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TILT Holdings, Inc.

Second Quarter 2019 Earnings Call

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CORPORATE PARTICIPANTS

Joel Milton, *Senior Vice President, Business and Corporate Development*

Mark Scatterday, *interim Chief Executive Officer*

Tim Condor, *Chief Operating Officer*

David Caloia, *Chief Financial Officer*

CONFERENCE CALL PARTICIPANTS

Bobby Burleson, *Canaccord Genuity*

PRESENTATION

Operator:

Good day, ladies and gentlemen. Thank you for standing by. Welcome to today's conference call to discuss TILT Holdings Second Quarter Fiscal 2019 Financial Results. At this time, all participants are in a listen-only mode. Following the formal remarks, we will conduct a question-and-answer session. Webcast participants can submit a question directly through the webcast. Further instructions will be provided as Q&A begins.

Hosting today's conference will be Joel Milton, TILT's Senior Vice President of Business Development. As a reminder, today's conference is being recorded.

Now I will turn the conference over to Mr. Milton. Please go ahead, sir.

Joel Milton:

Thank you, Operator. Good afternoon everyone. Thank you for joining TILT Holdings conference call. On the call today with me and with prepared remarks are Mark Scatterday, interim CEO, Tim Condor, newly appointed COO, and Dave Caloia, CFO. We will be discussing results for the second quarter of Fiscal Year 2019. Our second quarter earnings release was issued after the market close today and a copy of that press release can be found on the Investor Relations section of TILT's website.

I would like to remind that during this call Management's prepared remarks may contain forward-looking statements which are subject to risk and uncertainties, and management may make additional forward-looking statements during the Q&A section. These statements do not guarantee future performance, and therefore undue reliance should not be placed upon them. We refer you to all risk factors contained in the second quarter press release and in filings with the Canadian securities administrators for more detailed discussion of the factors that could cause actual results to differ materially from those projection and any other forward-looking statements. The Company undertakes no obligation to publicly correct or update the forward-looking statements made during the presentation to reflect future events or circumstances except for as may be required under applicable securities laws.

Finally, please note, on the call today's Management will refer to non-IFRS financial measures such as Adjusted EBITDA in which TILT Holdings excludes certain expenses from its IFRS financial results. Please refer to TILT Holdings' press release and filings for a full reconciliation of non-IFRS performance measures to the most comparable IFRS financial metrics.

At this time, it is my pleasure to introduce TILT Holdings' interim Chief Executive Officer Mr. Mark Scatterday.

Mark Scatterday:

Thank you, Joel. Welcome everyone to TILT Holdings Second Quarter 2019 Earnings webcast and thank you for your interest in TILT. It is my pleasure to be part of this call for the second time. I accepted the position in May of 2019 and since then have been working to create value by focusing on our core operating assets and competencies, bringing efficiencies to those entities and to the organization as a whole. Since then, we have been working with the Finance team to create an enhanced financial structure for our future growth and increasing the communication of these positive activities with our valued shareholders.

I'll begin today with a few key messages and business updates. After that, I will turn the call over to our new chief operating officer Tim Condor who will run through updates on each of the operating assets before handing it off to our CFO David Caloia who will then go through our second quarter financial results. We will close the call by taking questions both from the equity analysts community and then from our shareholders and prospective investors.

Tim and I will be running through four key points. The first point is an update on progress we have made in achieving operational efficiencies of our core operating assets and our drive towards profitability. As I mentioned on our last call, my first initiative as interim CEO was to develop and implement a proven strategic plan that focused on creating profitable and sustainable growth. As a reflection of the progress made towards these goals, I'm extremely excited to announce that TILT has achieved a positive Adjusted EBITDA for the month of July, which we will discuss in greater detail in this call.

Secondly, we will talk about the business' capital plans and future growth.

Thirdly, we will discuss the breadth and success of the various businesses operating within TILT. Tim Condor will be walking through these with us.

Lastly, I will touch on some of our strategic initiatives for the future including our commitment to shareholders to drive value and position ourselves for success.

Key point number one, organizational changes leading us to our goal of profitability. To begin, on our last earnings call I spoke about how we would place a large focus on our operations and work towards building a profitable business model. In my short time as interim CEO of TILT, we've spent time focusing on the basics of the Company. As such, we have implemented a strategic plan that focuses on leveraging our core competencies and strongest operating assets to drive both profitability and further position the organization for scalable success.

The success of the plan can most easily be seen in our July Adjusted EBITDA number which was $0.5 million compared to a loss every previous quarter. This is really exciting development and one we hope will continue throughout the remainder of Q3 and the fiscal year 2019.

Since our inception, TILT has been a holding company comprised of best-in-class in assets in foundational segments across the entire cannabis supply chain. We are now focused on fully integrating our operations, reducing redundancies and corporate overhead while leveraging our collective talent to drive a more profitable enterprise and accelerate sales growth. We have realigned management responsibilities including the appointment of Tim Condor as COO. Tim's impact is already being felt across the organization in terms of both revenue growth and well-structured execution.

As part of our goal of achieving profitability, we evaluated costs at every level of the organization and have made rapid and significant adjustments to run a leaner and more efficient business. As tangible examples of these cost saving measures, which have largely been subsequent to Q2 given the timing of our management restructure, we have now officially closed our corporate offices in Florida and Toronto, reduced our headcount significantly, restructured agreements that may have been unfavorable and instituted a vendor rationalization process. As a result, corporate spending is down materially entering the third quarter.

Throughout our analysis, anytime that we felt we could benefit by cutting a cost area that was not in direct support of our revenue growth goals or creating an opportunity for greater return on our investment, we took immediate action. The Company saw a narrowing of our Adjusted EBITDA loss during the second quarter and this increase in profitability continued to accelerate through the month where again I'm very proud to report we have generated our first ever positive Adjusted EBITDA during the month of July of $0.5 million on $15 million of revenue. While we have more work to do to sustain our cash profitability and continue to grow revenue, this is a validation of our efforts to date and I couldn't be more proud of the team we have today and confident in the direction we are headed.

Key point number two, capital needs and growth plans. Now I will discuss our capital raising activities. Since my appointment our entire team has been focused on securing the most attractive sources of capital with the most favorable terms available to support our unwavering goal of driving shareholder value. These efforts have been made easier as we move closer towards achieving positive Adjusted EBITDA.

As most of you know, on July 16th the Company announced that it had entered into a term sheet for a private placement of up to $125 million of convertible notes and the private placement as subject to completion upon due diligence, negotiations and entering into a definitive documentation. Due diligence has now been completed and the negotiation of definitive documents has proceeded as anticipated and is moving forward as we speak.

Our business fundamentals are stronger than they have ever been and financing will allow us the flexibility to grow as an organization and execute on our vision of providing the framework on which the cannabis industry operates.

Key point number three, a discussion on the scope of TILT offerings. TILT provides a comprehensive infrastructure for the cannabis industry, touching multiple levels of the global supply chain. Our assets operate in most high impact, value generating areas of the industry from plant cultivation and retail in high growth markets to technology and hardware that other companies rely on in order to reach consumer. TILT is truly one of the most diversified cannabis holding companies in the industry. We have created a footprint not previously seen in today's current cannabis landscape. TILT has a presence in every state with a legal program as well as all states with CBD markets, along with seven additional countries across four continents supporting well over 1,500 brands. This is worth noting and is nothing short of impressive. Each of the company's operating assets are running more efficiently than ever and continue to experience strong growth.

Our plant cultivation retail businesses in the limited license market of Massachusetts under our subsidiary Sea Hunter Therapeutics experienced tremendous progress in Q2. These efforts resulted in 400% month-over-month growth in wholesale revenue in July and contributed to over positive Adjusted EBITDA in that month.

Additionally, we were able to fully integrate our software platform Baker into our recently acquired distribution asset Blackbird, creating a technology powerhouse with more than 2 million users. These operations continue to post growth during the second quarter with no signs of slowing down.

Next, I will highlight Jupiter's recent business activities before I turn it over to our COO Tim Condor to run through each of our other core operating business assets.

Jupiter Research had a very productive second quarter with shipments more than doubling from the prior year. Despite some short-term delays in ordering as a result of tariffs, which led customers to pause to see how these tariffs would play out, we expect to see this impact normalize over the coming months. Sales of disposable devices are up 150% year-over-year, spurred by demand from the rapidly increasing CBD market. While revenue has more than doubled, we have also seen significant improvement in EBITDA and margin at Jupiter.

Jupiter continue to diversify its customer base and revenue sources, adding an additional 166 new customers in Q2, lessening its dependency on its largest customers and creating a more expansive pipeline of ongoing business.

A core factor in Jupiter's growth strategy is rapid global expansion. We are currently shipping products into new markets such as Mexico, Chile, Colombia, New Zealand, South Africa and multiple countries throughout Europe. We are particularly excited about our opportunity in Canada where the opening of the adult use extracts market later this calendar year creates a significant opportunity for us. Jupiter has orders from four of the top 15 licensed producers in Canada with others looking to place initial orders in the near term. We also see a large opportunity for sales in Mexico where we have already received orders and are evaluating strategic partnerships.

Furthermore, I am excited to share that we are working on new and innovative product that provide us better consumer experience and are value engineered for higher margins.

Let me turn the call over to Tim, who has been instrumental in driving our recent operational efficiency improvements in other core operating assets.

Tim Condor:

Good afternoon everyone and thank you again for joining our call to discuss our second quarter results. I was recently appointed Chief Operating officer of TILT Holdings by Mark Scatterday and have been working with the entire team to drive both incremental growth opportunities and cost efficiencies across the entire organization. Prior to my appointment I had been working in the cannabis industry for five years as a co-founder and CEO of Blackbird, which was acquired by TILT in the first quarter of 2019.

Let me start off with updates on our newly integrated technology assets Blackbird and Baker. Blackbird is a cannabis distribution and technology company. We were the first company to distribute cannabis in Nevada where we have reached 100% market penetration, meaning we deliver product to every licensed dispensary in the state and currently support about 90% of that market from a distribution standpoint. Shortly before TILT's acquisition of Blackbird we entered California, adding three additional licenses to TILT's license portfolio. Since we have experienced astounding growth in what is known as the largest cannabis market in the world. As we announced a couple of months ago, we have also reached 100% penetration and consistent deliveries to every licensed dispensary in the California market. Recently, we have negotiated new leases in Oakland and Los Angeles, California that will expand our footprint in that market by over 50,000 square feet.

In Massachusetts, we signed a lease in Brockton where we are expanding our technology offering and laying the groundwork for distribution infrastructure in the state to support our own operating assets and other cannabis license holders.

During the second quarter we successfully completed the integration of our two leading software assets. Baker and Blackbird. Baker is an industry leading cannabis technology company with a database of millions of unique users, designed to assist cannabis brands and retailers in reaching end consumers. We saw this as an opportunity to provide our retailers and brands with an enhanced software solution. We fully integrated Baker's toolset into the Blackbird platform which now provides loyalty, rewards and SMS marketing for retailers and consumers on blackbirdgo.com.

The integration of both companies creates one of the largest software platforms in cannabis. As a result, this provided cost savings, significant operational synergies and opportunities for transactional based revenue across both platforms. This integration contributed to a 22% increase in revenue in the second quarter compared to Q1 with an even stronger improvement in gross profit and we are very pleased with how our clients have responded to this integration.

Turning to our operations in Massachusetts, my first initiative was to implement a wholesale product growth and production efficiency plan for our subsidiary Sea Hunter Therapeutics. We are currently operating a cultivation and production facility as well as a medical dispensary in this state with two additional dispensary license applications in progress. Massachusetts is a great market opportunity for us as it is known as a limited license state where TILT has a strong early mover advantage. We have been in review for an adult use license for some time now and the progress has been slower than we initially anticipated. While Sea Hunter had originally sought to secure additional footprints in this market through strategic affiliate relationships, new management including myself and Mark have decided to restructure these relationships in a way that best supports all parties involved.

At our fully licensed cultivation and production facility in Taunton, Massachusetts we completed construction on an additional 50,000 square feet of cultivation and production space, bringing our total footprint to 117,000 square feet at this property. Beyond supplying our own medical dispensary with cannabis and cannabis product, we have been focused on increasing wholesale sales in this market, a plan which I outlined upon my appointment of COO. I am happy to report that we were able to leverage our existing expert sales team and technology assets from within TILT which have accelerated our wholesale efforts near the end of June with the measurable impact being felt in July. We saw a 300% increase over the second quarter in the number of retailers supported, shifting from 5 to 17 dispensary operators. This increase in retailers drove a 400% increase in wholesale revenue in July month over month at health gross margins. We are supplying both biomass and branded value-added product throughout the Massachusetts market. This recent increase in wholesale revenue is a key driver to July's strong sales and positive Adjusted EBITDA performance. We see an opportunity to continue to increase revenues in this market by providing quality wholesale cannabis and cannabis product across the state leveraging our significant cultivation and production assets in Taunton, Massachusetts, and in the future, by adding Blackbird's distribution network.

We continue to see robust profit pricing even in wholesale in Massachusetts and believe that the market remains supply constrained, particularly for adult use.

Continuing on our plant touching operating assets, I am happy to share that our cultivation and production operation in Pennsylvania through our subsidiary Standard Farms are also performing well. We added four new greenhouses in mid June, doubling our greenhouse footprint, now totaling 31,000 square feet. As we move in to September with all greenhouses in a constant and consistent harvest rotation, we expect to see a rise commensurate with our increased cultivation capacity. Additionally, all of Standard Farm's (inaudible) are being procured from Jupiter, driving synergies and higher (inaudible) and growth opportunities throughout the sales organization.

Turning to Canada, progress continues on our Powell River facility with our subsidiary Sante Veritas. We have been working closely with Health Canada to continue the licensing process which is nearing completion. This license has been delayed for various reasons, such as changes in leadership and other regulatory hurdles. That said, I personally have the breadth of experience in working with cannabis regulatory bodies and upon my appointment as COO our increased our engagement with these regulators to help drive the licensing process across the finish line in Canada. Our Powell River facility has been on hold but it is currently 95% complete and simply awaiting licensure. Our focus with this facility is on the processing of cannabis as we see the Canadian market opening up to value-added products later this year where we would be able to integrate our consumer product asset Jupiter just as we have in Pennsylvania.

As you can see, we have made great progress across each of our core operating assets and have made significant strides towards our goal of cash profitability through operational improvements across the enterprise. This focus on cost controls and margins also drove the positive EBITDA that we generated in July.

I am extremely proud of how much progress we have made in the short time since my appointment as COO and I look forward to continuing to make further operational improvements and progress through the remainder of this year and well beyond.

As a side note, I wanted to share we believe we are only as strong as our people and I could not be more confident in our current team based on their performance in just these few months.

With that, I would like to turn it back over to Mark to discuss the Company's strategy for the future.

Mark Scatterday:

Thank you, Tim.

Okay, key point number four, strategic initiatives for the future. As promised, this quarter we focused on profitability, improving margins and implementing structural changes that would make the Company stronger and more effective. We've reallocated resources to establish a solid foundation for the organization on which we continue to build and we've made changes to our management team in order to accomplish these goals. However, we are not done yet. This newly laid foundation will enable our continued growth through increased margins and sustained profitability driven by discipline and innovation.

The rest of the year we'll continue to see further operational improvements with updates and new product launches with both our hardware and technology assets. Post integration, our software and service assets are well positioned to capitalize on new emerging market opportunities. We also recognized additional revenue growth potential in Massachusetts and Pennsylvania as those markets continue to develop.

By getting the business to EBITDA positive and building a foundation for success, we have tremendous opportunity for the rest of the year and beyond. We are committed to focusing our resources, not only on top line revenue growth but on opportunities to generate profit. With this new lean and efficient company we have transformed in just a few months. Our future looks brighter than ever and I'm committed to continued transparency on unlocking shareholder value.

With that, I'd now like to turn it over to our CFO Dave Caloia for analysis of our Q2 2019 financial results.

David Caloia:

Thank you, Mark. I'm excited to share with you our financial results from Q2 2019. We generated sequential revenue growth, improved gross profit, higher gross margins and an improved Adjusted EBITDA. As Mark and Tim noted, a path toward profitability has been the cornerstone of our strategic operations plan in recent months and the fruits of those efforts are beginning to show in the second quarter financial results and gaining further momentum in July after the majority of our initiatives were put into place.

For the second quarter of 2019 revenue increased to $39 million, up 13% sequentially from $34 million in the first quarter of 2019. Given the timing of the business combination that created TILT at the end of 2018 and the number of M&A transactions in January of this year, traditional year-over-year comparisons are very difficult. As such, we will focus on sequential growth quarter-over-quarter.

Second quarter sequential growth benefited from the full quarter contributions from the acquisitions that were completed during the first quarter as well as growth in our Blackbird and Baker operations, partially offset by seasonality in the Jupiter business as well as the pre Chinese New Year load.

Gross profit improved to $25.5 million during the second quarter, up from $7.5 million in the first quarter, and increase of 240%. Gross margin was 65.4% compared to 21.9% in Q1. When we exclude the impact of gains on changes and the fair value of our biological assets and fair value changes in biological assets including inventory sold, the gross margin increase was 24.5% in the second quarter compared to 21.3% in the first quarter. The sequential gross margin improvement reflects higher Q2 margins in Jupiter as a result of fewer shifting surcharges which are heavy early in the calendar year around Chinese New Year, increased utilization at Blackbird and improved yields in our cultivation operations.

Second quarter Adjusted EBITDA adjusted for non-stock compensation expense, unrealized gains on fair value of biological assets included in the inventory sold as well as certain one-time nonoperating expenses including business acquisition expense was a loss of $4 million compared to a loss of $7.9 million in the first quarter. As a percent of sales, Adjusted EBITDA loss decreased 1280 basis points to negative 10% compared to negative 23% during the first quarter. The improvement in the Adjusted EBITDA loss reflects the improved gross margin as well as lower professional fees reflecting efforts on cost and vendor rationalization. Note that the material cost reduction initiatives that we have implemented and that did not take effect until mid June, and we anticipate to see the margin benefits accelerate in the third quarter. Also, it is worth noting that there's still a $50 million noncash expense in the form of noncash stock based compensation. As was the case last quarter, this in reference to legacy agreements with options up to CA$5.25 (phon). Given these options are far out of the money and they were issued nearly a year ago, they have no operational or cash impact on the business and we did not want this number to distract from the true value of our company and the progress we are making. The Board is currently finalizing a forfeiture of the legacy stock options, therefore we would expect an improved adjustment to stock option expense starting in Q3.

As Mark mentioned, we disclosed in today's press release we have also reported unaudited July revenue and Adjusted EBITDA results. Revenue is up 25% month over month to $15 million with positive Adjusted

EBITDA of approximately $0.5 million. The increased EBITDA was primarily driven by improved Massachusetts wholesale volume and margins as the operations transitioned from start activities as well as the corporate cost reduction initiatives discussed earlier in the call which are implemented late in the second quarter.

This quarter we focused on strengthening our balance sheet, specifically our cash position. We ended the second quarter of 2019 with cash and cash equivalents of $4.5 million. As I noted, we have recently reduced our cash burn, generating positive EBITDA in the month of July and have completed the majority of our capital investments that were planned for 2019. This minimizes our needs for additional cap ex this year and further improves our cash flow profile. We expect to continue growth in revenue (inaudible) throughout the remainder of 2019 and we are benefiting from the initial impacts of our cost savings and operational efficiency efforts. We will continue to focus our efforts on both delivering growth and driving cash profitably.

I would now like to turn it back to Mark for final comments. Mark?

Mark Scatterday:

Thank you, Dave. Before we turn to questions, let me take a moment to recap some of the areas we feel the investment community should take note of. Through the implementation of our strategic redevelopment plan, we were able to not only make significant strides towards further revenue growth but profitability as an organization. We are and continue to be one of the largest cannabis companies in the world in terms of revenue and footprint. (Inaudible) diverse portfolio of businesses and products are strategically aligned to capitalize on the growing legalized cannabis marketplace through a strong network of core operating assets that are committed to technological and production innovation that supports the long-term success of the industry as a whole.

Through each of these operating assets we are positioned as industry leaders in not only products and supply but also providing the infrastructure necessary for countless brands and other companies to conduct business. While many companies claim to be vertically integrated, TILT is truly an industry leader in all the areas of the cannabis supply chain.

As a cornerstone of my executive leadership, we will continue to work diligently to unlock long term shareholder value and increase confidence through proven industry expertise and successful execution of our business initiatives. We know that the true value of the Company will be derived from the strict focus on disciplined growth. We plan to capitalize on our core competencies and continue to make strategic investments in high-growth areas of our business.

I've been honored to lead this company through this transition period and couldn't be more pleased with our results. I have received full support from our Board and shareholders on the progress we have made and I am ready and willing to step into a full-time role as CEO.

Finally, I would like to close by sharing the Company is better positioned strategically today than ever before. From our outstanding people to our diversified assets, I could not be more confident in this revitalized organization's ability to capitalize on the enormous opportunity this industry presents. We have built such a powerful and multifaceted platform that truly lays the groundwork for cannabis industry of today and of the future.

With that said, we will now be happy to answer your questions about TILT and our second quarter results. First, the operator will open the line for any equity analyst questions before we turn to questions that we have received from shareholders via our open webcast question submission system. Operator, are there any questions from our equity analysts?

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.

Our first question comes from the line of Bobby Burleson with Canaccord. Please proceed with your question.

Bobby Burleson:

Hey guys, thanks for taking my questions.

Mark Scatterday:

Hey Bobby.

Bobby Burleson:

Hi. Yes, I think the first one would be just on the wholesale business in Massachusetts. You talked about I think 117,000 square feet of production space there. What is the potential revenue output at current prices right now if we think about that capability, and how much of that could be sold externally, theoretically, once you ramp you to full production?

Tim Condor:

Hi Bobby. The additional 50,000 square feet is split between cultivation and production. Currently in Massachusetts we're seeing upwards of a $4,000 per pound price which is still kind of holding strong as the market remains supply constrained. We're still planning our sort of (inaudible) planning for that space as it relates to the products that we'll sell out of it, but Massachusetts regulation does provide for a percentage split between your own dispensaries and retail sales. I think it will be—our wholesale sales will be in line with the additional capacity as the sales are provided today.

Today we're doing a few million dollars out of that facility. It will be reflective of sort of the doubling of space with the new addition, with the more addition of that space.

Bobby Burleson:

That's a monthly run rate, correct?

Tim Condor:

Yes.

Bobby Burleson:

Okay. Then just touching on Jupiter, it sounds like there's some seasonality currently that is affecting you guys and you'll see some reacceleration in that business. What's happening with large customers there? There's some talk about folks wanting to develop their own platforms. Do you guys have enough demand to backfill those orders if there are some large customers that in fact do switch to some of their own products?

Mark Scatterday:

Yes, you know what? We always—we're less and less reliant on those customers. As I said in my update, we brought on 166 new customers last month and the seasonality is what affected us most because of Chinese New Year. We definitely expect large growth in the second half of this year.

Bobby Burleson:

Okay. I think you guys were talking about around $200 million a year for that business. Is that still something that's realistic?

Mark Scatterday:

I can't really give a report on that for future, but we're—hopefully we can give an update or two.

Bobby Burleson:

Okay. Okay, great. Then just one more from more and then I'll jump back and requeue. Let me see if I can find my question here. Baker Dispensary customers, it seems like you guys are seeing some nice growth as you integrate your software platforms, you know, Baker and Blackbird and really leverage the data. I'm wondering is that dispensary customer account for Baker, has that changed at all? Has it declined at all? Some of those customers feels like potentially your competitor? It sounds like with the growth sequentially that you're talking about there, you're more than offsetting that somehow. Can you just describe that dynamic?

Tim Condor:

Yes. I mean I think we've been able to address the idea that we might be competitive with existing clients and sort of our continued focus on those partnerships. We're continuing to just add clients to both Baker and Blackbird platform month over month in a substantial way and in a way that is building that client base, especially with the addition of new markets. But, we're seeing a huge value-add to clients in combining these platforms so excited to be able to offer a breadth of services that are really unseen in the industry today to continue to build our client base and revenue base.

Bobby Burleson:

Okay, thanks.

Operator:

Thank you. I will now turn it back to Joel Milton for our webcast submitted questions.

Joel Milton:

Great. Thank you. Like usual, a lot of the same questions coming up so we'll start with the most popular, and Mark, this one is for you. Something addressed in the call but it's around why hasn't the financing closed yet and can you share updates on timing there?

Mark Scatterday:

Sure, Joel. While I'm not allowed to share a specific date, I can share that due diligence has been completed and everything is moving forward as we speak. Unfortunately, we have been diligently working on what we have been focused on, building a strong foundation for our business and that has put us in our strongest position ever.

The upcoming financing will allow us definitely flexibility to grow as an organization and that's been our vision of providing a framework on which the cannabis industry operates.

Joel Milton:

Great. One for Dave. Some questions around the stock noncash stock based comp keeps coming up and people are wondering is that something that's going to be off the books any time soon, or how does that impact our revenue? What does revenue actually look like? We talk about positive EBITDA; can you elaborate?

David Caloia:

Yes, I'd just like to highlight again that the charges we saw in Q1 and Q2 are noncash. They are options that are far out of the money of CA$5.25 and no impact on kind of our operational day to day. That being said, when you kind of look at Q2 net income, it's about a $49 million loss but if you strip out the stock comp expense that we saw in this quarter of 50, you're looking at net income that's pretty close to breakeven. What we're doing as a team is working on doing a forfeiture of the option and the team and the Board is working that actively now, so as we get to Q3 results we're looking at an amount that is materially less than what we've seen in Q1 and Q2 and reflects really kind of the go-forward intent to structure for the business and not something that was put in place last year in the early stages of the Company.

Again, noncash and we are actively working it to have it addressed in Q3, so as we have discussion next quarter, a different discussion, different view of the financials.

Joel Milton:

Not to beat a dead horse but it keeps coming up. Can you just confirm that those options when they were issued and at what price?

David Caloia:

Yes, they were issued at CA$5.25 back in December when the stock was recently issued.

Joel Milton:

Okay. Next question for Tim. Questions around licensing and development of the Massachusetts market.

Tim Condor:

Speaking specifically about Massachusetts, we expanded our facility, which I mentioned previously which will increase our capacity for the coming quarters. We are working very closely with state and local regulators to expedite our licensing process in any way that we can and that is directly related to legacy affiliate agreements that I also addressed during the call, that we are in the process of amending to be more in line with not only state guidelines but there's new management team for this Company's core value set.

Our team in on the ground in Massachusetts has unique industry experience and a lot of knowledge around both the licensing process and in building and maintaining compliant facilities and we hope to receive those licenses in the most expeditious timeline as is possible.

Joel Milton:

Next one is probably for Dave. I know this is a Q2 call but we also talked about some July numbers. Can you talk about what changed to go from sort of negative EBITDA in Q1/Q2 to an EBITDA positive July?

David Caloia:

Sure. We've made great progress in Adjusted EBITDA throughout the year. In Q1 we were at negative $7.9 million, we talked about negative $4 million today and July being positive $500,000. Just a few things going on here. Tim and his team have done a phenomenal job driving wholesale volume and mass with some very healthy margins. The other piece on costs, we've talked about vendor rationalization and we drove reductions in expense for HQ between closing our Florida office and rightsizing staffing across the organization.

Lastly, Jupiter volume and Software and Services are both up month over month, so we are looking at the business both from a top line standpoint in regards to volume and margins, as well as driving every element of cost reduction we can do to improve the profitability of TILT and to continue to run on Adjusted EBITDA positive basis.

Joel Milton:

A couple of questions about Canada. We'll start maybe with Mark talking about how we look at the market and the opportunity for Jupiter specifically, and then maybe Tim talk a little bit about the development of our operations there.

Mark Scatterday:

Great. Thanks, Joel. We're really excited to be working with some of the largest LPs in the country and are really bullish about this market. I'd love to give them more details and names but we can't do that at the moment, but we are very well positioned.

We have multiple touchpoints that position to benefit from the continued development in Canada between hardware, software and distribution services. With value-added products coming on later this year we believe Canada becomes a very interesting opportunity for TILT.

Tim Condor:

Thanks, Joel. Yes, as I mentioned, the first phase of our construction in Powell River is almost near complete and we have begun to implement our ERP system and security system that are required to finalize our license application with Health Canada. We fully expect to have those completely implemented and that license to be fully submitted to Health Canada within the next 60 days, so, excited to share some updates with you guys in the near future.

Joel Milton:

The next one is for Dave, which is a breakdown of sales from Jupiter versus some of the other verticals.

David Caloia:

Right now we're not giving segmented financials though we did provide color on the individual business units and talked a bit about percent growth in many of our verticals.

I would say Jupiter continues to be the main driver of revenue, though we are seeing strong growth in the rest of our assets, specifically in Massachusetts which Tim highlighted during his discussion.

Joel Milton:

Next question was loosely addressed but, Mark, can you speak to the search for a permanent CEO?

Mark Scatterday:

Yes. You know what? I've really—I'm honored to lead this company through this transition period and really couldn't be any more pleased with the results. I've gotten full support from our Board and leadership team on the progress we have made and look forward to an announcement soon.

Joel Milton:

Another one for Mark, and I know Bobby asked a little bit, but just people are asking again, talking about sort of the bigger clients. Is that business decreasing at all or (inaudible) the rest of the year?

Mark Scatterday:

No, we've actually had—I know that's been kind of a talk and people have been worried about that but we actually have orders in town from almost all of our large customers. We have orders in-house.

In addition to that, I just want to point out from Bobby's earlier question, from a practical standpoint there's a lot of our customers that leave that product involvement and they (inaudible) product overseas. The whole issue with that is really producing products to scale and I know a lot of companies have struggled with that in the past and that's where Jupiter comes in, positioning ourselves as our customers' technology partner.

Joel Milton:

The next question, probably for Dave. Looking at Q1 versus Q2, I know we haven't given guidance but can you talk a little bit (inaudible) growth maybe on the line or anything you can share about future?

David Caloia:

Sure. Yes, we absolutely see growth in the second half. We've seen tremendous second half growth in Jupiter historically, which reflects coming off of the Chinese New Year and getting ready for the next year and I think a big one for us is really Massachusetts. With Tim's leadership and focused efforts, as well as the number of dispensaries that Massachusetts continue to increase the math, this is giving us a really, really positive run rate for the second half of the year and this is before we even get to adult use and recreational store openings which is another positive.

We talked also about the doubling of capacity in Pennsylvania, which is going to be a big thing, not to mention 20% month over month growth in S&S.

The last thing I'd highlight is we mentioned a few times on the call, July revenue was $15 million so we're off to a really good start as we think about the second half of the year for TILT.

Mark Scatterday:

However, the focus this quarter was on (inaudible) and drive towards profitability, cutting costs drive top line growth.

(Inaudible) we did see growth in Massachusetts which is especially great considering there were developments in licensing this quarter, so that expected growth is still to come.

Joel Milton:

Question (inaudible) of doing a stock buyback or insider buying?

Male Speaker:

We are considering all measures possible that would create shareholder value. There has not been an open window in months, between the Q1 and Q2 quiet periods as well as the financing between, however it's something that many people have shown interest in and we'll continue to review.

Joel Milton:

Thanks. Then I guess the next question is probably for Tim. What's the next market for Blackbird? We saw the announcement about California. Can we expect anything in the future?

Tim Condor:

Yes, as I mentioned on the call earlier, our focus right now is in Massachusetts where we signed a lease and are in the licensing process. We're really excited about that market, not just because we get to support our own assets out there but there are a lot of other great operators in the space that we plan on supporting as well.

Then, additional markets, without sharing any forward-looking information, our team has been laying the groundwork in new markets for the better part of this year, assessing market opportunities, starting conversations with potential partners and addressing regulatory hurdles that have kind of shown themselves to us.

We're really looking forward to building a robust distribution network, really in any state that we can. It takes a little bit of time but it's a really exciting process and our team is really experts in navigating.

Joel Milton:

A couple of more here and then we'll call it as we're getting through most of these. Soft market but questions around sort of the TILT stock as an opportunity and why is TILT something that people should be considering more?

Mark Scatterday:

I'll take that, Joel. TILT has a differentiated story. (Inaudible) revenue streams, strong top line revenue and now EBITDA positive (inaudible) the sector and one is it's priced at an extremely low multiple; the multiple ways it has attacked the global cannabis industry, not to mention our business fundamentals are strong thanks to focus on disciplined growth.

Joel Milton:

Then how do we think about TILT strategy and sort of how maybe has it changed since inception or since March since you came in?

Mark Scatterday:

From our inception, yes, the focus on M&A and growth based on capital expenditures has certainly shifted. As I mentioned on our last call, my goal was to build a foundation of disciplined growth based on fiscal responsibility to drive towards profitability.

Joel Milton:

Great. The last one, what can we expect in terms of new products or services in the pipeline? Maybe both Mark and Tim, between you (inaudible).

Mark Scatterday:

Sure, I'll take that one. I think really just focused on innovation and we're not innovating if we're not creating and deploying new product, so I think you can expect to see a breadth of products from really all of our operating assets and business and subsidiaries throughout the year and well into the future. We'll be really excited to share those developments as they come up.

Tim Condor:

And Jupiter. Jupiter is proud to announce we have just moved into our new headquarters which we're building out a development and research facility and so we've got a lot of exciting new products in the pipe that are proprietary to Jupiter and just working on some really exciting stuff.

Joel Milton:

Great. Operator, any more calls from the analyst community?

Operator:

There are no further questions at this time.

Joel Milton:

Great. With that, TILT would like to thank everyone for dialing in. Thank you for the questions and we look forward to continuing to share more information with everyone shortly. Thank you.

Tim Condor:

Thanks everybody.

David Caloia:

Thanks.

Mark Scatterday:

Thank you. Appreciate it.

Operator:

This concludes today's conference. You may disconnect your lines at this time. Thank you for your participation.