FINAL TRANSCRIPT

Grown Rogue International Inc.

Second Quarter 2025 Earnings Conference Call

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CONFERENCE CALL PARTICIPANTS

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PRESENTATION

Operator

Welcome to the Grown Rogue Second Quarter 2025 Earnings Conference Call. Today's call is being recorded. After the prepared remarks, there will be a question-and-answer session.

As a reminder, during the course of this conference call, Grown Rogue's management may make forward-looking statements that are based on current expectations and are subject to a number of risks and uncertainties that may cause actual results to differ materially from expectations. The risks are outlined in the Risk Factors section of the Company's filings and disclosure materials. Any forward-looking statements should be considered in light of these factors. Please note that as Safe Harbor, any outlook presented speaks as of today and Grown Rogue's management does not undertake any obligation to revise any forward-looking statements in the future.

This call will also reference non-IFRS financial measures, including adjusted EBITDA. These measures do not have any standardized definitions under IFRS and may not be comparable to those used by other companies. They are provided as supplemental information to evaluate the Company's core operating performance and should be viewed alongside IFRS results.

I will now turn the call over to Obie Strickler, Chief Executive Officer of Grown Rogue. Please go ahead.

Obie Strickler — Chief Executive Officer, Grown Rogue International Inc.

Thank you very much and thanks, everyone, for taking the time today to join us for our second conference call. Obliviously, we picked another good time to kind of, you know, hold the call today, considering the frothiness in the markets the last few days after Trump's recent comments on rescheduling. Obliviously, very exciting for the industry. It's good to see kind of some movement as we look toward federal reform. One thing we just want to highlight as a group, and we've said this for a long time, is that while we embrace that and we're pleased with it, our business is not dependent upon federal reform. That's how we set it up from the very beginning and, again, while we're excited about it, it's not dependent upon it. I think that's just an important consideration as people are thinking about how Grown Rogue operates.

I wanted to start today by talking about our current markets. We've been saying for a very long time that we were built for these competitive landscapes and we're seeing that right now in pricing [inaudible] in Oregon and Michigan. Of course, when we're saying that and hoping that our pricing in these mature markets was more stable, we do find ourselves in a pretty nasty pricing cycle with Oregon and Michigan both down 25% year over year. The positive out of these things, you know, pricing is one of those pieces that we don't control, we'll get to some of the controllables and how excited we are about some of those KPIs we continue to deliver.

It does feel like Oregon has stabilized and starting to recover a little bit, and the same thing for Michigan. It really feels like Michigan, which has kind of gone through one of, you know, it's gone through a compressionary cycle over the last three or four years, it's kind of come down from its beginning highs, but this is kind of the real first pain point we were seeing. But it feels like we hit a trough, kind of April/May of this year, and the last couple months we've seen some pricing recovery, revenues coming up a little bit, and so hoping that we're kind of coming through the bottom of that and looking forward to kind of a recovery cycle.

As painful as it is during these times, I think it's really, really important for people to remember this is when we make our biggest gains in the company. Every single time we've gone through this in Oregon, we're now going through it in Michigan for the first time, this is when the company really leans in, and these habits that we develop and these improvements that we make in terms of the way our business operates, kind of last forever. And on that front, I honestly couldn't be more excited about, just the performance around the things we control.

We've seen improvements in almost every category that we track, but particularly highlighted improved yields and more production costs. It's important to take a minute to think about, you know, Grown Rogue has always said that we are a low-cost producer, I'm just not sure how much people appreciate how efficient we've become on a four-wall basis. I mean you look at where Michigan landed this quarter, sub-$400 all in on production cost, Oregon was in the mid-4s, I think last quarter both states were in the mid-4s, and it's important to note that our analysis of this is on whole flower only. So, when you take like a true COGS component, if we were including all biomass, again, we don't use biomass because that's not a big portion of our business, I think our indoor production costs are probably somewhere sub-$200. And that's just a remarkable feat and something that's going to provide a tremendous amount of resilience as we navigate the way these markets function, both in exciting new markets where pricing is higher as well as the competitive markets. It’s a long-term competitive advantage that we think is going to serve us very well as we continue to kind of expand outward with our business.

The New Jersey ramp continues. We’re already starting to see pretty strong yield and production numbers. You’ll see some of that in the press release. Obliviously, we don’t have comparables, but pretty excited around just the way those are materializing kind of ahead of our internal schedule when we were wanting to be in the mid-50s, low-60s on a gram per square foot basis and then in the thousand pound or less cost, and definitely hitting all those metrics, so very excited with that. Continue to have strong sell through, reorder rates are strong as the brand kind of gains traction in that market. I indicated on our last call, it was in May, our last call was our first call, our goal was to be at full sell through kind of by the end of Q2/early Q3 for the Phase 1, and it’s pretty exciting to feel like we’re pretty much there, and so very excited to hit that milestone and starting to get full sell through of our product and looking forward to bringing Phase 2 online.

The planning and the early construction process to stage the Phase 2 development has begun. Phase 2, if you remember correctly, will take us up to 1,200 pounds a month at full construction and full capacity, kind of the optimization of our yield paradigm, and we expect Phase 2 to be fully constructed sometime toward the tail end of Q1/early Q2 2026.

Another kind of exciting development in Q2 was we launched a new product in Oregon. Oregon has kind of become our testing ground for how we go about looking at consumer behaviors, how our customers respond to things, and so we launched our first infused pre-roll in Oregon. What we like about this product, which was kind of unique to Oregon because of our [inaudible] component, as all of this is coming out of our sungrown, and the margins on this product are fantastic, because essential we're taking historically what we would consider waste product biomass, trim material, we're able to extract an ice hash kind of rosin product, infuse that into our flower, and put an infused pre-roll on the market. Obliviously, we've got a big distribution team in Oregon [inaudible] and then the suite that we have has been well received by our customers and looking forward to continuing to move that product into the system.

A couple things outside of pricing that we could have, should have been better at. We always like to be pretty transparent in areas where we see areas of improvement. We should have been more responsive to the changing customer behavior in Michigan as it relates to strain-specific packaging. It's actually kind of interesting, we were way ahead of this a couple years ago when we launched a proprietary product in that state that had fantastic reception, and we overgrew it a little but because when you deal with some of these kind of higher-end products you've got to really manage your scarcity components, but the consumer behavior in Michigan changed drastically. So we corrected that in Q1. We recently re-launched the strain-specific packaging. I'll get to some of the new investor decks and things like that that we're putting out, but there should be some photography and other kind of digital imagery of what we're putting out we think people will really like. And yeah, we wanted to kind of scale this back in. We did an initial kind of package order. I think it sold out in the first week or two. So we essentially sold what we thought would be like a months' worth of inventory at double the speed. So we ordered more packaging and we expect to kind of rebuild that portion of our business in Michigan.

The other thing, you know, and this is just to my nature, and I've gone back and forth with probably people listening to this call, people on our team, advisors, I will continue and I am aggressive in my expectations for what our team can achieve. We've talked about tempering that a little bit. My idea on that is it's really hard to temper those things, because you want to drive your team and push them to achieve things that are difficult. And so, obliviously, with that, some of those aggressive expectations, just hardwired, it's kind of the mindset that drives how our team delivers things.

The ramp in New Jersey has been slower than expected. Part of that is just natural delays of construction. The market is a little bit more dynamic than we originally thought as we're getting into that, but again, super impressed and very happy with kind of the business metrics and how this is filling the right foundation in this new market for our long-term goals. Again, we don't spend a lot of time worrying about quarter to quarter, month to month; we're trying to build a platform that has a much longer kind of timeline for where we want to see the business go long term.

And the beauty of these things, like this launch in New Jersey, some of the learnings we've taken from this, it all prepares us for the future as we continue to expand. And so, in addition to Phase 2 in Jersey, which I just talked about a little bit, Illinois is under construction. And then this is kind of new, exciting news, and some of you may or may not have seen this in the press release, but our National Director of Cultivation was recently awarded one of the lottery licenses in Minnesota. Pretty excited about this, especially from all of our work we did with Vireo, so we understand that market a little bit and just the potential that sits there. The license that he won allows for up to 30,000 square feet of canopy and we just believe this is another huge, kind of organic opportunity for us as kind of our growth into new markets. And I'll get into a little bit of some of the other things we're seeing, but Minnesota is going to be a massive market, it's got big upside, and we plan on putting significant resources behind this in partnership with our cultivation director.

We've been, as you've seen, delivering on this growth requires continued investments in kind of our team, I would say, for the most part. A little bit of system, but mostly team. We don't like to see the overhead grow but it's part of setting ourselves up for success in terms of where we need to be. And again, going back to the long-term view [inaudible], you know, we're not worried about quarter to quarter, month to month, we're thinking about where we need to be in the next two to five years and some of that comes with strategic hires.

Our focus lately has been on marketing and branding apparatus, so we've been investing a little more heavily into just making sure that the foundation of low-cost/high-quality product the consumer wants is being recognized into the right branding concepts. We're just on the tail end of hiring a construction expert. As we look at Phase 2 in Jersey, we look at Illinois, we look at the new opportunity in Minnesota, you know, someone that can really manage and run that process for us is going to be really important.

And then, obliviously, and Josh will speak in a little bit, bringing on Josh earlier this year, not even to level up our team and just the capability set we have, but Josh has got a unique kind of view and relationship inside of this opportunity around some of the, you know, the distress and where kind of he sees this industry sitting long term, coupled with the fact that, as we get bigger and as we scale, one of our unique kind of, you know, it makes our business, we think, so special, is just this flower-forward ops culture, which is the engine of our business. We think it's the engine of the industry. It's going to ensure that, as our business gets more complicated, that we've got the right talent and support so we can stay focused on the operational side, which really drives kind of the core foundation of who we are.

And so, outside of Minnesota and some of the organic stuff, we've also been spending a fair amount of time, and I'll let Josh talk about this in much more detail, around distress. Outside of the recent changes and kind of the hype the hype we've seen over the last few days, I mean capitulation feels it's coming a little bit, so pretty excited around some of the things Josh has been working on with the team, some of the opportunities we've seen, and how we think those things might kind of dovetail into kind of the organic process that we've been behind in the past. So, anyhow, I'll let Josh talk about that more specifically.

Before handing it back to Josh, I wanted to point out that we have a new summary overview deck available on our website. One of the things we committed to earlier this year is being more transparent, better information, better disclosure, really educating the investor group around how Grown Rogue manages our business, and I think you'll find a lot of really helpful information on there. We don't spend a ton on investor relations, we'd rather focus on comprehensive financial disclosures, again, just to help the investment community understand our business, but obliviously realized it was time for a refresh. The business has changed, some of the information we think is important for you all to understand should be out there available, so I'm sure that'll continue to evolve. Feedback is always welcome and helpful. We take everything we get and look to continue to improve, but pretty excited and pleased with how this new information really captures like our business, our plans, our culture, our ethos, who we are and who we are striving to become.

And with that, I'll turn it over to Josh.

Josh Rosen — Chief Strategy Officer, Grown Rogue International Inc.

Thanks, Obie.

To start, I really enjoyed my first six months with the Grown Rogue team in my formal role. Obliviously, I go back a little bit farther than that as an investor. Those that know me well know that I've been talking about the imminent need for a major restructuring in our industry probably for at least the last couple of years. In many ways, the industry was built in a very unnatural fashion for a variety of very explainable reasons. It mostly related to the patchwork regulatory environment, brief periods of hype-driven capital availability, folks often confusing profitability and high-priced environments with operating capabilities, and what's likely most problematic, at least for everyone's awareness is, is the expensive senior secured debt and long-term lease liabilities that often didn't accurately contemplate the impacts of price normalization.

Some folks have mistaken me for being bearish on the industry, but I've actually never been more excited about the industry than I am currently. The real fundamentals are finally starting to be what matters most. We're finally seeing real capitulation. Perhaps, as Obie referenced, the recent excitement about rescheduling again allows some companies to kick that can down the road farther, that there are enough financial realities taking root that the distressed opportunity set is target-rich.

[Inaudible] experiences in the industry, or what I often refer to as my scar tissue, I view the efficient production of quality flower as the economic engine of the industry. This is across the supply chain all the way through retail. It's also been my experience that it's the hardest part of the industry. "A" flower is the hardest part of the industry to consistently get right. It's because of this that we see the root cause of a lot of the overall financial distress in the industry tied back to the cost and performance of cultivation facilities. In my opinion, Grown Rogue is one of the handful of players capable of providing long term solutions. This is a big part of why I'm here. Don't get me wrong; we're still going to see a lot of financial engineering from bankers and desperate executives that try to escape this reality, but I'm confident that, over the coming 12 to 18 months, some of these opportunities will translate into strong, capital efficient growth for us.

To give some perspective on how we think about capital allocation and returns on capital, for every incremental $1 of invested capital we spend, we target earnings of approximate $0.75 of what we call sustainable EBITDA. And sustainable isn't a hard and fast definition, but the concept is to look at what we view as mature economics in a given market are likely to be as opposed to what might be a starting point when we're looking at unsustainably high pricing environments.

For instance, in New Jersey, we think it's likely structurally stay higher priced than Oregon, but we should have very good comfort that it's an excellent business for us at $1,000 to $1,200 a pound. And still be an okay business for us if it's $600 to $800 a pound. This $0.75 of sustainable EBITDA is an attractive target and means that we'll be selective [inaudible]. And then, kind of speaking in generalities, if it works out that we're off and we only earn $0.50 for every invested $1, we still think this is a big win for shareholders. I think some of what we're looking at could even be higher than that $0.75 target. Kind of sticking with this simplistic language, for the heavier operational lifts when we're looking at distress, we will skew towards making sure the economic outcomes skew even more positively. And [inaudible] consideration for thinking about distress is that transactions can be messy and take a while, so please don't set your expectations on instant big deals nor instant substantial cash flow should we close something. These take work.

And on this last point of taking work, one of things that really excites me about the Grown Rogue platform, combined with my network, is that talent wants to work with us. They see us trying to build an enduring company the right way and it's been gratifying to see my network engage with us, even when it's feeling us out for future employment opportunities.

So, with that, I'll hand it over to Andrew for a few comments.

Andrew Marchington — Chief Financial Officer & Corporate Secretary, Grown Rogue International Inc.

Thanks, Josh.

As a reminder, consistent with what we've highlighted previously, we do not consolidate our ABCO affiliates pro forma into our financials due to IFRS rules, but for obvious reasons, we consider it to be a core part of our business and growth plans, which is why we provide our pro forma results in our press release including ABCO, consistent with how we view the business internally. With that said, we are in the midst of our conversion from IFRS to US GAAP, which will be in effect for the year end 2025, and we do hope to be consolidating ABCO under US GAAP starting with that report.

Finally, I'll note that, although we do spend a lot of time paying attention to cash and to cash-on-cash returns, we do not focus on driving near-term cash flow from operations nor do we think it's a good barometer of a growth company's value creation on a quarterly basis. It's [inaudible] number, in our opinion, even more so in our case, and we don't consolidate key assets performance. Just to be clear, we place significant value in the long-term sustainable generation of cash flow. For us, we want our external disclosure and communications to mirror how we're building the business.

And with that, I'll hand it back to Obie to wrap up.

Obie Strickler — Chief Executive Officer, Grown Rogue International Inc.

Great. Thanks, Josh and Andrew. I think, with that, we will open it up to questions. I know everyone's been waiting and poised, so let's start that process.

Q & A

Operator

Thank you. Ladies and gentlemen, we will now begin the question-and-answer session. Should you have a question over the phone, please press star followed by the one on your telephone keypad. You will hear a prompt that your hand has been raised. Should you wish to cancel your request, please press star followed by the two. If you are using a speakerphone, please lift the handset before pressing any keys. One moment please for your first question.

Your first question comes from the line of Adam August. Please go ahead.

Adam August — Private Investor

Good afternoon. I'm actually pretty pleased with the results overall. It looks like a pretty good quarter and, Andrew's last comment notwithstanding, I can't help but notice the swing back for the quarter to positive cash from operations, which, to me, is a big win, although I do recognize what he said.

[Inaudible] the ASP, I mean my back of the napkin shows that that drove probably $2 million plus reduction in EBITDA versus if the pricing had remained at last year's Q2 levels, so that's pretty massive. To still be showing profitability and cash flow in the face of a $2 million please headwind is great.

Just also, just [inaudible], I would love, as an investor, to get a little bit more time with the results before we get on this call going forward. It's kind of tough to kind of scramble and pull together any intelligent thoughts with such a short timeline, even though I know that it's pretty typical to have [inaudible].

The only real question that I have is I see that the short-term note receivable was pretty flat in Q2 versus Q1 and I'm just kind of curious, did that reflect that ABCO is not really accruing any additional debt at this point or was there some additional accrual but also some payback?

Obie Strickler — Chief Executive Officer, Grown Rogue International Inc.

Thanks, Adam. You're going to have to work on your analytical skills so you can get better questions quicker.

Andrew, do you want to take the question on the, ah, what he asked around the accrual for what's going on with ABCO and the debt?

Andrew Marchington — Chief Financial Officer & Corporate Secretary, Grown Rogue International Inc.

Yeah. No additional principal has been advanced over that period; however, we do continue to accrue interest on all of those notes. And the payback is occurring, there have been some payments made, and it's [irregular]. So there may be quarters moving forward where we make significant progress and paydown of the debt depending on cash flow and how it gets allocated. We also have consulting fees we charge to ABCO, so at times we may make the decision that we're going to make a payment against those fees versus the debt. So, the answer is essentially there hasn't been any further advances but we will star to see that amount decrease as repayments start to occur more heavily over the balance of the year.

Obie Strickler — Chief Executive Officer, Grown Rogue International Inc.

[Inaudible]

Josh Rosen — Chief Strategy Officer, Grown Rogue International Inc.

Real quick, Adam, just to add a little bit of context, I think that—go ahead, Obie.

Obie Strickler — Chief Executive Officer, Grown Rogue International Inc.

No, I was just going to talk about the benefit of that debt, but Josh, you go ahead. I'll come in after you.

Josh Rosen — Chief Strategy Officer, Grown Rogue International Inc.

Yeah, I was just going to give the context around the performance in Jersey itself. It is going to be a little bit lumpy because of how the structure works there in terms of when we take payment, et cetera, and when those receivables get paid down. The performance there, the other piece that will make it lumpy is we do have an expansion project to fund. And so, I think the dynamic of continuing to invest in New Jersey is still in play, but on a standalone basis, and I think you can see that in the EBITDA performance, the adjusted EBITDA performance this last quarter, like we've seen the ramp. We have a business that, on a standalone basis, is producing cash flow now and it's just a matter of the allocations around that. So there's been no need to provide incremental funds to that business, for instance. It's the opposite at this point. It's just a little but lumpy and not perfectly predictable.

Obie Strickler — Chief Executive Officer, Grown Rogue International Inc.

It's an important thing to kind of reiterate around the way we structured the investment in ABCO, right? We made a $2 million equity contribution, it was in the form of the option that's going to ultimately allow us to get to our 70%, and then the rest of it was in this form of debt, which we consider a very preferred kind of structure for how we want to enter new markets and obliviously puts us in a very strong position to capture all the early kind of surplus profits that are going to come out of these markets. So it's something we, you know, our plan is to kind of replicate as we go forward. But we think it's a very advantageous structure regardless of some of the kind of challenges around how you report it, you know, it's not consolidated, the lumpiness of how we manage the cash and what's available for kind of pull to pay down some of those fees, but we love the structure and think it's a framework for how we want to go forward.

Adam August — Analyst, Company

And if I could ask one additional question on just the cost-per-pound metrics, which look fantastic, and that appears to me to be predominately driven by a pretty substantial improvement in yields, but I think I'm seeing that there was probably some cost reduction as well, and so for the latter specifically, I'm kind of curious which part of the operation you would say most contributed to that.

Obie Strickler — Chief Executive Officer, Grown Rogue International Inc.

Yeah, I think we've done a couple things. We have tightened up labor. It's interesting, our GM in Oregon, I mean you know Rector well, you know, fantastic, and we made some wage increases recently and I was like, ah, you know, we're under this price pressure, like why are we raising wages? And then it was just so impressive, he had me look at overall cost, overall number of people, and all that was trending very positively in the right direction. So I think labor is a big part of this just as, you know, we're prioritizing talent and paying people a little bit more but having less people do the same amount of work, and so I think that's been a net benefit.

In Michigan, we've seen some reduction in utility costs, which has been helpful. That was one of the big drivers that I think we've seen a little bit of improvement. And then as we've gotten bigger, and this goes to the scale of the organization, then we've been able to negotiate better kind of material and supply input costs. So we formed a role last year, we call it our national procurement director, that is working with our vendors to kind of drive supply distribution in all three markets, soon to be four then five, which helps lower costs and just makes everything a little bit more efficient. But the big driver is in yield. That denominator is a really important component to how the overall cost of production kind of manifests itself.

Adam August — Analyst, Company

All right. Thank you.

Operator

Thank you. Once again, should you have a question, please press star followed by the one on your telephone keypad.

There are no further questions at this time. I will now hand the call back to Mr. Obie Strickler for any closing remarks.

Obie Strickler — Chief Executive Officer, Grown Rogue International Inc.

All right. Well, number two in the books. We expect to continue to complete these on a very regular basis. Thanks to everyone who took the time out of their day to join us, thanks for the questions, and if you guys have anything, if there's more thoughts that come up as you review the press release and financial statements or any kind of the commentary on this call, don't hesitate to reach out. Always happy to talk about our business and the drivers that are going to continue to create the success that we are looking to achieve. Thanks, everyone. Really appreciate it. Have a great rest of your night.

Operator

Thank you. This concludes today's call. Thank you for participating. You may all disconnect.