

Transcript of
Greenlane Holdings, Inc.
Greenlane Holdings, Inc. Fiscal Third Quarter 2021 Earnings Call
November 16, 2021

Participants

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William Mote - Chief Financial Officer, Greenlane Holdings, Inc.

Analysts

Aaron Grey - Alliance Global Partners
Nick Meyers - ROTH Capital

Presentation

Operator

Good morning and welcome to today's conference call to discuss Greenlane Holdings Third Quarter 2021 Financial Results. A press release detailing the financial results for the quarter was distributed yesterday afternoon and is available on the Investor Relations section of the Greenlane website at investor.gnln.com.

As a reminder, today's conference is being recorded. A replay of this call as well as a copy of the supplemental earnings slide will be archived on the company's IR website at investor.gnln.com. On the call today are Nick Kovacevich, Chief Executive Officer; and Bill Mote, Chief Financial Officer.

Before we begin, Greenlane would like to remind listeners that today's prepared remarks may contain forward-looking statements and management may make additional forward-looking statements in response to the questions received. These statements do not guarantee future performance and therefore, undue reliance should not be placed upon them.

These statements are based on current expectations of the company's management and involve inherent risks and uncertainties and other factors discussed in today's press release. This call also contains time-sensitive information that speaks only as of the date of this live broadcast November 16, 2021.

Factors that could cause Greenlane's results to differ materially are set forth in yesterday's press release and in Greenlane's annual report on Form 10-K and quarterly reports on Form 10-Q filed with the SEC. Any forward-looking statements made today on this call are based on assumptions as of today and Greenlane assumes no obligation to update these statements as a result of new information or future events.

During today's call, Greenlane management may discuss non-GAAP financial measures including adjusted net loss, adjusted gross profit and adjusted EBITDA. Greenlane has included a reconciliation of these non-GAAP measures in yesterday's press release, which is available in the Investor Relations section of the company's website at investor.gnlm.com.

I would now like to turn the call over to Mr. Kovacevich, Chief Executive Officer of Greenlane. Please go ahead, Nick.

Nick Kovacevich - Chief Executive Officer, Greenlane Holdings, Inc.

Thank you, operator and good morning, everyone. It's good to be finally speaking with all of you on an earnings call after the merger with KushCo. As this will be my first quarterly call as the CEO of Greenlane,

I'd like to thank all of you for joining us today. And I'd like to thank the entire Greenlane team for their incredible work during a truly transformative quarter for the company. We are excited today to share our progress made during Q3 and more importantly, to update you on our integration, growth strategy and near term outlook for a successful future as the industry's leading ancillary cannabis company and house of brands.

Our first few months as a combined company had been off to a strong and encouraging start, demonstrated through several realized revenue and cost saving synergies, including the consolidation of certain vendors and infrastructure, as well as the development of go-to-market cross-selling strategies across each of our respective platforms.

We are extremely pleased with the integration milestones we have achieved thus far, while simultaneously driving meaningful progression in the business. I'll begin my prepared remarks today by providing an in depth overview of our strategy before providing some comments around our outlook, and then finishing off with a quick review of our Q3 highlights. After that, I'll turn the call over to Bill Mote, our Chief Financial Officer for a more comprehensive review of our Q3 financial results before we then open it up for Q&A.

So with that, let's jump right into slide three of the supplemental earnings slides, which you can find on our IR website if you haven't downloaded them already. Before we discuss our strategy and outlook going forward, it's important to look at our business in two different complementary lenses, as seen here on slide three.

The first is the consumer goods side of the house, which is focused on serving consumers across wholesale retail and e-commerce operations through both our proprietary brands, like EYCE, VIBES, Marley Natural, Keith Haring and Higher Standards, as well as lifestyle products and accessories from leading brands, like PAX, Storz & Bickel Grenco Science, and many more. I'll be spending the bulk of my prepared remarks today talking about this unit, as it forms a central part of our growth strategy, especially as it relates to scaling our own portfolio of higher margin proprietary owned brands.

On the other side, we have our industrial goods unit, which is focused on serving the premier brands, operators and retailers through our wholesale operations by providing ancillary products essential to their growth, such as customizable packaging, and vaporization solutions, and including our own house branded products under the Pollen Gear label.

Going forward, we will be creating two segments for these units, so that we can report financial figures that can help you track our overall progress and performance of our business in a better fashion. But for now, we're going to be providing this slide and framework to help you conceptualize these two main parts of our business, which are roughly equal in sales today.

With that context in place, let's turn to slide four, where we focus on our core part of our consumer goods business, our brands. I'll spend just a quick moment providing a snapshot of our brands before ultimately covering our growth strategy on slide five.

Over the past couple of years, we have been gradually shifting our business away from selling purely third party products to developing and growing our own portfolio of proprietary brands. It's easy to see how this strategy helps us scale our revenue and become in more control of our own destiny, not to mention, making us stickier with our customers. But a big part that is often overlooked and that we wish to emphasize is that having your own brands means you can enjoy much higher margins than you would otherwise.

Our in-house brands command double or even triple the gross margins of any third party products we sell with some brands such as EYCE, and VIBES offering gross margins north of 50%. So it's no wonder that we have set our sights on growing our house of brands, both organically and inorganically, and in turn, enhancing margins and ultimately driving higher profitability for our shareholders.

To better understand how attractive the strategy is, let's turn to slide five. I've touched on some of the reasons for why it makes sense to ship the branded goods, such as higher revenue and margins. But that's not all. Here are the four main reasons for pillars for why we are pursuing the strategy and I'll now spend a few moments going over each.

Pillar number one, building a house of brands expands our strategic moat. It creates defensibility by enhancing our intellectual property portfolio as we develop new product lines for the brands we own and assume the IP of the brands we acquire. In addition, it makes us stickier with our customers, as once they experienced success with our brands they cannot buy them anywhere else but through us. On top of that, we are afforded significant cross-selling opportunities because of the strategy.

Over the past eight months we have talked in great length about the strategic benefits of the KushCo merger. And one of the key benefits is being able to sell our brands into KushCo's customer base of vertically integrated SSOs and MSOs, which today we estimate to be between 500 to 1000 retail doors across the U.S. As those doors continue to grow and we penetrate these customers even further, we can cross-sell additional products from additional brands in our portfolio, helping us become a one stop shop for all these customers, ancillary consumer goods needs.

And finally, this strategy provides economies of scale as the more products we sell, the more bargaining power we have with our vendors and are able to negotiate better prices which should translate to higher margins and/or more cost savings for our customers. If we are just a distributor of third party products, we can't go very far. But by developing, launching and acquiring our own brands, we create significant brand value and the sensibility.

Pillar number two, which I've touched on already, is that this strategy allows for higher revenue streams and significantly stronger margins. This will be a key pathway for us in our pursuit of profitability, and from there, it will allow us to generate stronger returns for our shareholders.

Pillar number three is that we can continue to scale across the globe without requiring any significant catalyst such as federal legalization. Unlike the multistate operators, we can ship our products nationally and globally. And we can scale faster and wider. We don't have the same interstate restrictions that they do, because we're non-plant touching. And this creates a window of opportunity for us to scale quickly, and to build a formidable position for when federal legalization gets passed and implemented, which could take several more years.

And lastly, the fourth pillar why this strategy makes so much sense is that we are building the only true ancillary house of brands in the industry. If you look at the MSOs, there is stiff competition amongst a number of players who are all more or less competing for the same price, building a house of brands on the plant touching side. However, on the ancillary side where we play, those same dynamics don't exist. It's much more of a fragmented space with the players focused on a particular subset of each category.

To our knowledge, virtually no one else is creating a true house of brands on the ancillary side, and certainly, no one is doing it at the scale that we are. Our mission is to elevate all elements of the consumption experience. And while having the plant touching CPG products is obviously important for our industry. So it's having all of the products and accessories needed to enjoy those cannabis products, which we see as a clear opportunity for Greenlane to own.

As we continue growing our house of brands and the higher margins it contributes to our overall business, we benefit from the deep and long standing relationships we have cultivated over the past 15 years with many of the industry's leading brands. We believe, we have a clear competitive advantage in working with top and up and coming brands throughout their lifecycle and have developed significant market and consumer intelligence, which provides us unique insights into which brands to potentially acquire when we're looking in the future.

Looking ahead, we will continue to build our portfolio of top ancillary CPG brands, as seen by our recent announcement to acquire leading vaporizer brand DaVinci shown here in slide six. I want to spend a couple of minutes talking about the acquisition, as there appears to have been some confusion when we announced the deal, perhaps somewhat due to the price, and maybe even to a larger extent around the PACT Act rules, which were recently finalized and implemented.

First off, the team at DaVinci has done a phenomenal job pushing the envelope when it comes to innovation, which has helped the brand's product lines grow tremendously since the launch of their

award-winning IQ vaporizer back in 2016. A track record that we definitely look to expand upon once the acquisition closes sometime here in Q4.

In fact, the brand is looking to close the year at approximately \$12 million in sales with margins of 60%. That's right, gross margins of 60%. The consideration for the acquisition is both cash and stock and includes a number of earn outs tied to the performance benchmarks that the DaVinci team must meet in order for the total purchase price to hit the cap of \$20 million. So you're looking at roughly 1.7 times sales at the high end for a fast growing vaporizer brand with proprietary and patented technology that commands upwards of 60% product margin.

Of course, if they don't achieve the performance benchmarks, we will end up paying less than the \$20 million. But if the business performs as well as we expect, and the DaVinci team achieves the performance benchmarks, then we would expect that to translate into improved revenue and margins for Greenlane which should then translate to a higher stock price and therefore less stock being issued as part of the total compensation, a scenario that we believe creates great alignment of interests.

Secondly, there have been some additional interest in our rationality DaVinci acquisition given the recent PACT Act developments which among other provisions ban the mailing of electronic nicotine delivery systems or in via USPS, and have led to other shipping restrictions by private carriers. Contrary to maybe your first impression, these rules do not have a significant impact on Greenlane. The final PACT Act rules do not apply to products that are used only for dry herbs or solid concentrates, such as the DaVinci vaporizer stores and Bickel volcano and a variety of other products in our portfolio that in aggregate, make up the vast majority of our consumer goods sales.

Additionally, Greenlane's robust compliance infrastructure and operational expertise enable us to continue delivering products that are PACT Act regulated to customers and efficiently creating a competitive advantage that we believe smaller companies will not be able to leverage.

From a logistic standpoint, we have the scale to work with alternative non-UPS and FedEx carriers. If we removed the PACT Act affected items in our business, for sales orders under \$4,000, which is the threshold for shipping via freight, and LTL, which is not impacted by the PACT Act, the overall business impact to our business is only a couple million dollars, or less than 5% of total sales for the entire year.

So to sum it all up for the small areas of our business that are affected, Greenlane is already compliant with all the PACT Act rules, and actually has an advantage due to our regulatory knowledge, industry relationships, expertise, and scale. I'm happy to take any questions on DaVinci or the PACT Act in our Q&A session. But I want to now wrap up my discussion on our house of brand strategy by looking at slide seven, where we will provide an outlook for our business in 2022 and 2023. With our current portfolio of brands, including DaVinci, which we expect will close here in Q4 we believe that with just organic growth alone, we can achieve \$70 million in Greenlane brands revenue in 2022, and over \$100 million in Greenlane brands revenue in 2023. This is a aspirational target that we believe we can achieve and does not take into account any additional acquisitions we may make to strengthen our product portfolio even further. And we expect gross margins from this portion of our business to be over 45%, which should help elevate

our overall gross margins as we continue to grow our portfolio and as it comprises a larger part of the overall business.

To that point, we're expecting our Greenlane brands revenue to make up about 22% to 28% of total revenue next year. Of course, our Greenlane brands are not our entire business. As mentioned at the onset, we also have another side of our business, the industrial good side, where we have great relationships with many leading operators and brands that complement our consumer goods side of the house.

Slide eight puts this all into perspective by highlighting our breadth, strategy and opportunity, particularly with the MSOs who are continuing to rapidly scale and consolidate the cannabis industry. Not only do we have strong customer relationships, but we also have very strong vendor relationships as well, especially with C-CELL, who we have been actively working with to block the importation of vaping products that infringe upon its parent company Smoore Intellectual Property.

Last month, we issued a joint press release with Smoore and Jupiter, highlighting our support of a complaint filed by Smoore with the International Trade Commission to defend against certain IP violations of C-CELL branded vape products. Just last week, the ITC announced it has initiated an investigation of the alleged infringers as requested by Smoore.

In recent years, several vape manufacturer's brands and retailers have produced and distributed products that infringe upon C-CELL patent and trademark rights. The C-CELL brand has become synonymous with premium clothes in vaporizers and many violators have been producing copycat and inferior products hoping to ride the wave of C-CELL's sales growth and proceeds.

These violations not only violates C-CELL's IP, but some are also potentially endangering the health of the consumer by pretending to have the same rigorous quality standards of C-CELL. We expect the ICC action and other IP enforcement efforts will create more awareness and action that will ultimately prompt regulatory authorities to clamp down on these alleged IP infringers, which should ultimately bring more business back our way.

Now, with that deep dive of our consumer and industrial goods units, let's quickly turn to slide nine for a brief highlight of our Q3 results before I pass the call to Bill. Q3 was a transformational quarter for Greenlane. Total revenue increased 16% to \$41.3 million, compared to \$35.8 million for Q3 2020. And our Greenlane brands experienced another strong quarter of growth with sales increasing 26% to \$8.4 million in Q3 2021, compared to \$6.7 million in Q3, 2020. This strong quarter of sales for our Greenlane brands despite the normal and expected challenges of closing a merger still represented the second highest quarterly revenue contribution in company's history.

Most importantly, in Q3, we completed our transformative merger with KushCo, combining two robust innovative companies into one ancillary powerhouse with a best-in-class product portfolio and a leading house of brands. In addition to our differentiated and complementary product offering, we also brought together two distinct customer bases, selectively serving a much broader market than either company could have done alone.

Greenlane today serves a premier group of customers, including 22 of the top 25 MSOs according to the publicly traded revenue tracker on New Cannabis Ventures, and many of the leading Canadian LPs, the top smoke shops in the United States, and millions of direct consumers worldwide.

Overall, a lot happened in Q3. But we could not be more excited about the position we are in and the massive opportunity within our reach. We will continue seeking to acquire leading brands, such as DaVinci that we believe can strengthen our product portfolio, make us stickier with our customers and drive higher gross margins. We have a long road ahead of us to get this business to where we believe it can be. But we have a solid roadmap in place for getting us to that next echelon of growth.

Q3 was nothing short of transformative for the company and for our strategic initiatives that we are putting in place in Q4. And we'll continue our positive core momentum well into next year. With our enhanced operations, customer base and product portfolio, we are in a stronger position than ever to execute on our growth strategy and drive significant value for our customers, partners and shareholders.

With that, I'll now turn the call over to Bill to run through the financial results in further detail.

William Mote - Chief Financial Officer, Greenlane Holdings, Inc.

Thanks, Nick and hello everyone. We are excited to be reporting our financial results for the first time as a combined company. As a reminder, the results I will be reviewing for you this morning can be found in our earnings release that is available in EDGAR and the Investor Relations section of our website@investor.gnl.com.

Turning now to Slide 10, net sales of Greenlane brands grew 26% to \$8.4 million for the quarter, making up approximately 20.4% of total net sales for Q3 2021, up 210 basis points from 18.7% of total net sales for Q3 2020. Greenlane brands revenue comprise 29.3% of the total premerger Greenlane revenue up from 25.9% last quarter.

As Nick mentioned, we expect Greenlane brands revenue to continue to rise and ultimately make up roughly 22% to 28% of our net sales in 2022. Total revenue grew 16% to \$41.3 million in Q3 2021 from \$35.8 million in Q3 2020. Our United States segment net sales increased 29.4% to \$37.5 million for Q3 2021 from \$29.0 million in Q3 2020.

The year-over-year increase of \$8.4 million or 29.4% was due to a \$12.2 million or 304.9% increase in S&P or industrial goods sales driven by KushCo's September sales, which mitigated a decline in e-commerce channel and dropship in B2B sales.

We along with many other importers of goods are continuing to experience supply chain issues for both Greenlane brands and other top selling brands due to record shipment backlogs, and container shortages. These challenges have resulted in higher freight costs that we have been absorbing for some time, but are now passing through to our customers through a freight surcharge, until there is a normalization of prices.

In addition to impacting our margins, the shipping delays are also impacting revenue to a degree as it is taking longer to source products from overseas. We are continuing to monitor our supply chain activities and are making regular adjustments to our purchasing to meet any anticipated changes in demand and product availability.

Our Canadian segment reported revenues of approximately \$1 million for Q3 2021 compared to approximately \$4.4 million in Q3 2020. The decline in sales was due to an expected decrease in nicotine revenue sales as a result of our strategic shift away from low margin nicotine sales.

In Europe, sales grew 21% year-over-year to \$2.8 million, primarily due to an increase in B2B in third-party marketplace website sales. Europe remains an exciting growth avenue for us, especially longer-term, as more countries continue to warm up to legalization like the states have done over the past five years.

Shifting gears, we'll now take a look at gross profit, which was \$0.1 million or 0.3% of net sales in Q3 2021, compared to \$2.5 million or 6.9% of net sales in Q3 2020. As we announced via press release on November 3, a one-time inventory rationalization of \$8.7 million was implemented in connection with the closing of the KushCo merger, which adversely impacted gross profit. Therefore on an adjusted basis removing the effects of this rationalization, gross profit was \$8.8 million or approximately 21% of sales in Q3 2021.

The inventory right sizing initiative will facilitate a more efficient warehousing operation, and will allow us to reallocate resources to higher margin top performing skews, such as our Greenlane brands. It will also allow us to eliminate redundancies between our combined product portfolios. Our SKU count is getting tighter and we are becoming more judicious with our working capital, especially in light of the global supply challenges I mentioned earlier.

We're excited that we can not only streamline the business through this initiative, but also generate some cash in a non-diluted way by selling inventory that can fund our organic and inorganic growth initiatives such as the DaVinci acquisition. We expect our overall gross margin to continue to improve as we execute on our strategic vision with a heightened focus on our Greenlane brands.

G&A costs for Q3 2021 increased to \$15.4 million compared to \$10.7 million in Q3 2020, primarily due to an increase in M&A expenses incurred with respect to the KushCo merger. Net loss attributable Greenlane for Q3 2021 was \$16.3 million, compared to \$4.5 million in Q3 2020.

Adjusted EBITDA was negative \$6.9 million in Q3 2021 compared to negative \$6.3 million in Q3 2020. We ended the quarter with \$13.2 million in cash and working capital of \$70.8 million compared to \$54.2 million as of December 31, 2020. We're continuing to be judicious with our cash position and our ability to opportunistically raise capital under our ATM program.

We're being very thoughtful about how we use our balance sheet to fund our growth initiatives. We're very excited about having the Eyce and DaVinci teams on the Greenlane team. The Eyce acquisition has been well received and is creating positive value for the company as we expect the

DaVinci acquisition will as well, and we will continue to evaluate acquisitions with a similar profile for potential future targets.

With the improvements in our operational performance following our recent merger, we believe this pivotal year has positioned us for a strong 2022 and we are more excited than ever about the future for Greenlane.

With that, I'll turn over the call to the operator and open it up for Q&A.

Operator

Thank you. Ladies and gentlemen, the floor is now open for questions. [Operator Instructions] And our first question today is coming from Vivien Azer of Cowen. Your line is live. You may begin.

Q: Great, thank you. Hi team this is [Indiscernible] on for Vivien today. So just wanted to start on the integration. Apologies for the baseball reference here. But what inning do you think you're in terms of completing the integration and how should we think about the timing to achieving the full benefits of the merger?

Nick Kovacevich - Chief Executive Officer, Greenlane Holdings, Inc.

Hi, just before we answer that question, I just want to make everyone aware of a transcription error on our non-GAAP reconciliation tables at the end of our earnings release, which we identified after the release across the Wires. The correct release was filed on our 8-K, but incorrectly transcribed when you look at the version on our IR website, and we are working to resolve this as quickly as possible. But to set the matter straight, please view the release in our 8-K, or the PDF version on our website, which reflects the correct adjusted EBITDA number of negative \$6.9 million.

Now with that, I can answer your question. So integration wise, I -- we started this integration six months before the project closed for the deal closed with Kush. I'd say we're in the middle of it. I don't know if it's the fifth inning of six inning, but we're in the middle of the overall integration, we've made good progress. We're close to realizing our 100 day deliverables, and we continue to move forward.

As you know, we announced a savings of \$15 million to \$20 million in a 24-month period. So we did envision that that integration work would take some time to wrap up. But the bulk of those savings will be achieved in this first 12 months of that project. So I'd say we're in the middle of it. And we're progressing well. And just about coming up on our 100 day deliverables.

Q: Great. Thank you. And then kind of just following-up on that \$15 million to \$20 million cost savings target. Just in the early stages have you identified any opportunities for incremental cost savings? And Bill I know you talked about gross margin increasing from here, though we're also in a pretty -- we're in a pretty cost inflationary environment. So can you just kind of talk about the balance between potential incremental cost savings and how you're thinking about gross margin going forward?

William Mote - Chief Financial Officer, Greenlane Holdings, Inc.

Yes, so the gross margin changes come from mix, right. And we continue to increase the overall mix of our branded products. And that will continue. And that's where we believe the gross margin increases. As we've said in our call, we're charging some surcharges for freight to try to offset the impact of the logistic challenges that we're seeing in the marketplace.

On a previous call, I've said that that logistic challenges in and of itself can be between 200 and 300 basis points weight on margin. So we are doing some things to change freight pricing, so we can add those surcharges. And those surcharges have already been implemented. So we're doing our best to offset freight related costs, while continuing to change the mix.

If you recall on the call, Q2 I think on a premerger basis, our brands were at about 25% of our overall revenue. And now they're about 29% from the premerger Greenlane side. That percentage you'll notice is going to adjust downward given that we're bringing on the revenue streams from Kush, but overall that that revenue number will continue to go up as we continue to transition to branded goods and add companies like DaVinci into the mix.

Q: Understood. Last one for me. Can you maybe -- you've talked a lot about the cross-selling opportunity just as we think about further revenue opportunities. Can you maybe dimensionalize or quantify a little bit further, the opportunity that lies ahead of you in terms of selling across the KushCo legacy platforms and then the Greenlane platforms? Thank you very much.

William Mote - Chief Financial Officer, Greenlane Holdings, Inc.

Sure.

Nick Kovacevich - Chief Executive Officer, Greenlane Holdings, Inc.

Yes, I could take that one. Yes, look I think, this is pretty much the reason we did the merger. One of the main reasons is to leverage the cross-selling. We're super excited now that we're developing this house of brands just gone underway, but we're putting more of an emphasis on it, that we're going to have a really robust portfolio of company owned brands on the consumer goods side to offer to the vertically integrated MSOs and single state operators that KushCo and our industrial goods division today is currently catering to.

So we haven't had that opportunity before. Typically, with the industrial goods business, it's going to be a little bit more competitive. Selling to C-CELL products, the packaging products, the energy products, such as ethanol and butane, margins are going to be lower. These are very large customers. And, it's highly recurring revenue that we can recognize, and obviously gets much bigger over time as these MSOs and SSOs, scale and grow their overall revenue.

So that's what we're tapping into here. And we're able to then leverage that business, which is a great business, but it has a negative of being a little bit lower margin. We're able to turn that negative into a positive by cross-selling into those retail channels, those same vertically integrated operators, also have their own footprint of retail stores. And by getting our company owned brand

consumer goods into those retail stores, we're going to effectively raise the overall gross margin profile of those customers. And it really allows us the opportunity to fill a void in the market.

Today, a lot of cannabis retailers have not taken advantage of offering accessories through their retail stores. They'd have consumers walking in every day, some stores are getting hundreds of consumers on a daily basis. And for the most part, they're just purchasing cannabis. Our goal is to make sure that these MSOs and SSOs have an opportunity to upsell their customer into accessories as well, whether it's a simple rolling paper or VIBES papers, grinders, or aerospace grinders, or if it's something much more robust like our own DaVinci products, or some of our partner products to like PAK, Storz & Bickel or Greenco Science, right.

So that's the goal. It's well underway. We have the relationships, and now it's just about navigating. We're seeing a lot of the MSOs. Just now starting to move to more central buying for those retail products whereas historically, it's been one-off store managers making individual buys. So as they're looking to get more efficient with their retail business, they're starting to consolidate their purchasing. So it's really perfect timing for us to have these conversations, and to be able to offer this solution.

And we think over the next few years, we're going to be able to convert a significant amount of our customer base into carrying these goods. And we're going to be able to convert a significant amount of the consumer base from going to a separate smoke shop or specialty retailer to buy their accessories and allow that consumer to buy everything all at once when they go to purchase their cannabis from a licensed legal dispensary outlet.

Q: Great. Really appreciate it. Thanks for taking the questions. I'll jump back in the queue.

Nick Kovacevich - Chief Executive Officer, Greenlane Holdings, Inc.

Thank you.

Operator

Thank you. Our next question today is coming from Aaron Grey at Alliance Global Partners. Your line is live. You may begin.

Q: Hi, good morning, and thanks for the questions. So first question for me, just want to go into I know you guys obviously highlighting the own brands and a lot of opportunity there. Just on the third-party brands, one of your third-party brands, Storz & Bickel called out on their public call, via canopy. Some supply logistic and challenges that caused global supply difficulties, those down 34% Q-over-Q. So, just want to know if you guys saw any impact there in your business, how much and if you guys were seeing that for other products beyond just Storz & Bickel, that we're dealing with a similar issue and if that had an impact on sales to you guys? Thank you.

William Mote - Chief Financial Officer, Greenlane Holdings, Inc.

Yes, it did...

Nick Kovacevich - Chief Executive Officer, Greenlane Holdings, Inc.

Yes, go ahead, Bill.

William Mote - Chief Financial Officer, Greenlane Holdings, Inc.

Overall, like Storz & Bickel for the quarter was around \$3.8 million in revenue. Previous quarter was \$4.4 million. So we did see a decline and we saw similar decline on PAX and Greenco products as well. So my perspective is that we're seeing some impacts from the freight and logistics challenges and that's almost spot on consistent with what Storz said in terms of their decline.

Nick Kovacevich - Chief Executive Officer, Greenlane Holdings, Inc.

Yes, I'll just add to that. Thanks for the question, Aaron. Look, I think we, it points to, again, why we want to get more vertical with our supply chain, right. We have great partners that we're going to continue to do business with, of course, and expand those relationships, and probably focus a little bit more on our premier partners and probably take on a little bit less as we focus more on our own products, but only in our own supply chain.

Right, we've spent now two years almost navigating these supply chain disruptions speaking for myself, going back with KushCo and also the Greenlane team, bringing in these goods, since COVID hit. So we have experience, we have a team in China that helps with sourcing; we've got great factory partners. So again, being able to own the brand ourselves, and being able to control that supply chain, I think just puts us in a better position to make sure that we're continuing to receive goods and be able to offer and sell goods to our customers during this very trying time when it comes to import logistics and freight and all the other challenges.

Q: All right, great, thanks for that color. That's helpful. And then second one for me, just on C-CELL. So Smoore filed within the ITC of patent infringement, ITC is now looking and investigating into it. So trying to get some color in terms of maybe potential indirect impacts, you guys are seeing as and it looks like there was a notable amount of your competitors on the C-CELL side that were named, within the infringement filing. So are you guys seeing anything indirect whether or not in terms of MSOs, maybe coming to you who had gone towards other competitors? Or had lower price offerings you have spoken to in the past? Or maybe any outcomes you might look to see over the next year or so as the ITC investigates? Thanks.

Nick Kovacevich - Chief Executive Officer, Greenlane Holdings, Inc.

Yes, look, we're already seeing some positive momentum. I think operators are becoming increasingly aware and concerned about their supply chains, right, given what we were just talking about with all the global headwinds. So this is one more thing to add to the plate, if you're a multistate operator, or single state operator, and you're growing, and this is an important category for you, which is virtually across the board for everybody. You got Chinese New Year, CNY coming up. You've got all these Global Freight Challenges, and now you have the IP enforcement

actions that include this ITC claim is one of several actions that's more and us as a partner are taking.

So, you just don't want to necessarily enter into that kind of risk with such an important part of your supply chain. And so we're seeing conversations happening from folks that were previously more concerned about price are becoming now less concerned about price and more concerned about reliability, which is exactly what we've been able to offer with what we're doing with C-CELL over the last several years, a trusted solution, best-in-class quality.

So those conversations are underway, I think people will still continue to take advantage of maybe some of the lower priced options until those options are completely shut off, which we believe will happen if the ITC review is successful in our favor.

So I think it's going to be slow progress. But definitely some progress and some upside for us here in the near-term. And then certainly significant, very meaningful upside in the long-term as we get the infringing products off the market, hopefully and we're able to be able to provide the best in class C-CELL solutions across the board.

Q: All right, great. Yes and if you look at a proxy with the rental, Philip Morris, similar filing looks promising for you guys. Thanks for the color there and I'll go and jump back in the queue.

Nick Kovacevich - Chief Executive Officer, Greenlane Holdings, Inc.

Thank you.

William Mote - Chief Financial Officer, Greenlane Holdings, Inc.

Thanks so much, Aaron.

Operator

Thank you. Our next question today is coming from Scott Fortune at ROTH Capital. Your line is live. You may begin.

Q: Hey, good morning. This is Nick on for Scott. First question from me. I'm just looking for some color on the product uptake side. You took that impairment as you work to realize efficiencies on the inventory side. But can you call out any skews of emphasis that have seen good consumer and B2B uptake here, and kind of how that's influenced future product rollouts? Thanks.

Nick Kovacevich - Chief Executive Officer, Greenlane Holdings, Inc.

Yes, I mean, I think we'll get at a high level. This is a company getting more focused. We'd love to be everything to be everything to everyone. But given the current capital environment, we realized that we need to be a little bit more focused in what we do. And so moving to company owned brands is certainly the right strategy. If you think about what we laid out, the ability to

organically grow to \$70 million next year, potentially with 45% gross margin, I mean that portion of our business, which we said is only going to be 22% to 28%.

But that portion of our business alone, arguably and you got you are the analyst, that's right, but arguably could be worth more than our entire market cap today, right. So given the pressures that the whole sector is faced and the pressures that the Greenlane stock has faced, it just doesn't make sense to continue to invest in a lot of things that are on the periphery, all right, partner brands, that we're selling that, maybe we don't see long-term viability, maybe the margin profile isn't where it needs to be, maybe the demand for the product has slowed down considerably.

So those are the good that we decided to discontinue, they just didn't fit in our strategic plan going forward. And ultimately, that's going to free up cash to be able to invest in the goods that do fit into our strategic plan, namely the company owned consumer brands. And we'll be able to then ensure that we have product, I think we're just talking about the supply chain issues. We're going to have to outlay more capital to ensure that we have the product to build our own brands, as we embark down the strategy. We don't want to be in a situation where we're outlaying significant investment in terms of marketing and sales, and then only to fall short because we don't have the supply.

So getting more focused, buying the right goods, find the -- the highest margin, highest value goods, is all part of this, this change in our business. And so we did take the one-time charge, which we think will be ultimately in the long-term in the best interest of the company and of everybody involved as we strategically make this pivot toward a much more valuable business.

Q: Okay, that's great. I appreciate that color. And then just turning to the e-commerce side, you operate several different platforms servicing different segments here. I was just wondering how you look at potentially consolidating those that may have some overlap, just kind of how you look at your e-com footprint from the efficiency standpoint, moving forward here.

Nick Kovacevich - Chief Executive Officer, Greenlane Holdings, Inc.

Yes, great question. We have a very robust e-com plan through 2022. That is going to be one of the areas that we are going to be making additional investment as we pull back on some of the other areas that I just said. So as we have a much stronger house of brands portfolio, especially with the DaVinci acquisition coming into the fold here in the near future, we want to make sure we're investing in our direct-to-consumer relationships via e-commerce and sort of, we have right now, a few sites that are more robust in terms of the offering like vapor.com.

And so we want to maybe consolidate those down into one, a very robust e-commerce site. And then separately have direct-to-consumer purchasing available through the individual brand websites. So we need to build brand content. And we need to offer the loyal consumers that have identified with those brands the opportunity to buy direct from the company. So that's kind of at a very high level, our strategy for e-com but yes, it is going to involve, definitely optimizing, streamlining and reducing the amount of e-commerce properties, but becoming very good and very effective at managing likely one B2C larger website and individual brand websites that can offer

that DSE experience that we're seeing, trending across all consumer segments here today in the country.

Q: Great, that's it from me. Appreciate the color.

Nick Kovacevich - Chief Executive Officer, Greenlane Holdings, Inc.

Thanks for the questions.

Operator

Thank you. Our next question is coming from Derek [Indiscernible] at Jefferies. Your line is live. You may begin.

Q: Hi, thanks for taking my question guys, congrats on the merger. Just for me related to the DaVinci acquisition, this kind of new focus on the higher margin proprietary brands. I guess sourcing these types of different brands, where are you guys looking to see that, either through your existing distribution relationships, or looking outside. And then I guess the continuation of your distribution relationships with third-party brands. I think that was probably a good pipeline for you guys, but to define these proprietary brands that you want to bring under your Greenlane brand umbrella. So a little color on that would be helpful.

Nick Kovacevich - Chief Executive Officer, Greenlane Holdings, Inc.

Yes, great question. Thanks for asking. Look, I think we have factor relationships already. I mean, these brands that we already own, we've been producing products. We're going to expand and fortify that. We think there's opportunity for cost decrease. We think there's opportunity for quality increase. We think there's opportunity to potentially migrate some of the production out of high tariff, difficult logistic regions like China, for example.

Depending on the product set, so we want to make sure we have redundancy, we want to make sure we have a clear path to being able to scale the production in the manner needed, as you see our aggressive growth plan of these brands going from estimated \$45 million today up to \$70 million, and then up over \$100 million in 2023. So we have to prepare for that from a supply chain standpoint. Luckily, we have a world-class sourcing team, as I mentioned, with team members in China. We've done a good job of that historically, at both companies. But as we come together here again, part of the benefits getting more focused is we're going to be able to really put our energy and resources behind the supply chain, specifically more for these company owned brands.

Yes, that does come with a reduction of sort of the broad assortment of brands that we've historically carried. And we're going to be much more opportunistic about which brands we decide to do business with. And again, we're probably going to look to do more business with a fewer subset of brand partners than we have historically.

Look, I think that that could be more permanent, that could be something that we end up shifting back towards as sort of the capital markets improved for cannabis and for Greenlane. And so it is

a little bit fluid, but we still have a pulse on the market, we still have relationships. We have a len, we're talking to store owners. We have a field sales team. And so we're able to get that visibility and data to the extent we want to make more acquisitions. We still will have a pipeline that's currently actually still fairly robust and probably going to expand just naturally.

But again, we have to be conscious of sort of the dilution effect, right. We know that there's opportunities to buy companies, but the markets not valuing Greenlane where we feel that we should be valued given our company own brand portfolio. It's going to be much harder for us to be aggressive on the M&A front. So we've got to stay nimble.

Like I said, we have a pipeline. I think that will continue to grow organically, even as we move away from the proliferation of third-party brands that we've historically offered. And as we get more focused within our own categories, if you look at our portfolio of brands, with DaVinci, we now have most of the mainstay categories, right. We have the glass wares and accessories of higher standards and keep pairing, got the grinders with groove and aerospace. Now the vaporizers coming on with DaVinci and of course, by drawing papers and the paper product category that we offer there, we've got the silicone products with Eyce.

So as you see, we're building out the different categories. And I think that really when we look at opportunities that may be, hey, what's an adjacent category, because if it's something that's we are already doing, we can make those investments ourselves as we have been doing. And we just had a very successful product launch for the Eyce, the ORAFLEX, Intellectual property it's a wonderful product. If you haven't seen it, it looks like glass, but it's actually silicone.

And we expect to be able to do more of that organically. So really, we're moving to a scenario where we can control our own destiny, much more so than we have historically, at Greenlane or at KushCo.

And that feels really good, especially as we're in this uncertain environment. And we're looking to get profitable, right. And this strategy is going to allow us to significantly enhance our margins.

Q: Awesome, thanks for the color on that. Appreciate that. And then just the final question from me, just touching on Canada, massive declines, that makes sense the shifting away from low margin nicotine sales. But is there anything else that's driving that decline in Canada? And I guess, is there another is there a strategy going forward and how to recoup that lost sales from the low margin nicotine?

Nick Kovacevich - Chief Executive Officer, Greenlane Holdings, Inc.

Hey, look, we've had our, to be honest, we've had some internal issues, right. So some of this is stuff that we can just do better as a company and we intend to. So I think naturally we'll be able to win back business in that market. It is a tough market. We're seeing it, especially on the industrial goods side. We're seeing some of the larger Canadian LPs report. So I mean we are all seeing the same data, right. On the consumer good side, it's a little bit different. You mentioned the move away from nicotine, that certainly was a big driver of growth for Greenlane, historically in Canada, and [indiscernible] being an extremely popular product in its heyday that's shifted as well.

So we have to re-evaluate our strategy a little bit. We've got to execute better in Canada. Again, as we move to more focus on our company own brands, Canada's a wide space for us. We don't sell a lot of our own branded products in Canada. So there's some strategies that we're looking to be able to help accelerate that. We have our footprint in Europe as well, which we see as the sort of next great cannabis frontier. But also as we get more focused, there's plenty of opportunity right here in our backyard here in the U.S.

So we have to balance how much energy effort and resources we spend in these international markets, when we're sitting right here and the largest cannabis market in the world in the U.S. And then we have relationships with the biggest players and we have opportunity to cross-sell all of our products. So that's going to be a little bit of a dance we do. And again, going to continue to be influenced by capital and access to capital.

We want to be very mindful, the cost of making those types of investments and make sure that if we're going to take on that cost, we can fund it with the working capital we have or leveraging, some less diluted measures in terms of accessing data or other things like that. Unless the opportunity and risk reward is there, right and then we may make those investments ourselves.

Q: All right, thanks so much, Nick. And yes, I'll jump back in the queue.

Nick Kovacevich - Chief Executive Officer, Greenlane Holdings, Inc.

Thank you so much.

Operator

Thank you. We have no further questions in the queue at this time. I will now turn the floor back over to Nick for any closing remarks.

Nick Kovacevich - Chief Executive Officer, Greenlane Holdings, Inc.

Okay, great. Well, thank you again for joining Greenlane's conference call today. I would also like to sincerely thank our team, for all their dedicated hard work, going through a merger like we have sort of refocusing our strategic goal for our business. And there's been a lot of change at Greenlane. Our team's done a phenomenal job, embracing the change, getting excited about the future.

We're certainly more excited than ever. I was honored to be able to deliver the first conference call as CEO of Greenlane. And I look forward to many more. Thank you guys for tuning in, look forward to updating you on our progress and giving you the results on our next earnings call. Thanks and have a great rest of your week.

William Mote - Chief Financial Officer, Greenlane Holdings, Inc.

Thanks, everyone.

Operator

Thank you, ladies and gentlemen. This concludes today's event. You may disconnect at this time and have a wonderful day. We thank you for your participation.