

SNDL Earnings Call Transcript

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Quarter: 3

Operator: Good morning, and welcome to SNDL's Third Quarter 2025 Financial Results Conference Call. This morning, SNDL issued a press release announcing their financial results for the 2025 third quarter, ended on September 30, 2025. This press release is available on the company's website at sndl.com and filed on EDGAR and SEDAR as well. The webcast replay of the conference will also be available on sndl.com website. SNDL has also posted a supplemental investor presentation in addition to the conference call presentation, we will be reviewing today on its sndl.com website. Presenting on this morning's call, we have Zach George, Chief Executive Officer; and Alberto Paredero, Chief Financial Officer. Before we start, I would like to remind investors that certain matters discussed in today's conference call or answers that may be given to questions could constitute forward-looking statements. Actual results could differ materially from those anticipated. Risk factors that could affect results are detailed in the company's financial reports and other public filings that are made available on SEDAR and EDGAR. Additionally, all financial figures mentioned are in Canadian dollars unless otherwise indicated. We will now make prepared remarks, and then we'll move to analyst questions. I would now like to turn the call over to Zach George. Please go ahead.

Zachary George: Welcome to SNDL's Third Quarter 2025 Financial and Operational Results Conference Call. The third quarter of 2025 marks another milestone for SNDL as we report record quarterly free cash flow. And for the first time in our history, positive cumulative free cash flow for the first 9 months of the year. We also continue to report sustained double-digit revenue growth in our combined Cannabis segment, underscoring the strength of our ongoing operational and profitability improvements. Beyond our ability to generate cash, which, in our view, is the ultimate measure of a business' fundamentals. We are also seeing numerous bright spots in our income statement. These include robust growth in our Cannabis segments, margin expansion across our Retail Operations and reductions in SG&A; expenses. Collectively, these factors translate into continuous improvements in our financial performance. Despite our progress in operations and our strengthened competitive position, this quarter's P&L; reflects the impact of \$11.9 million in unfavorable noncash items. These were triggered by increases in our stock valuation as well as inventory and fixed asset impairments, resulting in a reported operating loss of \$11 million. For those who are unfamiliar, our unvested long-term incentive equity grants show up as a liability on our balance sheet. So when our stock price increases, we have to take a negative charge to operating income in order to reflect the increased value of that liability. These noncash items and the volatility inherent to our industry should not overshadow the undeniable operational improvements we have achieved. We also continue to leverage the strategic advantage provided by our strong balance sheet with no debt and over \$240 million in unrestricted cash as we build a resilient, growth-oriented and profitable business. To this last point, during the third quarter, we continued to support the regulatory review process in Ontario which is the final step before closing the acquisition of 32 1CM cannabis stores. We also accelerated our investment pace to support the opening of 5 new Cannabis stores and 2 new Wine & Beyond stores during the fourth quarter. Additionally, we completed the ramp-up of our Atholville cultivation facility to support international growth, and we are now making further investments in its infrastructure. Last but not least, beyond strengthening our competitive position in Canada, the company continues to work towards resolving the ongoing litigation required to complete the SunStream restructurings. These

restructurings are expected to provide shareholders with exposure to dynamic medical markets, including Florida and Texas. I'll pass the call to Alberto now for more insights on our third quarter financial performance.

Alberto Paredero-Quiros: Thank you, Zach. I want to remind everyone that the amounts discussed today are denominated in Canadian dollars, unless otherwise stated. Certain figures referred to in this call are non-GAAP and non-IFRS measures. For definitions of these measures, please refer to SNDL's management discussion and analysis document. Our third quarter financial results represent another step forward in profitability, particularly in terms of free cash flow generation. Net revenue for the third quarter of 2025 reached \$244 million, reflecting a 3.1% increase compared to Q3 of last year. This growth was driven by our Cannabis segments, while the Liquor segment continues to navigate market headwinds. Gross profit of \$64.2 million represents a \$1.2 million increase or 1.9% growth year-over-year despite being impacted by \$3.9 million in noncash inventory-related adjustments within Cannabis Operations. This inventory adjustments reduced gross margin by 160 basis points, more than offsetting the strong margin expansion in both Liquor and Cannabis Retail segments. As a result, consolidated gross margin declined 30 basis points compared to the prior year. Operating income was affected by noncash adjustments totaling \$11.9 million. In addition to the \$3.9 million inventory adjustment mentioned earlier, the 121% share price increase during the third quarter triggered a \$6.8 million increase in share-based compensation liability. Finally, we recorded a net of \$1.6 million fixed asset impairment, mostly driven by the [idle] Stelletton facility. These 3 factors fully explain the reported operating loss of \$11 million. When excluding a \$1.5 million restructuring charge, adjusted operating income ended at a loss of \$9.5 million. This represents a \$7.1 million improvement or 42.7% compared to last year. Free cash flow is the main highlight of the quarter, with a positive \$16.7 million. In addition to the \$7.5 million improvement compared to the same period last year, this strong Q3 results enable us for the first time in our history to achieve positive cumulative free cash flow for the first 9 months of the year, totaling \$7.7 million year-to-date. When reviewing our 4-year historical performance, we continue to demonstrate a clear upward trajectory, reflecting our sustained focus on growth and improve operational efficiency. Additionally, we can observe the seasonality of free cash flow within the first and second half of the year with a consistent upward trend over time. When analyzing the contributions from each segment across our main financial KPIs, we can clearly see that net revenue growth was driven by our Cannabis segments, partly offset by Liquor Retail. The revenue [elimination] for cannabis is related to the sales from the Cannabis Operations segment into our own retail. As in previous quarters, dissemination is increasing as a result of our cannabis business growth. Adjusted operating income shows a solid improvement compared to the prior year, although there is some noise related to noncash adjustments in both periods. Liquor Retail posted a small decline of \$0.6 million as gross margin and SG&A; improvements were offset by revenue declines and the lapping of a \$1.2 million favorable fixed asset impairment reversal recorded in 2024. Cannabis Retail delivered a strong operating income growth, driven by revenue gains, gross margin expansion and SG&A; efficiencies. Additionally, this quarter included a \$1 million reversal for asset impairments recorded several years ago. Cannabis Operations reported negative operating growth, primarily due by the \$3.9 million inventory valuation adjustments and the \$2.7 million fixed asset impairment related to the idle Stelletton facility. The Investment segment showed significant favorability year-over-year. As last year included an unfavorable valuation adjustment from the SunStream investment portfolio. Finally, despite meaningful cost reductions in the Corporate segment, the \$6.8 million increase in share-based compensation triggered by the 121% rise in our share price during the third quarter, resulted in a \$2.2 million unfavorable movement year-over-year. Clearly, there are numerous typical adjustments impacting the third quarter in both years. When we strip away this noise, the underlying improvement in operating income becomes evident. Both the third quarter and the year-to-date free cash flow results are the key highlights. It's representing historic records for the company. In the third quarter, the negative income of \$13.3 million was driven by the different noncash adjustments previously mentioned, which leads to the high amount of \$30.8 million in noncash add-backs. Inventory and other working capital follow the regular seasonality as the investments in the first half of this year start being offset as of the third quarter. We're also seen the higher amount of CapEx and lease payments in the third quarter compared to the previous 2 quarters, driven by the incremental capital investments for the

anticipated store openings in the fourth quarter. This strong Q3 free cash flow results is allowing us to report for the first time in our history, positive cumulative free cash flow in the first 9 months of the year, with a total of \$7.7 million. Looking closer at the 3 operating segments, starting with Liquor Retail, we see that the segment delivered net revenue of \$139.4 million in the third quarter, a 3.6% year-over-year decline as it continues to face market headwinds. Gross profit of \$36.7 million represents a modest reduction of \$0.2 million compared to the prior year. As the revenue decline was almost fully offset by 80 basis point improvement in gross margin, which reached 26.3%, a new historic record for the segment. Operating income came in at \$11.2 million, a decrease of \$0.6 million compared to last year. While the record gross margin and further reduction in SG&A; spending provided support, these gains were offset by the lapping of a \$1.2 million in fixed asset impairment reversals recorded in 2024. Cannabis Retail delivered outstanding results in the third quarter. Net revenue of \$85 million represents a new record for the segment, supported by a 4.8% year-over-year growth, driven primarily by a 3.6% increase in same-store sales. Gross profit of \$22.5 million is also a historic high for the segment, reflecting an 8.5% increase compared to last year, supported by a 90 basis points improvement in gross margin. Finally, both operating income and adjusted operating income reached new records for the segment, driven by revenue growth, margin expansion and SG&A; optimization. Operating income of \$9.1 million more than doubled compared to last year, further benefiting from a \$1 million fixed asset impairment reversals recorded in the quarter. Our Cannabis Operations segment delivered mixed results as a result of noncash adjustments impacting the third quarter, masking the underlying improvements. Net revenue for the third quarter of 2025 was \$37.4 million, also a new record for the segment, reflecting a \$12.4 million or 50% growth compared to the prior year. This growth was driven by edibles following the acquisition of Indiva in the fourth quarter of 2024 as well as the accelerating international sales that reached \$4.2 million in the quarter. Gross profit was impacted by \$3.9 million inventory write-offs and valuation adjustments primarily related to the cultivation ramp-up at our Atholville facility. Gross margin ended up at 13.4% in the quarter, as the inventory adjustments had a negative impact of 10.4 percentage points to the margin of the segment. Finally, adjusted operating income also reflects a \$2.7 million fixed asset impairment related to the Stelletton idle facility. The total of \$6.6 million in unfavorable inventory and fixed asset noncash adjustments resulted in the negative \$4.8 million adjusted operating income. Over to you, Zach for additional comments related to our strategic priorities.

Zachary George: Looking at the progress we've made towards our 3 strategic priorities: growth, profitability and people, there are several highlights I'd like to point out. Let's start with growth. Our Cannabis Retail segment continues to outperform the market, achieving 3.6% same-store sales growth in the third quarter and contributing to an additional 12 basis point gain in market share. Despite softness in the liquor market, our Wine and Beyond banner continues to demonstrate strength with 2.9% same-store sales growth, supported by double-digit growth in private label sales. As mentioned in previous calls, we have accelerated organic capital investments in new store expansion. In addition to the 2 cannabis stores opened during the third quarter, we anticipate opening 5 new cannabis stores and 2 new Wine and Beyond stores in the fourth quarter. It is also encouraging to see strong 50% revenue growth from our Cannabis Operations segment, driven by market leadership in edibles following the acquisition of Indiva in the fourth quarter of last year, as well as continued growth in international sales, which reached \$4.2 million in the third quarter. Shifting to profitability. The most significant highlight is the generation of \$17 million in free cash flow during the quarter, enabling us to achieve positive year-to-date free cash flow of \$7.7 million at the end of the third quarter for the very first time in our history. This was accomplished through revenue and margin expansion, coupled with working capital optimization despite incremental CapEx investments to fund future growth. While adjusted operating income remains negative due to the previously mentioned noncash items reflected in the quarter, it did grow by 43% compared to the prior year, supported by revenue growth, retail margin expansion and reductions in G&A; costs. On that point, G&A; expenses in the third quarter were \$4 million lower than last year as our \$5 million of productivity savings more than offset inflationary pressures. Additionally, data licensing revenue contributed \$4.6 million in the quarter, providing further support for gross margin expansion. Foundational to all of these improvements is our people strategic priority. During the third quarter, we continued to enhance the deployment of Talent cards and

development conversations, a key step in our strategic talent review process. We also launched a recruitment efficiencies project to streamline hiring and improve the experience for recruiters, hiring managers and candidates through automated workflows. Additionally, we introduced a monthly leadership development series, a new networking forum where leaders share personal and professional experiences and discuss our strategic priorities. As we focus on driving strong execution in the fourth quarter and a strong finish to the year, we are also encouraged by the many opportunities and execution plans our teams are developing for 2026, taking us step by step closer to our ambition to become a global cannabis leader. Once again, I'd like to thank our entire team for their contributions and our shareholders for their continued trust. I will now hand the call back to the operator for the analyst Q&A session.

Operator: [Operator Instructions] And the first question today will be coming from the line of Aaron Grey of Alliance Global Partners. Please go ahead.

Aaron Grey: I see some more of the cash flow generation. First question for me. I just want to kind of strip out some of the one-offs to make sure we have a good understanding of how best to think about the business going forward. So particularly for Cannabis Operations, included the write-offs for inventory within that. So I just want to clarify there from the prepared remarks. Was it only the \$3.9 million inventory in the gross margin and the \$1.6 million fixed asset, that's SG&A; and not in gross margin? So I want to clarify that point. And then secondly, how best to think about the gross margin specifically for the Cannabis Operations going forward? Both of those are added back, it gets you back to that 29% gross margin from prior quarter. If just inventory, gets you more to the mid-20s. So I just want to get a better understanding of how to think about that on a go-forward basis.

Alberto Paredero-Quiros: So yes, I confirm the \$3.9 million of inventory adjustments that's obviously is impacting gross profit. And it has an impact of about 10.6 percentage points in the margin of the segment. The other onetime adjustments that we saw in the quarter is the Stelletton facility impairment, it's a \$2.7 million charge, that happened below gross profit. So it's in other income and expenses. So it's part of operating income, but not reflected in the gross margin. So the total of those 2 things obviously are impacting operating income, but the only impact to gross profit is based on the inventory adjustment. Without those adjustments, we would have been at around 25% margin in the segment, which is what we're expecting. We have seen in round about that number in the last couple of quarters, and we're expecting that to be the low end of the range for the future.

Aaron Grey: Okay. Great. Sales to provincial boards saw some nice growth both on a quarter-over-quarter and year-over-year basis. Any specific drivers there? And anything to think about in terms of the mix within that shipment timing for how we think about that line segment going forward? Because it does seem like that growth outpaced some of what we're seeing from the third-party POS data.

Alberto Paredero-Quiros: Yes, indeed, we're seeing the same softness overall in the sales to the provincial boards from Cannabis Operations. We know that it's not driven by our own segment as we continue to gain momentum there, and we'll continue to see growth. But we have seen some softness in third-party retail. Obviously, we don't have full visibility to the inventory numbers of the provincial boards. So an element of the slowdown could be as well driven by that. But overall, that we have seen over the last couple of quarters, a slowdown in third-party retail, that we're working on, obviously trying to create some additional momentum and with the changes in new products and innovation, we believe that we're going to be regaining momentum there.

Zachary George: And just to add to Alberto's comments. We are seeing great progress in specific categories, including edibles, pre-roll and vape. And so that's enabled us to keep a great pace relative to the broader market.

Aaron Grey: Okay. Great. Last 1 for me. I know you've been increasing your efforts internationally. I think you said 4.2% in the quarter. So how best to think about international sales going forward, how big of a part of the business do you feel like that could be within the next 12 to 18 months?

Alberto Paredero-Quiros: It does keep to -- continue to gain momentum. We have been increasing quarterly-over-quarter since the beginning of the year. We have a strong demand. We have a lot of purchase orders for the fourth quarter as well. We are bullish as well with the outlook for 2026. A lot of our international partners, they are exploring options to continue increasing purchases from us. They're

struggling with reliability of supply from some of their other partners that they have, and they have been very pleased with our performance so far. So yes, we believe and we're anticipating that, that number will continue growing in the future.

Zachary George: Worth mentioning that we are continuing to ramp production at our Atholville, New Brunswick facility. The benefits from extremely attractive relative power pricing. And so we should see monthly production based on our targets north of 15,000 kilograms a month in 2026. And so we expect the bulk of that biomass to be directed at international markets. And there are a number of other both 2.0 and other growth opportunities that we're looking at.

Operator: [Operator Instructions] Our next question will be coming from the line of Frederico Gomes of ATB Capital Markets.

Frederico Yokota Gomes: First question just on the 1CM transaction that still hasn't closed. You said you're waiting regulatory approval in Ontario. So is there anything specific that's been an issue with that approval. I'm just thinking about the previous history year back when you had the [Indiva] transaction, and I believe that there was a hold up there in Ontario. So just any comments on that?

Zachary George: Fred, we don't have any additional information to share. We thought this would be -- the review would be completed late October. It's early November. There are a number of retail licenses, both applications that have been submitted by affiliated entities as well as third parties that are still moving to the pipeline in Ontario. So we'll update the market as soon as we have greater clarity.

Frederico Yokota Gomes: And then second question, just on Cannabis Retail. I guess we saw good same-store sales growth this quarter again, record numbers in gross profit, operating income as well. Just broader comments about what you're seeing in that market right now? Are you seeing opportunities to increase prices and margins? Are you seeing a good pipeline of M&A? Or is it going to be concentrated more on organic growth, obviously, excluding the 1CM transaction? Just some broader color on the outlook for Cannabis Retail in Canada right now.

Zachary George: It's a great question. We are seeing maturity. It's really a province-by-province assessment. We've seen extreme saturation start to settle in Alberta. And as you well know, Frederico, Alberta was 1 of the quickest provinces out of the gate in terms of its pace of door count growth. You're seeing signs emerging of maturity in markets like Ontario as well, although there's still -- we still think there's opportunity there. And I think that the days of easy kind of double-digit, high single-digit same-store sales growth upon opening locations and managing a discount retail strategy are going to be in the rearview very quickly. Execution on the floor and owning the consumer relationship with a very convenient and attractive experience for customers is critical at this point. So we are very much focused on our consumer and owning that relationship.

Alberto Paredero-Quiros: I would add, Frederico, if you compare to the same period of last year, you have probably noticed in the third quarter that our same-store sales have slowed down somewhat compared to first half of the year. On the other side, we're seeing a significant increase, a 90 basis points improvement in gross margin. The main reason last year, as of the third quarter, we started to run more aggressive promotional activities. That obviously put a little bit the top line but tempered the gross margin. As we are lapping that strong promo activity this year, we're seeing the margin progression, obviously somehow a little bit of a slowdown on same store sales revenue growth. It will probably be a similar dynamic in the fourth quarter, but we still see some -- we've seen margins somewhat stabilizing for the long run. There is always an opportunity to increase efficiencies and manage mix a little bit better and gain marginally on the gross margin. But clearly, yes, as Zach said, on the revenue growth and the market growth, we're assuming -- we're expecting it would stay in the low single digits going forward.

Frederico Yokota Gomes: That's very helpful. And then just a final question, just, I guess, related to that as well, just on the Rise Rewards program, now that you have some more time with that. Anything you can share in terms of how the rollout is occurring relative to your expectations? And any data points regarding members of the program, economics, et cetera?

Zachary George: Frederico, we're still early days. We're just several months into this launch, but it is tracking quite well. The engagement we're getting from loyalty members is extremely strong. We're excited to roll out a similar and parallel program for our Liquor business in the coming quarters and think that there'll be an interesting opportunity and some very rich data that we can receive from that.

We're going to update the market on this program, but wanted to get a couple of quarters of performance underneath our belt before sharing more detailed stats.

Operator: Thank you. This does conclude the Q&A; session for today. I would like to turn the call back over to Zach George for closing remarks. Please go ahead.

Zachary George: Thanks all for joining us today. I appreciate your support, and we look forward to updating you on our progress in the near future. Thank you.

Operator: This concludes today's conference call. You may disconnect your lines. Thank you for participating, and have a pleasant day.