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PRESENTATION

Operator

Good morning. My name is Myra, and I'll be your conference operator today. I would like to welcome everyone to Cronos Group's 2021 Fourth Quarter and Full Year 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. Sir, please go ahead.

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

Thank you, Myra, and thank you for joining us today to review Cronos Group's 2021 Fourth Quarter and Full Year Financial and Business Performance. Today, I am joined by our President and CEO, and Kurt Schmidt; our CFO, Bob Madore; and our Executive Chairman, Mike Gorenstein. Cronos Group issued a news release announcing these 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 Kurt, 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 statements and risk factors included in the company's earnings release and regulatory filings, including the most recent annual report on Form 10-K 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 most comparable 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.

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 will move into a question-and-answer session.

With that, I'll pass it over to Cronos Group's President and CEO, Kurt Schmidt.

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

Thank you, Shayne, and good morning, everyone. We appreciate your patience and for joining us for the second time in about 2 weeks. We are pleased to share our 2021 fourth quarter and full year results and business updates with you. As I touched on during our call on February 18, we've started this year by undertaking a realignment of the business to position Cronos to drive profitable and sustainable long-term growth. This realignment puts our products and agility at the focal point.

I view the realignment in 3 distinct pillars. First, we have realigned the organization. removing redundancy and centralizing functions under common leadership. Second, we are reducing complexity and continuing our asset-light model. As part of that, we have decided to exit the Peace Naturals Campus. I'll elaborate more on these plans in a minute. We're also continuing to perform product reviews and pricing optimization scenarios across our brands and products. And finally, we have implemented a cost reduction initiative expected to reduce operating expenses by approximately $20 million to $25 million in 2022.

When we spoke 2 weeks ago, we brought you updates primarily on the first and third pillars of our realignment initiative. Today, we'd like to provide a further development on the second pillar. This morning, we announced in our earnings release that we are exiting our Peace Naturals Campus in Stayner, Ontario. Extensive analysis went into this decision. And while we know this will mean transition and change, we also know this is the right decision to help ensure Cronos' long-term growth. Our goal has always been to operate in an asset-light business, focused on brands and R&D. This transition aligns us to that vision.

We have always maintained that cultivation will shift to large-scale agricultural specialists as the industry matures, which is why we focused on building joint ventures and partnerships around the world with best-in-class operators. We now feel confident that the industry and our supply chain in Canada are at a maturity level where we can implement this approach.

We have consistently focused on having a diverse supply chain, aided by contract manufacturers and third-party producers to supplement our cultivation and manufacturing needs. In addition to building those relationships over many years, we have been developing capabilities with our JV partner, Cronos GrowCo, in order to execute this move. We are very pleased with their premium flower cultivation, which has increasingly become an important component to our biomass supply. And we know their capabilities and efficient downstream processing will enable our goal of improved profitability.

Protecting top line growth and continued momentum on R&D is of the utmost importance for our go-forward strategy, and they are top priorities for the transition. To ensure smooth execution, Cronos will continue to operate the Peace Naturals Campus with a phased reduction and transition of activities throughout 2022, with a planned exit by the end of 2022. In addition, we are focused on maintaining our relationship with our Canadian customers. We intend to obtain a sales license from Health Canada at GrowCo's facility to ensure that continuity.

Regarding our R&D efforts, all initiatives will continue as planned across our various facilities. There will be many moving pieces and complexity to manage during this transition. But we're focused on staying as close to our timeline as possible while maintaining our eye on growing revenue and bringing innovative products to market. We are grateful to our Stayner associates for their hard work and contributions to Cronos Group. And we appreciate those associates who will continue to work in our Peace Naturals Campus to provide a seamless transition out of the facility throughout this year.

I now want to turn to our business and walk you through some highlights from the fourth quarter and full year 2021. While this year had its challenges, it's also important to note our wins. All the fundamental work we have put in to making our brands successful and win with the consumer is starting to shine through in our results. The Spinach brand continues to win in the Canadian market. In the fourth quarter, SOURZ by Spinach gummies continue to strengthen its double-digit market share in the category. All 3 SOURZ by Spinach flavors were in the top 10 in the edibles category nationally. And within Ontario, Blue Raspberry holds the #1 spot.

Our market share for Spinach in the flower category ended the quarter in the high single digits. The strength in the flower category is a result of years of R&D work in breeding and genetics. Importantly, we have shared a lot of the genetics with GrowCo and look forward to continuing to help them elevate their flower portfolio over time.

We also launched our sub-brand Spinach FEELZ, a brand designed to deliver unique and enhanced experiences, made possible through proprietary blends of rare cannabinoids alongside more common cannabinoids like THC and CBD with a wide variety of products and formats. In October 2021, we launched our first cultured cannabinoid product under Spinach FEELZ, the Chill Bliss gummy, which is making significant inroads within the edibles category. And although our vape launch utilizing cultured CBG is early, we are happy with the trends.

The success of our Spinach brands and products to date is a testament to getting the fundamentals right. We will continue to invest in our innovation to bring consumers the products they want and other products they haven't even thought of. We're starting to see success in the Canadian market with Spinach, while readying ourselves to utilize our innovation and key market learnings in other markets as they emerge.

As we restructure the organization to match our go-forward strategy, the primary focus of our energy will be towards elevating our brands by utilizing rare cannabinoids and focusing on adult-use products. We have always viewed the Canadian market as a region to fine-tune our innovation and product development initiatives. We bring most of our adult-use products to consumers in Canada, but we continue to conduct extensive consumer insights work in all the regions we operate in, with an eye towards adult-use in the United States. The United States remains a great place to learn more about the evolution of consumer preferences. While we focus on creating those turnkey solutions within the markets we operate in today.

Turning to Israel. We continue to be delighted with the results of our medical business. We started selling our Peace Naturals brand to medical patients through participating pharmacies in the second quarter of 2020. We have increased our distribution to participating pharmacies to nearly all pharmacies that sell medical cannabis. And we will continue to expand as more pharmacies come online. Total patient count in Israel has also increased substantially to approximately 109,000, which is up 40% versus the same period last year, with a long runway for continued growth. And with the recent survey conducted by Cannabis Magazine, naming Peace Naturals the most recognized cannabis brand in Israel, we have a lot to look forward to as we work towards meeting our patient demand in this market.

Given the growth of our business, we thought we'd take some time to dive more into the Israeli market and how we positioned ourselves as a leader there. Israel has a population of just over 9 million people and boasts one of the world's highest cannabis usage rates. Unlike the North American cannabis market, Israel has a much less competitive illicit market given Israel's stringent border controls and security infrastructure. The rapid growth in Israeli medical market reminds us of the early days in Canada's medical market, with demand outpacing supply and the stigma associated with the product quickly fading away. With our manufacturing footprint, established local team, strong brand and product portfolio, we are very well positioned to succeed in the Israeli market. As we realign the organization to match our go-forward strategy, the primary focus of our energy will be towards elevating our brands by utilizing rare cannabinoids and focusing on adult-use products.

I want to conclude by outlining our 4 core business priorities, all of which are focused on driving initiatives aligned with our vision and designed to deliver sustainable growth. In 2022, we look to, one, accelerate growth by focusing on the core business, leveraging our top-selling products to deliver on each brand's potential, while maintaining a disciplined approach to investing our time and resources and the opportunities we believe will provide the most significant returns. Two, diligently evaluate our manufacturing strategies to ensure that we only move forward with new products and processes that add incremental value and contribute to our strategic vision. Three, create a robust platform for innovation across Cronos' Group portfolio of global brands, supported by our belief that rare cannabinoids will drive differentiation. Fourth, keep U.S. market entry as our north star by managing our internal capital spend and external capital allocation to maintain the flexibility to capitalize on opportunities that will position Cronos as a leader in the U.S. market.

We have a lot of work ahead of us, but I feel confident that the actions we've outlined today will improve our business and set us up for success in the long term.

With that, I would like to pass it to our CFO, Bob Madore.

Robert L. Madore - *Cronos Group Inc. - CFO*

Thanks, Kurt, and good morning, everyone. Before getting into financial results, allow me to provide further details on our planned exit from our Peace Naturals Campus. As a result of the company's planned exit from the Peace Naturals Campus, the company has incurred a $119.9 million non-cash impairment charge on long-lived assets in the fourth quarter of 2021. In addition, the company expects to incur charges of approximately $4.5 million in connection with the planned exit, all of which impact the ROW segment. These charges include employee-related costs, such as severance, relocation and other termination benefits as well as contract termination and other related costs, which are expected to be incurred primarily in the second half of 2022.

In addition, the company anticipates capital expenditures of approximately $2.5 million to modernize information technology systems and build distribution capabilities.

Cronos Group looks forward to leveraging GrowCo's capabilities in premium flower cultivation and efficient downstream processing, with the intention to improve profitability of the company's Canadian operations. In addition to further leveraging its joint venture with GrowCo, Cronos Group will continue to maintain a network of third-party licensed processors to supplement cultivation and manufacturing needs.

Now getting into the financial results filed today. In 2021, on a consolidated basis, we increased revenue 59% year-over-year to $74.4 million, with strong performance in the Rest of the World segment highlighted by Canada and Israel. Our Rest of the World segment recorded net revenue in 2021 of $64.6 million, representing a 73% increase year-over-year. The United States segment increased 4% year-over-year to $9.9 million. In light of slower growth in the U.S., we're committed to rightsizing the U.S. segment to realign it with our go-forward strategy with a focus on improving profitability.

Now turning to the fourth quarter of 2021 results. The company reported consolidated net revenue in the fourth quarter of 2021 of $25.8 million, a 51% increase from the prior year period. Revenue growth year-over-year was primarily driven by the continued growth in the adult-use Canadian market and increased sales in the Israeli medical market. Consolidated gross profit for the fourth quarter of 2021 was $1.9 million, representing a $16.8 million improvement from the fourth quarter of 2020. The improvement versus prior year was primarily driven by a decrease in inventory write-downs and increased gross profit in the Rest of the World segment.

Consolidated adjusted EBITDA in the fourth quarter of 2021 was negative $27.4 million, representing a $25.8 million improvement from the fourth quarter of 2020. The improvement versus prior year was primarily driven by an improvement in gross profit and a decline in sales and marketing and research and development expenses.

Turning to our reporting segments. In the Rest of the World segment, we reported net revenue in the fourth quarter of 2021 of $22.7 million, a 68% increase from the prior year period. Revenue growth year-over-year was primarily driven by growth in both the adult-use extracts and flower categories in Canada and sales in the Israeli medical market. Gross profit for the Rest of the World segment for the fourth quarter of 2021 was $2.4 million, representing a $19.1 million improvement from the fourth quarter of 2020. The improvement versus prior year was primarily driven by a reduction in inventory write-downs and an increase in sales volume of cannabis extracts in the Canadian market, which carries a higher gross profit than other product categories.

Adjusted EBITDA in the Rest of the World segment for the fourth quarter of 2021 was negative $14.6 million, representing a $21.8 million improvement from the fourth quarter of 2020. The improvement versus prior year was primarily driven by an improvement in gross profit and a decrease in research and development expenses.

Turning to the U.S. segment. We reported net revenue in the fourth quarter of 2021 of $3.1 million, an 11% decrease from the prior year period. The decline year-over-year was driven by a reduction in volume due to competitive pressures. We spoke at length approximately 2 weeks ago that the U.S. CBD business is not where we want it to be. The strategic review of this business, including the potential for price optimization, SKU rationalization and modification of the distribution channels remain top of mind, and we intend to share material updates with you at the appropriate time.

Gross profit for the U.S. segment for the fourth quarter of 2021 was negative $0.5 million, representing a $2.3 million decline from the fourth quarter of 2020. The decline year-over-year was primarily due to increased production costs and increased inventory valuation adjustments to reflect net realizable value. Adjusted EBITDA in the U.S. segment for the fourth quarter of 2021 was negative $8.3 million, representing a $3.5 million improvement from the fourth quarter of 2020. The improvement versus prior year was primarily driven by a decrease in sales and marketing and general and administrative expenses.

Now turning to the balance sheet. The company ended the quarter with approximately $1 billion in cash and short-term investments, which is down approximately $35 million from the third quarter of 2021. Capital expenditures for the quarter were $0.6 million with the spending focused across our global strategic priorities. Capital expenditures are down approximately 95% year-over-year driven by reduced spending on enterprise resource planning implementation and capital improvements across our facilities. We remain committed to deploying capital in a disciplined manner and only in ways that align with our strategic priorities.

Lastly, I would like to provide you with an update on our remediation efforts in relation to the material weakness that we disclosed last quarter. We, as a company, are committed to instituting best practices for financial reporting. Our management, with oversight from the Audit Committee, has initiated a plan, which we are working diligently to phase in over the course of 2022. In addition, I'm happy to state that the material weaknesses previously disclosed related to inventory verification have been remediated.

With that, I'll turn it back to Kurt.

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

Thank you, Bob. It's not lost on us that our recent challenges are overshadowing our results. But what I want to leave you with today is that despite of all that, you are starting to see the strategy and execution show up in our results. We are building a great brand in Canada through Spinach and have demonstrated sustainable market share gains. We are seeing incredible growth in Israel, a robust medical market we've worked hard to win it. We are making decisions to realign our organization and move quickly to help our business improve with efficiencies and profitably in rapidly changing markets.

We are the first company to release a cultured cannabinoid product using breakthrough science and technology. And we're the leading company to market rare cannabinoids in a way that resonates with consumers. We're on the right path and we're rising to the challenges in front of us.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) We have our first question comes from the line of Andrew Carter from Stifel.

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

First thing I wanted to ask is how long has the kind of exit of Stayner been contemplated in terms of an option to kind of save funds and also kind of creating some of the redundancies have because I would think like you would not want to put any risk to slowing down the revenue momentum? So maybe you could just help us with that.

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

Yes, this is Kurt. We -- this has been ongoing for quite a while. Again, the whole idea -- the whole GrowCo initiative was all about our belief that cultivation will move towards the agricultural sector. That's why we created the GrowCo JV initially, and we're bearing that out. So through construction, through start-up and through follow-up, we've hit every milestone we want. So that is ongoing for a while. And we're very pleased with where we're at right now. We're delivering high quality and well-priced cannabis out of the GrowCo supply chain. And we have enough redundancy in our supply chain, as we talked about in the upfront remarks that we feel very good that this is the right time for this move.

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

Okay. And then just kind of second, speaking on kind of the revenue momentum, great in the quarter. It's been a great build for the edibles brand, Spinach brand's really stood out. Just released the headset data for February this morning. It's taken a step back, both the edible and the Spinach. Is that kind of -- do you see that as kind of a seasonality? Anything you're seeing in kind of reduced shipments? And could kind of Canadian adult-use revenue take a step back sequentially here in the calendar first quarter?

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

Yes. I think it's part of a little bit of the seasonality and some of COVID that came roaring back temporarily in the first quarter, created some disruption. But again, I think we're seeing overall the momentum in the first quarter to be quite positive. And the world is getting back to normal, I think, in the second quarter here. So we think that will ride itself. We're really confident about the way Spinach is developing on the consumer side.

Operator

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

Michael W. Freeman - *Raymond James Ltd., Research Division - Senior Associate*

This is Michael Freeman on for Rahul Sarugaser this morning. I have one question. My first one is on sort of the downstream effects of this exit from the Peace Naturals site, I guess -- I wonder if you could describe for us the implications -- on headcount implications on where your top-notch R&D facilities might be moving to with this move and then just broader implications on cost structure as you go through this exit through 2022?

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

Okay. That's 3 things to unpack there. The first one is, I won't go into an exact number of the headcount. But undoubtedly, as we go to shut down this facility, there will be changes in the size of the organization. No doubt about that. But we're equally -- we're really committed and we've really planned this ensuring that we're treating our employees the right way, and we do this in a high-quality fashion as we move through this process. But it will have the effect of reducing the Stayner facility, including how many employees we have.

The second one on R&D, it's important to remember, we have multiple facilities across the supply chain that the R&D works through. Winnipeg has a facility, we do R&D work there. We will eventually move some stuff into GrowCo, and this has no effect on our R&D scope. So as we talked about, our key driver is brands and R&D, and R&D is around margin-accretive innovation and winning in rares, we'll see no effect. It's going to have no effect on the innovation we're developing and the time lines we are driving towards.

Then your third one, I think, was about margin profile and the business process. We don't give specific guidance. But obviously, making this decision, we obviously believe there's a significant opportunity to improve the profitability of our business. The Peace Naturals Campus carries a real heavy complexity and a heavy overhead burden. So removing that from our cost structure, right, coupled with the lower cost of production and the more efficient downstream processing at GrowCo, which are experts in cultivation, we think there's a significant opportunity to expand gross profit in both dollar and percentage terms. And remember, you've got to couple that with the -- during our third quarter earnings call where we announced the first phase of the restructuring, which will reduce operating costs by between $20 million and $25 million. So we believe all these initiatives put us on a really strong path to improve profitability while maintaining our clear focus on 2 very important things, which is margin-accretive innovation, winning in rares and, of course, sustainable growth and building our brands, particularly, Spinach.

Michael W. Freeman - *Raymond James Ltd., Research Division - Senior Associate*

That's very helpful. My follow-up is perhaps for Bob. We noticed beginning in the third quarter some impairments related to the Ginkgo exclusive license. And we see those again appearing on the 4Q financials. I wonder if you could just unpack these impairments and perhaps relate them to the way you're valuing this Ginkgo exclusive license.

Robert L. Madore - *Cronos Group Inc. - CFO*

Yes. One of the bigger challenges with going after the rare cannabinoids and developing the different milestones is that under the accounting rules, and I won't bore everybody with the rules, but with the type of valuation methodology, the relief of royalty from royalty method in a space where you really don't have any history, operational history and from a projection perspective, you really kind of limited, a little handcuffed in the valuation exercise and the level of growth you can put in the projections, just from a valuation perspective. That -- these valuations are not indicative of the commercial opportunities that we think these -- development of these rares has for us. It's just an implication of heavily discounting future projections in a space that is very new, rarefied air.

Over time as we get more experience in history around commercializing the opportunities as we developed additional rares, we have 6 more milestones to go after the 2 we've already completed, we think that history of commercialization and what the market represents and better visibility to that will help in that valuation exercise. But by no means is it what we think it's worth, what we think we could sell it to a third party if we wanted to. We don't. It's just an accounting valuation method implication.

Operator

Our next question comes from the line of John Zamparo from CIBC.

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

I wanted to start on GrowCo. Can you say approximately what percent of your current sales either Q1 to date or in Q4 being supplied by GrowCo? And can you remind us what the terms are of purchasing from the JV? Are you paying fair market value? Or is there a discount embedded in that?

Robert L. Madore - *Cronos Group Inc. - CFO*

Yes. So our initial GrowCo purchases, we actually really started in 2021. We're a relatively small amount prior to that. Our Stayner facility could not complete all of our supply and demand requirements. So in addition to GrowCo, which has really just been up and running for the last 8 to 12 month period of time, we also utilized other third-party cultivators to fulfill our biomass and dry flower needs.

Now moving forward, we obviously are looking to leverage just based on GrowCo's success in the harvest that they've already had in sourcing quite a bit more from them. From a pricing perspective, it's a competitive market pricing, relatively speaking, but much more efficient, effective and lower cost than what our costs were to produce it ourselves internally. Hence, the reason for the announcement this morning around Stayner. We just think large agri growers like GrowCo, that's where we always kind of thought the action was going to be and what the future most effective and efficient way of doing it. And we feel like we've selected one of the best partners out there. So we're excited about the opportunity.

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

Okay. That's helpful. And then my second question is on the Israeli market. And I wonder when you take a step back, how you think this country will evolve over time? Will it continue to be served entirely by Canadian producers? Or do you think it eventually shifts to a domestic supplied market? And I know you've got some exposure through Cronos Israel if and when that time comes, but just would like to get your thoughts on how that market will evolve.

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

Yes. Well, a lot of it will depend on the regulatory market in Israel. So right now, as the way, we -- again, like we do everything, our cultivation is -- we have a lot of redundancy built in. So we import from Canada, we produce ourselves on our own cultivation with our joint venture on the Kibbutz and we buy from third parties in Israel. So we're very well resourced. We think the biggest driver is just going to be the market as it continues to grow and develop. Demand is certainly going up, and we are well positioned to be able to grow with that demand. So we're in a very good position in our mind.

Operator

Our next question comes from the line of Gaurav Jain from Barclays.

Gaurav Jain - *Barclays Bank PLC, Research Division - Research Analyst*

So Bob, you have reported a $27 million EBITDA loss this quarter. Would it be fair to assume that almost 80% of that losses in the U.S. segment and 20% is in the Rest of World segment?

Robert L. Madore - *Cronos Group Inc. - CFO*

Could you -- I'm sorry, could you repeat that last sentence, the percentages you were saying?

Gaurav Jain - *Barclays Bank PLC, Research Division - Research Analyst*

Of this $27 million loss, is it fair to assume that approximately $20 million of the loss will be in the U.S. segment and $8 million will be in the Rest of the World segment?

Robert L. Madore - *Cronos Group Inc. - CFO*

Yes, we break down EBITDA losses at that level.

Gaurav Jain - *Barclays Bank PLC, Research Division - Research Analyst*

Sure. I guess what I'm trying to get is on your U.S. business, so look, the commentary that you had that you are rightsizing the business, it is not at the right place. And you have made that comment a number of times over the last, I would say, couple of years. And still the business is only $10 million of sales. So how do you fix it?

Robert L. Madore - *Cronos Group Inc. - CFO*

As part of the strategic alignment -- oh, go ahead, Kurt.

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

Yes. I was just going to say, well, clearly, we're unhappy. We still think there's still strong strength in those brands. One of the things we're going to be focusing on more, as we've said previously, is the adult-use side of the business. We're going through that now. We just announced new leadership at the last earnings call, which was just 2 weeks ago. So we're doing that. We're still doing a strategic review. With that said, it's -- we'll come to the right conclusions as we go forward. But again, there's still strength in those brands. They still resonate. And that's what we're about. We're just not ready to announce anything. We'll do that as we get closer.

Gaurav Jain - *Barclays Bank PLC, Research Division - Research Analyst*

Sure, Kurt. My next question is just if I look at your market CapEx, like $1.3 billion, your net cash is about $1 billion. So how do you think of Cronos? Like could you use that $1 billion to invest in spaces outside of cannabis where you could generate economic value because you and all your peers, I think everybody is struggling with the same issue that return from cannabis businesses have been pretty weak. So would you look at something outside that business?

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

Well, I'll let Mike chime in as well, our Executive Chairman, because he's leading it. Well, all the things we've announced today are focused on brands, our focus on growing the business. That's been an eye on the focus of the U.S. And giving us the financial, you're right, we have a pretty strong balance sheet to make those kinds of investments that we want to make -- potentially we can make in the U.S., which Mike actually has been leading for us. A good example is PharmaCann. They just announced this morning that they closed on their LivWell acquisition. And the reason why we invested in PharmaCann was the confidence we had in their management and their ability to strategically grow both organically in M&A, and you're seeing that. And we have a partnership with them. And this is the kind of investments with our balance sheet we can make.

Mike, I don't know if you want to add anything to this?

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

Sure. Thanks, Kurt. Yes, the way we think of it is making investments that we think can have a really good ROI globally over time. So things like the Spinach SOURZ, rare cannabinoids, the FEELZ line, that as markets open up, we'll be able to take those products in as adult-use opens. So things that we invested in Canada, we don't look at it as just cannabis stand-alone, but how can you take those when we see the performance head-to-head with top U.S. brands, with other Canadian brands in Canada, transitioning those into markets like Israel and U.S. as they open. And in addition, looking at opportunities for brands or IP that we see in other markets or infrastructure or distribution partners in the U.S.

Operator

We have our next question comes from the line of Andrew Bond from Jefferies.

Andrew Richard Bond - *Jefferies LLC, Research Division - Equity Associate*

Andrew Bond on the line for Owen Bennett. So maybe just digging a little bit into -- deeper into Israel, I know we touched on it before, but maybe closer to near term. I wanted to get your expectations on how the strong momentum we've seen in third and fourth quarter might continue.

Perhaps some stickiness there with the Peace Naturals brand. So just wanted to get your thoughts on how Cronos might be advantaged versus other LPs selling in Israel. And how we should be thinking about the momentum moving forward as we look into 2022?

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

Yes. Thank you for the question, Andrew. Yes, I think we have great momentum. There's the market, which, as we talked about, is really doing well. We see that continuing. as more pharmacies come on and more patients come into medical cannabis. So that is a strong carrier. We think we're competitively advantaged because we have great series of brands. We cover all the segments we need to cover. As I said, we are the highest rated brand in Israel. And we have a great organization on the ground. So we are -- we have our own organization on the ground. They're doing a great job in terms of sales and marketing, customer relationship, doctor relationship in the market. So we feel we have a very strong organization on the ground with great brands.

And finally, we talked about our ability to serve the market. We are very well placed to serve the market. We use the same kind of strategy we've used in Canada, and we have the ability through the Kibbutz joint venture, third parties and what we do in Canada. So we think we're well placed on it. And again, this is just going to be a market we see great momentum in the start of the New Year, and we don't see anything stopping us. It's all about being focused on building great brands and great products, which not only is the Peace Naturals brand highly rated, but a lot of our products are highly rated in the top prescribed products.

Operator

Our next question comes from the line of Michael Lavery from Piper Sandler.

Michael Scott Lavery - *Piper Sandler & Co., Research Division - Director & Senior Research Analyst*

I joined a little late, sorry. I hope this isn't repetitive. But can you just give an update on your relationship with Altria? And how -- if or how that can help impact your U.S. operations? Is there some opportunities there?

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

Well, Altria is a strategic investor in the company. They have Board seats in there. They're represented on the Board. And again, they've been great as supporting us as we develop our business. As far as the U.S., one of the things we've done is the PharmaCann investment. So that's a great example of the strength we have from the entire Board, both our independents are represented from GGP and, of course, Altria.

Michael Scott Lavery - *Piper Sandler & Co., Research Division - Director & Senior Research Analyst*

Okay. And -- can you just also maybe give an update on edibles, how the FEELZ brand is going?

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

Yes, we did talk about that. Yes, the FEELZ brand is doing fantastic. As we said, quoting in the Hifyre data, we achieved double-digit market share in edibles during the fourth quarter period. We see continued growth in 2022. If you look at our SOURZ portfolio, there's 3 products in that line. They're in the top 10, according to OCS data. So we are performing extremely well. And as we said in October, we launched under Spinach, we launched the FEELZ edibles, which is our first rare cannabinoid using CBG and THC and the progress -- early progress, but we're really pleased the way that's developing. And along with that, we also launched our first rare cannabinoid baked product with CBG that was done in January.

Operator

And there are no further questions. That does conclude our conference for today. Thank you all for participating. You may now disconnect. Have a great day.