q

Yeah, good morning, everybody. Really strong results guys. Congrats, Mike, to you and the team. Good color so far. Two-part question. I guess was this – I guess, these results were they better than you guys had expected internally?

And then – and secondly, is there anything that you can point to that really went really right for you guys in the quarter? And I think Anna answered some of that but curious on your thoughts.

Michael Ryan Gorenstein
Chairman, President & Chief Executive Officer, Cronos Group, Inc.
A

Thanks, appreciate it. And yeah, I think we're generally optimistic but we're always conservative so we're all extremely pleased with the results. I think that you just saw things go well in pretty much every market and category. So, I don't know if there's a single thing that I would point to. I think that, in Canada, just – we talked about it the last few quarters with PUFFERZ launching and starting to get momentum. That's certainly been a big driver.

I think that, overall having more supply, that's been really helpful. Just being able to satisfy a lot of the demand that we've been talking about has been out there, but we haven't been able to fill. I think that, you think about yield and you think about the weather and growing season, that was certainly positive. But things are just moving in the right direction in most of the markets and a lot of the work we put in last few years, you're starting to see things click and as we continue to dial in at GrowCo and with some of the manufacturing at Stayner in Israel, things are improving.

Derek J. Lessard
Analyst, TD Cowen
Q

Absolutely. And just on Canada, I guess there's been some talk about a pressured consumer here and a move towards some value product – more value-oriented product. Doesn't seem like it's the case or you guys have run into that problem but maybe just comment on what you're seeing from a Canadian consumer perspective would be helpful.

Michael Ryan Gorenstein
Chairman, President & Chief Executive Officer, Cronos Group, Inc.
A

Yeah, from our perspective it's really about delivering value and the value proposition is what matters. And for some that might be the value category and then for us it's as long as we're providing more value, I think that there's still in our segments, there's a lot of opportunity. I think that you can also see some switching just based off of cost from other categories. So, you can see someone that maybe was looking at beer and they think of what's more cost effective, may move to cannabis. But we haven't really seen a lot of issues in terms of resiliency of the consumer. But I understand it's more broadly out there.

Derek J. Lessard
Analyst, TD Cowen
Q

Yeah. Thanks, Mike. And congrats again.

Michael Ryan Gorenstein
Chairman, President & Chief Executive Officer, Cronos Group, Inc.
A

Thank you.

Operator: Thank you. Our next question comes from the line of Indigo Baylis from Canaccord Genuity. Go ahead.

Indigo Baylis
Analyst, Canaccord Genuity Corp.
Q

Hey, good morning. I'm on the line for Kenric Tyghe at Canaccord. Congratulations on the quarter. My question just relates to sort of your GrowCo integration. So, it appears that GrowCo is moving on quite nicely. I was wondering if you had any commentary on how that increased supply is supporting your market share gains and then sort of your next strategic area of focus is through leveraging this facility.

And then the second part of that is, I guess, your expectations on the fully ramped site and then how it might contribute to that top-line and gross margin contribution in the future.

Michael Ryan Gorenstein
Chairman, President & Chief Executive Officer, Cronos Group, Inc.
A

Sure. Thanks. So yeah, I think it's coming along really well. It's fully online. I think that over time you'll see some – some more efficiency gains just as we continue to dial it in. Whether that's the facility or just improvements – the genetic breeding program we've been – we've had for years. I think every year you get to see new genetics come out and there's a lot of improvements we're really excited about.

I think that, when you think about opportunity for efficiency, genetics is actually – it's hard to measure and put out as far as like building a facility versus genetic breeding, but I still think genetics is probably where you'll see the most efficiency gain.

But I think GrowCo is going extremely well. I think that having that extra supply – the majority of the market globally is still flower. So the gains that we've had are a mix of having more flower, increased strength in pre-rolls, increased strength in vapes, and maintaining the lead we have in edibles.

And so yeah, I think they all sort of contribute. But the facility expansion – it's really adding more grow to what we already had. So, it's fully integrated as far as processing. And it was just figuring out scheduling, being able to get the increased product through. And I think it's something that we now have a full handle on.

Operator: Thank you. Our next question comes from Pablo Zuanic from Zuanic & Associates. Your line is now open.

Pablo Zuanic
Analyst, Zuanic & Associates LLC
Q

Thank you, and good morning, everyone. Mike, can you expand on your supply chain in Israel? I don't know if you can talk about what percent of what you sell is produced by Cronos in Israel, how much is it imported?

I'm just trying to understand the flexibility to ramp up domestic production if there are restrictions on imports. And also when you report your total Israel sales, does that include product that you buy other – from third parties whether in Israel or from outside Israel for that market? Thank you.

Michael Ryan Gorenstein
Chairman, President & Chief Executive Officer, Cronos Group, Inc.
A

Sure. Thanks. So, yeah, we do have a domestic grow. We do buy from third parties – Israel or otherwise and also from GrowCo in Canada. But everything is included when you see sales in Israel. It's everything that goes through our facility and we sell under our brand. So we have all the packaging and manufacturing is done there in addition to the grow.

But I would just go back and say, we really think that there's not merit to the anti-dumping investigation. We've gone through it once already and I think you can look at the results and it's clear this is not a market where we're like, oh, we need to get rid of excess product. It's something we view as a strong and important part of our business. We've increased supply with Israel in mind, and it's something we'll continue to do and we're confident that we will prevail again.

Pablo Zuanic
Analyst, Zuanic & Associates LLC
Q

Thank you. Look, and just regarding the US. In a recent podcast, I think you made a comment that you have a roadmap under various scenarios, right? A bit of a matrix. If this happens, you do this. If this happens, you do something else. But in a scenario where we continue to – where we have rescheduling, but we continue to have this state silo system, [ph] interstate trade (00:22:53) no exports, no federal oversight by the FDA, and everything regulated by the states, is that a scenario in which Cronos would want to participate and get more active in the US or not really if things don't change from that perspective?

Michael Ryan Gorenstein
Chairman, President & Chief Executive Officer, Cronos Group, Inc.

A

Yeah. So if you're assuming it's sort of like – I think you're asking you freeze sort of the system we have today where there's state medical markets that in theory could be accessed but adult-use does not roll over and we assume that there's no interstate commerce.

I think if you were to put aside the question of whether or not under Schedule III there's potential challenges about interstate commerce, I think we would look at entering with more of a focus on borderless products than on sort of full production sites. I think because, as much as we could assume that it gets locked like this forever, I still find it hard to believe that you're not going to eventually have interstate commerce and you won't have free trade just given every other industry and the dormant commerce clause being pretty strong.

So, we would look to enter in with a number of products and I think that when you hear us talk about borderless products, that's the flexibility it affords us. So I still think that there are ways to enter in with genetics, with our edibles, with our vapes, with pre-rolls, but not necessarily building out really strong grow infrastructure. So more of an IP focus than full production.

And I think the reason for that is, as I do believe eventually that it's going to be really tough to start building out infrastructure state-by-state when you're eventually going to have to compete with something that's centralized, absorbs much more fixed costs, and is producing at a national scale similar to what you see any CPG company do.

Pablo Zuanic
Analyst, Zuanic & Associates LLC

Q

Right. Thank you. I want to add one more. It has to do more with the liquidity of your stock and in general the liquidity of the Nasdaq-listed Canadian LPs, right? That has declined quite a bit over time.

We have these US MSOs that supposedly will up-list on NYSE or Nasdaq and supposedly that's like a big catalyst, right? But I could make the argument that here we have these very sizable Canadian licensed producers like yourselves which are already Nasdaq-listed and investor or stock liquidity is thin, right?

So, I mean, from your perspective, why is that? I mean, is it just because there's just too much focus on the US and that's all investors want and they're missing out on what's happening in the Canadian drug market and all these very large export potential that the Canadian LPs have? What's your perspective there? I'm just, again, I mean, I don't want to repeat the question, but it's like why if we have these Nasdaq-listed vehicles right now where you have all these growth, the liquidity is so low for the stock in general? Thanks.

Michael Ryan Gorenstein
Chairman, President & Chief Executive Officer, Cronos Group, Inc.

A

Yeah, it's tough to answer. I'd say for the size of the market, you probably have a lot of companies. And I think that one of the challenges is that investors probably are – sometimes the loudest companies and the most liquid ones are just making a lot of promises and have burned people. So, it's much more of a show me type industry now.

But I don't really think of it as US versus Canada. I think every company is different. It's no longer just there's two types of companies in LP or MSO. I think that you're increasingly seeing those lines kind of change and it's not necessarily just Canada, right? You're looking at rest of world versus US, some are in both.

But ultimately the way I see it is, people always ask us about capital deployment, and I think that we've been given a pretty good opportunity as far as having a buyback as long as things are the way they are. So, it's not something I really worry about. We don't really – we don't need to use our stock as currency. We don't need to raise capital. So, we really just focus on what the market opportunity is. And we still think there's plenty of opportunity within the markets we have today even with the situation in the US.

Pablo Zuanic
Analyst, Zuanic & Associates LLC

Q

Right. Thank you.

Operator: Thank you. This concludes the question-and-answer session and our conference call for today. Thank you for your participation in today's conference. This does conclude our program. You may now disconnect.