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TILT Holdings, Inc. (TILT.CA)

Q1 2019 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good day, ladies and gentlemen. Thank you for standing by. Welcome to today's conference call to discuss TILT Holdings First Quarter Fiscal 2019 Financial Results. At this time, all participants are in listen-only mode. Following the formal remarks, we'll 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 Joe Milton, TILT's Senior Vice President of Business Development. As a reminder, today's conference is being recorded.

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

Joel Milton
Senior Vice President, Business and Corporate Development, TILT Holdings, Inc.

Thank you. Good morning, everyone, and welcome to TILT Holdings conference call to discuss the results for first quarter of fiscal 2019. On the call today with me with prepared remarks are Mark Scatterday, Interim CEO, and Dave Caloia, CFO. Please note that a press release announcing the first quarter results was issued last evening, May 30, and a copy of this press release can be found on the Investor Relations section of TILT's website. Please note that the prepared remarks, which will follow, contain forward-looking statements, and management may make additional forward-looking statements in response to your questions. These statements do not guarantee future performance, and therefore, undue reliance should not be placed upon them. We refer you to all the risk factors contained in the first quarter press release and in filings with the Canadian Securities Administrators for more detailed discussions of the factors that could cause results to differ materially from these 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 as may be required under applicable securities laws.

I will now turn over the call to Mark Scatterday to get started. Mark?

Mark A. Scatterday

Interim Chief Executive Officer, TILT Holdings, Inc.

Thank you, Joel. Welcome, everyone, to TILT Holdings first quarter 2019 earnings webcast. And thank you again for your interest in TILT. As Joel said, I'm Mark Scatterday, and I recently accepted the position of interim CEO of TILT to lead in its next operational phase of growth. As it will be my typical practice on these calls, I'll start with a few key messages which I'll headline in a moment then I'll get into a little more detail on each of those messages.

Dave Caloia, TILT's Chief Financial Officer will then go through our first quarter results as well. Finally, we'll make some time for questions all from the equity analyst community and then from our shareholders and prospective investors. The first key point here is that TILT leadership team is laser focused on disciplined operational excellence as a driver of our next phase of growth. Before being named Interim CEO, I was the founder and CEO of Jupiter Research which I scaled into the leading cannabis vaporization company over the past four years through its acquisition by TILT in January of 2019. Dave Caloia, TILT's CFO, previously spent 16 years at GE in finance and operations including as CFO of GE Industrial Solutions, a \$3 billion revenue business with 15,000 employees globally.

The second point today is that during the first quarter TILT end-to-end U.S. focused cannabis businesses continued to scale as we integrate our seven acquired businesses together in a TILT's three business units; Cultivation Production, Consumer Devices & Packaged Goods, and Software & Services. We are firing on all cylinders and are capturing synergies across cannabis value chain.

My third message on today's earnings call is that I'm directing my leadership team to deploy an execution plan we've used at Jupiter Research and other successful businesses to maintain rapid growth, generate profit, and thoughtfully integrate acquisitions. The fourth message here is that revenue in the first quarter 2019 was approximately 3x compared to revenue on the same basis in first quarter 2018. As we scale their businesses, EBITDA margin in the first quarter excluding certain one-time non-operating expenses improved 330 basis points year-over-year as compared to EBITDA margin on the same basis in first quarter 2018.

Finally, for fiscal 2019, we are excited about our revenue trajectory and anticipate significant opportunities to gain operating leverage and EBITDA margin improvements across our business units.

Earlier this month in my first shareholder letter, I shared both my excitement about the path ahead as well as my intention to apply TILT operational playbook, I used to build and scale Jupiter Research. For TILT, the second half of 2018 was centered on mergers and acquisitions and becoming a public company.

In 2019, we are now building on our advantages as a top-five U.S. focused cannabis company by revenue and business-to-business leader, integrating our foundational acquisitions together and allocating capital to our most successful growth initiatives.

To set ourselves up for 2019, we've had to bring in operators throughout TILT, including its leadership team. Let me take this opportunity to share with our investors more about myself and CFO, Dave Caloia.

As background for our investors, I joined TILT in January of this year as a shareholder and board member when TILT acquired my [ph] firm (00:05:36) Jupiter Research, which founded in 2015.

In a little over two years, we took Jupiter from a startup to a \$150 million run rate business with only \$600,000 in total invested capital. It's exactly that creativity over capital mentality that has gotten my career as a lifelong

entrepreneur. I've honed my operational skills over decades of managing at exponential growth, overseas manufacturing, product development, industrial design, consumer marketing, and brand positioning.

Dave Caloia, TILT's Chief Financial Officer, who's sitting with me here today in Cambridge, Massachusetts, will walk us through our first quarter results. Dave came to TILT in January after serving on the leadership team at Beacon Health Options, a multibillion-dollar healthcare company owned by Bain Capital.

Before that, Dave was a longtime GE Finance leader having spent 16 years at GE in finance and operations including as CFO of GE Industrial Solutions. Dave, like many of our other executives can combine his entrepreneurial acumen with the institutional background and first-class analytical management.

As TILT facilitates U.S. cannabis companies and scales along with the industry, we want to make sure our leadership team continues to remain focused on operational excellence.

Let me now turn to TILT as a company. Given the rate of change in the cannabis industry until its rapid rise to scale within it, I think it's worthwhile to stay clearly where we stand today. TILT is a combination of seven businesses, and on a revenue basis is one of the largest U.S. focused cannabis companies today. Our 500-plus employees are operating in 22 states, and we have sales in 40 states as well as Canada and the EU.

Like a standard MSO, we are B2B-focused having merged leading businesses that focus on hardware, software and distribution, as well as cultivation in the production of cannabis. The vision for TILT is bringing together these category-leading companies we have acquired to provide the ultimate suite of business-to-business solutions for the industry

From contract manufacturing and white labeling products, vaporization hardware, retail software solutions, all the way to the last mile delivery. TILT enables its customers to compete at the forefront of a high growth industry by delivering value across the entire supply chain.

We group these activities in the three main business units, which are Cultivation Production, Consumer Device & Packaged Goods, and Software & services. Our Cultivation Production business unit includes Standard Farms, a leading cultivator producer in Pennsylvania; Sea Hunter, encompassing our Massachusetts cultivation production retail assets; Santé Veritas, our foothold in the Canadian market. And Briteside, our modular cultivation infrastructure division.

Today we have medical restore in Taunton, Massachusetts. We are eagerly anticipating the opening of our locations in Brockton and Cambridge. We expect all three to convert to recreational soon. These facilities provide TILT with an opportunistic test kitchen for our products and services. You can generate significant revenue with robust free cash flow when they reach scale. These stores along with our network of wholesale buyers are supplied by product grown in our 45,000 square foot facility in Taunton and we're nearing completion on our second phase of construction, which will increase that facility to over 100,000 square feet.

In Pennsylvania, Standard Farm product can be found in 95% of the dispensaries in the state. Their cultivation facility currently has over 25,000 square foot of canopy, which will soon be over 30 – 30,000 square feet of canopy with the completion of the next phase of construction. One of TILT's key differentiator is the reach of our network. Our Software & Services business unit is a combination of the Baker and Blackbird acquisitions, and offers an integrated software and distribution model that currently services over 1,500 brands in retailers across the country.

Baker, our CRM platform, can be found in over 1,100 dispensaries across the country, helping dispensaries grow their business and build relationships with their customers. Our clients leverage our platform to understand who their customers are, what products they buy and communicate with them. Our clients currently sending out tens of millions of messages each month to drive sales.

Our distribution inventory management business reaches more than 800 dispensaries and works with hundreds of brands across Nevada and California. At the wholesale level, Blackbird transports over \$20 million worth of product per month to dispensaries. Blackbird also provides a robust inventory management system, as well as door-to-door on-demand delivery service in California and Nevada, with other states coming online soon.

Now fully integrated these tools help brands and retailers understand their customer-purchasing patterns, manage their current inventory levels and even physically handle the B2B wholesale distribution of products as well as final mile delivery to the customer. No other business provides that suite of services at this scale.

And lastly, our Consumer Devices & Packaged Goods business houses our industry-leading Jupiter Research. Jupiter, which again I co-founded, developed to manufacture state-of-the-art vaporization hardware, capitalizing on five years of experience in inhalation-vaporization technology. Jupiter positioned itself to be our customers' technology partner. Jupiter manages quality control through the entire supply chain from sub-tier suppliers to final assembly, providing among the most advanced technology and reliable products in the industry.

Today, Jupiter serves over 800 customers and ended last year on \$150 million revenue run rate less than three years after inception. Jupiter intends to maintain its place as the category leader through fundamental research with her own in-house scientists and the engineers working closely with our R&D manufacturing partners overseas. Now part of TILT, Jupiter is leveraging the Blackbird distribution network to get products to its customers faster and more cost effectively, as well as generating new hardware sales leads from existing Blackbird [Technical Difficulty] (00:12:26).

As the U.S. cannabis landscape is so diverse, one of TILT's core thesis is evaluating each market on a case-by-case basis. This means only cultivating cannabis in markets where we need to. To-date, we have cultivation facilities in Massachusetts and Pennsylvania as we believe these limited license markets will continue to have high ROIs. As we look to expand across the rest of the country, many markets on our list will not include cultivation. Instead, we'll look to leverage our software, distribution and hardware solutions along with a production license in each new market to focus on manufacturing products from a wholesale supply that is widely available and cost effective.

In 2019, thus far, TILT is already seeing the advantages in synergies of bringing these businesses together. Moving forward, we believe TILT will function as a robust and nimble operating platform to pursue and resort the right incremental and adjacent opportunities to scale into new states and lines of businesses while growing toward a strong EBITDA and free cash flow profile.

Stepping into this Interim CEO role, I intend to run a tight operation based on my experience scaling Jupiter Research to the success it is today. The rest of our leadership team are experts in various facets of the cannabis industry and include experienced entrepreneurs as well as seasoned executives from Fortune 500 companies.

As we've been discussing today, TILT is a substantial business. We are among the top five revenue-producing U.S. cannabis companies in this dynamic industry. In my first 100 days, I have five key priorities I would like to touch on briefly.

Number one, ensuring effective integration of TILT's businesses. TILT has exceptional assets and my team and I are spending our time making sure that we get the right mix of shared services versus what should be managed at the business unit level. While we touch every point on the supply chain, we want to make sure that our businesses can take advantage of centralized resources, but stay nimble and continue to provide best-in-class service to each business unit's customers while maximizing revenue opportunities.

Number two, focus on TILT's operational structure, internal communication and KPIs. In merging together and now operating TILT's various businesses, our operational need is to remain focused on our four primary constituencies: customers, partners, employees and shareholders. To do that successfully, my leadership team and I are putting in place daily, weekly and monthly communication around shared metrics and KPIs.

We also want to continuously evaluate and empower the right people in order to act on the timely insights coming out of our operational processes. High-growth businesses are about tight management, consistency and follow-up. Right now, each of my direct reports has weekly update and review meetings with their staffs and we have a weekly management call among the leadership team to both update and problem solve. We also are embracing regular in-person deep dive ops reviews to get everyone into the same room and into the [ph] weeds (00:15:56) together.

Dave, as CFO, has been driving the company to much greater efficiency, cost discipline and capital allocation around growth in line with General Electric's rigorous financial management approach. The finance team has moved us to regular monthly closings implementing a zero-based budgeting approach and on the procurement side is performing monthly vendor-level reviews to ensure we are getting the best returns and best partners.

Number three, proper allocation of capital is paramount. Right now, we are evaluating every dollar spent to ensure there's an appropriate ROI associated. As an operator, I've been focused throughout my career in assessing opportunities in a rigorous manner and directing capital [Technical Difficulty] (00:16:43) with a careful assessment of risk and reward.

TILT has the balance sheet and capital relationships to drive a robust growth plans. Now, as we integrate our businesses together, we are embracing a growth roadmap that lets us scale our winning strategies rapidly while keeping a thoughtful cost discipline at every level of the organization. TILT needs to be very disciplined about how we direct capital growth levers in new M&A, not just from a capital perspective but from organizational management bandwidth lens as well. We have set to a number of M&A deals in the past few months as we focus on integrating our recently completed acquisitions, and we'll continue to be disciplined on M&A opportunities at an unsupportable price or entail prohibitive terms.

Number four, improve communication with our stakeholders. As I've shared previously, I'm certainly aware that TILT story, strategic advantages and ongoing progress needs to be shared in a simpler and more compelling way with our shareholders, prospective investors and the public. I will be working closely with my team to deliver better and more productive communication between TILT and our stakeholders.

To our analysts and shareholders on the call today, let me assure you directly that we have heard the investment community loud and clear. With there are still many growth levers in the TILT story, we are committed to continually improving our dialogue with our shareholders and prospective investors.

Number five, completing the recruitment the evaluation process for a permanent CEO. To position ourselves for 2019 and beyond, we are actively strengthening both the governance structure and leadership of our company by

bringing in more executives with direct operational experience. One key initiative in this regard is the CEO search process.

I stepped forward to be Interim CEO to bring in necessary operational discipline at TILT. I also recognize and accept that for the sake of TILT as a growth business, a cannabis innovator and importantly a public company, is crucial at this growth juncture for TILT that we should be rigorous about identifying and bringing on board the right talent in the chief executive role.

The board is working closely with an executive search specialist for this process and the board is currently assessing candidates. As part of the search, I am one of those candidates being actively considered by the board. We expect this process to be completed by fourth quarter of 2019.

I'm excited about what is ahead for our company. As complex and dynamic as the cannabis industry is, what is also clear is that this is once in a generation opportunity to build a leading position in an \$80 billion market. TILT as a B2B provider is delivering an unmatched suite of services and products to the cannabis industry. Today, TILT is one of the top five U.S.-based cannabis companies by revenue in the market.

I want to make sure all of our stakeholders and prospective investors understand that and keep TILT top of mind as it should be. Now that I've shared with you my operational perspectives, let me turn it over to Dave for our fiscal year 2019 first quarter results. Dave?

David Caloia

Chief Financial Officer, TILT Holdings, Inc.

Thanks, Mark. Let me walk through our results for the first quarter 2019.

Reported revenue in the first quarter was \$34 million. There was no revenue in the comparable period in 2018. Pro forma first quarter 2019 revenue was \$40 million, up nearly 3 times from revenue on the same basis in the first quarter 2018, representing growth of 169%.

Before going further, I'd want to remind everyone, the reported revenue in first quarter 2019 only includes approximately 2 months of revenue contribution for Standard Farms, Blackbird and Jupiter Research. These acquisitions were completed after the beginning of 2019. Given the number of M&A transactions we have completed over the last year, and therefore the partial quarters and partial years of revenue contribution in our financial statements are making year-over-year comparisons more complex. We think it is important to provide pro forma revenue and adjusted EBITDA that we expect to be helpful in the supplemental analysis of the performance of our business.

Please see our reconciliation of non-IFRS measures in our detailed financial presentation on the investor portion of TILT's website. Pro forma gross profit in 2019 was \$8 million compared to \$4 million on the same basis in 2018. First quarter pro forma EBITDA adjusted for certain onetime non-operating expenses, including stock compensation expense, goodwill impairment, inventory impairment, foreign exchange and integration was negative \$7 million compared to negative \$3 million in the prior period.

While TILT's pro forma adjusted EBITDA loss in an absolute dollar terms increased in the first quarter 2019 every year, pro forma adjusted EBITDA margin was, in fact, up 330 basis points year-over-year to a negative 18.4%. This improvement of profitability reflects our operational investments considered business over the last year, which both supported significant increase in scale and operating leverage. Now let me turn to the highlights of our three business units.

In our Software & Services business unit, which Mark touched on earlier, we're seeing continued growth on our SaaS and distribution solutions. We continue to expand the number of dispensaries that we enable via our CRM software and expand our delivery and supply chain services.

In the first quarter of 2019, we expanded our reach into the Greater Los Angeles area, a geography with an addressable population of more than 18 million people and thousands of businesses. In Consumer and Packaged Goods, Jupiter was up 3 times year-over-year in the first quarter of 2019, driven by research and development, attention to the supply chain and vaporization solutions are regularly rated among the highest quality in the industry.

Jupiter continues to focus on scaling in international markets and in the first quarter, we accelerated our expansion to Europe, specifically in the UK and Israel.

Lastly, in our cultivation and production. In Massachusetts, our dispensary in Taunton is open for medical use. Construction is completed for two other dispensaries and awaiting CCC approval.

TILT remains focused on licensing for adult-use in 2019. In Pennsylvania, TILT closed the Standard Farms acquisition in January, and now we're in the process of completing site expansion to double cultivation and processing capacity. We also continue to make continued investments into genetics capabilities in order to derive biological asset, productivity and meet customer demands.

TILT ended the first quarter of 2019 with cash and cash equivalents of \$12 million. There is no debt as of March 31, 2019. Subsequent to the end of the quarter, TILT secured \$20 million credit facility to be utilized to fund existing and future growth projects, disciplined future M&A activity, and general corporate purposes.

Let me add my commentary today by sharing with you that we see revenue momentum in 2019 across our businesses. As Mark discussed at length, TILT was putting into place an institutional caliber operational playbook that allows us to place timely capital behind our wins, be disciplined in our process and expenditures. To that end, we expect that in the fiscal 2019, our operational focus will allow us to pursue a range of EBITDA margin initiatives that expand our operating leverage across our businesses.

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

Mark A. Scatterday

Interim Chief Executive Officer, TILT Holdings, Inc.

Thank you, Dave. Before turning to questions, let me just recap. TILT's four-way merger and subsequent acquisitions has created a compelling value proposition for customers, investors, partners and employees. TILT's businesses today, in combination, are one of the largest U.S.-focused cannabis companies by revenue in the market with category-leading business units that's – and device packaging goods, software and services, and cultivation.

TILT is uniquely positioned in the U.S. market to provide products and service to brands and retailers across the country and internationally. We are committed to keeping all of our stakeholders informed as we scale, realize operational synergies, and maintain our position as a B2B leader in the U.S. cannabis industry.

We'll be happy to now answer your questions about TILT and our first quarter 2019 results. First, the operator will open the line for any equity analyst questions before we turn to the questions that we have received from

shareholders, as well as retail and institutional investors, including via our open webcast question submission system.

Operator, are there any questions from our equity analysts?

QUESTION AND ANSWER SECTION

Operator: Yes. We have a question from the line of Bobby Burleson with Canaccord.

Bobby Burleson
Analyst, Canaccord Genuity LLC

Q

Yeah. Good morning.

A

Good morning, Bobby.

Bobby Burleson
Analyst, Canaccord Genuity LLC

Q

So, just curious now that we're pretty much done with May, just any color on how Q2 is looking? I understand it's more of a second half weighted year in terms of revenue and in some of the leverage you're talking about, but any color on progress so far in Q2 highlights that you might want to call out?

David Caloia
Chief Financial Officer, TILT Holdings, Inc.

A

Sure, Bobby. I'll take this one. We feel really good about revenue growth as we go through the year, especially as Jupiter continues to scale and our software and sales business continues to extend our distribution and customer relationship reach as we highlight in California. The big thing for us is going to be mass recreational market share that we expect to come online in Q3 of this year as anticipated.

So, if you look at the \$40 million of pro forma for Q1 compared to pro forma Q1 a year ago, that's approximately 3 times the revenue or 169% up year-over-year. So for full year 2018, the pro forma will be at \$98 million. We think we grow in full year 2019 over 2018, the same we did in Q1 over Q3, that's really the question. So – and we feel really good about the progress we made in Q1 as a business. I think we'll continue to see expansion in Q2, and it's really going to come down to the timing of Massachusetts recreational license in the back half of the year. That's going to provide the growth that we're anticipating for the year. And we're optimistic in doing everything on our end to support that and hopefully we have timing and the licenses line up as we anticipate.

Bobby Burleson
Analyst, Canaccord Genuity LLC

Q

Okay. And in the quarter just versus your kind of internal plans, any highlights in terms of how this quarter is tracking? I understand the part where business is still a big component of the revenue. So, is that business healthy in Q2?

Mark A. Scatterday

Interim Chief Executive Officer, TILT Holdings, Inc.

A

Yeah. I think so. I think we – the Jupiter growth story is incredibly impressive from about \$20 million to \$77 million to – they were predicting a sizable number this year. And the business has had incremental growth month over month in the year. So, we continue to see that growth continue as the months go by, and we were hoping to have a positive Q2 outcome from that as well.

Bobby Burleson

Analyst, Canaccord Genuity LLC

Q

Okay. And then just looking at the rec opportunity in Massachusetts, curious, any update on what's happening with affiliates there in terms of your plans of helping third parties monetize their licenses and growth and your kind of 3 rec stores that you're going to own internally?

David Caloia

Chief Financial Officer, TILT Holdings, Inc.

A

Sure. Massachusetts, obviously, a very interesting market that we're all focused on. Clearly, it's behind than where most people thought it would be until the moment with nearly every other business to this Mass operations, has shifted our revenue expectations accordingly. We're eagerly awaiting our adult-use license here for Taunton, Brockton, and Cambridge retail locations, as well as our cultivation and wholesale businesses out of our Taunton facility. We have high expectations for revenue and EBITDA that will come out of Mass once these facilities are licensed and fully operational.

So, overall, we're looking to get our three stores open in Massachusetts from a recreational basis that being Taunton, Brockton, and Cambridge. And then we are diligently working on outlets for wholesale as we have cultivation operations in Taunton expanding the genetic team focused on yields, any access inventory that comes out of there. We are looking to establish an infrastructure with partners in Massachusetts to be able to sell an inventory and obviously help our top line to grow.

Mark A. Scatterday

Interim Chief Executive Officer, TILT Holdings, Inc.

A

And I'd like to add, we're carefully evaluating our supply contracts just to ensure compliance with the CCC.

Bobby Burleson

Analyst, Canaccord Genuity LLC

Q

Okay. Great. And just in terms of your cash on hand, you took out – you've got that \$20 million credit facility. How much should be drawn on that at this point? What are your cash needs as we look to the second half? I know that you're doing a ramp...

David Caloia

Chief Financial Officer, TILT Holdings, Inc.

A

We had...

Bobby Burleson

Analyst, Canaccord Genuity LLC

Q

...expanding production and other CapEx-intensive activities?

David Caloia

Chief Financial Officer, TILT Holdings, Inc.

A

Yes. Sure. So we finished Q1 with about \$12 million of cash at the end of March. And the difference coming off of the end of the year was mainly M&A driven. We obviously had a high number of M&A that was completed in Q1, mainly Jupiter, Blackbird, and Standard Farms. And the other main item is given the Massachusetts market we've also had CapEx expenditures mainly due to our dispensary build-outs as well as our cultivation facility. So I would note that that level of activity for M&A in Q1 was really specific to just getting kind of assets that we're looking for. We don't expect that to continue going forward. We're going to have a very, very disciplined conscious M&A focus going forward.

And that's not reflective or kind of our monthly or quarterly burn that we'd expect. And one of the things that myself and Mark have been doing is putting a really, really big focus on where our expenditures are going. As Mark mentioned before, we've done a zero-based budget. We're doing vendor reviews and really evaluating every dollar that goes out the door.

So I expect our burn rate to continue to decrease over time and the other dynamic going on is we had to do a significant level of CapEx [indiscernible] (00:31:43) Massachusetts. We think that's going to be winding down over the next few months which will also help the burn.

We have a tremendous set of assets. We're certainly excited about them. And we're obviously continuing to look at capital raise options and obviously a lot of interest from folks in terms of supporting us in that effort and our hope is to announce something in the near future. But we're making a lot of progress on that front.

Bobby Burleson

Analyst, Canaccord Genuity LLC

Q

Okay, great. Well, you kind of answered my next question there. So, I'm going to go ahead and jump back to the queue and I appreciate you answering my questions.

David Caloia

Chief Financial Officer, TILT Holdings, Inc.

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Of course. Thank you.

Operator: Thank you. We will now turn to online questions.

Joel Milton

Senior Vice President, Business and Corporate Development, TILT Holdings, Inc.

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Yeah. We're getting a lot of – a lot of interest online. So thank you for that. Actually, Bobby definitely touched on some of the most popular question specifically pertaining to the cash [ph] exchange (00:32:34). But I guess one question too is, Mark, why are you not taking on the role of a permanent CEO?

Mark A. Scatterday

Interim Chief Executive Officer, TILT Holdings, Inc.

A

Well. Okay, let me reiterate. I'm fully committed that TILT – as shareholder, board member and operator. To that end, I believe strongly that the board should in fact truly be rigorous in evaluating permanent CEO candidate. As a shareholder, that makes sense to me and I'm going to be part of the process.

Joel Milton

Senior Vice President, Business and Corporate Development, TILT Holdings, Inc.

And then, can you guys give more detail on the non-cash stock option expense in the first quarter?

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David Caloia

Chief Financial Officer, TILT Holdings, Inc.

Sure. I'll take that one Joel. When TILT was formed, there were four merger and went public. There were incremental options awarded to founders within each of the various businesses as well as additional options issued to new executives who brought on board. It's important to note that nearly all of these [ph] out of money options are priced at CAD 5.25 (00:33:30), so while the line item flows through our financial statements given the Black-Scholes calculation of option value, these options don't have much meaning today in the short term. These holders are thinking like the rest of us and everyone on this call about the operational and strategic steps to get above [ph] CAD 5.25 (00:33:51) and beyond.

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What I can't say, however, is that this incremental grant was not structured optimally from a vesting cadence perspective. And we're going to revisit these grant agreements in the spirit of partnership with these particular holders in the near term as we think this noncash expense around these options is creating unnecessary complexity when everyone from a practical economic perspective is focused on the same long-term value creation for TILT.

Joel Milton

Senior Vice President, Business and Corporate Development, TILT Holdings, Inc.

Great. You guys are at negative EBITDA margin today. How does that change over time and sort of what does the forecast look like for the rest of 2019?

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David Caloia

Chief Financial Officer, TILT Holdings, Inc.

Sure. I'll take this one as well. Well, first and foremost, you can see how our EBITDA margin improved in Q1 by 331 basis points, which reflects our investments starting to generate both top line and operating leverage, and we expect this to continue as we go through the year.

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Going forward, we expect there to be many opportunities to keep driving margin and operating leverage, both on the cost side as well as growth in the businesses. And that will [ph] cross (00:34:55) in a positive EBITDA territory within this year. Is that a single-digit EBITDA or low-teens EBITDA margin in 2019? Well, I'd say that all depends on the Massachusetts timing and our ability to create the infrastructure within the state within 2019.

Joel Milton

Senior Vice President, Business and Corporate Development, TILT Holdings, Inc.

You're getting this one a lot. It is sort of answered when Dave gave the answer to the cash balance, but talk just a little bit more about confidence in sort of additional capital raising and sort of where we are with that process?

A

David Caloia

Chief Financial Officer, TILT Holdings, Inc.

Sure. So, we've obviously had a significant capital raise activities in the past in terms of the RTO as well as private fundraising before that. And our team is out there every day talking to potential investors. Everybody is very excited about our asset base. We have a very valuable asset base. And we sit down and talk with investors

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about what's going on the business, what Jupiter looks like the growth story, the reach that we have in Software & Services, there's a tremendous level of excitement.

So we spend a lot of time with investors telling them the story, where we see the future, and we've got a lot of really strong interest in terms of continuing to partner with us from a capital raise standpoint and our expectation is that we will be able to wrap up something shortly and subsequently announce but the TILT story is very strong – it's a top five U.S. operator, and we see tremendous growth in the future with a great set of assets. We think funding and capital raising going forward, we're in a very, very strong position.

Joel Milton

Senior Vice President, Business and Corporate Development, TILT Holdings, Inc.

A

Great. And then in terms of getting a little bit more detail around the different segments of revenue, when can we expect that?

David Caloia

Chief Financial Officer, TILT Holdings, Inc.

A

Sure. We are – the company went public about five or six months ago. So we're in the process of refining our operating models for each of the business units, and we have certainly identified several sets of KPIs that matter to each of the businesses. As you build the systems and pursue synergies inherent and bringing together seven different businesses, we will plan on sharing more over the subsequent quarters. And I think that's a fair request.

Right now, we're focused with Mark on providing more transparent communication as well as continuing the growth within TILT. And from my experience, I would tell you having the right KPIs, operating rhythms, and metrics in the business is key to running a business. So, the fact that we've got out a zero-based budget this year of a monthly operating rhythm and with the cadences within our functions and overall business is a very positive sign. And as we get further along our integration over the next few months, we fully expect to have fleshed out KPIs in more subsequent granular detail on business units in which to talk about our business and kind of a growth trajectory.

Joel Milton

Senior Vice President, Business and Corporate Development, TILT Holdings, Inc.

A

And then a couple of questions about are you planning on any lock ups for any insiders or is there anything that we can expect for insiders or management in terms of their shareholding?

Mark A. Scatterday

Interim Chief Executive Officer, TILT Holdings, Inc.

A

You know what, we're going to be announcing that soon. So, please stand by.

Joel Milton

Senior Vice President, Business and Corporate Development, TILT Holdings, Inc.

A

All right. Sweet. Again, a couple more questions that I think were sort of answered but maybe just a quick reiteration on people asking about our monthly burn and sort of what that looked like in Q1 versus what to expect going forward.

David Caloia

Chief Financial Officer, TILT Holdings, Inc.

A

Yeah. So, I'd say a few things. There – I talked briefly about CapEx spend and a large majority of our CapEx spend over the first half of this year has really been focused on Massachusetts build-out, whether it'd be the three dispensaries that I mentioned Taunton, Brockton, and Cambridge as well as the Taunton cultivation facility. So, as I mentioned, I think we are very far along in that process and I'd expect that CapEx burn associated with those particular locations to decrease significantly as we talk about 2Q and especially as we get into 3Q. So, on the CapEx side, I feel very strongly about that.

From an OpEx standpoint, we have had a number of integration activities with four businesses merging together as well as three acquisitions and we've instituted the subsequent cost discipline looking at every vendor having zero-based budget and continuing to scrub to make sure we have a very disciplined cost approach as we go forward and that's going to be key for TILT getting to profitability and providing the right level of margins and returns that often our shareholders expect.

Joel Milton

Senior Vice President, Business and Corporate Development, TILT Holdings, Inc.

A

Given that Jupiter's such a driver of revenue right now, can we talk a little bit about the differentiation between them and maybe some of their competitors or any assurance that their businesses can continue to grow up?

Mark A. Scatterday

Interim Chief Executive Officer, TILT Holdings, Inc.

A

Sure. Listen, Jupiter is – we're acquiring customers every day, our larger customers are extremely important, but becoming – since we're scaling it exponentially, our larger customers are becoming less and less percentage overall growth, overall revenue. It's great we're developing a lot of new products that we already introduced, that will be introduced at a higher margin than existing products. And, just got an exciting future ahead from a new product standpoint as well as new customer acquisitions and as well as the startup of really the legalization in Canada.

Joel Milton

Senior Vice President, Business and Corporate Development, TILT Holdings, Inc.

A

Okay. And then, a couple more on that, one-time or the non-cash stock option expenses. Well, just some clarification on it, with those – is that a new expense or what's the origin of those and what do we expect there?

David Caloia

Chief Financial Officer, TILT Holdings, Inc.

A

So, these are all previous [indiscernible] (00:40:53) that I believe we're done in 2018. So, it's a nothing new here. And as I mentioned before, we need to take a fresh look at the cadence and kind of the frequency of the vesting period here, and we [ph] include (00:41:06) to do that very short really. I highlight again that the strike price on this options is CAD 5.25. So, everybody has a vesting interest in continuing to drive profitability and growth in the business so that those are achieved. But, we have to take a look and see what was done in the past and fix the right cadence going forward and make the adjustments as necessary.

Joel Milton

Senior Vice President, Business and Corporate Development, TILT Holdings, Inc.

A

And again, can we explain just the difference why we're talking about pro forma revenue and when we expected to talk more about actual revenue as opposed to pro forma and what exactly is the difference between the \$34 million and the \$40 million?

David Caloia

Chief Financial Officer, TILT Holdings, Inc.

A

Sure. So, we reported \$34 million, and \$34 million is the reported number which reflects when our acquisitions closed and we had a heavy M&A quarter with the Jupiter closing, Standard Farms closing as well as Blackbird. So, we got a portion of January revenue for each of those acquisitions. As we assess the business and really what the year looks like, we're going to look at pro forma, which means if we had all these businesses bought on January 1 what would the quarter look like. So, that [ph] pumps us (00:42:15) up to about \$40 million. And I think that's a really good indicator of the growth in the size of our business going forward. So, as we get to Q2 results, given no acquisitions in the Q2 – and we're not expecting that just in the Q2 timeframe, the whole pro forma piece of it I think will phase out at this point where we talking about a very clear reported results as an indicator of our true revenue number.

Joel Milton

Senior Vice President, Business and Corporate Development, TILT Holdings, Inc.

A

And then, obviously lots of M&A to-date, people are asking about plans for organic growth versus continued M&A. Mark, you spoke about it briefly but maybe just further elaborate on our plans for organic growth this year?

Mark A. Scatterday

Interim Chief Executive Officer, TILT Holdings, Inc.

A

Yeah. So, listen, every acquisition that's basically queued up we're analyzing very carefully and assessing. What's really important to me as CEO at this time that we really manage our growth and make sure we have the human capital and really the foundation of TILT that's built very strong so we can roll future acquisitions in seamlessly.

David Caloia

Chief Financial Officer, TILT Holdings, Inc.

A

The thing I'd add to is we've obviously done significant investment in Massachusetts, so we have one medical store open in Taunton. As we get further licenses for the other stores in Massachusetts that is going to be a clear path for revenue growth. I'd also highlight Pennsylvania. In Pennsylvania, we're in the final stages of expansion of our facility, which will allow us a large number of increased production coming out of there, which is going to really help the landscape from our Standard Farms business going forward as well.

Joel Milton

Senior Vice President, Business and Corporate Development, TILT Holdings, Inc.

A

And then, a lot of questions around the outlook for 2019. Obviously, giving guidance is challenging. But maybe talk a little bit more about Q1 period-over-period and thoughts on the year?

David Caloia

Chief Financial Officer, TILT Holdings, Inc.

A

Sure. So, we had \$40 million of pro forma revenue in Q1 compared to pro forma Q1 a year ago, that's up approximately three times, as I mentioned, 169% year-over-year growth. Full year 2018 pro forma revenue was \$98 million. And we think we grow in full year 2019 over 2018 the same way we did in Q1 2019 over Q1 2018. That seems like a plausible zip code of growth. And we're working to continue to focus on the right discipline and operating metrics to achieve those results and keep up the level of growth we've seen in Q1 for the rest of the year.

Joel Milton

Senior Vice President, Business and Corporate Development, TILT Holdings, Inc.

A

Can you talk about current debt markets available to TILT and what are your thoughts on the upcoming raise?

David Caloia

Chief Financial Officer, TILT Holdings, Inc.

A

Yeah. I think we've had a lot of active interest and discussions are daily with our capital markets team as well as myself as we go through the diligence process. So, our hope is that we can lock something in here in the short term and be able to announce. But in the meantime, we're being very conscious of our cash position. And we are working diligently to secure the next round of capital to continue the momentum and the growth of TILT.

Joel Milton

Senior Vice President, Business and Corporate Development, TILT Holdings, Inc.

A

How much capital – I think this is answered in the [indiscernible] (00:45:38). How much capital did Jupiter raise prior to joining TILT?

Mark A. Scatterday

Interim Chief Executive Officer, TILT Holdings, Inc.

A

So, Jupiter, since the inception, we had only raised \$600,000 – It started off with \$100,000 as seed capital and then another \$500,000, so a total of \$600,000. We didn't take on another penny of debt nor did we have to raise any more money. We grew organically, just through really efficiencies and creative capital – creativity over capital.

Joel Milton

Senior Vice President, Business and Corporate Development, TILT Holdings, Inc.

A

Are there any plans for – which already answered the part about, Mark said lock up coming soon, are there any other plans for management to buy stocks soon? And can we anticipate any news there?

Mark A. Scatterday

Interim Chief Executive Officer, TILT Holdings, Inc.

A

Yeah. I think it's definitely something that we've talked about quite a bit. I mean, we've obviously been focused on integration and execution, but it's something I expect we'll kind of finalize a plan for in the short term and be able to have a communication out to the market with our definitive game plan going forward on the share purchase.

Joel Milton

Senior Vice President, Business and Corporate Development, TILT Holdings, Inc.

A

And just a question on compressed shares. How many outstanding shares are there at TILT currently?

David Caloia

Chief Financial Officer, TILT Holdings, Inc.

A

Yeah. So, on compressed basis, we're looking at 358 million. So, we obviously have the compression cycle happening throughout the year, but when fully vested, we expect that to be 431 fully-diluted. Okay.

Joel Milton

Senior Vice President, Business and Corporate Development, TILT Holdings, Inc.

A

And then a couple of questions around stock price. I know exactly how you'll answer that. But maybe talk a little bit about sort of maybe why the market isn't judging TILT the same way that appears given Q1 revenues?

Mark A. Scatterday

Interim Chief Executive Officer, TILT Holdings, Inc.

A

Yeah. Good question. We get a lot. [audio gap] (00:47:39) other industry [audio gap] (00:47:41).

Joel Milton

Senior Vice President, Business and Corporate Development, TILT Holdings, Inc.

A

[audio gap] (00:47:43) question is, just where our current market cap compared to our peers? Where are we at? Why are we trading where our stock is? Can you comment on where the stock price is? And what's the [ph] business conception (00:47:57) around the TILT story?

David Caloia

Chief Financial Officer, TILT Holdings, Inc.

A

Yeah. I think – I'd give you my view. I mean, TILT is a relatively new company. We've been public for about six months. And bringing four companies together is a pretty significant task. Combining that with three acquisitions is another sort of task. So for us, we want to continue to put up strong numbers and execute. And as a function of that in parallel, we also have to continue to really tell the TILT story and where the synergies and how we're going to continue to grow in the future. And as a company, it's early in the game. I think we need to put more work around that. And we were discussing this yesterday. Our plan is to come out, I'd say in the next month or so, with more clarity in terms of what the strategic focus is and more granularity in our plans, which we haven't done as much now. And hence, we have new operations focused with the leadership changes and that's all going to be a positive story. And we hope to come out very soon with more granularity on what the strategy is going forward. And, look, our internal view is, we love the assets we have. We're very excited about them. We need to continue to show the market that we're going to continue to grow and execute and get profitable. And in parallel, we need to continue to do a better job telling the TILT story and where we're going as a company.

Joel Milton

Senior Vice President, Business and Corporate Development, TILT Holdings, Inc.

A

And then can you talk a little bit about the difference between TILT versus some of your peers kind of MSO model?

Mark A. Scatterday

Interim Chief Executive Officer, TILT Holdings, Inc.

A

Yeah. You know what? We get that a lot, multi-state operators cultivate process and ultimately retail cannabis. MSOs because they are typically fully vertical, integrating set up to 2 to 5 or 15 to 50 dispensaries per state, and then go fight out state-by-state. TILT is not their competitor for the most part. We are a facilitator for MSOs. We want and MSOs like Acreage relying on our hardware products like Jupiter, vaporizers or a wholesale cannabis plant or packaged white label goods.

TILT acts and provides solutions across the value chain, and that's why our reach is so much greater than many of our top 10 U.S. cannabis companies. We measure our reach in 40 states, including CBD products or 1,500 brands and dispensaries. Our goal is to penetrate the market via superior distribution and customer relationship management, and there will be a contract manufacturer or a white label provider of dispensaries and brands. And yes, in the case of Mass and Pennsylvania, we will do that via touching plant cultivation, also direct retail facilities.

Joel Milton

Senior Vice President, Business and Corporate Development, TILT Holdings, Inc.

A

What can you comment on potentially U.S. listing for non-plant touching assets?

David Caloia

Chief Financial Officer, TILT Holdings, Inc.

A

Yeah, I can – don't really have a lot to speak on that, but I think that opportunity to separate what is the non-plant touching out of TILT, and there's always the opportunity to uplift to a U.S. market.

Joel Milton

Senior Vice President, Business and Corporate Development, TILT Holdings, Inc.

A

And then what are your thoughts on planning for Massachusetts and how does it play in to our revenue forecast?

Mark A. Scatterday

Interim Chief Executive Officer, TILT Holdings, Inc.

A

Yeah. We continue, I would say, internally, we're focused on the things that we can control, which getting construction done for our sites have turned a very strong position, working with local municipalities and host community agreements and any requests from the state and the CCC to approve licenses. So, you know, right now, we're targeting Q3 in terms of recreational licenses and well, we're doing our best to comply and give the CCC everything we need to get those across the finish line and be as collaborative as we can within that process.

So that's our plan right now and we will hopefully stick to those time lines, and we've obviously seen a lot of work in Massachusetts and we're looking forward to executing here and showing some of the revenue growth that we anticipate.

Joel Milton

Senior Vice President, Business and Corporate Development, TILT Holdings, Inc.

A

Great. And positive, as we're winding down on time, just kick it back, I don't know, operator, any other questions from the analysts on the line as we wrap up here?

Operator: No questions at this time.

Joel Milton

Senior Vice President, Business and Corporate Development, TILT Holdings, Inc.

A

Great. And then I guess sort of last question. If cannabis becomes fairly legal, will you apply to be listed on the Nasdaq?

David Caloia

Chief Financial Officer, TILT Holdings, Inc.

A

Look, I think it's something we'd always consider. So we're open to all the options going in and if this opportunity for capital would be good, then – so I think it's something we'd always look at we will see what happens in the future. Mark, anything on your end?

Mark A. Scatterday

Interim Chief Executive Officer, TILT Holdings, Inc.

No. I think – okay. I mean, I think that was a great set of questions for today. Thanks, Dave. Thanks, Joel. Thank you to our analysts, shareholders, and investors who joined us today for TILT's Q1 earnings call. Look forward to join you on the second quarter call coming up shortly.

Joel Milton

Senior Vice President, Business and Corporate Development, TILT Holdings, Inc.

Thanks all.

David Caloia

Chief Financial Officer, TILT Holdings, Inc.

Thank you.

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

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