

# High Tide Inc. TSXV:HITI

## FQ2 2024 Earnings Call Transcripts

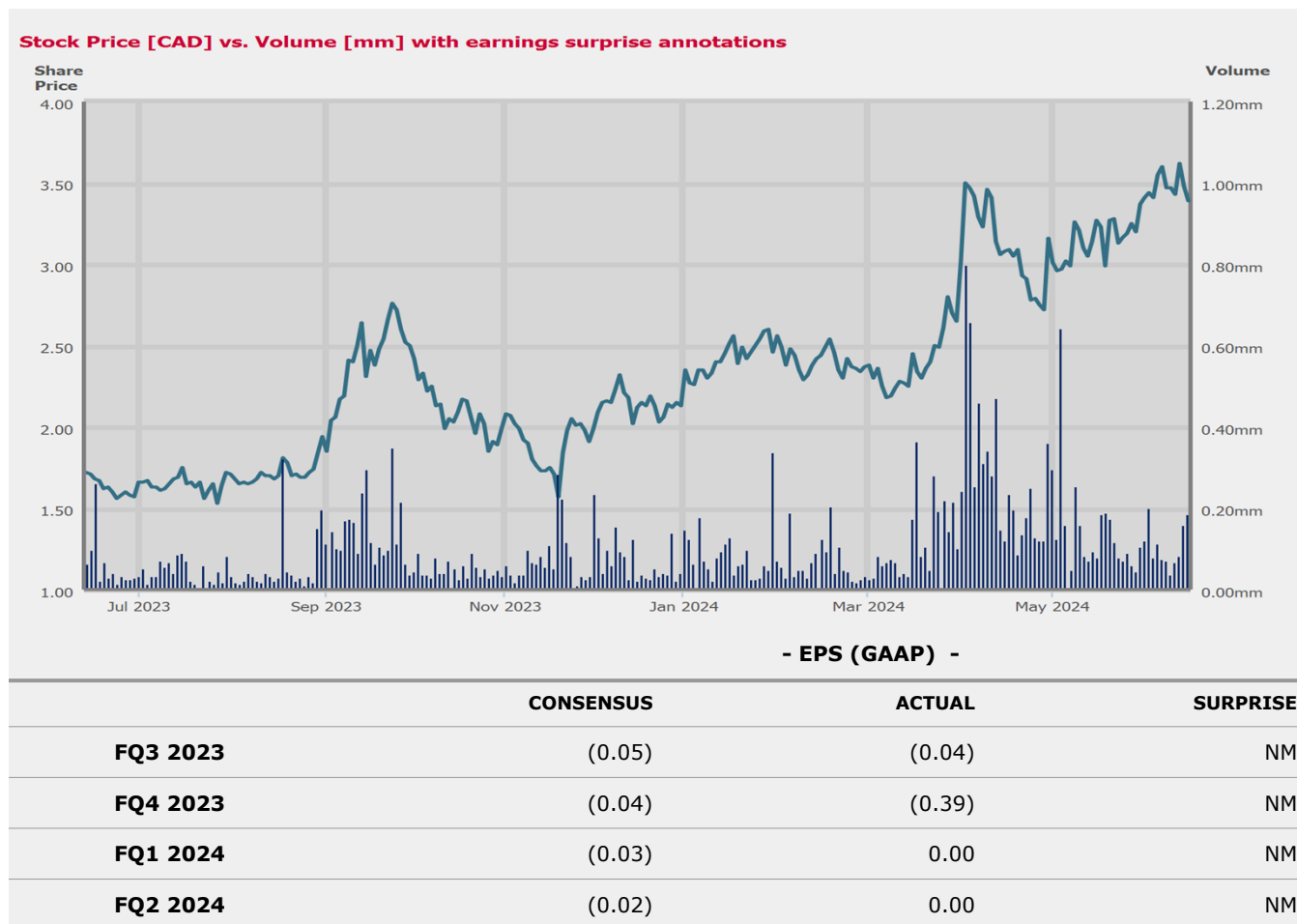
Friday, June 14, 2024 3:30 PM GMT

S&P Global Market Intelligence Estimates

	-FQ2 2024-			-FQ3 2024-	-FY 2024-	-FY 2025-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
<b>EPS (GAAP)</b>	(0.02)	0.00	NM	(0.01)	(0.18)	0.17
<b>Revenue (mm)</b>	127.50	124.26	▼ (2.54 %)	132.55	531.11	611.58

Currency: CAD

Consensus as of Jun-11-2024 7:45 PM GMT



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# Call Participants

## EXECUTIVES

### **Harkirat Grover**

*Founder, CEO, President &  
Executive Chairman*

### **Krystal Dafoe**

*Director of Corporate Governance*

### **Mayank Mahajan**

*Chief Financial Officer*

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### **Scott Thomas Fortune**

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### **Ty Collin**

*Eight Capital, Research Division*

# Presentation

## Operator

Good morning. My name is Carla, and I will be your conference operator today. At this time, I would like to welcome everyone to the High Tide Inc. Q2 2024 Unaudited Financial and Operational Results Conference Call. [Operator Instructions] I will now turn the call over to your host, Krystal Dafoe. Please go ahead.

## 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 unaudited basis.

Joining me on the call today are Mr. Raj Grover, President and Chief Executive Officer; and Mr. Mayank Mahajan, Chief Financial Officer. On June 14, 2024, the company released unaudited highlights from its financial and operational results, for the second fiscal quarter that ended April 30, 2024.

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 and estimates and projections as the date hereof. Specific forward-looking statements include -- limitations 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 June 13, 2024, our latest annual information form and our latest management discussion and analysis, each filed with securities regulatory authorities at [sedarplus.ca](http://sedarplus.ca) or on EDGAR at [www.sec.gov](http://www.sec.gov) or on the company's website at [www.hightideinc.com](http://www.hightideinc.com), 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 absolute pleasure to introduce Mr. Raj Grover, President and Chief Executive Officer of High Tide. Thank you, Mr. Grover, you may 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 second fiscal quarter that ended April 30, 2024. I will begin with some big picture comments regarding the quarter and our strategy before Mayank and I dig deeper into the numbers. As you can see from the press release and financials filed last night, Q2 was another stellar quarter for High Tide. Of particular note, we generated \$9.4 million of free cash flow, which was more than the prior 2 quarters combined. Our 7.5% of our revenue this quarter flowed down to free cash flow, a level we are incredibly proud of.

While quarterly amounts fluctuate, particularly due to working capital considerations, we have now generated \$22.7 million in free cash over the past year, which translates to an 8% yield versus our enterprise value. I'm especially proud of these results, which came in, in the face of several insolvencies across the cannabis sector, including many cannabis retailers. Continuing the upward momentum in our financials, I note that even after \$7.5 million in noncash depreciation and amortization we generated

positive net income in Q2, representing a hugely important milestone that we have been targeting for some time. Revenue of \$124.3 million was up 5% year-over-year, led by our core bricks-and-mortar segment, which rose 11%. We achieved a big milestone this quarter as it was for the first time, our 12-month trailing revenue exceeded \$500 million maintaining our status as having the most cannabis revenue of any company in Canada, a position we have held for almost 2 years now.

While consolidated revenue was lower by 3% sequentially this quarter, this was due to Q2 traditionally being a slower post holiday quarter and consisting of 2 fewer days than Q1. In this context, I'm very encouraged that our bricks-and-mortar revenue was consistent sequentially despite the 2 fewer days. Given that we are a product of our environment and not immune to the macro picture, I'm glad to report that we continue to outperform our peers. While total industry sales were down 4.4% sequentially in Q2 versus Q1, I note that our total 4-wall sales rose 0.5%. Our adjusted EBITDA was up 52% year-over-year to \$10 million, representing the 17th straight quarter where it has been positive.

I'm very pleased that we were able to repeat the strong adjusted EBITDA margin level of 8.1% we generated in Q1 during Q2 despite the fact that we had 2 fewer days to make sales in the quarter, while many of our expenses are fixed in nature. This represented a big increase versus the 5.6% adjusted EBITDA margin we generated in Q2 last year. All of these advancements were happening at High Tide when unfortunately, many other cannabis companies are going under, illustrating how competitive the environment is, while we continue to dominate through our innovative Discount Club model. In the past few weeks alone, Shiny Bud and 420 filed intentions to make bankruptcy proposals raising uncertainty about the future of 66 combined locations, yet we have kept growing our market share in these conditions. Our market share in the 5 provinces in which Canna Cabana operates rose to 10.9% in Q2 from 10.4% in Q1 and 9.9% in Q2 2023.

In our 2 largest markets, we represented 20% market share in Alberta and 10% in Ontario. When we launched the Discount Club model, many people were skeptical that this model would work. Some doubted our ability to ever reach 1 million members or that anyone would pay to shop in a cannabis store. The value offered to our customers and the resourcefulness and execution of our team has made our Discount Club model a huge success and a primary reason for our out-performance. I'm particularly proud of our ELITE membership base. Despite raising prices from \$30 a year to \$35 today, we have now surpassed 44,000 paid members, which is up from 32,000 last quarter representing the fastest pace of onboarding since we launched the program and up 226% year-over-year and 38% sequentially. Our total membership base in the Cabana Club has now surpassed 1.43 million members, which is up 38% year-over-year and 8% sequentially.

As we pledge to investors, now that we have proven the ability to sustainably generate free cash flow from operations, we have accelerated the pace of store growth. We have added 10 new stores all organically so far in calendar 2024, which puts us on track to meet our originally communicated target of 20 to 30 stores for this calendar year, and almost matches the 12 stores we added in all of calendar 2023, but the growth won't stop here. Our team has already set the table for many more organic store openings, which will be spread fairly evenly over the course of the rest of this year to ensure that the cash drag from new stores is manageable, allowing us to continue generating more free cash. We are also in active discussions regarding potential M&A transactions, which would be strategic in nature and accretive to our shareholders.

As a reminder, the vast majority of the potential targets we see are frankly not worth pursuing. We are very selective about the transactions we enter into to ensure that they're financially strong in their own right before we look to improve their output once we take over instead of looking to acquire and fix turnaround stories. It has been and continues to be a buyer's market. And given our character and market leadership, we simply won't overpay just to get deals done unlike other operators in the market. Given the discussions we are engaged in, should they come to fruition, M&A transactions could contribute to us significantly surpassing our stated target of adding 20 to 30 locations this year. It's been a busy couple of weeks at High Tide. In addition to preparing to release our quarterly results, yesterday, we also announced that we have entered into a binding subscription agreement for \$15 million in subordinated debt.

We have discussed how underleveraged our balance sheet is, with a gross debt just 0.7x our adjusted EBITDA run rate and that we could benefit from more leverage. I'm very pleased to see that even in this tough environment, High Tides' operational progress and creditworthiness is being noticed. As part of this financing, we will receive \$10 million upfront expected to close in the coming weeks and the remaining \$5 million in November, which provides meaningful optionality regarding how to deal with our unsecured debt due at the end of December without paying interest during the interim. This financing also includes an accordion feature for a potential further \$10 million should we deem it prudent to pursue. On the topic of cash, supported by our strong free cash flow, we ended the quarter with a record \$34.5 million, up 54% versus a year ago and 20% sequentially.

It is also worth noting that investors seem to be catching on to High Tides' superior operational performance. In fact, High Tide is among the best-performing cannabis stocks over the past 12 months, garnering more and more institutional interest. I will now go over the highlights from the financials and Mayank will do a deeper dive.

Revenue for Q2 was \$124.3 million, up 5% year-over-year and 3% lower sequentially due to a seasonally slower quarter, which also has 2 fewer days. Our bricks-and-mortar segment led the way, up 11% year-over-year. In the month of March, our average store was on an annual revenue run rate of \$2.6 million, which compares to our average peer revenue of just \$1 million in the provinces where we operate. In Ontario, the largest market and the focus of our future expansion, our out-performance was even more pronounced. Excluding newer stores opened 3 months less, which are still ramping up, the average Canna Cabana store was in a \$3.4 million annual revenue run rate versus the average of our peers in the province which was just \$923,000.

Our same-store sales were up 4% year-over-year in Q2, while our daily same-store sales also ticked slightly higher sequentially. This was largely a symptom of a slower overall market in which we continue to outperform as total sales in the 5 provinces in which we operate, but down 4.4% sequentially, including the impact of new store growth.

As per Statistics Canada and [indiscernible] data. Our unique Discount Club Model has driven a total increase in same-store sales of 111% in March 2024 compared to October 2021. In contrast, total retail sales, including the impact of new store growth across the 5 provinces where we operate were up only 27%. Taking into account the increase in the number of stores, the average operator experienced a 10% decline while we posted 111% gain. Consolidated gross margins were 28.4% in Q2 2024, which was our highest level in the last 9 quarters as compared to 26.7% in Q2 2023 and 28.1% in the previous quarter. While many of our overhead expenses are fixed such as rent and insurance, I'm very proud that we were able to reduce our total overhead expenses excluding depreciation by \$547,000 sequentially to mitigate the slightly lower revenue from having 2 fewer days. Of note, our general and administration expenses fell to 4.5% of revenue in Q2 versus 5.2% in the prior year and was consistent sequentially.

Adjusted EBITDA was \$10 million for the quarter. We are exceptionally proud to have maintained our adjusted EBITDA margin at 8.1% for the second straight quarter and marking a large gain compared to 5.6% in Q2 2023. Our income from operations was positive \$2 million this quarter, marking a huge improvement from a loss of \$2.6 million in Q2 2023. I'm very proud that this strength flowed all the way down to net income, which turned positive this quarter despite the \$7.5 million noncash depreciation impact and 2 fewer days.

As always, our government relations team has been hard at work and delivering results. In particular, the industry has received several pieces of good news on the regulatory front in Alberta, where we have our widest footprint at 79 stores as well as our headquarters. The Minister of Red Tape Reduction, Dale Nally, recently approved [ Red ] changes to allow cannabis pop-up stores at adult-only festivals and trade shows. This is something we hope to take advantage of in the coming months, and we are already in discussions with several partners to help us execute this vision.

Staying with Alberta, the AGLC has moved to allow private label products. We look forward to working with our LP partners to bring our proprietary and high-margin brands such as Cabana Cannabis Co and Queen of Bud to Alberta in the coming months. Finally, Manitoba recently announced a 6-month moratorium on issuing new controlled access cannabis licenses while it reviews their future moving forward. This is

something that we had been advocating for as these licenses were primarily being used by Winnipeg-based convenience and grocery stores to sell cannabis without having to age restrict their entire premise. Several gas station chains we're also looking at entering the cannabis retail market using these licenses. Moving forward, it is our hope that Manitoba will restrict these licenses to small under-serviced rural and northern communities only. Along with the Retail Cannabis Council of Manitoba, we remain in active discussions with the Manitoba Government on this file. These earnings capped off a monumental week for High Tide and sets the table for new highs to come. Our balance sheet has never been stronger. We now have an agreement for another \$15 million in debt financing.

Our free cash flow profile is fully proven, having accumulated \$22.7 million over the past year while continuing to grow our market share. Although we are already the largest company by cannabis revenue in Canada and second largest cannabis retailer by store count globally, we are always trying to expand our lead and reach more potential Cabana Club members in communities across the country. We expect that our average strengthening market positioning will continue to generate more and more investor interest. Of course, this stellar execution does not happen by itself. It takes a dedicated and strong team to hustle and grind every day to make all of this happen. I am so thankful for all of their efforts.

The newest senior addition to our team is Mayank Mahajan. It has been a real pleasure working with Mayank, and I'm confident that he has the skills to help us reach the new heights that we are clearly aiming for. Mayank, welcome to the High Tide family, and over to you for your comments and a deeper dive into the numbers.

**Mayank Mahajan**  
*Chief Financial Officer*

Thank you, Raj, and hello, everyone. I'm very happy to be a part of the High Tide team and help propel our company to new heights. And what a strong quarter to discuss on my first conference call. Full of record free cash flow, record cash reserves, market share gains and positive net income. An extreme rarity in the Canadian cannabis industry. Let's take a deeper dive into the numbers.

As Raj mentioned, revenue for the quarter was \$124.3 million, up 5% year-over-year and 3% lower sequentially due to seasonal softness, and there have been 2 fewer days in Q2. You will note that for competitive reasons and given their high margin profile, we are now reporting Cabanalytics Business Data in the platform, advertising revenue, management fees, interest income and rental income as one line item called Data Analytics, Advertising and Other revenue. This quarter, it was \$9 million, up 35% year-over-year and 18% sequentially. On a consolidated basis, our gross margin of 28.4% was up nicely from the 26.7% we generated in Q2 last year, with both our brick-and-mortar and e-commerce segments posting gains. Our core brick-and-mortar segment represent 93% of our revenue and is clearly the main engine driving the company forward.

Our Other segment, which includes our e-commerce businesses has been under considerable pressure over the past several quarters, and we have been proactively taking steps in particular, taking costs out of the system to maintain profitability. While revenue in this segment was down 37% year-over-year we were able to simultaneously reduce our operating expenses by 34%. As a result, despite intense top line pressure, which we are addressing, our e-commerce segment still generated positive adjusted EBITDA of \$1.2 million, which was equal to the amount generated in Q2 last year. This cost control was the key to maintaining the impressive adjusted EBITDA margin of 8.1% in Q2, which was consistent with Q1 and significantly higher than the 5.6% we generated in Q2 last year. Over the past 4 quarters, we have now generated \$39 million in adjusted EBITDA whereas 12 months trailing adjusted EBITDA was \$21 million 1 year ago, representing 83% growth.

Free cash flow was a record \$9.4 million in Q2, making a huge reversal from negative \$2 million in Q2 last year and representing 2.6x the Q1 level. I note that this quarter benefited from working capital representing a source of cash of \$4.8 million whereas it represented a use of cash of \$4.1 million in Q2 last year and \$2.5 million in Q1 this year. Given these quarterly fluctuations, we think it's best to look at the long-term trend. Our company has now generated \$22.7 million in free cash flow over the past 12 months, representing a yield of over 8% on our enterprise value, all while we have continued to ramp up

our stores organically invest in working capital and pay down debt. I believe this illustrates how we are the leader in Canadian cannabis today.

Our balance sheet continues to strengthen on the back of this free cash flow generation, we ended the quarter with \$34.5 million of cash in the bank, which is more than we have ever had. I look forward to strengthening our balance sheet further as we pay off the remaining balance of our convertible debentures from our announced \$15 million in new debt financing later this month.

In closing, Q2 was another solid quarter for High Tide. We once again increased our market share while generating the core free cash flow and demonstrating continued cost control. We are the clear market leader in Canadian cannabis retail, and I'm thrilled to be working along Raj and the team and look forward to playing a role in the next chapter of our growth story.

With that, I will now turn the call over to the operator to open the line for the question-and-answer session.

# Question and Answer

## Operator

[Operator Instructions] And our first question comes from Scott Fortune from ROTH Capital Partners.

### **Scott Thomas Fortune**

*ROTH MKM Partners, LLC, Research Division*

Congrats on the steady execution from the cash flow standpoint. Just want to dig in a little bit on the ELITE member growth, which has quickened recently here nicely, more of -- is that more of a percentage of the product now under the ELITE repricing or other factors that you determine that? I know last quarter, you mentioned that 12% of in-store inventory is kind of geared towards the ELITE products from that standpoint and accelerated sign-up. But I just want to get a sense for how quickly you're moving up that in-store inventory to reach your long-term target of 20%, 30% and then kind of the continued driving or the quickening driving of ELITE membership going forward here?

### **Harkirat Grover**

*Founder, CEO, President & Executive Chairman*

Scott, and thank you so much for your question. So look, I'm so excited about our ELITE growth. This is the third quarter in a row where we've broken the records for the pace of ELITE growth. So ELITE grew by another 12,000 members. We went from 32,000 to 42,000, which was a massive record for us. I believe that's up 226% year-over-year and even sequentially, we were up like 38%, exceeded all my expectations. And you're absolutely right, Scott. We are doing this through multiple ways. Of course, we continue to treat our customers as Kings, and that's clearly showing in our club membership increases and ELITE membership increases.

But a bigger part is the 12% of the total inventory that you mentioned is now reflected in ELITE. So we've kind of stayed flat this quarter. We've added a lot of cannabis SKUs, but we've also added a lot of overall SKUs to continue leading the market in terms of SKU selection in the country.

Not only are we pleasing our club members with unbeatable pricing, we're also providing them unbeatable selection of inventory. So because the overall inventory went up, ELITE has remained at 12%, but we are absolutely focused to take it to 20% to 30% long term. Maybe even higher, we'll see, but it's going exactly according to plan. In fact, it's exceeding my expectations.

### **Scott Thomas Fortune**

*ROTH MKM Partners, LLC, Research Division*

And then a follow-on, I just wanted to dig into the private label opportunity here now that become more meaningful with the province of Alberta opening up opportunity. Where are you at right now currently? And what have you seen with your limited private label product currently and strategically kind of risk or concerns rolling out a larger private label offering with your existing brand partners selling into the high-type brick-and-mortar? Just kind of get a sense for the opportunity on the private label side, as we look out to '24 and to '25 here?

### **Harkirat Grover**

*Founder, CEO, President & Executive Chairman*

Yes, absolutely, Scott. Look, I am super thrilled that Alberta finally moved to allow white label here, given that we have the widest footprint of stores in this province at 79 locations. We're also headquartered here. So that's kind of cool. But you know what, we actually timed the Queen of Bud acquisition super well considering that this happened. And we were aware and we had told the market that this is in the works. This is something that we've been advocating with the government to allow here. It's already allowed in Ontario. It's already allowed in Manitoba, Saskatchewan and now Alberta is also allowing it. Just for everybody's clarity here, B.C does not allow private label, but it really does not affect us, because there's only 8 stores that are -- that any entity can have in that province.

So long term, I remain extremely bullish on our prospects for white label with Queen of Bud entry, Queen of Bud is -- it already has very meaningful equity in the Canadian retail landscape in terms of brand equity and reach. So we're excited about launching some very revolutionary white label Queen of Bud products. But again, we got to be mindful here, Scott. Like I've mentioned previously, there's still a lot of biomass available from LPs that they're storing in their vaults. And they're selling it at highly competitive prices, in some cases, at negative gross margins. So when we order a white label product, it can take up to 2 to 3 months for delivery, generally 3 months. And because you have to register these products in each one of the provinces, the provinces have to be open for product calls to accept these products. So that only happens, let's say, 2x to 3x in Ontario. It's difficult to time it perfectly.

And sometimes what happens is you place an order and you have to order in master cases and meet the minimum quantities to serve your stores in these various provinces, sometimes from the time of the order to the time that you receive the product, the original product has already come down in price. Now we have all the data in the world to pick the right product. So we're very excited about that. But we need to be very crafty and creative that we are not overstocking or getting overexcited about just launching our own brands. We need to time this properly, and we need to make sure that the market is overall stable to sustain these white label margins. We're almost there now. We're starting to see some signs of life for margins being stable at a wholesale level. So I think that we're going to move into white label nicely in the coming months, starting with Queen of Bud and also some Canna Cabana Co products now that we have 79 additional stores in Alberta that we can feed with white label.

**Operator**

And our next question comes from Ty Collin from Eight Capital.

**Ty Collin**

*Eight Capital, Research Division*

Just my first one, Raj, I'm wondering if you could comment on what drove the really strong performance in data and analytics sales this quarter? That line came in quite a bit higher than I was expecting given the level of distress among the LPs. And then wondering if you could also comment on your expectations for that business line for the rest of the year?

**Harkirat Grover**

*Founder, CEO, President & Executive Chairman*

Yes, absolutely, Ty. So look, we have some of the best producing stores in the country. We just -- like we said, our market share is now 10.9%, and we're doing that with just 4.8% of the total brick-and-mortar store count in the 5 provinces where we operate. So we have some of the most data -- valuable data coming out from each one of these locations. And you're absolutely right. A lot of the producers are going out of business. One, Cabanalytic's customers actually a customer actually went out of business last night.

And this has been happening to us, but I can tell you very positively and happy to report that we've never had more customers than we have today for Cabanalytics. So just the ratio of the ones leaving us or -- and the only reason they're leaving us is unfortunately CCAA proceedings. We still have a much bigger pace of on-boarding with licensed producers. And we absolutely continue to exceed our own expectations on data revenue.

Like I said, we have very high quality data. It's probably the best in this country. We were the cheap architects amongst Fire & Flower to begin this data journey. And we have been doing fantastic. And I think our data revenue will remain stable, if not slightly grow. Over previous earnings calls, I had mentioned that we want to remain a little bit cautious. We just didn't know how the impact of some of these CCAA proceedings was going to impact our data program, but that is absolutely not the case. And not only are we stable, we are actually growing now.

**Ty Collin**

*Eight Capital, Research Division*

Okay. That's great color. And then for my follow-up, congrats obviously on getting the debt financing across the line. Can you maybe just dive into how you plan to deploy the rest of those proceeds, I guess, after paying off the remainder of those converts? And then why did you feel like now was the right time to go out and raise that money?

**Harkirat Grover**

*Founder, CEO, President & Executive Chairman*

Yes, great question, Ty. So look, I am absolutely thrilled to get \$15 million over 5 years, paying interest only. It's a really big achievement, especially in this market where others are going under. So very, very happy we were able to close this. We have been working on this for a few months now. So it may just look like we timed it today. It happened to be an announcement on our earnings day, which was kind of cool. But we have been working on this for quite some time now. We did this for a couple of reasons. So one, as you mentioned, we have a very small amount of convertible debentures left, which are under \$1 million, I believe. So we will be able to pay that with this cash. And then on top of that, we are continuing to fuel our store count very aggressively. We've opened 10 stores from the beginning of this year.

And these stores cost us about \$400,000, including working capital, but cash and EBITDA is not generated overnight. It takes time for these stores to mature up. 6 to 9 months before they can start making money. So we need cash in the bank. I've always said that my vision is to have we are a \$500 million revenue-generating company, annual revenue generating company, and we should have \$40 million, \$50 million in the bank all the time. Historically, if you look at some of the other cannabis players, they've had a lot of cash in their bank. We're not there, but we're very, very comfortable with our strong free cash flow generation. So, that was a couple of reasons there.

And then one big reason is you know that we are -- December, another debt maturity is coming up. I believe it's about \$13 million. So we've already secured this money in case we have to pay that back. And we -- luckily, we don't have to pay interest on the remaining \$5 million because it's reserved for us. We've already secured it. But that \$5 million is strategically placed to arrive in November.

So I think we've done a great job with securing this financing. We've secured our balance sheet even more. We made it even more stronger. And it's a 5-year debt. I couldn't be more happy with it.

**Operator**

Our next question comes from Frederico Gomes from ATB.

**Frederico Yokota Choucair Gomes**

*ATB Capital Markets Inc., Research Division*

Congrats on the quarter, Raj. Good to see the free cash flow generation there. First question is just on growth. So we've seen that industry sales growth has slowed down recently. Could you comment on that? What do you think is happening? Is it a function of just maturation? Or is it price compression still? Or just what are some of the factors driving that industry slowdown? And then having that in mind, how should we think about growth for you as the leader in retail in Canada, what's the most meaningful part of the equation here as you look forward between same-store sales growth and store expansion.

**Harkirat Grover**

*Founder, CEO, President & Executive Chairman*

Yes, absolutely. Thanks, Fred, and good morning. Thank you very much for your question. So look, there's been wholesale changes in the market over the past 6 months. We're currently at 63 stores in Ontario, which would have been almost full under the old cap of 75. But thanks to our advocacy and efforts, we now have another 87 stores to put up before reaching the new cap of 150. So we got a ton of growth ahead. and how fast we get there will depend on M&A opportunities and the pace of our organic growth, which we've already put up 10 stores this year, I still think we will absolutely meet our target of 20 to 30 stores organically. Now if some M&A happens, which we are very much in the works of speaking to multiple parties, we could significantly increase this number. And we're looking at blocks of all sizes right now, Fred.

We are looking at single doubles and even some larger store blocks out there. But I do want to say this, we want to remain disciplined, and we don't want to overpay just to get deals done. There are some operators, both public and private without naming them, that have been overpaying in our opinion, and we've never historically done that. And we don't need to do that. We're already winning. We have 172 stores. We have a ton of opportunity in Ontario. We keep getting red carpet welcome by the largest landlords in the country. So I really don't see a need to do anything out of the ordinary. However, good news is we are in conversations with some sizable players and let's see how things pan out. And if that happens, like I said, we could significantly increase the 20 to 30 store projections we put out previously. And again, we [ reiterate ] this quarter.

**Frederico Yokota Choucair Gomes**

*ATB Capital Markets Inc., Research Division*

And then thinking about outside Canada, international expansion. You mentioned Germany. I'm just curious how do you see that market? How tangible are your plans to expand to Germany? And looking at the U.S., do you have any active interest in going into that market given potential risk scheduling? The fact that some of the other companies are pursuing alternative structures to maintain their listing on NASDAQ, while gaining the U.S. exposure. So how do you see that? Have you changed your view on the international side?

**Harkirat Grover**

*Founder, CEO, President & Executive Chairman*

Great question, Fred. So Fred, we've made our intentions very clear that the German market is a very important market to us. Germany is twice the size of Canada. It's a highly lucrative market in Europe. It's Europe's largest market. So we're absolutely going to play in Germany. We want to take our winning model there as soon as possible. As you are aware, Germany is in the Pillar 1 stage where this legislation decriminalized possession, allowed home grow and not-for-profit cannabis social products. And now the government is working on Pillar 2 and what we are hearing is they're expediting Pillar 2, which is expected to involve commercial sales of cannabis for adult use through research-oriented pilot projects, which is still in progress. And our team is monitoring all of these developments very, very closely. And we are looking forward to applying for licenses organically and look at M&A targets as well for when that happens.

But Germany are very, very high importance to us. Again, I will reiterate. We got a lot of growth ahead in Canada alone. But since we have the size, scale and experience in this country, which is one of the most highly competitive cannabis landscape in the world, I think we will do very, very good in Germany. And this is why we want to go and plant our plant early on before we start seeing a lot more competition.

On the U.S. side of things, Fred, again, the only reason why we are not a dispensary operator in the United States. It's because we trade on the big exchange. We trade on the NASDAQ Stock Exchange that currently does not allow plant-touching businesses in the United States. But it appears to -- Biden administration is rapidly moving towards the reclassification of cannabis to a Schedule III. There's a lot happening right now. We are in conversations with TSXV. We are in conversations with NASDAQ regarding what implications such a movement have, on their listing policies. And we are going to continue these discussions pending final confirmation of rescheduling and other potential developments.

So U.S. will be a huge market for us. Our goal is very much out there, and I keep on reiterating that goal. We want to bring our winning model to the United States and want to be eventually a top 5 multistate operator in that country. I mean just look at our track record, what we've done in Canada, how quickly we've done that in Canada at 28% gross margins, which is a peak in 9 quarters, and turning net income positive and generating record free cash flows, I mean, when the time comes, U.S. market would be an exponential opportunity for us.

And -- but we're not going to get into funky structures. I think the question one and other question that you had was about structures. We've seen a lot of players that are producers in this country that have come up with structures where you cannot consolidate your financials. But you can start owning these businesses on paper. I don't see a lot of value in that, Fred. What we've seen in Canada is when you're excited and you're buying all these things at their peak, and eventually, what happens is reality sinks

in. The market becomes more and more normalized and you realize that the multiples have come down drastically.

So we don't want to tie out our paper. We don't want to extensively dilute at this point as some of the other players have done with extensive dilutions over the years and raise cash and you still cannot consolidate your financials. So we have a great plan for when U.S. opens up, but we're not in a hurry to consider funky structures at this point.

**Operator**

Our next question comes from Matt Bottomley from Canaccord.

**Matt Bottomley**

*Canaccord Genuity Corp., Research Division*

Just curious on a follow-up for me on one of your comments, Raj, just about the goal for having 20 to 30 stores open this year, I think you hit 10 already and maybe potentially in excess of that. And you talked a little bit about -- and we've talked about this in the past too, the sort of M&A landscape and some of the multiples that some of your peers have paid. That haven't really worked out in hindsight. So I'm just curious, as you look at the sort of the population of potential stores to expand to going forward, where do you sort of balance paying a multiple 2x, 3x EBITDA, whatever it might be for a store versus potentially some very attractive retail locations that are just kind of consolidated up in an entity that's either filed for bankruptcy or looks like it's going in that direction and kind of cherry picking attractive locations that way as opposed to buying existing locations around Canada that are up and running already?

**Harkirat Grover**

*Founder, CEO, President & Executive Chairman*

Yes. Matt, and thank you so much for your question. So Matt, let's establish the fact that companies are not going bankrupt because they've done a great job at sourcing high-quality locations, and they've negotiated good rents, which retail -- which retail businesses can sustain. Unfortunately, for a lot of our competitors, they've rushed into just securing any sites. I've told you previously, I've told everybody previously, we have an anchored real estate strategy. It's all about location, location, location. But also at the right price Matt, if you're signing deals where you're paying \$15,000 to \$20,000 rents, which we are seeing in a lot of these data rooms, we went to a major retailer, I won't name them here, but when we went into their data room and they had a massive amount of locations in the country. You look at some of their clauses, demo clause is lower. Like they have -- landlords have the right to demo their stores, most of their leases. Landlords, again, they're charging exponential rents. And these companies have agreed to it.

So most of these locations don't work out. You remember we bought Choom in bankruptcy. I believe we bought 9 out of their 17 stores. We've actually tripled to quadruple their stores with our model, but the one good thing about that store portfolio was that there was no exponential rents that were involved in the locations that we were touching. The locations that we did not touch out of the remaining -- out of the 17 had very high rents. So it's the same situation with let's say, ShinyBud gone bankrupt just a few days ago and 420 announced the same and many other Trees, Kiara, Fire & Flower, the list goes on. There's 5, 6 publicly traded competitors on top of independents and regional chains going bust, but they're going past because of that decision.

So we need to be very mindful on how we look at this. We are absolutely looking at everything. We're in every single data room, but we're not going to get into bidding boards either. This particular portfolio that I was talking about that I was not particularly excited about how much rent they were paying and some of the lease terms that they had signed on to, there was bidding wars for this one. There were like 4, 5 players at the end of the day, trying to get this portfolio, and we just put our hands up and we're like we're not getting into bidding wars. We know this is a buyer's market. It has been a buyer's market. And I think 3.5x, 4x is an absolute fair multiple to pay, when you have bankruptcies below or left, right and center and the seller can still get an exit at 3.5x or 4x, that must include a good location that should be strategic to our portfolio should be complementary to our network. We look at all of these things, Matt.

So I'm going to remain disciplined, and we're not going to overpay. Like I said, some of our publicly traded competitors. And very importantly, some of our private competitors with deeper pockets have just been overpaying in the market, and that is not our mantra.

**Matt Bottomley**

*Canaccord Genuity Corp., Research Division*

Got it. Okay. Appreciate that. And then just one last one for me. I might not be anything late breaking here, but Health Canada had put out some proposed regulatory changes late last week. I've skimmed through them. It seems like it's a little more technical than not. But was there anything in there that you think was exciting or anything that you think would make it more of a normalized CPG experience in some of these stores depending on if and when Health Canada makes these changes?

**Harkirat Grover**

*Founder, CEO, President & Executive Chairman*

So look, Health Canada has been making some incremental changes. The entire industry continues to lobby them. One particular change that we had to deal with was actually just some regulations around the CBD products we had in the market. So we have to revamp the labeling on those products. But other than that, CBD becoming mainstream and not be tied with cannabis is being considered right now, but simply having a NPN number. So some of those changes are underway, but I have not heard of any major developments from Health Canada that would affect us as a company. There's a lot of initiatives that are on by the licensed producers. They are in communications with Health Canada about, but they simply don't touch us.

**Operator**

Our next question comes from Andrew Semple from Echelon Capital Markets.

**Andrew Semple**

*Echelon Wealth Partners Inc., Research Division*

First off would just be on your plans for store openings. Most of those in fiscal Q2, and also so far quarter-to-date in fiscal Q3 have been in Ontario. I imagine Ontario remains a province of focus going forward for the rest of this year. However, are you also seeing opportunities in some of the other markets that you cover, notably Alberta and Manitoba, Saskatchewan? Do you think you can add stores in those processes as well? Or are you happy with your portfolio there.

**Harkirat Grover**

*Founder, CEO, President & Executive Chairman*

Andrew, thank you so much for your question. So look, Ontario remains our focus. It is the largest market for us. Our average store makes a lot more money in Ontario than in other provinces. And we have 63 stores currently in Ontario. So we can still add -- again, thanks to our advocacy efforts, we can still add another 87 stores in Canada's largest province. And we've been getting some very high-quality locations in Ontario. So we're going to absolutely be building stores at a fast pace in Ontario. That remains our focus.

But Andrew, you've heard this multiple times, we put up our long-term target of where we can get in Canada, which is 300 stores here. So if you take 172 currently with 87 more coming up in Ontario, you're still left with 40, 50 stores. So those 40, 50 stores are going to come in Saskatchewan, Manitoba and Alberta. Now we are advocating the British Columbia government as well. Illicit rates are very, very high in that province as well. Hopefully, the government is listening to the industry. There's an election going on in B.C. There's election that's happening in B.C. And once the election results are done, then we're going to start our advocacy efforts again. But overall, in these markets, Alberta, Ontario, Manitoba and Saskatchewan, we feel that we can get to 300 stores. So 40 to 50 stores will come in Alberta, Saskatchewan and Manitoba.

We already have a few stores that are going to be announced in Saskatchewan and Alberta in the month of June. So stay tuned on that, but I don't see any problem at all getting to that number in these provinces.

**Krystal Dafoe**

*Director of Corporate Governance*

Great. That's helpful. And then maybe returning to Ontario. Obviously, a lot of new stores opened year-to-date. How have those store openings gone? Have they lived up to your expectations? And is that giving you comfort with what you've seen year-to-date in terms of hitting your 300 store target long term in the Canadian market?

**Harkirat Grover**

*Founder, CEO, President & Executive Chairman*

So, Andrew building permits are always a challenge to get in time. Mississauga, municipality. It took us, in some cases, 4 to 6 months to just secure a Building Permit. But we're trying to get -- we're also learning like artificial intelligence. So we're trying to get as proactive as possible, and we've been managing our build-outs really well, and this is why we were able to put up another 10 stores from the beginning of January. What's happening with currently expanding into Ontario, Andrew, we are still getting some very high-quality locations. Otherwise, we will not be opening stores in that province.

But the pace -- ramp-up pace has considerably slowed down. And I'm glad you asked me this question for the clarity of listeners on this call, when you're surrounded by 8 to 10 competitors left, right and center, I have the best piece of real estate with our winning model, we are going to win in the long term. There's absolutely no question about that. But in some cases, where our stores were ramping up very, very quickly, they're ramping up a bit slowly, but they're definitely ramping up. They're just not up to our standards. The other day, I was talking to Aman, our COO, and we were looking at our ramp-up trajectory. And we were talking about, "Oh, these three locations have only ramped up at this space." And he said, "Raj, your expectations are too high. Do you know how many competitors around us." And I'm like, yes, you're absolutely right. You gave me a reality check on that.

So we're continuing to ramp up. I'm absolutely bullish on the long-term trajectory. I think we will be averaging the same rates that we are averaging today, but it's going to take some time. Now with all of these competitive closures that are starting to happen in the industry, remember, all this revenue is also going to disproportionately come back to us. We've been saying for so long that store closures are going to happen. Store closures are going to happen, and now they're happening by the kilo.

So I think this is going to continue, and that's also going to help us. But at the same time, Building permits remain a challenge. We will still reiterate our goal of getting to 20 to 30 stores by the end of this year, but we want to taper down some expectations on the ramp-up pace of these existing stores that we are building and the new ones that we are building.

**Operator**

Our next question comes from Mike Regan from Excelsior.

**Michael John Regan**

*Excelsior Equities, LLC, Research Division*

The gross margins at the brick-and-mortar level extended pretty dramatically year-over-year, even if you take out the mix shift on the data analytics and advertising lines. Can you just sort of help us understand what's driving those higher margins sort of at the product and store level? And sort of any thoughts on what's going on with pricing at the consumer level?

**Harkirat Grover**

*Founder, CEO, President & Executive Chairman*

Yes, absolutely, Mark. Thanks very much for your question. I'm very pleased to confirm with you that we hit our 9-quarter gross margin high. The last couple of conference calls, if you hear them, you'll remember we said will start to increase margins at the back of this year or the second half of this year, and we're starting to do that now. But the main reasons why our gross margin is up is two big reasons.

So we have new locations coming up, but they're not coming up at the pace where gross margins remain depressed in the beginning before we can start to increase them. We have a lot of mature stores and a lot of these competitive closures are happening where we can suddenly raise our gross margins because the competitor isn't around, and this is why we're hitting 9 quarter highs. I'll also share something very positive on our e-commerce side or despite e-commerce revenue falling we have actually increased our gross margin profile from 50% to 55%. That's helped a tiny bit, although it's only 7% of our consolidated revenue. So I don't want you to read too much into it, but that's also helped. And of course, our Data Insights, our Advertising revenue -- our Advertising revenue has been picking up nicely to our Altogether magazine.

We have sublease revenue coming in. We have management fees coming in from our JV stores. So that is all a pure 100% revenue line and our Data Analytics continues to grow even in this market where CCAA proceedings are happening, we're getting more in members more and more members join our data program. So all of this combined, we've hit a very nice high over from the last 9 quarters. We think that this will remain stable. It can go slightly down, things can vary a little bit quarter-over-quarter. If we open stores fast enough, generally, our margin profile is lower in these stores, when we are opening new stores, but I don't think that's big enough to offset our overall retail portfolio.

**Michael John Regan**

*Excelsior Equities, LLC, Research Division*

Got it. Great. And I guess just, I guess, sort of back to more of the macro level since you have such great insights into it. You noticed data customers is not a business. I guess, what are you seeing in terms of the supply of those LPs trying to go out of business as the tax starts to come and prices still remain low?

**Harkirat Grover**

*Founder, CEO, President & Executive Chairman*

So the supply has remained consistent. There's no issue with supply in this country. We have a lot of biomass available to us. And like I said, unfortunately, many of these LPs are selling them at negative gross margins. But newer LPs are coming to the market. We still have 900 licenses granted in this market, which we think are a bit too many. That's not going to go away in 1, 2 or 3 years. This is going to take a long time to normalize. So I don't think supply is an issue. And unfortunately, the pain that the producers feel on their end becomes a boon and a boosting to retailers. Because, one, we can convert more and more dollars from the illicit market, which is quite substantial still in Canada, sitting at 45% in Ontario and about 20% in Alberta and like 56% in Quebec, what I heard last what's going to continue happening is retailers are going to get this advantage. So we get -- we still get to mark up at a retail level at the same markup. We get to offer even more customers products at these discounted prices.

It is a bit of a pain for LPs, but our data revenue is not going to disappear. Our wholesale supply is not going to disappear because you simply just have too many more LPs that have come into the market and continue to come into the market.

**Operator**

[Operator Instructions] Now I would like to turn the session back over to High Tide, 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 are very proud of what we achieved this quarter and remain excited about the road ahead. With that, I will ask the operator to close the line. Have a great day, everyone.

**Operator**

This concludes today's call. Thank you for joining. You may now disconnect your lines.

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