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CLS Holdings USA, Inc. 2023 CEO Address to Shareholders

LAS VEGAS, NV / ACCESSWIRE / August 25, 2023 /CLS Holdings USA, Inc. (OTCQB:CLSH)(CSE:CLSH), (the "Company" or "CLS").

As we reflect on the closing chapter of another challenging year in the cannabis industry, it is with gratitude and a strong sense of purpose that I speak to you today about CLS Holdings' resilience, innovation, and accomplishments in this past fiscal year, despite the ever-turbulent landscape we operate in. As many of you know, my name is Andrew Glashow; I am the CEO and Chairman of CLS Holdings USA, Inc., following a 3-and-a-half-year tenure as Chief Operating Officer, during which I was responsible for building the diversified business infrastructure of our cultivation, manufacturing, production, distribution, and retail companies known as City Trees and Oasis Cannabis Dispensary.



As I arrive at the completion of my first year as CEO, I wanted to take the time to reflect on the trials and triumphs of the past fiscal year, and my unwavering commitment to lead the company through its next phases of growth and profitability.

While we successfully overcame the turbulence brought about by COVID, we continue to operate in a regulatorily restrictive environment that brings its own set of challenges. We find ourselves trying to excel in a political and regulatory landscape that has, at times, been both unsupportive and devoid of leadership.

But in the face of these challenges, our optimism burns ever brighter as we draw strength from our proven strategies and trusted team to navigate the intricacies of a highly regulated landscape. We acknowledge the hurdles and recognize that change may be slow to come.

The current political climate, the war on drugs, and the profiteering from exorbitant cannabis taxes all contribute to a complex equation. While we may see incremental progress over the years, the transformative shifts we seek likely won't materialize until a younger generation of political leadership steps in.

We continue to operate in an environment plagued with heavy taxes and regulations. Yet we realize that we must accept the climate we operate in and navigate it as best we can without

getting distracted by the challenges and hopes for change. So if seismic change is not imminent, what do we do in the interim? What is the strategy to prosper in this difficult climate while we wait for a new, more open-minded generation of leaders to take office? That's what I want to talk about today.

The elephant in the room is the question of what lies on the horizon at the federal level. The shadows cast by issues like 280E, federal legalization, and rescheduling loom large. The divide between states like Missouri, New York, and California, governed by varying degrees of politics, illustrates the polarities at play. The juxtaposition of differing policies reveals a stark reality: Good policy versus bad policy is not a party-exclusive concept.

The industry at large continues to push the Safe Banking Act. The potential impact is a beacon of hope for the industry, offering the prospect of financial liberation by allowing cannabis businesses to engage with banking services without fear of repercussions. This legislative change could open doors to safer and more streamlined transactions, investment, and growth, significantly enhancing our operational resilience and fostering a more secure future, not only for us but the industry as a whole.



Closer to home, Nevada's legislative landscape is undergoing a shift with the passage of SB277. This bill doubles the possession and purchase limits for recreational cannabis, as well as ceases the allocation of further medical licenses, and enables adult-use dispensaries to serve medical patients. I expect this to alter consumer behaviors and demand dynamics in a positive way. In addition, SB277 adopts a new taxation model similar to that of Colorado in which Cannabis goods will be taxed at 15% of the sale price and not 15% of a predetermined Fair Market Value that lags 3 to 6 months behind industry trends. We expect this change to have a direct impact on our cultivator partners and pricing flexibility at retail.

Perhaps the most impactful aspect of SB277, Nevada's Cannabis Advisory Commission is tasked to conduct a study on the effects and ramifications of ending federal prohibition and de-scheduling cannabis. This presents a unique opportunity for the state to influence the dialogue surrounding federal legalization.

As we approach 2024, we look at these legislative shifts and potentials, using them to sharpen our strategic insight and fine-tune our operational path forward.

We also look at what other leading cannabis companies are doing. In speaking with other leaders as well as researching companies across the country, I've realized many common threads in the way these frontrunners function and how these principles can help guide our own journey.

First, most successful cannabis companies are private, granting them more flexibility and confidentiality. They also secure non-controlling, non-punitive capital. While we are currently a public company, we have managed to develop and maintain healthy relationships with our shareholders and are therefore better able to control our narrative and maintain a level of agility and flexibility in our business plans and operations.

Second, leading cannabis companies focus on profitability, generating revenue and real cash flow, which resonates with our focus on short-term profitability through asset-light opportunities.

Third, leading cannabis companies shrewdly limit outside capital, instead using internal resources and profits, echoing our strategy to reduce debt and avoid unnecessary funding. Capital is a tool, not a crutch.

Fourth, leading cannabis companies prioritize profitability over high capital, reflecting our pursuit for self-sufficiency.

Last, leading cannabis companies have dominated their niche. They know their strengths and focus their resources on what they do best. We've assessed and continually look at areas that should be uplifted and those that we should cut ties with. We have also established both a strong brand and a strong reputation in the Nevada marketplace that will continue to serve us well going forward.

In the face of the industry's unstable landscape, CLS has encountered and surmounted its fair share of challenges. Throughout it all, we have persevered and prospered and have no plans of letting up. In the last fiscal year, we took the opportunity to clean house, rectifying internal and financial matters to achieve a clean slate for a more streamlined future. The vast majority of the charges that we have taken are non-cash losses, including a 7-million-dollar charge against earnings that we took when refinancing our convertible debenture. In total, we've seen a non-cash loss of around \$9.1 million. Yet while navigating through this financial turbulence, we have successfully reduced our debt from \$23 million to \$9 million in just nine months.

We completed our 2023 fiscal year on May 31, following a 2% increase in revenue compared to the previous year. The results were very encouraging, especially as we've reduced operational costs and barred the need for additional capital.

We showed a 7% increase in revenue compared to the same period last year, from the City Trees production facility sales. Production and shipping of finished goods at our manufacturing division increased significantly year-over-year, with a 40% increase resulting in 30,000 more units delivered over the same time period. We expect this number to increase YOY as well, as we are adding more efficient production machinery that will increase our ability to produce THC Distillate in the very near future.

The Pre-Roll division continues consistent production, the addition of automated machinery has substantially increased output and cut our labor costs in half. Additionally, we recently added an Oil Injector to the Pre-Roll machine and will be releasing THC Distillate and Live Resin Oil infused Pre-Rolls under the Naked City brand. City Trees and PUF brands continue to dominate organically at our retail division Oasis, representing 33% of all revenue generated out of 84 total vendors carried.

NAKED CITY



The retail division saw an increase in the number of transactions/customers served by 16% over last year.

SGA expenses decreased by 2% compared to the same period last year.

And net operating cash flow saw an increase of 92.7% compared to the prior year. All very positive signs for the future.

Our commitment to compliance and transparency is evident in our seven consecutive on-time 10-K filings and our 28th 10-Q filing. We've never been late; we've never been censured; and we've never had any regulatory issues from a public company perspective or from a state perspective.

These milestones are not only indicators of our financial health; they serve as a testament to our integrity, diligence, and dedication to upholding the highest standards and full transparency. And we will continue to operate with complete transparency, whether it's good news or not so good news.

As we celebrate our wins, we examine and evaluate the factors that propelled us to this point, while also embracing change and seeking new pathways to success. Change is the crucible from which innovation is born. We have made strategic decisions and plans to fortify our future.

Our association with the tribe has undergone an evolution, and though we opted not to harvest in 2023 because the economic benefits were simply not there in a market where

prices for product have dropped significantly, we remain open to a new partnership that promises improved economics for both parties.

Embracing technology, we have successfully implemented AI solutions that enhance our efficiency, accuracy, and decision-making capabilities, leading to increased profits with less capital expenditure. We've examined each area of the company, from dispensary operations to our website and even the intricacies of our grow and manufacturing operations, to identify opportunities where AI solutions can seamlessly integrate and improve our processes. We've seen impressive results with each of our AI-powered implementations, but one, in particular--- Pluggi---has had a remarkable and evident impact on the customer experience as well as profitability.

Our average approximate basket spend per transaction has reached an impressive \$45, which continues to increase with the help of Pluggi, an AI-powered chatbot that delivers catered product recommendations in seconds. Pluggi encourages users to try new products, resulting in increased spending and basket diversity. The average price of products added as a result of Pluggi's recommendation is \$32, making for a 28% increase in the average shopping cart value at Oasis. Since implementing Pluggi, we've seen around a \$17,000 increase in revenue each month, which is astounding against a relatively low yearly cost of \$2,500. Not only has it impacted the shopping experience at Oasis, but our own brand, City Trees, makes up almost one-fifth of the brands clicked on during the recommendation process.

Another technology-forward initiative we've recently implemented with promising results is our VIP loyalty program, powered by Springbig. Through this, customers can pay a low monthly or yearly fee and in return receive a range of benefits, like exclusive discounts, expedited service, and free delivery. Most notably, VIP members receive a standing discount of 25% off all products all day, every day, and a remarkable 40% off all City Trees products. In just a few months, this program has already shown positive effects like increased cash flow, and customer satisfaction and retention. We've received an overwhelmingly positive response from our Oasis customers, and we expect to see thousands of sign-ups annually.

However, we recognize that innovation extends beyond technology. It resides in our organizational culture, our approach to problem-solving, and our willingness to explore uncharted territories.

While embracing growth, we acknowledge that headcount reductions may be necessary as part of our continuing cost-reduction efforts and our commitment to keeping our operations lean. As Rupert Murdoch said, "Big will not beat small anymore. It will be the fast beating the slow." One of our distinct advantages is our size- because we are small, CLS has the ability to be nimble and adaptable, making quicker, more intentional, and more effective moves than our peers. In a landscape marked by constant flux, the advantage of agility cannot be overstated.

Having said that, we must be mindful of the complications of employee reductions and approach them intentionally.

There are many factors that can thwart quick and easy cutbacks. The static nature of operations- you can't quickly downsize and sell assets-, the importance of key initiatives- that canceled project could be your growth engine-, and the necessity of some functional

personnel- for example, laying off financial staff just before an audit is not smart- are just a few factors to consider.

When consulting in this area, I channeled the 'Survival of the Quickest' strategy by Sequoia, a leading global venture capital firm with decades of experience scaling up and shrinking businesses in emerging sectors.

The adage "cut once, cut decisively" is crucial to follow. We are aware that incremental reductions, while seemingly less disruptive, can inadvertently lead down a dangerous path. Incrementalism, as history has shown, has often precipitated a downward spiral, which we are determined to avoid at all costs. For our collective prosperity, the courage to make necessary adjustments must be coupled with the wisdom to execute them decisively and humanely. Exiting employees will always be treated with class, generosity, and empathy.

Our small size affords us the privilege of making rapid and purposeful moves, unburdened by the bureaucratic layers that often slow down larger organizations.

In the metaphorical analogy of a canoe versus the Titanic, the significance becomes vividly apparent. Like two people navigating a canoe, we possess the power to communicate seamlessly and maneuver with precision. In contrast, the vast expanse of the Titanic emphasizes the challenge of effective communication and decision-making within a larger entity. Our streamlined structure empowers us to chart a course with swiftness and precision, enabling us to seize opportunities and adapt to challenges in a manner that defies the constraints of our size.

Our roadmap for the upcoming years is both steadfast and purpose driven.

We remain unwavering in our commitment to sustainable profitability, aiming to retire our debt within the next 2-3 years, and avoiding the need for any additional capital in the next 6-12 months. We have been on a consistent track of paying off around \$200k of debt per month over the last year. And most importantly, we are expecting to reach profitability in the 2024 fiscal year.

We have a plan in place to reduce annual corporate expenses by approximately \$2 million, which includes a 50% reduction in legal fees now that the debt has been restructured and the fundamental systems of business are in place. The restructuring of \$20 million in debt, and the conversion of approximately \$12 million of that debt into equity, results in an annual savings of \$600,000 in interest payments over the next two years and reduces the principal due from \$20 million to \$8 million.

Prudent capital stewardship is a guiding principle, ensuring that every investment aligns with our objective of creating enduring value. I believe cannabis leaders should have a capital allocation mindset that's equal parts Buffett and Bezos, focusing on near-term ROI, self-funding, and showing some free cash flow, while still making long-term investments.

With a promising financial plan in place, we are in good standing to seize new opportunities and optimize our operations and profitability going into the 2024 fiscal year.

Anticipating a horizon that demands financial resilience and with plans to pay off our debt, we remain cautious with our capital allocation. We plan only to pursue ventures that promise

short-term profitability and cut ties with those that don't, while continuing to look at asset-light opportunities, such as AI solutions. We recognize the significance of AI and are committed to further harnessing its potential to enhance our operations, in both our retail dispensary and branded product division.

Although we remain financially mindful, we recognize there are many opportunities for growth and market expansion. The Nevada market alone is expected to grow 33% between 2020 and 2025, reaching \$1 billion in sales by 2025. Nearby markets like Arizona and New Mexico are expected to collectively hit \$3.1 billion in sales by 2025. We are exploring asset-light approaches in these attractive markets, including potential joint ventures, brand licensing agreements, and wholesale distribution.

A venture that we have plans for in the near future that holds great promise for short-term profitability is a consumption lounge. We have obtained a prospective license and assuming we get our permanent license this year, plan to open the lounge in 2024. This is projected to not only increase foot traffic at the dispensary but also influence higher spending among our patrons.

All of this is to say, we are surviving; we are thriving; we're rapidly paying off our debt; we're avoiding the need for more capital; we're not going to do anything that doesn't have the opportunity to make this company money in the short term; and with this, we are anticipating profitability in the 2024 fiscal year.

Over the past year, and the past six years at that, we have not only maintained our course but propelled ourselves forward. Our accomplishments are a testament to the dedication of each member of CLS- from our devout shareholders and tenured management team, to, most importantly, our exceptional employees and loyal customers.

Together, we have navigated an intricate regulatory landscape, spearheaded initiatives that have elevated our operational excellence, and strategically positioned CLS Holdings for sustainable growth and profitability. Our journey has seen us forge partnerships, harness cutting-edge technologies, and hone our focus on areas of strength, all while remaining true to our commitment to transparency and shareholder value.

With each step forward, we remain resolute in our pursuit of excellence, our dedication to responsible growth, and our unshakable belief in a future where CLS Holdings stands as a paragon of success in the dynamic and ever-evolving cannabis industry.

In gratitude, determination, and in anticipation of what the future holds, I want to take this moment to thank all of you. I greatly look forward to what 2024 has in store for us.



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Forward-Looking Statements

This press release contains certain "forward-looking information" within the meaning of applicable Canadian securities legislation and "forward-looking statements" as that term is defined in the Private Securities Litigation Reform Act of 1995 (collectively, the "forward-looking statements"). These statements relate to, among other things, the expected development of our business and joint ventures, results of operations and financial performance, future liquidity, working capital and capital requirements. The continued spread of COVID-19 could have, and in some cases already has had, an adverse impact on our business, operations and financial results, including through disruptions in our cultivation and processing activities, supply chains and sales channels, and retail dispensary operations as well as a deterioration of general economic conditions including a possible national or global recession. In some cases, you can identify forward looking statements by

terminology such as "may," "might," "will," "should," "intends," "expects," "plans," "goals," "projects," "anticipates," "believes," "estimates," "predicts," "potential," or "continue" or the negative of these terms or other comparable terminology. These forward-looking statements are only predictions, are uncertain and involve substantial known and unknown risks, uncertainties and other factors which may cause our actual results, levels of activity or performance to be materially different from any future results, levels of activity or performance expressed or implied by these forward-looking statements. We cannot guarantee future results, levels of activity or performance. You should not place undue reliance on these forward-looking statements, which speak only as of the date that they were made. These cautionary statements should be considered together with any written or oral forward-looking statements that we may issue in the future. Except as required by applicable law, we do not intend to update any of the forward-looking statements to conform these statements to reflect actual results, later events or circumstances or to reflect the occurrence of unanticipated events. See CLS Holdings USA filings with the SEC and on its SEDAR profile at www.sedar.com for additional details.

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