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# Cronos Group, Inc. (CRON.CA)

Q1 2025 Earnings Call

## CORPORATE PARTICIPANTS

**Terry Doucet**

*General Counsel & Corporate Secretary, Cronos Group, Inc.*

**Anna Shlimak**

*Chief Financial Officer, Cronos Group, Inc.*

**Michael Ryan Gorenstein**

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

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## OTHER PARTICIPANTS

**Bill Kirk**

*Analyst, ROTH Capital Partners LLC*

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## MANAGEMENT DISCUSSION SECTION

**Operator:** Good morning. My name is Jacinda, and I will be your conference operator for today. I would like to welcome everyone to this Cronos Group 2025 First Quarter Earnings Conference Call. Today's call is being recorded.

At this time, I would like to turn the call over to Terry Doucet, Cronos General Counsel and Corporate Secretary. Please go ahead.

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**Terry Doucet**

*General Counsel & Corporate Secretary, Cronos Group, Inc.*

Thank you, Jacinda. And thank you for joining us today to review Cronos' 2025 first quarter financial and business performance. Today, I'm 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 was 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. Lastly, we'll 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, Terry, and good morning, everyone. Our goals for 2025 remain unchanged from the strategic objectives that have always guided Cronos. We remain focused on leading the market in product innovation, quality, and distribution, and then leveraging these strengths into leading positions in cannabis markets globally. As we look ahead, we see opportunity for continued strong revenue growth, and we aim to deliver additional margin improvement over time through operating leverage and continued cost discipline.

Now turning to brand updates. Our Spinach brand ended the quarter as the second most popular brand in Canada with 4.6% market share, demonstrating category-leading performance across multiple formats. In the flower category, Spinach slipped to the number-three spot with market share of 5.1%. Strong and growing consumer demand for our flower products have led to supply constraints that have restricted growth for our Spinach brand, but we believe this restricted growth to be temporary.

These shortages reflect the exceptional popularity of our flower offerings, and while this pent-up demand presents a near-term challenge, we are taking deliberate steps to ensure we meet it swiftly. Our team is carefully allocating existing inventory to maintain the availability of our most sought-after products across markets. The upcoming completion of our GrowCo expansion will mark a pivotal moment, unlocking significant additional capacity in the second half of 2025 that will allow us to capitalize on this demand. We remain steadfast in our commitment to deliver the cannabis industry's best flower products, and our strategic investment in GrowCo positions us to strengthen our market share as supply becomes available.

Our lead in edibles remain strong, where we hold the number-one position with 20.7% market share. The SOURZ by Spinach line continues to set the standard, capturing over 23% of the gummy category. We've strengthened this lead with new innovative offerings: Fully Blasted gummies featuring 10 milligrams THC and rare cannabinoids, including three new standout flavors: Mango Lime with CBC, Peach Passionfruit with CBN and CBD, and Strawberry Watermelon with CBG.

In the vape category, we've achieved the number-four position overall with 5.7% share, while our vape cartridges specifically ranked even higher at number three with 7% share. We successfully extended our winning SOURZ flavor profiles into the vape category with three new rare cannabinoid-infused offerings: Mango Kiwi Haze with CBC, Peach Passionfruit Kush with CBN, and Strawberry Watermelon with CBG.

Our premium Lord Jones brand continues to demonstrate its category-specific strengths across the Canadian market. The brand maintained its position as the number-three chocolate brand with 9.6% market share, solidifying its status as a leader in the confectionery space and recently expanded its lineup in January with the launch of a fudge brownie bite featuring a THC, CBN, and CBD ratio.

The Lord Jones brand is the category leader in the hash-infused pre-roll segment with an outstanding 30.1% market share. This number-one position highlights our ability to create differentiated, high-quality products that resonate with discerning cannabis consumers. The performance across multiple categories demonstrates Lord Jones' ability to achieve premium positioning while delivering strong results in specialized market segments.

Moving to the international side of the business, the PEACE NATURALS brand and product portfolio continues to grow. The PEACE NATURALS portfolio in Israel was overhauled with a revised pricing strategy with focused

cultivars that meet the needs of our patient base. PEACE NATURALS ended the quarter as the number-one flower brand in Israel with well over 20% market share, according to pharmacy data collected by Cronos. New launches in Q1 included two new PEACE NATURALS strain-specific cannabis oils designed to deliver the full benefits and essence of each strain.

We've been investing and building our team and business in Israel since 2017. And through consistent delivery of high-quality products that leverage our extensive investments in genetics, breeding, cultivation, and R&D, we've earned the trust of Israeli patients and pharmacies and attained the leading share position in the market. The Cronos Israel team performed remarkably in Q1, with the business growing revenue by over 40% year-over-year and gaining significant share within a market that remains highly competitive and dynamic. Q1 was a record for Cronos Israel from a sales volume, revenue, and margin perspective with Israel sales contributing nearly 30% of our consolidated net revenue in the period.

Following an investigation into anti-dumping allegations which Cronos strongly believes to be baseless and firmly disputes, on April 10, Israel's Minister of Economy and Industry announced that Israel would impose tariffs of up to 165% on Canadian cannabis, which would include Cronos' imports. The proposed tariffs were opposed by the Ministry of Health and the competition authority, and on April 25th were vetoed by Israel's Minister of Finance. Despite the veto, on April 29th, the Minister of Economy and Industry publicly stated that he would move forward to seek final approval for the tariff. This is without precedent and contrary to the law. And it risks severely impacting patients and IDF veterans by raising prices, limiting choices for patients, and reducing quality.

We are committed to Israel, which we have been investing and operating in for almost a decade, building a robust supply chain in a competitive medical market. As the top medical provider in Israel, this was a record quarter across the P&L, which stands in sharp contrast with allegations that we are dumping. At Cronos we believe in a fair and equitable market structure that benefits Israel's medical cannabis patients, and we will continue to advocate for them in opposing these tariffs, as patients are counting on us and our products.

Our international expansion continues to gain traction across key markets. In Germany, we expect to see further growth as our GrowCo capacity expansion comes online. And, we continue to build demand and momentum in the UK market.

Looking ahead to the remainder of 2025, we're focused on successfully bringing the GrowCo expansion online to address current supply constraints, continuing to realize operational efficiencies and operating leverage, pursuing international expansion in markets offering the strongest ROI, and maintaining our disciplined approach to cost management.

Cronos maintains the strongest balance sheet in the industry with no debt, and cash, equivalents, and short-term investments of \$838 million, reinforcing our ability to invest in growth, innovation, and global expansion. And today we announced our board's authorization of a \$50 million share repurchase program.

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

## **Anna Shlimak**

*Chief Financial Officer, Cronos Group, Inc.*

Thanks, Mike, and good morning, everyone. I will now review our first-quarter 2025 results, which include the consolidation of GrowCo's financials. The company reported consolidated net revenue of \$32.3 million, a 28% increase from the prior-year period, with constant-currency net revenue growth higher at 33% year-over-year. Net revenue for Cronos, excluding GrowCo, was \$29.4 million, representing 16% growth year-over-year or 21% year-over-year growth on a constant-currency basis. GrowCo's net revenue was \$2.9 million for Q1 2025.

Overall, the consolidated net revenue increase was driven by higher flower sales in Israel, higher flower sales internationally, and higher extract sales in Canada.

Gross profit in the first quarter was \$13.7 million, equating to a 43% gross margin. Adjusting for the impact of the inventory step-up from the GrowCo transaction that was recorded into cost of sales, our adjusted gross profit was \$14.3 million, equating to a 44% adjusted gross margin. During Q1 2025, we sold through the last of the inventory that was stepped up to fair market value through the purchase accounting adjustment, so gross profit in future quarters will not be impacted by this adjustment.

The 44% adjusted gross margin in Q1 2025 is a significant improvement from 18% in Q1 2024. This improvement is driven by regional mix shifts, lower direct costs, and production efficiencies, as well as by timing benefits which flattered Q1 2025's gross margins. Given these timing benefits, we would view the blended adjusted gross margins over Q4 2024 and Q1 2025 as more indicative of the current underlying margins of the business.

Operating expenses, excluding restructuring costs and impairment charges, were \$17.3 million in the quarter, a year-over-year decline of nearly \$1 million, primarily due to lower sales and marketing costs. A reversal in previously accrued bonuses benefited reported operating expenses in the quarter, and a portion of the OpEx reduction was timing-related, due to the cadence of sales-and-marketing activations and R&D activities. As a result, for the balance of 2025 we expect quarterly operating expenses to be higher than Q1 2025 levels, but to remain relatively flat on a year-over-year basis.

Adjusted EBITDA in the first quarter was \$2.3 million, representing a \$13 million improvement from the prior-year period. The improvement was driven by increased revenue, significantly higher adjusted gross margins, and reductions in operating expenses. While a portion of the gross margin improvement in the quarter was related to underlying business improvements, a portion was timing-related. Reduced operating expenses are partly due to our ongoing efficiency measures, but also partly a reflection of the expense timing benefits and the bonus accrual reversal.

Turning to the balance sheet and cash flow statement. The company ended the quarter with \$838 million in cash, cash equivalents and short-term investments, down \$21 million from Q4 2024, driven primarily by an approximately \$15 million net working capital outflow and CapEx spend of approximately \$15 million, partially offset by positive cash flow from operation before changes in working capital of approximately \$12 million. The majority of CapEx is related to the previously announced facility expansion at GrowCo. CapEx spend will remain elevated for the next couple of quarters as the GrowCo expansion continues and is completed, after which CapEx levels are expected to normalize lower.

In summary, we posted a strong quarter, and with our large-scale capacity expansion at GrowCo, we are well positioned for continued medium and long-term improvement in our operating fundamentals, notwithstanding shorter-term headwinds due to supply constraints and gross margin and OpEx normalization over the next couple of quarters.

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

## <sup>S</sup>Michael Ryan Gorenstein

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

Thanks, Anna. As we look ahead, we remain relentlessly focused on three strategic pillars: groundbreaking innovation, operational excellence, and disciplined global expansion. Our core business is performing well with market-and-category leadership positions that demonstrate the strengths of our brands and executions, and our

team has built incredible momentum going into 2025. As we move through this year, we're particularly excited about several catalysts: our upcoming capacity expansion, new product launches, and growth in international markets. With our best-in-class balance sheet and market-leading products, we have the pieces in place to navigate and succeed within the rapidly evolving global cannabis industry.

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

## QUESTION AND ANSWER SECTION

**Operator:** Thank you. At this time, we will conduct the question-and-answer session. I see a participant has now entered into the queue. Bill Kirk at ROTH, your line is open.

**Bill Kirk**

*Analyst, ROTH Capital Partners LLC*

Q

Hey. Thank you. Good morning, everybody. Mike, you talked a bit about product shortages, and that's not an idea we've had to think about much in the years since Canada legalized adult use. So, I guess my question is: is the shortage more specific to Cronos product end demand, or is it a broader industry-wide phenomenon right now as well?

**Anna Shlimak**

*Chief Financial Officer, Cronos Group, Inc.*

A

I think it's really about having the right product to supply the market. And you're – I think you're seeing a shortage of good product in market, and that's something we're dealing with and one of the biggest reasons for investing in the GrowCo expansion; the leading genetics, leading products that we have in Canada and Israel, we'd like to supply more of globally.

**Bill Kirk**

*Analyst, ROTH Capital Partners LLC*

Q

Okay. And then, Anna, I think you said that underlying gross margin is more likely a blend of 1Q and 4Q. How does underlying gross margin change maybe when the GrowCo expansion is complete?

**Anna Shlimak**

*Chief Financial Officer, Cronos Group, Inc.*

A

Yeah, that's correct. So, blended rate between Q4 and Q1 is what we expect to see for the rest of the year. I think, all else being equal, the expansion of Cronos GrowCo is expected to be neutral-to-accretive to gross margin as with the expanded cultivation area, we're incrementally going to be able to better leverage fixed costs at the facility, but it will take us time to ramp and kind of hit our stride there as well.

**Bill Kirk**

*Analyst, ROTH Capital Partners LLC*

Q

Okay. Perfect. Thank you.

**Anna Shlimak**

*Chief Financial Officer, Cronos Group, Inc.*

A

Thanks, Bill.

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**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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