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Cronos Group, Inc. (CRON.CA)

Q3 2026 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning. My name is Stephanie, and I will be your conference operator today. I would like to welcome everyone to Cronos' 2026 Third 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, Corporate Development, Cronos Group, Inc.

Thank you, Stephanie, and thank you for joining us today to review Cronos 2026 Q3 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 earnings materials that are available on our website.

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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 an outstanding third quarter, organically achieving records across net revenue, gross profit, and adjusted EBITDA, reflecting the successful execution of our borderless products strategy across each region in which we operate.

Starting with Israel, Cronos delivered its 11th consecutive quarter of record net revenue, growing 33% year-over-year or 19% growth on a constant currency basis, with PEACE NATURALS brand reinforcing its leadership position based on pharmacy data collected by Cronos. Our value brand, LIT, also drove growth in the quarter.

Turning to Canada, we delivered record net revenue with our brands generating 41% year-over-year retail sales growth relative to industry-wide sales growth of 1%. The Spinach brand posted another standout quarter with its market-leading share gains underscoring the effectiveness of our innovation engine. In Canada, Spinach maintained its number one position in vapes for the third consecutive quarter with total vape market share expanding to 11.4%.

Within the vape cartridge subcategory Spinach held its number one position for the fourth consecutive quarter, with market share expanding to 12.1%. And the all in one vape subcategory Spinach share expanded to 10.2% as our PUFFERZ all in one innovation continues to gain market traction. In the third quarter, we continued to leverage our proven flavor development process introducing two new flavor profiles to the Spinach vape cartridge lineup, Strawberry Banana 1.2 gram vape and the Sweet Citrus Punch 1 gram liquid diamonds vape.

We followed this up in October with the reintroduction of the seasonal limited edition Sweet Green Apple 1 gram vape. In edibles, SOURZ remained Canada's number one brand for the ninth consecutive quarter, with market share rising to 21.8% and share within gummies expanding to 23.6%. In Q3, SOURZ by Spinach fully blasted offerings with four of the top seven edibles SKUs in Canada, including the number one edible nationwide, the Fully Blasted Blue Raspberry Watermelon 10 Pack.

In September, we expanded the SOURZ by Spinach product lineup with the launch of the Fully Blasted Blue Raspberry Lemonade gummies, the brand's first gummies infused with 100% live resin. In October, we introduced the Caramel Green Apple flavor to our Fully Blasted SOURZ portfolio for the first time, with a limited edition offering available this fall.

In flower, Spinach ranked number three in Canada, with market share expanding to 6.1% and with two Spinach SKUs among the top seven selling flower products nationwide. Strong product demand continues to drive tight flower supply even with the additional capacity from our late 2025 GrowCo expansion. In pre-rolls, Spinach continued to climb the ranks to number five in Canada, with market share rising to 3.3%. Within infused pre-rolls, Spinach ranked sixth with market share increasing to 3.8%. In traditional pre-rolls, Spinach also ranked sixth with market share increasing to 3.0%.

Turning to our other international markets outside Israel, we delivered record net revenue, which increased by 7x year-over-year, or from $1.9 million to $13.2 million, led by continued robust demand in Germany. Our expanding international footprint continues to be a meaningful growth driver as we execute our borderless products strategy.

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In October, we completed our acquisition of CanAdelaar, the largest adult-use cannabis company in Europe. And I'm excited about what this means for Cronos. The Netherlands is a unique market, and it's different from the adult-use markets we've seen legalized in North America. The retail cannabis framework has existed for nearly 50 years under a policy where coffee shops were tolerated by the government to sell cannabis in a restricted manner. And from the perspective of the consumer, has effectively operated like a legal market the entire time.

There's no excise tax policy that disadvantages the legal market. The experiment gives retailers more product formats and the ability to carry more inventory than those in the tolerated market. The experiment prohibits wholesale transactions between growers and solvent-based extraction is not allowed. Retailers within the experiment also compete with stores in the legacy tolerated market in neighboring municipalities, which have fewer available product formats. All of this mitigates some of the volatility we've seen in other new adult use markets. That said, like every new adult use market, we still expect price compression now that suppliers have had a chance to ramp up and meet demand,

But with a base purchase price of less than 3x trailing adjusted EBITDA, we didn't make this acquisition with the expectation of short-term price stability or immediate growth. Despite the 50-year-old coffee shop network, this market is still quite immature. Until the experiment, the supply side had never been tolerated like the retail side. So, it hasn't had the benefit of years of sustained investment in R&D and operational efficiencies, and the experiment opens the door to new formats such as vapes and gummies.

That is where we think we can add value by implementing efficiencies from our production experience across Cronos and investing to bring our borderless products to the market. We think that over time these investments will compound as they have in the other markets in which we operate. We believe that upside is amplified by the potential expansion of the experiment in the future. This fits our strategy: build a portfolio of borderless products and take them into new markets as regulations open.

In conclusion, we see three ways this acquisition could deliver asymmetric value over the long term. One, introducing our borderless products and improving operational efficiency. Two, benefiting from the potential expansion of the experiment, which currently covers less than 10% of the population. And three, leveraging the Netherlands as a platform to establish our branded products across Europe. We're very excited about the long-term potential here and we're just getting started.

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

Anna Shlimak

Chief Financial Officer, Cronos Group, Inc.

Thanks, Mike, and good morning, everyone. In the third quarter of 2026, Cronos reported consolidated net revenue of $63.5 million, a 75% 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. We note that historically there can be seasonal softness in Canadian provincial board purchasing in Q4 versus Q3, and that sales internationally outside of Israel can be lumpy from quarter-to-quarter due to the timing of export permits and shipments.

Gross profit in the third quarter was $32.3 million, representing a 76% growth year-over-year from Q3 2025. 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. As we noted last quarter, gross margins

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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 $23.3 million in the quarter, a year-over-year increase of $4.4 million, driven by increases in G&A and sales and marketing expenses. The 23% year-over-year increase in operating expenses compares to 75% net revenue growth year-over-year with total OpEx as a percentage of net revenue declining from 52% in Q3 2025 to 37% in Q3 2026. Adjusted EBITDA in the third quarter was a record $17.1 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 $841 million in cash, cash equivalents, restricted cash, short-term investments, and non-current interest-bearing deposits, up $14 million from Q2 2026, driven by $34 million of cash flow from operations, which benefited from $12 million in working capital inflow, partially offset by $10 million of CapEx spend, $9 million of share repurchases, and $1 million negative foreign exchange impact. In addition to this $841 million, we hold $18 million of loans receivable and $5 million of other investments.

In summary, we delivered records across net revenue, gross profit, and adjusted EBITDA in Q3 as we continue to experience strong business momentum driven by focused strategy and our team's dedication and execution. With that, we'll now open the call for questions.

QUESTION AND ANSWER SECTION

Operator: Thank you. At this time, we'll conduct the question-and-answer session. [Operator Instructions] Our first question is from Kenric Tyghe of Canaccord Genuity Capital Markets. Your line is now open.

Kenric Tyghe
Analyst, Canaccord Genuity Corp.

Q

Thank you. Good morning and congrats on a great quarter. Mike, if I could just with respect to the performance in Germany, help us reconcile that given some of your peers' recent commentary. How much of that do you think is just reflective of strong demand pull for Cronos product versus some of the export timing – export permit timing lumpiness that Anna called out?

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

A

Thanks. Yeah, I think it's a great question, and I think there's a lot of discussion about price compression. I think that while there is a real amount of price compression, we still see it as being something that's accretive overall margin-wise to our business. I think that generally we just haven't had the availability of supply, as it's gone through this allocation exercise. So there's certainly some lumpiness, but a lot of that is just we having more supply available to send over as we've ramped up. So we still see growth ahead in Germany, but I would still look at us smoothing it out over a 12-month period.

Kenric Tyghe
Analyst, Canaccord Genuity Corp.

Q

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Right. Thank you for that. And then just further to that, a follow-up. You commented in your prepared remarks on tight supply despite the capacity expansion. Is any of what you're seeing out there and the success that you're enjoying in markets the likes of Germany sort of informing a rethink around that next phase of growth at GrowCo or potential pull-forward, or are you going to let the dust settle here before revisiting the timing of any further expansion?

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

Look, I think the – it's another great question. The most important thing for us is just making sure that when we look at expansion that we're not focused on just sort of bringing something online to meet a demand shortfall in a few months, but that we're building something that's going to be durable and efficient for years to come. So we take a really long-term view. We want to make sure that we cross every t, dot every i. But we are certainly looking at what can help drive future growth.

Kenric Tyghe Q
Analyst, Canaccord Genuity Corp.

Thank you. Maybe just a quick final one. Anna, how comfortable are you with – if you were to sort of bracket the margin profile in the quarter and what risks do you see around the current margin profile as you look to the fourth quarter? I think you called out some of that potential Canadian board-level weakness. But more specifically when we look to 2027, given the movement in margins through the year, where are you comfortable or how comfortable are you with where we are?

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

Sure. I think that trailing 12-month period provides kind of the best useful context for our margin, and you've seen that fluctuation throughout the year. So I think that's kind of where we're going to stick to. I would say moving forward, that's kind of where we think we'll be.

Kenric Tyghe Q
Analyst, Canaccord Genuity Corp.

Okay. I'll leave it there. Thank you very much. I'll get back in queue, and congrats again.

Operator: Thank you. Our next question comes from Ryan Neal of TD Cowen. Your line is now open.

Ryan Neal Q
Analyst, TD Cowen

Hey, everyone. This is Ryan on for Derek, and thanks for taking my questions. Obviously in Canada, we've seen a dynamic where derivative categories have taken significant share from flower over the years. I'm just wondering if you guys expect to see a similar dynamic in the Dutch market.

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

Thanks. Yeah, I think that is reasonable to expect. And I think that's something that when regulations permit, I would expect to see in just about any market over time. While the market there, as I said earlier, has been around for 50 years from a consumer perspective, the experiment is really the first opportunity to have legal sales of vapes and edibles. There have been pre-rolls. The main difference that we've seen in the

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Netherlands is just the prevalence of hash. Hash is pretty popular there compared to North America. But it's a big part of our thesis is being able to bring those borderless products over, build real loyalty in some of those repeatable defined products, and we think that trend will match North America.

Ryan Neal
Analyst, TD Cowen

Q

Great. And then maybe just one on the macro. Any update there that would be great, just in terms of if people are trading into more value products, et cetera?

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

A

I think macro, we've definitely seen in Germany, I think, is where a lot of people are focused on right now. But I think that has more to do with the market maturing. Any new market, you can expect to see price compression. You can expect as supply ramps up, you start to approach equilibrium. But we've seen relative stability overall in other markets. I think that it's just important -- as long as we're offering a strong value proposition, I think that you'll still have people seeing the value in kind of the mainstream category. But we have not really seen any major shifts outside of differences in product formats or what you would expect typical of seasonal shopping to reflect.

Ryan Neal
Analyst, TD Cowen

Q

Great. Thanks, everyone, and congrats on the quarter.

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

Pablo Zuanic
Analyst, Zuanic & Associates LLC

Q

Thank you, and good morning, everyone. Look, two questions on the Netherlands. First, when you talk about the expectation for the pilot to be expanded, are you talking within the current four years or after the pilot is completing those four years? And related to that, we've seen compression in the – I mean a decline in the number of coffee shops. I think we're at 70 or 71 right now. What's driving that? How quickly can the towns issue those licenses to other people? And is there room for the towns to add more coffee shops beyond the initial licenses? Thank you.

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

A

Thanks. So yeah, I was referring to the end of the period. I think that there is a lot of interest from other municipalities to come into the experiment. I think there has been talk of expanding prior to that date, but I think just given the legislative process, it feels like it's difficult. While we'd obviously welcome it, it's certainly not something we would rely on.

And your second question as far as the number of coffee shops, I think that's more specific to regulations and kind of what's happening with any of the individual coffee shops. There are some that are scheduled to come back online, so I think we would still net out with a few extra than where we started. But nothing really happens that fast as far as what you have to do with the permitting, going through the different approval processes. But it's not business-related. It's really more regulatory and specific to the coffee shop.

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So I think that you can see some more added, and it's really up to the municipalities whether or not more are added, but some of these have had queues of like 15 years, I think one of the newer ones it took to actually be able to open up. So there's a lot of interest in people doing it, but I think that generally you're seeing a pretty long road for these new stores to open.

Pablo Zuanic
Analyst, Zuanic & Associates LLC

Q

Right. Thank you. And then just another question on the Netherlands. So in terms of your capacity in the greenhouse, you have the largest capacity. You operate more in the – I don't know if you call it value or mainstream segment. We're seeing more capacity from the other players, but those are more, I guess, higher-priced products, indoor. Maybe they don't have the same cost flexibility that you have.

So when we talk about price compression, in theory, that would benefit you because it would squeeze the profits of the others, whereas you are very well positioned in terms of what you have. But correct me if I'm wrong, in terms of all that description. And the second part to the question, in terms of expanding the portfolio of products, how quickly can you do that, especially on the extract side that you've talked about? Thanks.

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

A

Thank you. I think that's a very fair characterization. Obviously, given the choice, we would be happy with where pricing is, but one of the reasons that we like the asset is because we do feel we have a differentiated supply base, and I think that's really important. And we have – we're not anywhere close to full utilization, so we're able to ramp up.

And we also think there's going to be cost improvements from different efficiencies that we can put in, especially in genetics. So I think that that's certainly something we feel gives us kind of long-term upside here. And as far as what we can do on the derivative products, one thing that's interesting about this market is because there's no B2B sales between the different companies like you have in most of the other markets we look at, I think that the efficiency of the grow matters that much more because you're essentially using your own product as inputs.

So I think that that's something that we look at; and for how quick we bring products to market -- I think that we already have a lot of the development work done and the experience in making them. It's just doing so in a way that we can look at the calendar and make sure that we're giving them the proper attention that they need at retail to have the right messaging.

We don't want to overcrowd or kind of flood, based just launching everything at once. So we'll have a pretty steady calendar. I think we can bring products to market relatively quickly, but still we want to pace it so that we're able to kind of make sure that the sell-in is done properly and make sure that the team is manufacturing everything up to our standards, and again, taking a very long-term view on how we get the product out.

Pablo Zuanic
Analyst, Zuanic & Associates LLC

Q

Thank you. One last one regarding Germany. I know we've talked before about investing in a route-to-market downstream in Germany. I believe you rely mostly on local distributors there and importers. But I know it's hypothetical, but assuming that the OGI-Aurora transaction goes through, in my opinion, there's going to be a lot of overlap on the route-to-market in Europe, and maybe people and assets could come up and could be available,

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and that would be an opportunity for you to build your RTM or strengthen your RTM organically in Germany. Am I thinking about that right, and is that an opportunity?

Michael Ryan Gorenstein

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

A

Look, I think you're thinking about it right. We're always opportunistic. I think that for now what we've been focusing on is making sure that we're able to have the right supply and make sure that we have enough supply to meet demand. We feel that to-date we've had pretty good traction and been able to get to market.

But, I haven't felt there's a squeeze or some sort of like urgency where we're going to miss out on distribution assets if we didn't make an immediate move. But I think that, yeah, there will be more and more opportunities to do that. And so we're being patient and disciplined. But I think as long as we keep focusing on having the best available supply, we'll be in good shape for Germany.

Pablo Zuanic

Analyst, Zuanic & Associates LLC

Q

Thank you.

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

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