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# High Tide Inc. TSXV:HITI

*Earnings Call*

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# Call Participants

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# Presentation

**Operator**

Good morning. My name is Elliot, and I will be your conference operator today. At this time, I would like to welcome everyone to the High Tide Inc's Year-end 2023 Audited Financial and Operational Results Conference Call. [Operator Instructions]

I'll now turn the call over to Krystal Dafoe.

**Krystal Dafoe**
*Director of Corporate Governance*

Thank you, operator. Good morning, everyone, and welcome to High Tide Inc's quarterly earnings call. Please note that all earnings discussed on this call are presented on an audited basis.

Joining me today on the call are Mr. Raj Grover, President and Chief Executive Officer; and Mr. Sergio Patino, Chief Financial Officer. On January 29, 2024, the company released audited highlights from its financial and operational results for the fiscal year ended and fourth quarter that ended October 31, 2023.

Before we begin, please let me remind you that during the course of this conference call, High Tide's management may make statements, including with respect to management's expectations or estimates of future performance. All such statements, other than statements of historical facts, constitute forward-looking information or forward-looking statements within the meaning of the applicable securities laws and are based on assumptions, expectations, estimates and projections as of the date hereof. Specific forward-looking statements include, without limitation, all disclosures regarding future results of operations, economic conditions and anticipated courses of action.

For more information on the company's risks and uncertainties related to forward-looking statements, please refer to the company's press release dated January 29, 2024, our latest AIF and our latest management discussion and analysis, each filed with the securities regulatory authorities at sedarplus.ca or on EDGAR at www.sec.gov or on the company's website at www.higtideinc.com, and which are hereby incorporated by reference herein.

Although these forward-looking statements reflect management's current beliefs and reasonable assumptions based on the currently available information to management as of the date hereof, we cannot be certain that the actual results will be consistent with the forward-looking statements in the future. There can be no assurance that actual outcomes will not differ materially from these results. Accordingly, we caution you not to place undue reliance upon such forward-looking results. For any reconciliation of non-GAAP measures measured and discussed, please consult our latest management discussion and analysis filed on SEDAR+ and EDGAR.

It is now my pleasure to introduce Mr. Raj Grover, President and Chief Executive Officer of High Tide. Thank you, Mr. Grover. You may now begin.

**Harkirat Grover**
*Founder, CEO, President & Executive Chairman*

Thank you, Krystal, and good morning, everyone. Welcome to High Tide, Inc's financial results conference call for the fiscal year-end and fourth quarter that ended October 31, 2023.

I will begin with some big picture comments regarding the quarter and our strategy, before Sergio and I dig deeper into the numbers. Fiscal 2023 was a pivotal year for High Tide. During the 3 preceding years, we were in hyper-growth mode, adding about 35 to 40 stores a year, focused on organic build-outs in premier locations, supplemented by strategic and accretive M&A. A few months into calendar 2023, we assessed the state of the industry, our competitive positioning within it and capital market realities, and therefore, we decided to take a different path.

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Cash and solvency had become paramount matters for investors, and we wanted to reassure them by showcasing the free cash flow potential of our enterprise. Fortunately, due to the moves we had made since 2018, we didn't need to add 40 to 50 stores in 2023 to reach the scale to generate positive financial outcomes. We already had it.

Accordingly, we made the decision to meaningfully slow growth and prove to investors that our existing base of stores could generate free cash flow, and we set the goal to demonstrate this to the market by the end of calendar 2023. In our third quarter ended July, we generated $4.1 million of free cash flow, meeting our goal 5 months ahead of schedule.

Today, we announced our fourth quarter ended October, which showed that our Q3 results weren't a fluke or one-trick pony. In fact, free cash flow grew by a massive 40% sequentially to $5.7 million. Annualizing this figure, results in a free cash flow yield of 11% of our enterprise value as at Friday's close.

Capital markets now have even more evidence that our team has built a business that is focused on execution and growing our industry-leading position, not how to find the funds to keep the lights on. While we were reaping the fruits from the decisions made in prior years, 3 of our public competitors in Canadian retail cannabis disappeared during 2023 and some others are currently on the brink.

Looking ahead, our objective is to reaccelerate growth a few notches from our internally generated free cash flow, and we have already started doing so. We opened 4 stores in the first 7 months of 2023 and 8 stores in the last 5 months of the year funded from our free cash flow. Our expectation is to open 20 to 30 stores in calendar 2024 via a combination of organic builds and M&A while remaining free cash flow positive.

We have generated just shy of $10 million in free cash flow in the last 6 months, which has allowed us to achieve a rare combination of ending the quarter with a record cash balance, increasing our store footprint, as well as reducing debt. Yet, our shares currently trade at an EV to last quarter annualized adjusted EBITDA multiple of just 6.2x, a level we believe is quite attractive.

I would like to remind investors that I led a round of insider buying in November 2023 as well as in March 2023. I remain the largest shareholder and I've never sold a share.

Fiscal 2023 continued an established string of exceptional performance for High Tide. Revenue for the year was $487.7 million, ending at a pace quickly approaching $510 million versus $31.3 million in fiscal 2019, our first fiscal year-end as a public company.

In fact, we have never reported a sequential decline in quarterly revenue during the 5 years since we have been public. We have now posted 15 straight quarters of positive adjusted EBITDA, while setting new records in each of the past 5 quarters, excluding the impact of the removal of the SRF in Manitoba in Q3 2023.

While it has been a string of very successful years, I firmly believe that the best is yet to come for High Tide. Most importantly, we were fully supportive of the transformational regulatory change in Ontario a month ago, where the government raised the cap of the number of stores any one entity can own from 75 to 150 effective January 1, 2024.

While we ran a corporate store network, others were using a franchise model as a loophole to get around the cap and have more than 75 stores. Now the playing field is clear and leveled for everybody, and the total addressable market for us in the largest province has doubled.

We ended fiscal 2023 with 52 stores in Ontario and have 54 today. With this key change, we now have the ability to add almost 100 stores, which would be a game changer for our operations and financial profile. Our average Ontario store generated $3.6 million of annualized revenue in October, which compares to $1.1 million of our peers in the province, and our market share was 9% in Ontario during the month.

We look forward to continuing to profitably expand by adding 96 more stores in the province to our store network via both organic and acquisitive growth. We have already identified about 20 sites we plan to build out, the majority of which are in Ontario. While we remain hungry for expansion into other

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international legal markets coming over the horizon, this positive development in Ontario should fuel years of meaningful growth ahead for High Tide right here in Canada.

Innovation is the key to what we do at High Tide. Whether you're talking about our discount club model, Fastendr technology or our Altogether Magazine circulated to over 1.28 million Cabana Club members, helping to provide visibility and exposure to the latest and greatest trending cannabis brands, we are always on the cutting edge, trying new things to stay ahead of our competition, and we are succeeding.

With a full year behind us since launch, I'm very happy to report that ELITE continues to do very well and that uptick is accelerating. We have breached the 28,000 ELITE member mark as of today, up 49% or 9,200 members since we reported this metric on September 14, 2023, with our Q3 results, representing the fastest onboarding pace since we launched ELITE a year ago.

I'm very pleased to report that our ELITE membership is up 367% over the past year. Our Cabana Club has also swelled to over 1.28 million members today, up 35% versus the prior year and 16% sequentially. We are 163 store strong across the country today. In Alberta, our average store was in a $2.2 million run rate in October and held a 19% market share versus our peers, which averaged a $1.1 million run rate.

We just opened our first store in Fort McMurray over the weekend. We are very excited about it and expect it to be one of our better performing stores in Alberta. Our market share across the 5 provinces in which we have a presence was 10% for the quarter. Our long-term goal is to have 15% market share in the markets where we operate, although that will be difficult to obtain in British Columbia, where we are currently limited to the cap of 8 stores until there's a regulatory change.

I will now go over the highlights from the financials, and Sergio will do a deeper dive. Revenue for Q4 was $127.1 million, representing an annual pace quickly approaching $510 million and up 17% year-over-year and 2% sequentially. Recall that we only opened 3 stores during the quarter, one of which was only open for 9 days.

Consolidated gross margins were 26% in Q4, which was fairly consistent versus 27% in the fourth fiscal quarter of 2022 and equal to the third fiscal quarter of 2023, excluding the impact from Manitoba's SRF.

We're very happy with how the benefits of scale and active cost control initiatives resulted in an improved financial profile in 2023 versus 2022 and how we held the line on expenses during Q4. For example, salaries, wages and benefits were 11.6% of revenue during 2023, representing a meaningful decline versus 12.3% in 2022. In Q4 2023, the percentage was 11.6%, representing a big improvement from 12.1% in Q4 2022 and equal to the full year average for 2023. Similarly, general and administration expenses represented 5.5% of revenue in 2023 versus 7.3% in 2022. And in Q4 2023, the figure was 5.3%, much better than 7.4% in Q4 2022 and lower than the full year average for 2023.

Adjusted EBITDA for Q4 2023 was $8.4 million, which excluding the onetime benefit from the elimination of the social responsibility fee in Manitoba of $2.4 million in Q3 2023 was a record level and up 7% sequentially and up 67% year-over-year.

We performed our annual impairment testing during Q4, driven primarily by a global post-pandemic slowdown in e-commerce sales to which our e-commerce assets have not been immune. Unfortunately, we had to incur noncash impairment charges, primarily relating to brands and goodwill of $34.3 million.

While we are not happy with this development, I stress that this has to do solely with e-commerce assets and does not relate at all to our core bricks and mortar business in Canada, which represents over 91% of our revenue and frankly continues to get stronger with each passing quarter. Specifically, I note that our income from operations, excluding these noncash charges turned positive in Q4.

Now let's look at the competitive nature of the industry. Our model continues to stand out as the clear winner. In the 2 years since we introduced our innovative discount club concept, our same-store sales have risen a remarkable 110%. In contrast, total retail sales across Canada, excluding Quebec, where there is no private sector cannabis retail were up only 28%.

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During the 2-year period, the industry store count has risen 38%, suggesting that while our same-store sales were up 110%, the average operator in the country has witnessed a 7% decline.

We are definitely seeing the impact of competition in the market and our superior positioning. We are regularly going into more saturated areas, and provided we can get top-tier real estate, which usually isn't a problem given our strong financial covenant and existing landlord relationships, we find that even in these competitive markets the value proposition offered by the Cabana Club model is making these new stores winners relatively quickly.

At the same time, we're seeing store closures and no shortage of opportunities from operators hoping we will simply take the keys of their money-losing stores, which, of course, is not our model. We only act on high-quality real estate opening up newer pockets of customers for us and featuring a healthy financial profile. There are still many cities where we don't have a Canna Cabana. 2024 will be a year where we look to take action on such opportunities.

In conclusion, Q4 was another quarter of solid execution and growth for High Tide, which, of course, could not have been achieved without the dedication of our strong team. The outlook of our future remains very bright, featuring years of expansion ahead in Ontario, likely followed by international markets such as Germany and the U.S. opening up. We were the top-performing Canadian cannabis stock in 2023, and I remain excited about our prospects for 2024 and beyond.

I would now like to turn it over to Sergio Patino, our Chief Financial Officer, for his comments and a deeper dive into the numbers.

**Sergio Patino**
*Chief Financial Officer*

Thank you, Raj, and hello, everyone. Q4 was another fantastic quarter for High Tide. We highlighted record revenue, record adjusted EBITDA, record free cash flow generation and record cash on hand at the end of the quarter. We have proven that our existing base of the stores is able to generate industry-leading performance and meaningful free cash flow, which can be used for debt reduction and store expansion. Let's take a deeper dive into the numbers.

As Raj mentioned, revenue for the quarter was $127.1 million, up 17% year-over-year and 2% sequentially. Our same-store sales were up 13% year-over-year. Our consolidated gross margin profile remains stable as we ended the quarter at 26% in Q4. Gross margins for the year were 27% and have remained consistent over the last several quarters.

Once again, our cost control was very apparent this quarter. Excluding the impairment charges mentioned by Raj, our consolidated expenses were $32.9 million, representing the lowest level in 4 quarters despite the fact that revenue was once again at record level. Total operating expenses, excluding impairment loss, as a percentage of revenue decreased to 28% in the year ended October 31, '23 compared to 35% in the prior fiscal year, again due to the company's continued focus on implementing cost-saving solutions that focus on efficiency without impacting quality.

Looking at G&A and professional fees together, the total expense decreased by 7% to $8.2 million for the fourth quarter of 2023 as compared to the fourth quarter of 2022 of $8.8 million, an increase by 14% to $35.3 million for the year ended October 31, '23 as compared to the prior year of $30.9 million. As a percentage of revenue combined, both G&A and professional fees have been reduced by 2% to 7% for the year ended October 31, 2023, as compared to 9% in the prior fiscal year.

In particular, I would like to highlight that advertising and promotion was at a 4 quarter low in Q4 '23. It went from 1.3% as a percentage of revenue in Q1 '23 to 0.5% in Q4 '23, reflecting a drop of 60% over the past 4 quarters, while significantly growing the business. Adjusted EBITDA in Q4 was a record of $8.4 million, excluding the impact of the onetime benefit of $2.4 million received in the previous quarter through the elimination of Manitoba's social responsibility fee.

Our adjusted EBITDA margin for the quarter was 6.6%, representing a large upward move versus 4.6% in Q4 '22 and above the 6.3% generated in Q3 '23 without the Manitoba's SRF credit. Operating cash flows

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were at record $9.6 million in the quarter, up 17% year-over-year and 28% sequentially. Cash flows in any given quarter can be bumpy, so it is important to look at longer-term trends.

To that point, total operating cash flow was $20.7 million in fiscal year '23 versus $4.5 million in fiscal year '22 and increases an incredible 360%. Free cash flow was a record of $5.7 million for Q4 versus $4.1 million in Q3, up a tremendous 40% sequentially. This brings a cumulative free cash flow for the last 6 months to almost $10 million.

Our cash balance grew to a record of $30.1 million from $25.7 million in the previous quarter, driven by the strength of our operations, which continued to generate meaningful amounts of cash. With sound restructuring and a cash pay down of our convertible debt since the fiscal year-end, our total debt now stands at just $28.8 million, which is only 0.9x the $33.4 million of Q4 annualized adjusted EBITDA.

Therefore, we feel that we are under levered and are currently exploring opportunities to obtain more debt financing on acceptable terms, which in conjunction with our clearly demonstrated free cash flow generation can help finance the stronger growth we see ahead.

In the 5 Canadian provinces where we operate our brick-and-mortar store network, we have achieved 10% of market share in Q4. Our innovative discount model continues to lead our peer group as our average store was on a $2.7 million run rate in the month of October, which was 2.3x the pace of our peers.

We are also pleased to see that ELITE, our recurring high-margin revenue stream, has grown at its fastest pace since inception in November of '22 to over 28,000 members today. Further, our Cabanalytics business and data and insights platform, including ad revenues grew by 3% sequentially in Q4.

Despite the decline in sales that we are experiencing in our e-commerce businesses in line with global trends, the team has made diligent efforts to cut costs, and thus, cushion the overall financial impact, which has resulted in continued record adjusted EBITDA and free cash flow generation.

I would like to remind investors that High Tide remains the highest revenue-generating cannabis company in Canada and has been recognized as one of Canada's top growing companies by the Globe and Mail's Report on Business Magazine for 3 consecutive years. We look forward to our growth ahead in Canada, focusing on Ontario over the next few years, having an opportunity to almost double our existing store count of 163 stores to approximately 300 locations.

In closing, Q4 was another great quarter for High Tide. Our operating fundamentals continue to improve with each passing quarter and our competitive position continues to strengthen, while our balance sheet also keeps getting stronger. I'm excited for what fiscal year '24 will bring.
With that, I will now turn the call over to the operator to open the line for the question-and-answer session.

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# Question and Answer

**Operator**

[Operator Instructions] The first question today comes from Matt -- sorry, Matt Bottomley with Canaccord Genuity.

**Matt Bottomley**
*Canaccord Genuity Corp., Research Division*

I'm just wondering if we can start on the dynamic in the Canadian cannabis retail sector. Obviously, it slowed a little bit subsequent to your quarter. But in your quarter, I'm just wondering if we can get a little bit of more granularity on -- you had some sort of 2x and 3x performance on a per store basis relative to industry average. Is that still holding up? And sort of where was your growth profile sequentially versus what the sector saw?

**Harkirat Grover**
*Founder, CEO, President & Executive Chairman*

So absolutely, our store portfolio is continuing to exceed our expectations. Matt, you may have seen the November numbers. November cannabis sales in Canada were 6% lower year-over-year. So -- and we also felt a little bit of that pinch in November. But heading into November, we were very much holding the line. Not much has changed since and our stores continue to perform optimally at those levels as we disclosed that our average store in Alberta is doing $2.2 million in annualized run rate versus our peers at $1.1 million. And that is even more pronounced in Ontario, where we are sitting at $3.6 million per average store and where our peers are doing approximately $1.1 million in sales.

So absolutely nothing has changed in that front, including, Matt, us entering into saturated markets, getting high-quality real estate, and even those stores ramping up relatively quickly than we were previously anticipating. And this is why -- Matt, as you see, we've done almost no M&A impact. We did 0 M&A in calendar 2024 and we have still organically grown our revenues despite the softness in our e-commerce portfolio. And we generated a ton of cash. We generated close to $10 million in the last 6 months. So no, business is extremely healthy.

**Matt Bottomley**
*Canaccord Genuity Corp., Research Division*

Got it. And then just one more for me. On the use of those cash proceeds, obviously, the -- it seems like we're at steady state here with where your portfolio is and its ability to yield free cash flow, which is great.

You pointed to Ontario in your outlook commentary a little bit. And I'm just wondering -- excuse me, I'm going to cough. I'm just wondering if you can kind of give us an indication of how to balance the fact that you're able to accelerate potentially now with an increased cap in Ontario your exposure in that market versus the overall competitive profile, where I think many of us are expecting more store closures than openings. But clearly, those that are competing in that space have the ability to look for more locations as well.

**Harkirat Grover**
*Founder, CEO, President & Executive Chairman*

Look, I couldn't be more excited about this Ontario opportunity. We've literally have the opportunity to add an additional $0.25 billion in the Ontario market, adding another 96 stores. We are known to get high-quality real estate. Nothing has changed. We have excellent landlord relationships. And we've just generated $5.7 million in cash. We don't need to raise equity. We don't need to tap that ATM, which we have not touched in months.

So from that perspective, we are going to use our free cash flow. We have a very handsome generation of free cash flow happening in our company. And we're going to use those dollars to continue expanding

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our footprint in Canada focused on the Ontario market. We're up the ante on where we were not initially considering opening stores because we wanted to be extremely selective in where those stores go in terms of new markets. Well, that is not the case right now. Instead of having 6 stores in Mississauga, we now intend to have 8 to 10 stores in Mississauga, which is a game changer for us.

So you're going to see a lot of that happen. Again, we are very, very selective on how we look at quality real estate and very selective on how we look at M&A opportunities. So we're not going to haste into it. And this is why we didn't do any M&A in 2024 and -- calendar 2024 and still had a stellar performance. So we are going to use our cash very wisely for the Ontario market, and you will see significant momentum in us opening stores in that market.

**Operator**

Our next question comes from Scott Fortune with ROTH MKM.

**Scott Thomas Fortune**
*ROTH MKM Partners, LLC, Research Division*

Congrats. Raj, High Tide has done a -- continues to execute on its priorities and operations. And 2022 was about growing the club membership and new store growth, which you did and exceeded expectations. '23 you prioritized store operational efficiencies, those cost initiatives, while slower store growth. But just kind of -- generating cash flow, which is great.

But just kind of want to get a sense for your -- a little more color on focus and priority for here to execute in '24. You're mentioning store growth. But just kind of what -- kind of what's your execution, operation priorities as you move forward into '24 as you've done a great job on executing here?

**Harkirat Grover**
*Founder, CEO, President & Executive Chairman*

So look, we couldn't be more proud of where our club membership is sitting. We are almost at 1.3 million Canadian members of our Cabana Club. And store growth was not as powerful as over the last 3 years. As you mentioned, we were growing at 30 to 40 stores in the previous 3 years. In this [ time ], we only added 13, 14 stores. But the fact remains, Scott, that we really focused on organic growth this year.

And we wanted to prove a point to the market, that, look, our portfolio of stores can generate meaningful amounts of cash. We have the size and scale now. It's not like we're desperately looking to add another 50 locations. So that strategy has worked out really well.

I sleep really well at night looking at the cash flow generation we have in our company. We've ended with a record cash balance, and now we're back to growth strategy, albeit remaining cash flow positive. That is imperative for us. I think that's the prudent approach in this very sensitive and shaky market, which is also playing to our advantage, Scott. So we have the double whammy now because we have really controlled our cost.

The one thing I'm super proud of this quarter and the entire 2023 calendar year was our operating expenses. Our operating expenses, as Sergio mentioned, are at a 4-quarter low. This is despite significantly increasing, I believe, 37% Y-o-Y. And operating expenses in terms of dollars remaining flat or lower is a massive achievement. It's not easy to make money at 26%, 27% gross margins and to spit out the kind of cash flow that we are.

So all of those boxes are checked now and we are back to growth. Growth always excites me. This is not our end game to generate $4 million, $5 million in free cash flow. And we are a dominant player in Canada. We want to retain our market-leading position. So you're going to see us add 20 to 30 stores in calendar 2024. I don't think we'll have any problem doing so.

And it will be more focused on an organic versus M&A mix. There will be some M&A there for sure. But we are not going to act upon M&A just for the sake of it. We want to pick up locations at our own terms because we know what the portfolios in the country are worth. And there are not many worth even looking at, quite honestly. And this is why we were shy to trigger on any M&A in calendar 2024.

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We have some that we're looking at, but we are going to be focused on high-quality real estate that has been our savior and that has been a huge part of our strategy. So you'll see at least -- I would say at least 20, 25 locations come out of organic growth this year.

**Sergio Patino**
*Chief Financial Officer*

And just to add on the -- you asked about the priorities, Scott. So the overall priority just looking at the balance sheet is restructuring the debt. As you can see, we are in a very unleveraged position where we have annualized EBITDA of $31 million with debt today less than $28 million or so. So a ratio of less than 1. So we're looking at that.

And the second position in the balance sheet is with less than $1 million right now. So we're looking at extending the maturity of the debt. And so, we are actually looking at discussions with several different lenders and looking at different attractive terms.

**Scott Thomas Fortune**
*ROTH MKM Partners, LLC, Research Division*

I appreciate the color. That's great. And a little quick focus on margins, more gross margins. Obviously, you're moving up, steady pickup on EBITDA margins. It's gone from 3% to about 6% to 7%; if you look long term, 10% to 12%.

But just a sense of the gross margins at the 26%, 27% level over the last 6 quarters, are we going to start to see a little bit of inflection here as club membership, the leads kind of add on? And just kind of talk about the white label products, kind of expectation of margin expansion? Or is it still just too competitive of store environment here and still challenging to really move up the gross margins from that level? Just some more color on the gross margin side. That would be great.

**Harkirat Grover**
*Founder, CEO, President & Executive Chairman*

Yes. Absolutely, Scott. So Scott, our gross margins have remained stable for almost like 8 quarters now, right? We remain between that 26% to 28% range, although the 28% was only achieved with the Manitoba SRF. Generally, it's been around 27%. So we're not too far off it at all.

I said this last quarter in my call last quarter that we have this dominating position in Canada. We're absolutely crushing it in terms of our bricks and mortar business. And we don't want to let loose on that. When you're generating $4 million a quarter prior and $5.7 million of free cash this quarter, I am not on a horse or in a hurry to raise our margins, which we clearly have an opportunity to do so. We want to really tighten up the margin profile, keep it tight. So -- we can basically get rid of some of the noise, some of the marginal players in the country that are just there, but they really shouldn't be there, right?

So that is our strategy. This is why we are holding on to the line on gross margins. We have also been pressure -- to be honest, we've also been feeling the pressures from gross margin declines and sales declines in our e-commerce business, although they are all -- we are still EBITDA positive in our e-commerce portfolio. There's a good strategic reasoning why we bought these assets, and there's a good strategic reasoning why we are holding on to them. They're not bugging us. They're still EBITDA positive, right?

A lot of our CBD competitors are no longer in business. A lot of the accessory players are no longer relevant. So we are holding the line in this tight inflationary environment, in this high inflationary environment. And we will have a chance to up the gross margin profile not only in our brick-and-mortar business -- basically, it will when we want to do so because we are the dominant chain in the country. But we want to get rid of a little bit of this noise in terms of marginal players that are still in the country, in Canada in the bricks-and-mortar business.

And also be alive in our e-commerce business to play when the real innings start globally. In terms of CBD and consumption accessories and seeds and cannabis dispensaries opening up in other countries, we will

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have additional gross margin opportunity. We're just being very careful on how we manage the strategy, although it's not hurting us. We just produced $5.7 million in free cash flow.

**Operator**

Our next question comes from Frederico Gomes with ATB Capital Markets.

**Frederico Yokota Choucair Gomes**
*ATB Capital Markets Inc., Research Division*

Raj and Sergio, congratulations on a great quarter. I guess my first question is, you mentioned the strength of your balance sheet, how you are under levered at this point and how your plan is to remain cash flow positive while growing. So I guess my question is, given where your valuation is -- and you also have insider buying as you mentioned, Raj. So how do you look at capital allocation and a potential share buyback at these levels?

**Harkirat Grover**
*Founder, CEO, President & Executive Chairman*

So Fred, like I said, we're still in growth mode. We anticipate opening another 20 to 30 stores this year, and we intend to do that from our free cash flow generation. I think it will be a little immature for a company our size that is growing at such a rapid pace -- I mean, we've been growing at exponential rates over the last 3, 4 years. We're Canada's top growing company as per Globe and Mail over the last 3 years. Same thing with Financial Times. We were the North America -- in fact, all of Americas' top growing retailer in 2022 as per the Financial Times.

So Fred, where we want our dollars to go is store growth, not in share buyback yet. We are not there. Of course, we want that time to eventually come, and it will come. Right now, we are very focused on growth and managing our business extremely well and generating huge amounts of cash that can actually go back in growth.

We have good 2 to 3 years of runway ahead, maybe even more than 3 years in Canada alone. Then we're talking about the German opportunity. We're then going to be talking about the U.S. opportunity. So we're going to need all the cash that we have, although I think we will be every quarter -- the quantum of free cash flow may vary, but we absolutely intend to remain free cash flow positive as we ramp up growth here in Canada.

**Frederico Yokota Choucair Gomes**
*ATB Capital Markets Inc., Research Division*

And then my second question is on your cost structure. So I guess a while ago, you mentioned you were reviewing cost structure and trying to find efficiencies, and you had been doing that in your results. So how much of that work has already been done? And how much more do you think you have left here to find additional cost reductions?

**Harkirat Grover**
*Founder, CEO, President & Executive Chairman*

I'm going to pass this to Sergio because I can talk forever, Fred. I want him to answer a couple of questions here. Sergio, go ahead.

**Sergio Patino**
*Chief Financial Officer*

Yes. So I will say you can see that in our P&L that there has been significant reduction in professional fees, G&A and even in the marketing aspect. I will say the -- where are we in the journey is probably half of the journey. We still expect a significant improvement on the e-commerce side and the international side of things on the operating expenses.

But yes, in the last 4 quarters that has been the focus and it will continue to be in the next 2 to 4 quarters. We are actually implementing company-wide internal controls, ERP implementation, new

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systems. So there are a few more initiatives that are on the go that will help us to continue to reduce that in the future, the G&A and professional fees in particular.

**Operator**

Our next question comes from Ty Collin with Eight Capital.

**Ty Collin**
*Eight Capital, Research Division*

Raj, for my first one, I just wanted you to maybe expand on your comments earlier in the call about M&A that you're not seeing many attractive opportunities out there. Is that due to where sellers' valuation expectations are at? Or are you guys kind of just being very choosy on the real estate piece and maybe we should be thinking about M&A as being a smaller part of the growth story going forward compared to what it's been in the past?

**Harkirat Grover**
*Founder, CEO, President & Executive Chairman*

So Ty, it's mostly related to the quality of the retail portfolios that are out there, right? Like we did mention that we're 3.4x our peer average in Ontario, we're 2.2x our peer average in Alberta. So we have high standards. Our average stores do a lot more. And we don't generally consider stores that are doing less than $1.8 million or $2 million annual run rate. So it doesn't make sense for us to look at B-graded portfolios. And there's a ton of that. That is what I meant by marginal players still existing and a lot of the noise that still exists. That won't be around for too long.

And we are not on a horse to act on any of those opportunities. In fact, we don't need to, Ty. And because of our existing landlord relationships in the country, we're tied up with some of the largest landlords that have prioritized their real estate over to us because of our financial covenant and because of our solid execution that we can get good real estate at will.

And there's no better growth than organic growth for any company. So we spend about $0.25 million or $300,000 to build a store. We add another $100,000 in working capital. And we've got a great store to go. We don't have to even pay $1 million for a store that's doing somewhat to our expectation.

So really, the reason is finding the right deals. I don't think we're that far apart from expectations of what people want, although the multiples have come down. We are not even offering 3.5x at this point. Well, we can put up stores for $350,000. Although we are nice guys and -- we always check if there's competitors that are doing well. Maybe there's an opportunity for them to take an exit and join the way with us, join the High Tide family. And if not, we just -- we are patient to just wait for some really good high-quality real estate in these areas. And when we get our opportunity, we go in. So that is really the reason behind it, not really that the valuations are too high in Canada.

**Ty Collin**
*Eight Capital, Research Division*

Okay. That's great color. And then for my follow-up, obviously, you touched on the news out of Ontario with the increase in the store cap. Obviously, a very important moment for you guys and for the industry. I'm just wondering if you could call out what are some of the next regulatory changes that you're looking forward to and some that we might hope to see this year.

**Harkirat Grover**
*Founder, CEO, President & Executive Chairman*

So the biggest one was this Ontario change, Ty. This change alone is going to keep High Tide very, very busy over the next 2 to 3 years, right? And I've learned from our GR team, especially from Omar, that, "Raj, it's all about small incremental wins." And I'm coming to understand that fully now.

And there's a lot of positive changes that have happened. You are going to hear about some more coming right here in Alberta that will be announced shortly. And thanks to the leadership and the government here

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in Alberta and AGLC taking the lead in the country with really making some proactive and common-sense changes. So there's a whole bunch of small changes that are happening, especially in relation to white label that we've been asking the government for quite some time. It's the norm in every single industry. And why aren't we allowed to do white label in Alberta. There was a consultation about it. And we feel that, that change will go through.

There's also an existing consultation about prohibited relationships here in Alberta between producers and retailers, again which is a norm in any industry. Producers have a ton of cannabis in their vaults that they should be allowed to -- they should be given all kinds of momentum to be able to move that cannabis. And it's the same thing to fight the illicit market as well and keep that money in the legal fold. I think the government is listening. And there's a ton of positive initiatives that we see are brewing across the provinces. There's too many to mention. But we're keeping a close eye. But stay tuned on what comes out of Alberta in the near term.

**Operator**

[Operator Instructions] We now turn to Andrew Semple with Echelon Wealth Partners.

**Andrew Semple**
*Echelon Wealth Partners Inc., Research Division*

Well done on another strong quarter. Congrats to the High Tide team here. Just wanted to ask on the increased Ontario store cap, and more of a strategic question. That increase does open up the possibility of a larger scale, maybe platform-sized acquisition that would be larger in magnitude than what we've seen in recent years. Is this something you would consider? Or do you think you're getting better value doing it more on a tuck-in and more numerous with smaller acquisitions?

**Harkirat Grover**
*Founder, CEO, President & Executive Chairman*

So Andrew, my philosophy is don't fix something that is not broken, right? I mean we have become really well known in terms of our tuck-in acquisitions. We've been doing it over the last 5 years with a lot of success, and we've been building a ton of nice organic real estate in super high-quality locations. So that strategy is really working for us, Andrew.

And I was just mentioning just a few minutes ago that there's not a lot of good portfolios out there for us to consider. I would love to do a 20 or a 30 or a 40-store deal, but they need to make sense. When you're buying 30 stores and then you have to shut down 8 out of them, it just doesn't make sense. And there's also a lot of redundancy. And we're the country's largest chain, non-franchise chain at 163 stores. So you can imagine we are present in quite a few markets. And we have to wait our turn on high-quality real estate. Otherwise, we're just going to add redundancy to our portfolio.

But we have our eyes open. If a good opportunity comes through at a good valuation, we'll do it. It needs to -- we need to make sure that it's a strategic and accretive acquisition for our shareholders. So we're definitely open to it. But tuck-in acquisitions is our specialty. Keep building organic stores, keep tucking enough for you, and you end up the year with 20, 30 stores. That's how we do it.

**Andrew Semple**
*Echelon Wealth Partners Inc., Research Division*

Got it. That's helpful. And then, Raj, earlier on the call, you were touching on the gross margin outlook on brick and retail for 2024. Just maybe I want to flesh out that discussion a little bit. What do you expect to be the trend for brick-and-mortar retail margins in this year? And do you think that can continue to expand just at a slower pace? Or do you think that current margin levels are what we should expect for 2024?

**Harkirat Grover**
*Founder, CEO, President & Executive Chairman*

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Yes, Andrew. The trend is that our bricks and motor margins are not going down. And yes, they can expand, albeit at a slower pace. Like I explained, it's a strategic decision. We are the dominant chain in the country. And when you're generating the amount of cash flow over the last 6 months, we put up $10 million, we don't really need to up the ante too quickly. If we do that, then the marginal players have a larger chance to just hang around, but they will just be adding to their own misery.

And I think by just holding the line here and running a good business, we are going to expand that market opportunity for us. But 2025 and beyond, I'm sure in our mature stores in our more mature markets, we are going to start expanding our gross margin profile. In fact, even in the second half of 2024 I remain quite confident that we'll be able to push the margin slightly higher. We're just holding the line on them, because, again, we're managing our cost and our expenses really well. We are going to have our new store growth ramp up again. So we're just being mindful on how we manage our mix.

**Operator**

Our next question comes from Doug Cooper with Beacon Securities.

**Doug Cooper**
*Beacon Securities Limited, Research Division*

Can you hear me okay?

**Harkirat Grover**
*Founder, CEO, President & Executive Chairman*

Oh, yes, we can, Doug.

**Doug Cooper**
*Beacon Securities Limited, Research Division*

Okay. I just want to circle back on Ontario and more particularly to Mississauga. So I think that's just virgin real estate. How many of the stores do you think that you're planning would be in Mississauga? And what do you think the rush to open stores there will be from the competition that quite frankly probably doesn't have a lot of capital to open such stores?

**Harkirat Grover**
*Founder, CEO, President & Executive Chairman*

So look, we already have one store open in Mississauga. We had acquired these sites in September, all of them, believe it or not. We have 6 leases that we've signed in Mississauga, very high-quality leases. But we're waiting for building permits. We just got 2 additional permits. So they are already in construction.

We intend to have 6 sites in Mississauga as of present. But we're looking for more real estate now since Ontario's announcement. And we think at the end of the day, we can have 8 to 10 locations in Mississauga. And the one store that we opened in Mississauga is doing incredibly well. And that was anticipated, that was expected. It's growing at the fastest pace I have seen for any new store, which is absolutely amazing. So we're going to take another 6 months or so to build out the Mississauga portfolio, and we're going to continue looking for a few more.

We've seen some operators that have set up shops in Mississauga. But despite not being able to build, Doug, in Mississauga because of the building permit restrictions -- we are a bigger operator; we got to do things by the rules. I noticed that since we announced these locations, that this is where the locations are coming up, no one really bothered to open up their stores besides us. You can see the AGCO application profile. And we have quite the area to ourselves. So whenever these stores open up -- 2 are coming up in the next couple of months -- we should have some really good revenue being generated out of these stores.

**Doug Cooper**
*Beacon Securities Limited, Research Division*

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So can you share with us maybe from a strategic perspective, if you've got 95 stores, give or take, to open in Ontario to hit the cap, you just mentioned 8 to 10 sort of in the immediate term in Mississauga, and I'm assuming some still in Toronto, where else would you be targeting?

**Harkirat Grover**
*Founder, CEO, President & Executive Chairman*

There's a lot of locations. Doug, I get excited when I think about the Ontario market. So there's North Bay, there's Kingston, there's St. Catherines. There's a whole bunch of locations, Pickering, more in Oshawa. We're still building in all of these places. And more in Toronto, of course. People call Toronto extremely saturated. That is true. But there's not a Canna Cabana everywhere, right?

So we want to make sure that we find the best locations even in the city of Toronto, whether that's through organic builds or through M&A and be able to serve more customers in the city of Toronto.

So we have a wide-scale strategy for Ontario. It's not limited to one market. We have 2 stores in Brampton now. We're looking for more real estate in Brampton. Brampton is a great market for us. There's lots of markets that we don't even have a presence yet like St. Catharines, like Kingston, like North Bay, some of the other markets in Ontario. So there's tons and tons of opportunity there for us. And I'm sure we'll be able to put up these 96 stores in the next 3 to 4 years. But we're going to just make sure that we are selecting the highest-quality real estate or doing the right type of M&A deals that is strategic and accretive to our shareholders.

**Operator**

Now I'd like to turn the session back over to High Tide's Chief Executive Officer, Raj Grover, for final comments.

**Harkirat Grover**
*Founder, CEO, President & Executive Chairman*

Thank you, operator, and thank you to everyone for your interest and continued support for High Tide. We're very proud of what we've achieved this quarter and remain excited about the road ahead.

With that, I'll ask the operator to close the line. Have a great day, everyone.

**Operator**
Ladies and gentlemen, today's call has now concluded. We'd like to thank you for your participation. You may now disconnect your lines.

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