**KushCo Holdings**

**Fiscal Third Quarter 2020 Earnings Conference Call**

**July 8, 2020**

## CORPORATE PARTICIPANTS

**Najim Mostamand,** *Director, Investor Relations*

**Nick Kovacevich,** *Co-Founder, Chairman and Chief Executive Officer*

**Stephen Christoffersen,** *Chief Financial Officer*

## CONFERENCE CALL PARTICIPANTS

**Vivien Azer,** *Cowen & Company*

**Aaron Grey,** *Alliance Global Partners*

**Scott Fortune,** *ROTH Capital Partners*

**Greg Gibas,** *Northland Capital Markets*

## PRESENTATION

**Operator**

Greetings and welcome to the KushCo Holdings Fiscal Third Quarter 2020 Earnings Conference Call.

At this time, all participants are in a listen-only mode. A question-and-answer session will follow the formal presentation. If anyone should require Operator assistance during the conference, please press star, zero on your telephone keypad. Please note, this conference is being recorded.

I will now turn the conference over to your host, Mr. Najim Mostamand, KushCo's Director of Investor Relations. Mr. Mostamand, you may begin.

**Najim Mostamand**

All right. Thank you, Operator.

Good afternoon and welcome to the KushCo Holdings Fiscal Third Quarter 2020 Earnings conference call. A replay of this call will be archived on the Investor Relations section of the KushCo Holdings website, ir.kushco.com.

Before we begin, please let me remind you that during the course of this conference call, management may make forward-looking statements. These forward-looking statements are based on current expectations that are subject to a number of risks and uncertainties that may cause actual results to differ materially from expectations. These risks are outlined in the Risk Factors section of our SEC filings. Any forward-looking statements should be considered in light of these factors. Please also note as a Safe Harbor, any outlook we present is as of today and management does not undertake any obligation to revise any forward-looking statements in the future.

With me on the call today are our Co-founder, Chairman & CEO Nick Kovacevich and our CFO Stephen Christoffersen.

With that, I would now like to hand the call over to Nick. Nick?

**Nick Kovacevich**

Thanks, Najim, and thank you all for attending our fiscal third quarter 2020 earnings call.

Q3 definitely went down as one of the most interesting, productive and important quarters in KushCo's entire 10-year history. It was the first quarter where we experienced the true impact of the COVID-19 pandemic, but more specific to KushCo, it was also the first quarter where we truly had to navigate a transformational change at the Company. The Company has seen a critical strategic shift toward the leading operators and a complete right-sizing of our organization, all while operating in a highly volatile and evolving landscape.

As we'll get to on the call, Q3 was a successful transition quarter, demonstrating the execution of our strategy to accelerate our path to positive Adjusted EBITDA. We have done an exceptional job cutting costs, putting us in position to achieve our stated goal of positive Adjusted EBITDA in Fiscal Q4.

Our entire team has done a phenomenal job not only navigating the strategic shift during this pandemic, but also doing so with a significantly reduced staff. Let me just say, it takes a truly special team to get all these initiatives done and I could not be more proud of the efforts and hard work from the entire KushCo family, which has in such a short amount of time, adapted to working smarter and harder, while doing more with less.

There's obviously still some work that needs to be done, which we'll be going over shortly, but on virtually all fronts of the business, we feel like we're in a great position to execute on our goals and get this business to where it needs to be, which is profitable and sustainable growth that can drive significant long-term returns for our shareholders.

With that, let's turn to Slide 5 of the supplemental earning slides, which can be found on the Financial Results page of our IR website at ir.kushco.com.

Q3 was another challenging quarter from a revenue standpoint. We generated $22.3 million which was notably lower than the revenue we generated in the previous quarter. The main drivers of this sequential decline were twofold. One, regulatory and travel restrictions in markets like Massachusetts, Nevada, Colorado, Michigan and Canada as a result of COVID-19, and two, larger core customers, which will now be more specific and call our Top 100 customers, pushing out their orders for Q3 into Q4 due to a general lack of visibility and a lower desire to carry more excess inventory, particularly as the pandemic was just beginning to take hold in the U.S. and Canada. I'll spend some more time on reason one in Slide 7, where we break out revenue by location, but I wanted to quickly touch on reason number two, for why our revenue was lower than we were anticipating at the start of the quarter.

Similar to what we saw after the illicit market vape crisis, the COVID-19 pandemic has really impacted our larger customers' purchasing patterns, compelling them to have more just-in-time inventory rather than stocking up. For example, rather than placing a 50,000 unit order that may lead to some excess inventory, some customers are now placing a 10,000 unit order or simply pushing out the entire order all together. This was certainly the case in Q3 where we had a large LP push out a $2 million plus vape order and a large MSO push out a similar custom vape order among other smaller orders that got pushed out as well. As you can see, this impacted our sales to our Top 100 customers, which was down 26% in Q3. We are confident that these orders that got pushed out will be recognized in Q4, but we expect this order lumpiness to be a normal part of our business going forward, even without the impact of COVID-19. This is because we now cater to a more concentrated group of larger and more financially healthy customers that have longer sales cycles and more measured purchasing patterns. These customers are not going to order the same amount every quarter, but the good news is that we're aligning ourselves even deeper with these operators—so as they expand, which many have and will continue to do—we stand to benefit even further by supporting their future growth.

As I said before, our strategy in recent months has not been about driving substantial revenue growth, but rather focusing on what we can control in terms of gaining more efficiencies in our business, significantly right-sizing the organization and reducing our overall cash burn.

To that end, I'm excited that we have once again experienced another solid quarter of non-GAAP gross margins, which was driven by both a favorable product mix, higher margins on our products, especially for vape, and some of the efficiencies I alluded to such as the reduction of our outbound freight expenses. Twenty-eight percent non-GAAP gross margins is not only the highest level we've achieved in recent years, but also the fifth consecutive quarter of 20-plus non-GAAP gross margins.

We're also very pleased with how the cost cutting initiatives have been taking place. When we began executing our strategic plan in Fiscal Q2, we were looking at $13.8 million in cash SG&A and $15.3 million in cash SG&A for Fiscal Q1. Since that time, we've been able to bring down our cash SG&A by 50% from Q1 and more than 40% from Q2. I'd remind everyone that that's a 40% plus reduction in cash costs in roughly 90 days. It goes without saying that we're extremely pleased with this result and the path we're headed on, especially given that we are actually ahead of our aggressive cash SG&A target we previously set for ourselves for Q4. On our last earnings call, we provided Q4 cash SG&A guidance of $7.5 million to $8.5 million. We actually achieved this guidance one quarter earlier here in Q3 and, as a result, we are tightening our guidance range for Q4 to be between $6.5 million and $7.5 million. The best part of it all is that we believe our lower cost structure has not really impaired our ability to continue selling; we're actually more efficient than ever. Our relationships with the MSOs and LPs are strong and developing further, and from a profitability standpoint, our lower cost structure enabled us to achieve a substantially improved Adjusted EBITDA, even with the lower revenue for the quarter.

This just goes to show the increasing operating leverage in our business, which helped us achieve an Adjusted EBITDA of negative $2.8 million, a substantial improvement from the negative $14.8 million we reported in Q2 and the negative $7.5 million we reported in Fiscal Q3 of last year. Based off the revenue we are expecting to recognize in Q4, as well as our efforts to bring our cost structure down even lower, we believe we are well-positioned to achieve positive Adjusted EBITDA in Q4 of Fiscal '20.

The last item I wanted to cover on this slide is our cash burn and how it has significantly improved in relatively short order, due to our cost cutting initiatives and fiscal prudence. In addition to the headcount reduction, the facility closures and the tighter inventory spending, we have also significantly cut our software consulting and other third-party expenses, as well as implemented base salary cuts for the entire Executive Leadership Team. The efforts have surely paid off and we are extremely pleased with how we've been able to stem the cash burn to a level that is not only manageable, but also more in sync with our goal to become profitable and cash flow positive.

As Stephen will discuss later on the call, we were able to significantly improve our cash flow from operations from negative $10.7 million in Q2 to just negative $1.4 million in Q3. Overall, our business fired on all cylinders in Q3, despite achieving lower-than-anticipated revenue, which we believe bottomed in Q3 and will be trending upward in quarters to come.

Moving on, let's take a brief look at Slide 6 where we break out our sales by our Top 100 customers versus the rest of our customer base. As I mentioned earlier, during the last quarter, we described this breakdown as core versus legacy customers, but we think it makes more sense to distinguish between the Top 100 customers and the rest, because there may be some emerging or leading customers that aren't purchasing as much with us today but are certainly on track to do so in the future. Sales to these elite Top 100 customers were down 26% sequentially due to the general lumpiness of sales to this customer group, but this group still made up more than 80% of our total sales for Fiscal Q3, demonstrating where our focus and attention has been.

As you can see on this slide, we did experience some attrition from the rest of customers group as expected, given our shift to be more automated and efficient as we service these customers, but it's also important to note that we have not turned away a single customer since implementing this new approach, but rather have been able to really tighten our credit underwriting practices, which has enhanced the quality of our sales and receivables, something that we could not confidently say before.

Next, we'll look at Slide 7, where we break out our sales by geographic markets. Despite the bump in sales we experienced in March due to the widespread pantry loading that was taking place across North America, we started to experience a little bit of a reversal of this effect in April and May, which was exacerbated by the shelter-in-place and regulatory and travel restrictions I mentioned earlier. As we all know, states that have had the strictest restrictions also had the greatest negative impact to our sales. During the Q3, we saw this negative impact on sales in Massachusetts and Nevada, which has only started to rebound recently as the regulatory restrictions slowly peel off.

Similarly, we experienced a meaningful headwind in some of the more tourist-driven markets like Colorado, which closed its ski resorts as early as mid-March, and only issued its first delivery license shortly thereafter, despite being one of the most established and biggest markets in our industry. In Michigan, which has been a promising market for us since it converted to adult rec in December of last year, we saw stricter than usual shelter-in-place orders, which dampened consumers' ability and willingness to order more products, and in effect, hurt our ability to sell to our customers.

California had a little bit different of a story in Q3 with the sequential decline being largely customer-driven rather than market-driven. As a result of our decision to lean more into our Top 100 customers, which largely represent the MSOs and LPs, our sales to this mostly non-MSO California market were impacted, which we expected as the tighter credit terms made it more difficult for our sales team to secure more orders from the rest of our customer group. But we think it's fair to say that the attrition in California has been marginal compared to the significantly improved cost structure and healthier balance sheet and liquidity that we have gained as a result of this strategic shift, especially given that our Top 100 customers and the broader MSO and LPs in general have tended to shy away from California in favor of more limited licensed states that have certain barriers to entry or more attractive supply demand dynamics.

Looking to some of those markets, we did experience some of the aforementioned order lumpiness, but to a much lower extent due to our strong underlying macro growth in those markets and less stringent regulatory restrictions. Our sales in Illinois, for example, were only down 12%, due to that market's continued impressive growth permit a favorable supply demand imbalance that is benefitting our customers in that market. Had we not experienced some order lumpiness, sales to that market actually could have been higher in Q3 than they were in Q2, but we feel that we're in a strong position entrenched with the leading operators in that state, who have demonstrated a capacity to grow and capture new business.

In our medical markets as well, strong underlying market dynamics helped offset any COVID-19 related weakness. Florida was fairly flat, due to order lumpiness that we had expect to recognize in Q4, but we saw strong growth in some other medical markets like Arizona, Connecticut and Maryland, and expect these states in general to continue to perform well, given their mostly limited license structures. However, as I said before, order lumpiness could affect whether some of those orders land in certain quarters versus another, which skews the actual real growth of our business.

The last market I wanted to touch on was Canada. Sales to this market were not as high as the record quarter we had in Q2, but we nonetheless experienced another solid quarter up north, which represented the second highest level of quarterly revenue for Canada in company history. The $2 million in sales we generated during the quarter was driven by continued traction with the LPs in that market, especially as many of them continue to ramp up their 2.0 offerings and seek to further differentiate their products.

Next, I'd like to dive into Slide 8, which is our product mix. Starting first with our largest bucket, Vape, we experienced a notable decline in sales in Q3, which was driven by some of the customer dynamics we mentioned earlier, specifically as it relates to some of the smaller customers' liquidity challenges, as well as our tightening of credit terms, which has curbed sales to some of that rest of customers group. But another factor that has been starting to emerge is the overall increased competitiveness in the vape market in general. Several of our smaller non-Top 100 customers have been trying to cut costs in light of recent market challenges and, up until recently, we have had some difficulty retaining these customers due to certain minimum price requirements we have had to adhere to, which has led to some of these customers switching to cheaper and often lower quality vendors. While this has affected our vape sales, particularly for our non-Top 100 customer group, the good news is that we recently approved to start competing more aggressively on price and we believe that this flexibility, along with the premium products and complete ecosystem that KushCo provides, will allow us to win back some of this business and secure new business as well. More importantly, our Vape business with the Top 100 customers is continuing to perform very well, especially on the custom side where we have been able to truly differentiate our customer solutions from that in the rest of the market. Over time, we expect there to be less volatility and more growth in this bucket as it becomes more anchored around these elite customers.

Next, I want to take a look at our Packaging, Paper and Supplies bucket, which held up well during Fiscal Q3, particularly in March and April.

During Fiscal Q3, we made significant progress on some of our custom packaging initiatives and we were able to capture some MSO and LP business from other vendors due to our leading customization capabilities and white glove service. Looking ahead, we are going to continue to focus more on these higher margin and stickier solutions that our customers are seeking as they look to differentiate their product lines, while keeping an eye toward cross-selling them even further into our entire product and service ecosystem.

Now I want to jump to our Energy and Natural Products bucket which, like Packaging, held up fairly well during the quarter. This was largely due to the increased sale of ethanol for the production of hand sanitizers, which significantly increased in demand in March due to COVID-19 pandemic. While we have seen the hand sanitizer craze come back down a little bit, we are seeing a general shift in the cannabis and CBD market from butane to ethanol and that's going to direct us to continue ramping our ethanol product line to meet this demand, while still offering butane in markets where we can be profitable.

We're also going to be focusing on monetizing the stainless steel tanks we have acquired, which we've talked about at a high level in the past, but we intend to put the resources and efforts behind to now upsell customers into this cleaner and more cost effective vessel.

Last, I'd like to dive into our Services bucket and namely our hemp trading and retail services businesses which as expected continued to struggle in Q3. Although we have already seen these higher margin and cash flow accretive divisions fill a major gap in the market, there just hasn't been much traction as we were initially anticipating because of some of the macro headwinds we've been talking about in these past few quarters, namely dampened CBD market being saturated with supply, major processors going out of business, the FDA continuing to stall on its decision of regulating CBD and ingestibles and, more recently, retailers delaying the rollout of CBD products in order to focus on stocking more important essentials such as sanitizers. For that reason, and for the time being, we are going to be focusing a lot more on our core businesses of Vape, Packaging and Energy, knowing that we have a great cost-effective CBD platform that will be ready when the market conditions improve.

Next, I wanted to quickly touch on Slide 9, where we look at our cross-sell progression. While the average number of SKUs was mostly down this quarter due to some of the recent SKU consolidation, we continue to grow our $1 million purchase annually customer bucket, having now 20 customers in that grouping as of the end of Q3, and similar to last quarter, you're seeing the opposite happen at the other end of the spectrum with smaller customers struggling to buy more with us due to liquidity challenges, tighter credit terms or cheaper and lower quality alternative solutions that have been appealing to some. But it's clear that we are hyper-focused on the customers that we think are going to win long term and are focused on winning additional business lines with these customers given the entrenched position and the relationships we already do have with them.

Turning now to Slide 10, which outlines the pillars of the new strategic plan we first shared on our last earnings call, I'll now spend a moment going through each one of these pillars and providing an update on them.

Starting with pillar number one, which is still in progress, we have gone above and beyond to become more entrenched with our top customers' decision-making processes, trying to better understand how their products go from an idea to the shelf and how we can play an even more integral role in that process. We're developing those deeper relationships and really investing the time to become a trusted partner for these customers, providing our product and regulatory expertise, as well as newly acquired tools and technology to share market, competitive and product data with the purchasing managers. These efforts have been going really well so far and we've already started to see some of them materialize into deeper relationships and larger orders, which brings us to the next point.

Given how closely we partner with these customers, we've been working to formalize these relationships into long-term supply agreements. Already, we have been able to secure several supply agreements with a couple of leading MSOs and LPs, but we have been ramping up this effort in order to drive higher and more steady sales, but more importantly, to drive better long-term relationships with these customers. Once we do go the extra mile for these customers, we want to make sure that we can help them across their entire business, not just in one area or two. We have restructured our salesforce to really focus on winning additional lines of business, such that we can develop more sticky relationships over time. The result has been nothing short of encouraging thus far, and we look forward to continuing to provide updates on this front in coming quarters.

Now moving on to pillar two, which is substantially complete, we're pleased to continue servicing our customers but in a more efficient and profitable manner that has minimized the impact to working capital and operating expenses. During the quarter, we launched our customer support line and we have been processing smaller orders more efficiently through that without the need for a large number of sales reps that we've relied upon in the past. Overall, we're encouraged by how we've improved the ways in which we serve these customers, while simultaneously laying the foundation for a more sustainable and scalable lasting business.

Next is pillar three, which encompasses our reductions in force to better align our workforce with this new strategy. Even though we've reduced our headcount by more than 60% since the start of the fiscal year, I couldn't be more impressed by how the team here has responded and by what we've been able to accomplish with significantly limited resources. It just goes to show that we are truly a now leaner and stronger organization. We feel very solid with the team we have in place and, more importantly, with how they can fit into a larger strategy of aligning with the top operators and driving a more self-sufficient and profitable business.

Last but not least, with respect to pillar number four, we have made tremendous progress in rationalizing our warehouse footprint. As of the end of last quarter, we had successfully renegotiated our lease obligations and closed our Las Vegas, Denver and Santa Rosa facilities and sublet one of our two Garden Grove warehouses, which has resulted in additional annual savings of approximately $2.5 million. We will continue to look for additional ways to optimize our footprint, but, needless to say, the business is running much more smoothly with a leaner footprint than we've ever had before.

All-in-all, this has been a great exercise for the Company and one that has made us into a stronger organization, better equipped to power our customers businesses and the global cannabis ecosystem at large.

With that, I'd like to turn the call over to Stephen, who will walk us through our Q3 financial summary.

**Stephen Christoffersen**

Thanks, Nick. Q3 was definitely a standout quarter in terms of executing on our strategic plan. We substantially reduced our cost structure, consolidated our vendors and warehouses, we vastly improved our inventory to align with our actual sales, ramped up our collections activity, stemmed the cash burn and drove meaningful operating leverage. As Nick alluded to earlier, we definitely got more done with less.

It goes without saying, we are really making substantial progress as a business, with the team firing on all cylinders and I could not be more proud of their efforts and dedication to seeing this transformation through. With that, let me turn to the financial summary beginning on Slide 12, which displays a snapshot of our income statement in Q3 2020.

Total net revenue decreased 46% year-over-year and 26% quarter-over-quarter to $22.3 million. The quarter-over-quarter decrease, as Nick described earlier, was driven by order lumpiness from some of our larger customers as well as the widespread impact of COVID-19 in the various markets that we operate in.

On a GAAP basis, gross profit for the third quarter decreased to $2.4 million from $7.4 million in Q3 2019. The decrease was driven by additional restructuring charges we took during the quarter to further right-size the business and better align with the new strategic plan. These charges included approximately $2.1 million excess and obsolete inventory writedown and roughly $1 million in purchase order cancellation charges. Similar to last quarter, we took these charges because of our decisions to right-size our inventory and discontinue virtually all of our stock SKUs so we can focus on the SKUs that are actually turning and that are critical to our customers' future growth.

With these charges taken in Q2 and to a lesser extent in Q3, we expect Q4 to be a much cleaner quarter from a financial reporting perspective and a better representation of our business going forward.

On a non-GAAP basis, excluding the impact of the China trade tariffs, inventory writedowns and purchase order cancellation charges, gross profit was approximately $5.7 million, or 28%, compared to 23% in Q3

2019. For a complete reconciliation of GAAP to non-GAAP financial information, please visit the reconciliation table at the end of this presentation or in our Fiscal Q3 earnings release.

Sales, general and administrative expense for Fiscal Q3 2020 was approximately $12.7 million, which was down approximately $8 million compared to Q3 2019.

From a cash SG&A perspective, which excludes non-cash expenses such as bad debt, stock-based compensation, depreciation and amortization, the quarter's result is even more impressive. Cash SG&A in Q3 2020 was approximately $7.7 million, representing a more than 40% reduction from the $13.8 million we reported in the previous quarter. The significant decrease was due to headcount reductions, executive salary reductions, reduced consulting spend and lower T&E as a result of COVID-19.

Turning to the next item, on a GAAP basis, net loss for Fiscal Q3 2020 was $13.5 million or negative $0.11 per share as compared to a net loss of approximately $10.6 million or negative $0.12 per basic share in Q3 2019. On a non-GAAP basis, excluding the impact of certain nonrecurring charges, our net loss for the quarter was approximately $5.5 million or negative $0.05 per share as compared to a negative $0.10 per share in Q3 2019.

Adjusted EBITDA for the quarter was negative $2.8 million compared to a negative $14.8 million in Q3 2020, and negative $7.5 million in Q3 2019. The significant improvement in Adjusted EBITDA was largely driven by cost cutting initiatives that we described earlier.

The fact that improvement in Adjusted EBITDA was achieved with a lower revenue base demonstrates the increasing operating leverage in our business. We believe this demonstrates an important reversal at KushCo. Whereas before, we achieved record sales with equally record losses, now we're managing capital much more efficiently and have right-sized the organization to the point that even a lower revenue can result in contribute to a better profitability results.

All things being said, we are really looking at the new KushCo and are encouraged by the fact that we can achieve positive Adjusted EBITDA as early as the current quarter, Q4 2020.

Turning now to Slide 13, which provides a snapshot of our balance sheet as of the end of Fiscal Q3. As we've talked about in great lengths before, we have adopted a much more conservative stance on extending credit terms and value on our accounts receivable. In areas where we didn't feel comfortable that we have a high probability of collecting on some accounts, we wrote off our AR, especially in Fiscal Q2, where we took a significant writedowns as a result of the dynamics in California that have challenged our customers' liquidity in that market. Fortunately, we're seeing better-than-expected collections activity because we're working more closely with our customers to help them get back on track financially.

Moving on, our total inventory as of the end of Q3 was approximately $24 million as compared to approximately $26.4 million as of the end of Q2, and $43.8 million as of Q4 2019. Unlike the prior quarter, we had a much smaller excess and obsolete inventory writedown in Q3 and we really believe that some of the inventory issues that we were experiencing are now behind us. We are getting smarter with our purchases, which is reducing inventory levels, and we are seeing an increase in inventory terms due to the heightened focus on stocking the items that the customers actually need.

Our days of inventory outstanding has dropped notably, and we are starting to see the inventory more closely narrowing our revenue sources. For example, at the start of our fiscal year, Vape comprised of 52% of our total inventory, yet it had represented nearly two-thirds of our business for the past couple of years now. As of the end of Q3, however, Vape represented 62% of total inventory, which is more in line with the actual sources of revenue.

Our cash position remained strong as of the end of the quarter at $11.1 million. The strong cash result this quarter was driven by our ability to significantly reduce our cash burn and improve our cash conversion cycle.

All signs point to better management of capital and it's not just on the operations side, where we've been able to significantly improve our liquidity. Earlier last month we announced that we had partially converted $5 million of our senior note into equity, with very little dilution and no warrants attached. While the entire note is not due until late April 2021, we are encouraged by the fact that we were able to proactively address a good chunk of it without using any cash and without significantly diluting our shareholders.

We continue to believe that we are in a solid financial and liquidity position to achieve our near-term goals, particularly positive Adjusted EBITDA in Q4, and we'll look to improve our collections and inventory ordering even further, while scaling back on non-essential growth initiatives in order to maintain liquidity and accelerate our path to profitability.

Bottom line, I could not be more pleased by where the business is heading from a financial perspective, and it's in no small part due to the collective efforts made by the entire team.

With that, I'll turn it back to Nick.

**Nick Kovacevich**

All right. Thanks, Stephen. We wanted to wrap things up here by looking at the last two slides, starting with Slide 15 which provides our outlook for Q4. We have started Q4 on the front foot with a good book of purchase orders secured thus far, leading us to believe that Q3 will be the bottom in terms of our revenue for Fiscal '20, and we expect to see growth in Q4 not just by recognizing orders that were pushed out, but also by signing additional supply agreements with our MSO and LP customers. Furthermore, we are seeing an improvement in some of the regulatory restrictions that impacted our sales in Q3, especially in states like Nevada and Massachusetts, which we expect to drive our sales in the fourth quarter.

As mentioned before, we're going to be focusing more on the things we are great at, such as our core business of selling Vape, Packaging and Energy products, and making sure that we cross-sell our customers across the entire Product and Service ecosystem, something that we have been able to already achieve given our strong relationships with our Top 100 customers. We're also going to be focusing even harder on controlling our costs. We shared a lot in recent months how our focus has been getting our cost structure fixed, not necessarily growing revenue, but now that we are operating with significantly improved cost structure, we are refocusing on the initiatives that will help us grow our business again. And, fortunately for us, having the right cost structure also makes us more competitive in the marketplace.

Last but not least, we will continue to deploy a prudent capital allocation policy focusing on running the business and meeting our goals with the cash and liquidity resources that we currently have at our disposal. This disciplined mindset has worked for us thus far and we expect it to pay even additional dividends as we close the gap to positive Adjusted EBITDA, which brings me to the last and final slide of the presentation, Slide 16.

Here, you can see our guidance for the fiscal fourth quarter of 2020. Starting at the top, we're guiding to revenue between $24 million and $26 million, representing growth from the $22.3 million we just posted in Q3. We're also improving our guidance range from cash SG&A from being between $7.5 million and $8.5 million previously to now between $6.5 million and $7.5 million.

Finally, we are guiding to an Adjusted EBITDA of between negative $1 million and positive $1 million with the midpoint being breakeven Adjusted EBITDA. It's worth sharing that we've historically not been able to provide more visibility beyond revenue for our guidance, but we feel like we've really gotten our costs under control and are thus able to provide this added clarity on past SG&A and, as a result, Adjusted EBITDA.

Overall, we're really proud of the work we have accomplished thus far, but we are not resting on our laurels and we understand that there's still work that needs to be done. That being said, I cannot be happier with how we finished Q3, and how it has helped set up Q4 to be the most pivotal quarter in Company history.

With that, I'd like to turn it over to the Operator for the Q&A session.

**Operator**

At this time, we will be conducting a question-and-answer session. If you would like to ask a question, please press star, one on your telephone keypad. A confirmation tone will indicate your line is in the question queue. You may press star, two if you would like to remove your question from the queue. For participants using speaker equipment, it may be necessary to pick up your handset before pressing the star keys. One moment, please, while we poll for questions.

Our first question is from Vivien Azer from Cowen & Company. Please proceed with your question.

**Vivien Azer**

Thank you. Good afternoon. A couple of questions from me. Nick, you commented during your prepared remarks that you viewed the third quarter as a bottom. Can you comment on the trends that you've seen intraquarter, last month and/or what you're seeing quarter-to-date that gives you confidence in making that statement? Thanks.

**Nick Kovacevich**

Yes.

**Vivien Azer**

(Inaudible). Sorry to interrupt but outside of the states opening, I appreciate the regulatory. I think it really focuses—my question is more focused on what you're seeing from an order pattern perspective from your large MSO customers. Thanks.

**Nick Kovacevich**

Yes. Thank you, Vivien, as always. The answer to that question, obviously there's still a lot of uncertainty. We recognize that the regulatory environment could change but we're seeing it for the most part change to the positive.

What we're seeing within our individual relationships with our customers is better forecasting and planning and actually better purchasing ahead. We've actually secured purchase orders and we know what we're going to—what we're intending to ship this quarter for a big bulk of our business. Now that we're focused on less customers and we're really focused on this Top 100, we do have better visibility into what they're telling us that they're going to need throughout this quarter, and we're already over a month into the quarter, so I think we have a pretty good confidence in the number that we guided to. Obviously, we wouldn't put it out if we didn't. We know that things are subject to change, but I think the trend of kind of moving our business to be focused on these larger customers does provide a better level of visibility and the visibility that we're getting at this point leads us to believe that the revenue is going to land within the range that we guided.

**Vivien Azer**

Perfect, that's helpful. Just a follow up, and this perhaps is more detail than you might feel comfortable sharing; what would be kind of the average purchase activity over the course of the year that you would see from a Top 100 customer? Are they submitting purchase orders on a weekly basis? Biweekly? Is it monthly? I'm just trying to understand. You are a month into the quarter. It seems like you're signaling that you've locked in some good chunk of the revenue that you're guiding to just in terms of forward purchase orders, so I'm just trying to understand how dynamic that is. Thanks.

**Nick Kovacevich**

Yes, and it is different across the board. You have some customers who will order certain items once every six months, because they want to be able to get a big enough purchase order so that they can get the lowest price on those goods. On more expensive goods like vape pens, people aren't going to want to load up for six months in advance. That's going to be more depending on the customer somewhere between every six weeks to every three months. For the custom vape orders, we can get better visibility because those purchase orders get placed and then they have to go into production. For the stock vape orders, obviously somebody could call us up and just say, "Hey, I need stock items as soon as you can get it to me," so, we have less visibility into that unless we're communicating, which we are, and trying to understand.

It all depends on the customer because customers order differently. They also order different things, for example, custom printed vape pens versus stock vape pen, and it also depends on our product categories because the customer may order one of the packaging items every six months or we may even have a contract in place and we know exactly what they're going to be taking. But then their gas business, right, if they're buying ethanol or butane from us, that might be getting shipped to them every single three to four weeks. So, the different product categories that we offer to a customer could end up being ordered in different cycles, so it's hard to lump it all together. It's going to vary by product. It's going to vary by customer. It's also going to vary in terms of what the arrangement is with credit terms.

For instance, if someone is placing a new order for custom items, they may be required to put a deposit down. Obviously now we have great visibility because we've received the deposit, we've received the purchase order, we know it's going into production. Whereas if someone is ordering a stock item, maybe they don't need a deposit, maybe that order comes out of the blue. It's always going to vary. But as a general rule, when you move up the food chain to these larger MSOs and LPs, you are going to have better planning and better visibility than you would with the legacy customers, or the rest of customers as we're calling it now, who are smaller, who kind of expect you to have stuff in stock and maybe they don't even need the custom items and they'll just take stock inventory.

**Vivien Azer**

That's perfect. Just one last one for me. I really respect the fact that management has taken a reduction in the base salaries. Clearly, it shows the commitment to some very successful SG&A controls in the quarter. Just curious, was there any change to your incentive comp around that? I know normally that wouldn't happen during the fiscal year, but given that you made a change to the underlying compensation, I was wondering whether any of the key KPIs that management is going to be compensated on have changed. Thanks.

**Nick Kovacevich**

Great question. Actually what we did is we decided that we would do a trade-off, that we would—there were certain KPIs in the beginning of the year that are obviously not applicable now and looking at kind of more bonus-oriented, right? We decided to do a trade-off and ask everybody at the Company to take zero cash for bonus this year, and rather take 100% of it in stock, which people were in favor of doing. The trade-offs that we were able to give was that we would realign the bonus around more relevant KPIs tied primarily to Q4, and our goal of getting profitable and our goal of hitting certain metrics.

We're in a good position where we're able to realign to get people meaningful KPIs that they can deliver on, and the trade-off is, we won't be paying any cash toward things this year, meaning, hey, we are all going to take kind of a hit, because we didn't hit our KPIs that we set out at the beginning of the year and we're going to take it in stock. Then that further acts as a retention tool and people are pretty incentivized to be able to take that stock and be able to execute on the plan and hopefully increase the value of that stock.

It's sort of a triple win scenario that we're able to put together and I can give credit to Rhiana, our Chief People Officer, for helping architect that.

**Vivien Azer**

Got you. That's very helpful. Thank you so much.

**Najim Mostamand**

Thanks, Vivien.

**Nick Kovacevich**

Okay. Everyone I think you can still hear me, but we lost our Operator. Hopefully, we'll get it fixed, but in the meantime, I'll try and get some questions in here via text that we can run through so we can keep the ball moving here.

Aaron, are you live right now? You're next up in the queue.

**Aaron Grey**

Can you guys hear me?

**Nick Kovacevich**

Yes, we can hear you now.

**Aaron Grey**

Oh, all right. I didn't realize you had passed it over to me. Thanks for the questions.

First one for me is on California. Just because we've seen revenues come down in that state now for about a year, I can certainly appreciate the commentary on state being more of a non-MSO market and not a state that those operators are focused as much in near-term, but California used to make up like I said a big portion of the revenues and still represents a large marketing opportunity, so I just want to get your input in terms of how you are still looking to find those operators who are going to win in the state, or whether or not we're going to see more muted growth in California as you're focused on MSOs and the states that they're more concentrated in?

**Nick Kovacevich**

Yes. Great question. Certainly we're not giving up on California. It is, as you mentioned, one of the biggest market opportunities out there, if not the biggest, so we want to capitalize on it. Obviously not been doing a great job. A lot of what we've called out in the past is the dynamics around the operators and credit terms, and also the illicit market has been challenging. Unlike a lot of other providers, we don't sell to the illicit market to the best of our ability. Unfortunately, we're at a disadvantage there to competitors that do, but nonetheless, we still can do a lot better in California and we need to continue to work on rebuilding our business in this market.

We do have some good strong customers that are growing. We are getting more comfortable with some of the credit underwriting in the state. The shakeout that we talked about, that's kind of occurring right now, and there's even some high profile folks that everyone here is aware of—I won't say the names—but they've been able to stabilize their position, and we've gotten comfortable enough to start extending credit back to them as well. We expect to be able to kind of put this all together; it's not going to happen overnight, but certainly over the course of the next three or four quarters you should see a notable improvement in California.

Is it going to be back to the levels that it was during the heyday when there is a lot of grey area activity? No, because again, we're hamstringed in our position that we want to only support legal licensed operators and we want to do business with folks that we can underwrite to from a credit standpoint. It's never going to get back to where it was—well, it will eventually, but it's going to take a few years. But we can definitely do better and you should see improved results out of California over the coming three or four quarters.

**Aaron Grey**

Thanks. Appreciate that. Then just as we look up north, I think you mentioned there was a $2 million order that you expected to come in the quarter that got pushed out from one of the large LPs. Just wanted to get your commentary in terms of what's the best way to think about that market. Obviously, we're still seeing more slower brick and mortar rollout there. Hopefully that kind of picks up more in the back half. But just we're seeing in terms of order from LPs, potentially having additional LPs come online to your platform as customers, and kind of what to expect from the Canadian market over the next call it 6 to 12 months?

**Nick Kovacevich**

Assuming regulatory environment continues to improve—there was brief shut down in Ontario, the stores, as you know, Aaron. So, let's assume everything continues to remain going in the right direction, then I think our business to do the same and I think we should see continued improvement in Canada. We're anchored by a few of the larger LPs, but one of the dynamics that is playing out in Canada is CCELL is not as dominant there in terms of the market share. We saw in the U.S. where a lot of folks at one point were trying various hardware options and eventually came to the conclusion that they'd rather have high quality consistent hardware that they can rely on even at a slightly higher price versus a differentiated customized cooler option at maybe a lower price. Canada is going through that same process right now; they're trying a lot of different stuff. They want to be differentiated. We're expecting some of that to—possibly a good majority of that to kind of circle back to CCELL at some point, so we're going through that process now and I think the market conditions will eventually evolve to what's happened in a lot of the stateside business up there when it comes to 2.0. Remember, 2.0 is relatively new, so we've got to kind of let that cycle play out.

We're also working to enhance some of our packaging options for other form factors, right? Not rely solely on vape and waiting for that to—those dynamics to play out as I mentioned.

There's a lot we're doing. I can't give specific guidance to where we're going to be, but we do expect Canada to continue to grow for us and be a strong region. And we are anchored, as I mentioned by a few of the larger LPs, so we're in a good position, especially with some contracts in place. We do have a solid base and we can build upon that and we are. We have a team up there, we're making inroads, and again, we should see continued improvements in our results.

**Aaron Grey**

Thanks. That's helpful. That kind of leads me into the next question in terms of you talked about trying some other things outside of CCELL. One of the things, if you go back to call it the vape crisis last fall, kind of coming out of it was maybe like the shift you would see to utilizing something like CCELL, as some of the operators out there were less concerned about price and more concerned about quality. It's just kind of more of a high level question. As I look at some of the bigger players, (inaudible) I think it was 20 customers for this quarter. It's been about 19 for about the three before that, so are you seeing some movement with the bigger players that are looking to kind of transition into CCELL who may have not been before? Is there any kind of dynamic you've had in terms of the conversations of wanting to move from some other kind of vape hardware into kind of best-in-class with CCELL, and kind of how that's evolved since the vape crisis last fall? Thanks.

**Nick Kovacevich**

Yes. I think we definitely saw that play out and I think at this point, a vast majority of the MSOs are using CCELL hardware, at least for a series of their vape lines. The issue with CCELL, we work with other distributors and there's not a lot of competition with existing CCELL accounts. Some of the other distributors have relationships with MSOs for their vape pens and we have relationships with those MSOs doing things like packaging and papers and energy products. We're kind of going to rely on the MSO growth from the customer book that we have. We are aligned with some of the most premiere MSOs, so we feel good about the growth in that book. Then some of it's going to be about getting that next tier down, as we say, out of the top 10 MSOs that maybe aren't on CCELL, getting them converted over. That is a price thing in some instances which the competition has gotten better, the non-CCELL hardware that's out there. CCELL is still substantially better in our opinion, but it can't come at a substantially increased price, right? There's going to be a premium to CCELL, but it needs to be a little bit less of a premium over what else is available. That's why we commented on the prepared remarks about working with the factory to be able to be a little bit more aggressive on pricing, to make sure that we're continuing to grow market share. I mean CCELL got to 70% market share. I mean, it's kind of much harder to get that last 30%, right, but I think we're going to be able to make some inroads there with those dynamics.

There's other brands that are finding sweet spots and really starting to take-off and we expect that. New states are going to open up, new entrants are going to come in, consolidation is going to happen and there will be new opportunities, but the way we look at it is we have our anchor customers, we're going to continue to service them, continue to grow with them. We're going to pick up new customers along the way, and then we're going to cross-sell. So, those are going to be our big areas of growth. It may not be as much vape contributing to the growth in the future as it has been in the past because of those dynamics, but we're getting really good at doing packaging. We're re-launching our fleet of stainless steel tanks for our energy division, so there's other areas that we can pick up that growth.

**Aaron Grey**

Thanks. That's super helpful.

I'll ask another one. I'm not sure if the Operator is back on and you guys can move on to the next person in the queue. Let me know if otherwise, but I'll go and ask this one.

I want to kind of touch on the gross margin profile. Adjusted gross margin 28%, that was up nicely. You said that was due partially to product mix and we did see vape mix come down. I just want to think about the best way to think about the gross margin profile going forward. It seems like you're looking for a little bit slower vape growth, in the commentary you just gave me in the previous answers, so how does that potentially impact the gross margin profile? Does vape still come back and pick up a little bit more of mix, so we see the gross margin profile come down a little bit from 28%? Is that a good benchmark? Also just kind of working on that commentary you made on the pricing with CCELL, what impact does that potentially have on the margin profile? Thanks.

**Nick Kovacevich**

Yes. Margin, we were pleased with the 28%. I think historically people thought of this business as being a more of a 20% margin business. We've always said we thought we could get to 30%. Obviously the numbers show that there is a path there, but I think we're going to be conservative and kind of guide more to the mid 20s. Our plans are looking at more of a 25% margin for the next couple of quarters, but we'll continue to get operating leverage. We'll continue to get costs down as we get more scale with certain vendors.

The dynamic that we're talking about with CCELL and being more competitive, that's in collaboration with the factory, so we're not expecting to take big margin hits on our own being more aggressive, but rather working together and being able to maintain a similar margin profile. We're also seeing higher margin in some of the pod systems that we've been able to launch with CCELL, so the innovation will drive bigger margin but the commoditized goods, as we've always said, the margin is going to always be under pressure to some degree with commoditized goods. We've got to continue to have that balance, whether it's with any product category, innovation versus legacy commodity, or whether it's with our mix shift, and obviously, the results do improve when Vape goes down, as seen in last quarter. We expect, like I said, to get more growth out of the other divisions versus Vape in the future. Hopefully we can keep the mix shift—rather than declining sales, keep the mix shift in place while growing sales. That's our goal and that should lead to the enhanced margin. And like I said, we are being conservative in kind of looking at that more in the mid-20s, but as seen in Q3, this business does have the ability to get closer to the 30s when we talk about gross margin.

**Aaron Grey**

All right, great. That's helpful.

**Najim Mostamand**

All right, thanks, Aaron.

**Aaron Grey**

I'll jump in the queue. Yes, you probably have some questions on email.

**Nick Kovacevich**

I've been told that the Operator can continue to move the ball, just there's a sound issue on his end. I think we'll move to the next question which is—somebody is freed up to speak.

**Najim Mostamand**

Hey, Nick, we've got Scott from ROTH. Scott, if you can hear us, please, please go ahead.

**Scott Fortune**

Yes, hello. Can you hear me?

**Nick Kovacevich**

Yes.

**Najim Mostamand**

We can hear you.

**Scott Fortune**

I can barely hear you, but real quick, thank you for the time. Just want to kind of reconnect on the guidance for next quarter, $24 million to $26 million. You have a couple of million that's coming in from pushed out. At some point, the inventory level kind of disconnects since a lot of these LPs or MSO are doing well in some of the states outside Nevada and Massachusetts and they're going to be drawing down inventory with the reopening here. I just want to get into kind of the potential growth as—into the MSO, you mentioned in the past that you had 50% kind of base customer that you can still grow within that MSO, but kind of near term, were some of the growth opportunities at those MSOs, new MSOs or going deeper in some, and how does inventory levels from an inventory standpoint play out in kind of next quarter's guidance from that standpoint?

**Nick Kovacevich**

Yes, great question. I mean, one of the things that's clear is that—and Stephen alluded to it in his comments—is that we got a little out of control in terms of what inventory we had in stock compared to what we were actually selling. So even though, as we grow revenue, like you pointed out, Scott, we do need to have more inventory, it's more about cycling out of the wrong inventory and into the right inventory, and so we don't expect the need for a lot of cash, additional cash to go to inventory because we're still in that transition, right, at least for now. At some point as we continue to grow, then we will need to fund the inventory, but we're also continuing—it's something we've been working on for over a year now—to get better terms with our vendors, and to be able to collect better from our customers so that even when we do spend more money on inventory down the road, it's not hurting our cash flow to the extent that it has in recent quarters. That's one thing.

In terms of your other part of your question about how we're going to get the growth from the MSOs, you alluded to it; it is really going to be from the cross-selling. We're working with a lot of the MSOs and LPs, our Top 100 book isn't all MSOs and LPs, but there's some really strong customers in that book that wouldn't be considered MSOs.

Regardless, if we look across that whole book—and again, not everybody is doing everything—the larger MSOs are doing everything in terms of flower, concentrates, vape, even edibles, but as you go down the list, not everybody is doing everything. We still can look across that book and see opportunities virtually with every customer, right? One customer we may be selling them their vape, but not their vape packaging. One customer we may be selling them their vape packaging but not their vape pens. So that's an easy one, right, where we just want to cross-sell. But across the board, I mean, we might be selling the papers and not the joint tubes, or we might be selling the joint tubes and not the paper. We look at the whole customer book and we look at these kind of low hanging fruit cross-selling opportunities, and then we also look at product innovation. We do plan to bring new products to market. We do plan to develop products specifically for customers, which is something we're in process of doing now. We're starting to be able to now get supply agreements around those new product developments, something that the industry was reluctant to do even a year ago. The dynamics are changing where people want to invest in new products, but they're willing to actually support it, back it up with money or with contracts, so that's great. We'll continue to be able to do that and add revenue through development of new products.

Stephen, I think has something to add.

**Stephen Christoffersen**

Yes, if I can chime in.

Scott just to hit three points on the inventory level. First and foremost getting things like customer deposits, that's going to help overall working capital. Number two is oftentimes what you'll find is for some of our larger customers, you can get inventory drop-shipped directly from the MSO over to the customer, so that certainly helps. Then, really, I've been hyper-focused since I started going to our top 5 or 10 vendors and getting better credit terms with them. We've been successful so far. We see that trend improving.

Basically, it's all about stretching the dollar here at Kush and the path over the next coming quarters certainly looks promising from that perspective.

**Nick Kovacevich**

Scott, I hope that answered your question. If you have another one, go ahead.

**Operator**

Your next question comes from the line of Greg Gibas with Northland Securities.

**Greg Gibas**

Good afternoon, guys. Thanks for taking the questions. Can you hear me okay?

**Nick Kovacevich**

Yes, we can. Go ahead.

**Greg Gibas**

Great to see the expectation to have breakeven or even positive Adjusted EBITDA next quarter, just given those significant cost reductions that you had, the warehouse footprint reduction and a couple of rounds of layoffs too that you announced. I guess I was just wondering, do you expect now that you've kind of reached that comfortable level of breakeven operating costs from that perspective, do you see room to make additional operating cost savings?

**Nick Kovacevich**

Yes. I mean, I think there's things that we can continue to do to leverage cost savings and we are. I mean, it's more of a mindset now. It's about everything. We look at everything we're doing. I mean, even with our printer, right? We just—we're filing the Q tonight. I mean we used to outsource that. We were able to bring that in in-house. What are we saving Stephen?

**Stephen Christoffersen**

Yes. About $60,000.

**Nick Kovacevich**

Sixty grand. Yes, so I mean these are smaller things. We've done most of the heavy lifting, but we're going to continue to—I mean, right now, in light of the environment that our industry is in, in light of the environment that the capital markets are in due to COVID, we're just operating with the mindset that we're going to be self sufficient; we're going to use the cash we have. We were fortunate we didn't—last quarter in Q2 we had a zero balance with our line of credit with Monroe. Same thing at the end of Q3, right? We're not taking on debt. In fact, we're doing the opposite and being proactive and paying down debt that's not even due until next April, late April. That's the mindset that we're going to take across the board until things change.

We think the things will change potentially in a very big way come November, but until we see that and those dynamics play out in full, this is the mindset that we're going to have. There are areas where we can do it.

I think the bigger lifts that we're going to see in the future is being able to leverage the operating leverage and cost synergies as we get more scale. I mean, it's unfortunate that we've really had scaled revenue and now it's come back down, but even with it coming back down, we've been able to improve our operating leverage and get that gross margin higher. Now, if we can turn our focus back to revenue and get that back up, well, it just enhances that operating leverage and that improvement that we've already recognized. That's where our focus is really going to be. We've done a lot of the heavy lifting on the cost cutting. We're shifting our focus now back to revenue growth and we're expecting to be able to achieve that as early as Q4 as we've drawn out.

**Stephen Christoffersen**

I'll just make one quick comment, Greg. With regards to the facilities, the fact that we are underwriting and servicing these larger customers that can demand plan, it's actually enabled us to reduce our warehouse footprint, because what are you actually giving up if you remove a warehouse from the middle of the country, right? You are maybe giving up half a day of transit, but if you're talking about a demand plan that's 90 days long, half day of transit is certainly something that you can solve for. The type of customer that we're doing business with has enabled us just to be a little bit leaner and meaner and not have to have so much overhead spread throughout the country.

**Greg Gibas**

Got it, that's really helpful. Thanks, guys.

Then the follow up from me would just be getting a little bit more clarity regarding that 26% sequential decline in revenue. How much of that, I guess, do you think is a result of the COVID related impact or regulations on a lot of the states as a result of COVID, versus maybe the tighter credit terms that were extended to the customers? Were there any other particular causes to the lumpiness in orders from major customers, or was it really primarily just the impact or uncertainty from COVID?

**Nick Kovacevich**

Yes. I think it would be hard to quantify, but I mean it was probably equally kind of both, right? There was some obviously regulatory changes that impacted sales. There was also a drop off in customers. That shows up in the slide that we showed, where it shows the customer buckets. You'll see that we lost customers in some of the lower spend buckets, even though we gained customers in some of the higher spend buckets, so certainly that factored in.

I think looking at where we're at today as well, what we went through in Q3 is related to coronavirus but in a different way. Versus the regulatory impact on the consumer sales, there was also the supply chain impact on getting the goods out of China, and so that did disrupt some purchasing patterns, right? There was a little bit of a scramble for a while, so that had an impact as well to Q3 that will smooth out a little bit when we get to Q4 and beyond. I think it was a confluence of factors but nothing that we've seen that's alarming.

I think one of the big things that we focus on here at the company is customer retention and those relationships. We go through the exercise, and if we still have a great relationship with a customer and they're still relying on us for a product, we're not going to force them to buy something that they don't need, right? We're just going to react to what they need. Now, if we were losing customers or losing product lines with customers, that would be very concerning. We're not seeing that whatsoever. In our mind there's nothing here that's really alarming. We're controlling what we can control and the market will do what it does, and we think—and we all know over the long haul this market is going to grow. We believe we're aligned with the right customers that are going to grow and win. If you're in our position, the only thing that we needed to do was control our costs and get it to the position where we weren't burning a ton of cash and risking—putting ourselves in a precarious position from a balance sheet standpoint. Well, we've done that.

We've really fixed all the areas that we think we can fix. We've got the right strategic plan going forward. We've got the right team on board and we've got the right customers in our book. Obviously, there's small things that we can do to improve in any of those areas, but I think we've done the heavy lifting. I think we're in a great position exactly where we want to be. Given all the headwinds we faced over the last year, we're extremely pleased with where we are as a company, and I think given where we've been beaten down to, I mean we're looking at nothing but upside here.

**Greg Gibas**

Got it. Thanks, Nick.

**Operator**

Ladies and gentlemen, we have reached the end of the question-and-answer session. I'd like to turn the call back to Nick Kovacevich for any closing comments.

**Nick Kovacevich**

All right. Thank you, guys, for dialing in. It went a little longer than we expected due to technical difficulties, but I guess that's 2020 for you, right? So, I'll go through my final remarks.

Thank you, guys, for tuning in. Thanks for the great questions, the continued support as always. As you can gather, we're very excited about how the business is doing and we're extremely excited that we have a real shot at getting to positive Adjusted EBITDA in Q4, which is the goal we put out quite a while ago without knowing any of the headwinds we were going to be facing. The fact we still have a shot at achieving that, it feels really good.

As we wrap up, I wanted to take a moment to step back and put everything into context. Despite the allure of the year and the number, 2020 did not start out the way any of us imagined or had hoped for. Rather than having perfect vision, we have had a beaten down vision that's been obscured by forces outside of our control in more ways than we could have ever imagined. But despite the rough start, 2020 could go down as the biggest year for not only KushCo, as we look to bridge the gap to profitability—back to profitability—but also for our entire cannabis and CBD industry as well.

The recent dynamics such as COVID-19 pandemic and the nationwide civil unrest have created an irreversible momentum to legalize cannabis at the state, and potentially even at the federal level, as governments at both levels look to address the significant losses of jobs and impaired budgets. But it's more than just a dollars and cents issue; it's also a personal issue and a humanitarian one as well.

We all know that our industry has been beleaguered by a long history of racial profiling, discrimination and social injustice. It's one of the reasons why here at KushCo, we are awarding a full paid day off for all of our employees on November 3, Election Day, so that they can go out and vote and create the positive change that we're all looking to see.

Regardless of how you view the industry or the products personally, there is no denying the tremendous economic, social and personal power of legalizing cannabis at a broader scale. Yet even today, where cannabis is accepted by an overwhelming proportion of the American adult population—more than 80% believe that it should be legal for either recreational and/or medical purposes—there are still political agendas that conspire against the industry and its ability to help the nation. We have to work to change that and we have a real opportunity to do so by casting our votes, down the entire ballot in this upcoming election.

I'll close by saying thank you and thank you all for continuing to follow and support our Company through the ups and the downs, and especially during this past year where we have discovered our true strength amid countless challenges. We're but one leap away from completing this massive transformation at the Company and we could not have done it without your support in some form or another.

Thank you all again for listening. Hope everyone stays safe and I look forward to providing you with an update in the coming weeks and months. Until then, take care and please go vote in November. Thank you.

**Operator**

Thank you. Ladies and gentlemen, this concludes today's conference call. You may now disconnect.