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# Cronos Group, Inc. (CRON.CA)

Q4 2024 Earnings Call

## CORPORATE PARTICIPANTS

**Anna Shlimak**

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**James Holm**

*Chief Financial Officer, Cronos Group, Inc.*

**Michael Ryan Gorenstein**

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

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## MANAGEMENT DISCUSSION SECTION

**Operator:** Good morning. My name is Antoine, and I will be your conference operator today. I would like to welcome everyone to Cronos Group's Fourth Quarter and Full Year 2024 Earnings Conference Call. Today's call is being recorded.

At this time, I would like to turn the call over to Anna Shlimak, Chief Strategy Officer. Please go ahead.

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**Anna Shlimak**

*Chief Strategy Officer, Cronos Group, Inc.*

Thank you, Antoine, and thank you for joining us today to review Cronos's 2024 full year and fourth quarter financial and business performance. Today, I'm joined by Chairman, President, and CEO, Mike Gorenstein and our CFO, James Holm. Cronos issued a news release announcing our financial results this morning, which is filed on our EDGAR and SEDAR profiles. This information in 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 material – 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 earnings materials that are available on our website. Lastly, we will be making statements regarding market share information throughout this conference call. 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's Chairman, President and CEO, Mike Gorenstein.

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**Michael Ryan Gorenstein**

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

Thank you, Anna, and good morning, everyone. Three years ago, when I returned as Cronos's CEO, we set ambitious goals to deliver robust top line growth, improve margins, and rightsize our operating expenses. Today, I'm proud to say that these goals are coming to fruition and can be seen throughout the business. With yet

another quarter of solid results and our unwavering commitment to disciplined operating expenses, we're showcasing our ability to drive growth while enhancing efficiency across our business.

Year-over-year, we grew annual net revenue by 35%. We nearly doubled our adjusted gross margins and continued to exercise discipline in the management of our operating expenses. Our 2024 results are evidence that our business is performing, and we continue to lead the global cannabis industry in product innovation and exceptional quality. Bolstered by our robust balance sheet, we are in an exceptional position to seize future growth opportunities and further strengthen our leadership in the markets we serve as we look forward to 2025.

In 2024, we invested in GrowCo to expand its cultivation and production capabilities in order to ensure consistent supply of high-quality cannabis at greater scale. This strategic move was aimed to improve operational efficiency, reduce costs, and optimize margins by leveraging advanced growing techniques. We are eager for the new supply from that investment to come online in order to feed the growing demand in the markets we operate in and new markets as they become available to us.

I feel confident that we have positioned ourselves to better meet growing consumer demand, maintain product quality, and support our expanding portfolio of brands and products in a prudent and thoughtful way.

Our expansion of GrowCo is progressing well. In Q4, Health Canada approved amendments to the site's perimeter, and we expect to finish construction of the expanded cultivation and processing facilities in Q2 with first harvest and sales for the new area expected to begin in the second half of 2025.

Up until the first sales from the expanded facility, we had the option to purchase up to 80% of GrowCo's total production. Once expansion sales begin, Cronos will have the option to purchase up to 70% of the total production from the facility. The GrowCo expansion positions us to capitalize on Canadian domestic demand and will fuel international growth opportunities in 2025.

The past year I've been incredibly proud of the strides we've made in R&D, including product development and innovation. Cronos has achieved significant advancement in cannabis genetics with improvements not only in new strains that meet consumer preferences, but also reaching new levels of cannabinoid yield. This is a result of years spent dedicated to our breeding and tissue culture. Consumers are consistently shopping for a flower value proposition based on a price potency equation and our genetics are helping us meet this demand, which has cemented us as a top performing flower brand in Canada and internationally.

Now, turning to brand updates. I'm happy to share that Spinach has ended the year as the number one cannabis brand in Canada by market share, solidifying its leadership position. This achievement is fueled by number one rankings in both edibles and flower and number four position in vapes and number seven in pre-rolls. Spinach's consistent market share growth is a testament to our unwavering commitment to quality, innovation, and delivering differentiated products that resonate with consumers in the highly competitive Canadian adult-use market.

In the gummy category, our industry-leading SOURZ product captured 23% market share in Q4 with 5 of the top 10 best-selling edibles in Canada all part of the SOURZ lineup. Our Fully Blasted SOURZ innovation, featuring 10 milligrams of THC per piece have been partially – or sorry, particularly well received by consumers. In Q4, we launched two new Fully Blasted products: Peach Orange and Strawberry Mango, as well as a new CBD Berry Variety Pack, which debuted in BC at the end of December. Each Variety Pack contains 30 gummies with 30 milligrams of CBD in each gummy in three flavors: Blue Raspberry Watermelon, Strawberry Mango, and Blueberry Acai.

Additionally, our Lord Jones brand has made significant strides in the chocolate category, finishing the year as the third best-selling chocolate brand in Canada. In January, we also launched a new Lord Jones Chocolate Fusions flavor, fudge brownie, which features an even ratio of CBN, CBD, and THC.

Spinach continues to show its strength in the flower category, holding the number one spot for Q4 and full year with 6% market share. This success is driven by popular genetics like GMO Cookies, Wedding Cake, Space Cake, and Sour Chem available in a variety of sizes. The ongoing achievements of our breeding program and the operational excellence of GrowCo have further cemented our leadership in this category, ensuring consistent delivery of quality products to meet consumer demand.

While Spinach showed strong growth in flower in 2024 and we still see strong demand, we do not expect that growth to continue until the back half of 2025 when additional supply from the GrowCo expansion becomes available. In order to prepare for the next phase of growth, we will continue to strategically allocate the existing supply across Spinach in Canada and PEACE NATURALS internationally.

In Q4, we released blue monster pre-rolls under a new regional Quebec brand, Sonique. Our regional brand Sonique is tailored to meet the unique preferences and needs of the Quebec market, offering products that resonate with the province's distinct cannabis culture. The brand's strategic approach ensures to capture the essence of Quebec's market trend, combining local insights with exceptional product development to build trust and loyalty among cannabis enthusiasts in the region.

Our strategy has always been to develop a portfolio of best-selling and disruptive branded products that we can launch in new markets as cannabis regulations open globally. The Spinach brand becoming the number one best-selling brand in Canada is validation of our strong capabilities. And we're just getting started in expanding our winning portfolio of borderless products and bringing them to markets globally.

Now, moving to Israel, our team there has shown remarkable performance throughout Q4 with record volumes sold and the highest sales per quarter in 2024. Cronos Israel has built significant momentum throughout the year despite a very competitive market with evolving dynamics including increased competition, tariff threats, declining patient growth, entrance of HMOs, and the ongoing Middle East conflict.

Despite all this, the PEACE NATURALS brand and product portfolio continues to grow. PEACE NATURALS portfolio was overhauled with a revised pricing strategy with focused cultivars that meet the needs of our patient base. Here, cultivars like Wedding Cake and GMO, along with changes implemented in the portfolio, drove growth throughout 2024. PEACE NATURALS ended the year as the number one flower brand in Israel with 24% market share and the brand's oil offerings, and it is the fourth most popular brand with 9% market share, according to pharmacy data collected by Cronos. I'm incredibly proud of our turnaround in this market and look forward to launching more quality products in 2025.

Internationally, we've made significant progress in the markets we've entered and are excited about the opportunities ahead. In Germany, our PEACE NATURALS brand is gaining strong traction and continues to grow. Market penetration is a big focus for us in 2025. We're confident in the momentum we're building, especially as we're offering the same high-quality products that propelled us to the number one position in flower in Canada. With this foundation, we believe we have a clear ability to win and are well positioned to capture even greater market share in Germany and elsewhere.

Similarly, in the UK, while still early, we're already seeing promising growth with PEACE NATURALS and are enthusiastic about the significant potential for expansion in this emerging market. These developments underscore our commitment to becoming a global leader in the cannabis industry.

We've ended the year strong, and I'm proud of the accomplishments we've made throughout 2024. Cronos maintains the strongest balance sheet in the industry with cash and cash equivalents of \$859 million, reinforcing our ability to invest in growth, innovation, and global expansion. Each quarter showed significant year-over-year revenue increases, highlighting our continued market expansion and sales momentum.

Now, I'll turn it over to James to walk through the fourth quarter financials.

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## James Holm

*Chief Financial Officer, Cronos Group, Inc.*

Thanks, Mike, and good morning, everyone. In 2024, we increased net revenue 35% year-over-year to \$117.6 million with strong performance in Canada and Israel and international markets picking up well. Operating expenses declined by \$5 million versus the prior year. Adjusted EBITDA improved by 45% year-over-year, and operating cash flow improved by \$61.7 million to positive \$18.8 million.

I will now review our fourth quarter 2024 results, which now include the consolidation of GrowCo's financials. The company reported consolidated net revenue of \$30.3 million, a 27% increase from the prior year period. Net revenue for Cronos, excluding GrowCo, was \$28.2 million, representing an 18% growth year-over-year on a standalone basis, while GrowCo net revenue was \$2.1 million for Q4 2024. The net revenue increase was primarily driven by higher cannabis flower and extract sales in Canada and higher flower sales in Israel and other countries.

Gross profit in the fourth quarter was \$10.8 million, equating to a 36% gross margin. Gross profit was positively impacted by an adjustment of \$1.8 million in connection with the finalization of the purchase accounting for the Cronos GrowCo transaction, which resulted in a reduction of the fair value of inventory acquired and the corresponding inventory step-up previously recorded into cost of sales in Q3, resulting in adjusted gross profit of \$9 million, equating to a 30% adjusted gross margin. We will continue providing this adjustment until the inventory that was stepped up at fair market value through the purchase accounting adjustment has been sold through as we believe it is useful in reviewing and evaluating our ongoing performance.

For full year 2024, year-over-year adjusted gross profit improved by \$18.6 million and adjusted gross margin improved by 12 percentage points to 26%, nearly doubling our gross margin from the prior year. The increase is primarily driven by higher sales of cannabis flower extract sales in Canada, higher cannabis flower sales in Israel, and production cost improvements.

Adjusted EBITDA in the fourth quarter was negative \$7.2 million, representing a \$7.6 million improvement from the prior year period. The improvement was driven by increased revenue and higher adjusted gross profit.

The disciplined approach to our operating expenses employed to-date enabled us to achieve savings of \$8.7 million for 2024 versus the prior year for Cronos on a standalone basis. With this, we achieved the high end of the range for our previously announced guidance of a reduction of \$5 million to \$10 million for standalone Cronos. The operating expense savings were driven by cost reductions in general and administrative, research and development, and sales and marketing. Going into 2025, even with the addition of GrowCo's OpEx, we expect our OpEx to remain flat. In addition, our reported CapEx includes previously announced facility expansion at GrowCo, something to be mindful of looking into 2025.

Turning to the balance sheet and cash flow statement, the company ended the quarter with \$859 million in cash and cash equivalents. Cash and cash equivalents were down \$3 million from Q3 2024, driven primarily by CapEx spend in Q4 2024 of \$3.7 million and FX fluctuations, partially offset by cash from operations of \$7.7 million in 2024. On a full year basis, capital expenditure increased \$9.7 million year-over-year, reflecting investments at our GrowCo facility, and improved automation capabilities in our Peace Naturals Campus at Stayner.

During 2024, we generated \$18.8 million of cash from operating activities compared to 2023 where cash used was \$42.8 million, representing an increase in cash flow from operating activities of \$61.7 million. This change was primarily driven by a \$32.8 million tax payment made in 2023 connected to the previously disclosed relinquishment by Altria of its warrant to purchase additional shares of the company in 2022, a \$38.8 million increase in net income after adjusting for non-cash items during 2024 compared to 2023, and higher interest received. As a result, free cash flow for Q4 2024 was positive \$4 million compared to a positive \$15 million in the prior year period. Free cash flow for the full year 2024 was positive \$5.7 million compared to a negative \$46.3 million for the full year 2023, representing a \$51.9 million improvement. Our cash balance is stable, and you can see the underlying fundamentals of our operations are showing significant improvement.

Looking back on the progress we've made, I share in Mike's confidence in the trajectory of the business and our preparedness for entry into new markets as they become available.

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

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## Michael Ryan Gorenstein

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

Throughout this past year, we have demonstrated strong performance across all quarters, driven by robust revenue growth, improved margins, and disciplined cost management. We solidified our market leadership in Canada and Israel, achieved significant milestones in international markets, and continued to innovate with new product launches. With a strong balance sheet and a clear strategic focus, Cronos is well positioned to capitalize on future growth opportunities and enhance our position in the global cannabis industry.

As we look ahead, we remain focused on innovation, operational excellence, and strategic expansion. Our core business is performing exceptionally well and we are well positioned to capitalize on the growing global cannabis market as we look forward to 2025.

With that, I'll open the line for questions.

## QUESTION AND ANSWER SECTION

**Operator:** Thank you. At this time, we'll conduct the question-and-answer session. [Operator Instructions] I am showing no questions at this time. Thank you for your participation in today's conference. This does conclude the program. You may now disconnect.

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