

07-Aug-2025

Cronos Group, Inc. (CRON.CA)

Q2 2025 Earnings Call

CORPORATE PARTICIPANTS

Michael Ryan Gorenstein

Chairman, President & Chief Executive Officer

Anna Shlimak

Chief Financial Officer

Harrison Aaron

Senior Director, Investor Relations and Corporate Development

MANAGEMENT DISCUSSION SECTION

Good morning. My name is Steven and I will be your conference operator today. I would like to welcome everyone to Cronos Group's 2025 Second Quarter Earnings Conference Call. Today's call is being recorded.

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

Harrison Aaron

Senior Director, Investor Relations and Corporate Development, Cronos Group, Inc.

Thank you, Steven. And thank you for joining us today to review Cronos' 2025 second quarter 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 U.S. GAAP, can also be found in the earnings 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.

Thank you, Harrison. And good morning, everyone.

Cronos Group's core business continues to perform well, driven by robust demand across key markets and product categories. Despite flower supply constraints, we grew net revenue by +21% year-over-year including the consolidation of GrowCo. The strong demand we are seeing for our flower is a testament to our focus on developing best-in-class borderless products. We are pleased with the continued improvement in operating fundamentals in the first half. We remain focused on our key goals for the year: launching our expanded cultivation capacity at GrowCo, improving our share position in Canada once this additional supply comes online, continuing to grow the business in higher-margin international markets, and remaining disciplined on costs.

Our Spinach brand continues to be a standout performer, ending Q2 as the #2 cannabis brand in Canada with a 4.7% market share across formats.

In the flower category, Spinach ranked #3 with 4.9% market share, despite ongoing supply constraints that have prevented us from fully meeting demand. This limited availability reflects the exceptional popularity of our flower products. Our team is strategically allocating inventory to ensure availability of top selling SKUs while preparing to unlock significant additional capacity through the expansion at GrowCo. The initial sales of flower from the expansion are expected to begin this fall, and once fully online, this new capacity will help meet demand and reaccelerate growth.

In the vape category, Spinach achieved the #4 position overall with 6.5% share. And within the vape cartridge category, Spinach holds the #2 ranking with 8.4% share, with the Spinach Pink Lemonade vape the best-selling 1.2 gram vape cartridge in Canada. We're incredibly pleased with our strength in vapes and look forward to launching innovative products in this category.

We continued to demonstrate strong consumer demand and brand strength in the edibles category, with five Spinach gummies ranking in the top 10 of all edible products in Canada. Our industry-leading gummies maintained an impressive 20% market share in Q2 2025, underscoring our continued leadership in innovative, high quality cannabis edibles and reflecting strong consumer loyalty to Spinach-branded products.

Our Lord Jones brand has strengthened its premium positioning with the launch of concentrates. We recently launched Lord Jones Live Resin Caviar, with standout offerings like Gorilla Grape and Orange Velvet. These high-terpene, no-compromise extracts pair premium strains with state-of-the-art hardware, delivering a refined and flavorful experience for discerning consumers.

The Lord Jones brand remains the category leader in the hash-infused pre-roll segment with 28.5% market share in Q2. We'll be launching live resin caviar-infused pre-rolls later this month, expanding the Lord Jones product line into new high-end market segments and supporting our leadership in the premium pre-roll category.

Moving to the international side of the business, our core medical brand PEACE NATURALS and value brand Lit continue to grow in Israel. Cronos Israel posted another record quarter, growing revenue by 36% year-over-year, by continuing to gain share within a competitive and evolving market. PEACE NATURALS ended the quarter as the #1 flower brand in Israel with well over 20% market share, according to pharmacy data collected by Cronos. Cronos Israel launched several new flower strains in Q2, under both the PEACE NATURALS natural and Lit brands, bolstering its best-selling portfolio products.

Last quarter, we discussed a proposed duty on Canadian medical cannabis imports into Israel, and I'd like to provide an update. Israel's Finance Minister rejected the proposed duty in April 2025, leading to an attempted legal challenge. In a July 2025 decision, the Israel Ministry of Justice concluded that the Minister of Finance's veto of the proposed duty was valid.

We are incredibly pleased with the decision to veto the proposed duty. We have been investing and operating in Israel. We have been investing and operating in Israel for nearly a decade, helping us to become the top medical cannabis provider in Israel. We remain committed to serving Israel's medical cannabis patients, and Q2 was the second consecutive record quarter for us. We believe in a fair and equitable market structure that benefits Israel medical cannabis patients, we will continue to advocate for patient access and fair competition.

Internationally, PEACE NATURALS continues to grow. Germany is the standout market and was the largest contributor to year-over-year revenue growth for the business overall. Though potential changes to the regulatory framework were proposed in the past month, we see continued growth potential for our products in Germany.

In Switzerland, PEACE NATURALS-branded flower is now available within the country's medical cannabis network. We also launched PEACE NATURALS in Malta in June, and with Australia ramping up distribution, our core medical brand is now available in seven global markets, including Canada, Israel, Germany, the UK,

Australia, Switzerland, and Malta. Providing global medical markets with Cronos' portfolio of products is a key area of focus for us, and we're happy to report that our distribution keeps growing each quarter.

Cronos maintains the strongest balance in the industry with no debt, and cash, equivalents and short-term investments of \$834 million, reinforcing our ability to invest in growth, innovation and global expansion.

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

Anna Shlimak

Chief Financial Officer, Cronos Group, Inc.

Thanks, Mike. And good morning, everyone. I will now review our second quarter 2025 results.

The Company reported consolidated net revenue of \$33.5 million, a +21% increase from the prior year period. Net revenue for Cronos, excluding GrowCo, was \$31.2 million, representing +13% growth year-over-year. GrowCo's net revenue was \$2.2 million for Q2 2025. Overall, as with last quarter, the consolidated net revenue increase was primarily driven by higher flower sales in international markets and Israel, the consolidation of GrowCo, and higher extract sales in Canada.

Gross profit in the second quarter was \$14.5 million, equating to a 43% gross margin, a significant improvement from 23% in Q2 2024. The year-over-year gross margin improvement was driven by the consolidation of GrowCo, higher average sales prices resulting from regional mix shifts, and production efficiencies.

Operating expenses, excluding restructuring costs, were \$19.1 million in the quarter, a year-over-year decline of \$2.3 million, driven by a \$2.2 million year-over-year decline in G&A. While operating expenses have been down year-over-year in the first half, we expect OpEx to be relatively flat on a year-over-year basis for the second half of 2025.

Adjusted EBITDA in the second quarter was \$1.7 million, an improvement of \$12.7 million year-over-year, driven by the revenue- and margin-enhancing consolidation of GrowCo, a revenue mix shift to higher priced non-Canadian markets, with Israel and international accounting for 43% of our revenue, and reductions in operating expenses.

Turning to the balance sheet and cash flow statement, the company ended the quarter with \$834 million in cash, cash equivalents and short term investments, down \$3.4 million from Q1 2025, driven by an approximately \$7 million net working capital outflow, as well as by CapEx spend and share repurchases of approximately \$4 million each; this was partially offset by positive cash flow from operations before changes in working capital of approximately \$10 million and an approximately \$2 million FX benefit.

In July we invested \$18.5 million in High Tide through a five-year Convertible Loan. The Loan has a face value of \$22 million, with a 16% original issue discount, and bears interest at 4% of the face value of the Loan per annum, payable quarterly. If the Loan is not converted, our yield to maturity is expected to be approximately 8%. Upon mutual agreement of Cronos and High Tide, the Loan is convertible into High Tide equity at a price of CAD\$4.20 per share. Additionally, with this investment, we received a five-year common share purchase warrant, exercisable for up to 3.84 million common shares of High Tide at an exercise price of CAD\$3.91 per warrant share.

In closing, we posted another strong quarter, demonstrating sustained growth and continued improvement in our operating fundamentals, despite the flower supply constraints we have been experiencing. We look forward to Fall 2025 flower sales from GrowCo's expansion to relieve supply constraints and drive further growth for our business.

With that, I would like to hand it back to Mike for a brief comment before going into Q&A.

Michael Ryan Gorenstein

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

To wrap up, our performance this quarter demonstrates that Cronos' core business is strong and resilient. With leading brands like Spinach and Lord Jones, accelerating international momentum with our medical brand Peace Naturals, and the GrowCo capacity expansion, we are well-positioned to capture both top- and bottom-line growth.

We are confident in our strategy and excited about what's ahead for the rest of 2025.

Thank you, and we'll now open the call for questions.

QUESTION AND ANSWER SECTION

Operator: Thank you. At this time, we will conduct the question-and-answer session. [Operator Instructions] Please stand by while we compile the Q&A roster. One moment, please. One more moment. Okay. I am showing no questions at this time. I'd like to thank you for your participation in today's conference. This does conclude the program. You may now disconnect.

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