

# Cresco Labs Announces Profitable First Quarter 2019 Financial Results with Revenue Growth of 313% Year-over-Year and 24% Quarter-over-Quarter

5/29/2019

Conference Call with Investors and Analysts to be Held at 6:00 p.m. Eastern Time Today

CHICAGO--(BUSINESS WIRE)-- Cresco Labs Inc. (CSE: CL) (OTCQX: CRLBF) ("**Cresco**" or the "**Company**") one of the largest vertically integrated multistate cannabis operators in the United States, today released its unaudited financial results for the first quarter ended March 31, 2019. All financial information presented in this release is in U.S. dollars, unless otherwise noted.

## First Quarter 2019 Highlights and Subsequent Events

### Revenue

- First quarter revenue of \$21.1 million, up 313% year-over-year and 24% quarter-over-quarter.
- First quarter pro forma revenue<sup>1</sup> of \$33.9 million, which includes the impact of pending acquisitions in New York, Massachusetts, Florida, and in California with Origin House.

### EBITDA

- First quarter adjusted EBITDA<sup>2</sup> of \$0.8 million, compared to \$1.0 million in the prior-year period.
- First quarter 2019 financial results included \$3.2 million related to share-based incentive compensation and acquisition and other non-recurring costs of \$2.5 million.

### Net Income

- First quarter net loss of \$7.6 million, compared to net income of \$0.6 million in the prior-year period.

#### Balance Sheet

- As of fiscal year-end, total assets of \$364.0 million, including cash and cash equivalents of \$106.1 million and a working capital position of \$146.3 million with zero debt on the balance sheet.

#### Operations

- The Company is operational in seven U.S. states, with binding transactions pending in New York, Massachusetts and Florida, as well as approved expansion into Michigan.
- On April 1, 2019, the Company announced that it has entered into a definitive agreement with CannaRoyalty Corp. (d/b/a Origin House), a premier cannabis brand distributor, which at the time was the largest-ever public company acquisition in the U.S. cannabis sector.

#### Talent

- Continued hiring top talent through key appointments and acquisitions, total staff headcount to over 835 employees at the end of the first quarter of 2019.

#### Other

- Shareholders representing 205,172,192 common shares have entered into voluntary lock-up agreements representing 97% of the shares subject to the initial lock-up and 80% of the total issued subordinate voting shares (on an as-if converted basis).

### Management Commentary

“Since the beginning of the year, we have made significant progress on the vision we have laid out for building Cresco into the most important company in the cannabis industry,” said Charles Bachtell, Co-founder and CEO of Cresco Labs. “We have continued to execute well from an operational standpoint, generate higher levels of revenue in our existing markets, and deliver strong profit margins. Through our pending acquisitions of Origin House and VidaCann, we have also put a foundation in place that we believe will enable us to capture a leading share in the North American cannabis market. We believe we have built the most strategic geographic footprint of any cannabis company in the United States, and now with the acquisition of Origin House, we will have the distribution platform to enable us to take market share in the largest and most important markets in the cannabis industry. As we continue to effectively execute on our strategic plan, we expect to create significant additional value for our shareholders.”

## Financial Results for the First Quarter Ended March 31, 2019 (Unaudited)

Revenue for the first quarter of 2019 was \$21.1 million, an increase of 313% compared to revenue of \$5.1 million for the first quarter of 2018. The increase in revenue was driven by expansion into new markets and gains in market share in the states where the Company operates. First quarter 2019 revenue increased 24% compared to \$17.0 million for the fourth quarter of 2018. On a pro forma basis, revenue for the first quarter of 2019 was \$33.9 million, which includes the impact of Origin House and VidaCann.

First quarter 2019 operational gross profit<sup>2</sup>, before the impact of biological assets accounting, was \$9.4 million, or 44.6% of revenues, compared to \$2.2 million, or 43.6% of revenues, for the first quarter of 2018. The Company continued to see operational efficiencies in its established markets, slightly offset by the impact of new markets like Ohio, California and Arizona, where the Company expects margin expansion as these businesses scale.

Total expenses for the first quarter of 2019 were \$17.7 million, compared to \$2.1 million for the prior year period. Total expenses in the first quarter of 2019 included \$3.2 million in expenses related to share-based incentive compensation, \$2.5 million in acquisition and other non-recurring costs, and \$1.0 million of depreciation and amortization. The balance of the increase represents significant investments in our team and operational infrastructure to drive strategic initiatives that better position the Company for future growth.

Net loss for the first quarter for 2019 was \$7.6 million, compared to net income of \$0.6 million for the prior-year period.

Adjusted EBITDA for the first quarter of 2019 was \$0.8 million compared to \$1.0 million for the prior-year period.

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<sup>1</sup> Pro forma revenue and adjusted EBITDA information reflect the results of acquisitions closed and with definitive agreements as of the beginning of the period in which the closing or definitive agreement occurred.

<sup>2</sup> See "Non-IFRS Financial Measures" at the end of this press release for more information regarding Cresco Labs' use of non-IFRS financial measures.

## Balance Sheet and Liquidity

As of March 31, 2019, the Company had total assets of \$364.0 million, including cash and cash equivalents of \$106.1

million. At March 31, 2019, the Company had a working capital position of \$146.3 million with zero debt on the balance sheet.

## Conference Call and Webcast

The Company will hold a conference call and webcast to discuss its business and financial results on Wednesday, May 29, 2019 at 6 p.m. Eastern Time. The conference call may be accessed via Cresco's investors website at **investors.crescolabs.com** or by dialing 866-688-4235 (409-216-0711 for international callers) and entering conference ID 5039798. Archived access to the webcast will be available for one year on the Cresco's investors website.

## Consolidated Financial Statements

The financial information reported in this news release is based on unaudited management prepared financial statements for the three months ended March 31, 2019. The Company will file its condensed interim consolidated financial statements on SEDAR on May 30, 2019. Accordingly, such financial information may be subject to change. All financial information contained in this news release is qualified in its entirety with reference to such financial statements. While the Company does not expect there to be any material changes, to the extent that the financial information contained in this news release is inconsistent with the information contained in the Company's financial statements, the financial information contained in this news release shall be deemed to be modified or superseded by the Company's financial statements. The making of a modifying or superseding statement shall not be deemed an admission for any purposes that the modified or superseded statement, when made, constituted a misrepresentation for purposes of applicable securities laws. Further, the reader should refer to the additional disclosures in the Company's audited financial statements for the year ended December 31, 2018, previously filed on SEDAR.

Cresco references certain non-IFRS financial measures throughout this press release, which may not be comparable to similar measures presented by other issuers. Please see the "Non-IFRS Financial Measures" section at the end of this press release for more detailed information.

## About Cresco Labs Inc.

Cresco, based in Chicago, is a leading U.S. cannabis company with experienced management, access to capital and a demonstrated growth strategy. As a differentiated grower, processor and retailer of premium cannabis operating in seven states, the Company focuses on entering highly regulated markets with outsized demand potential and high barriers to entry. Its speed-to-market to date has given Cresco a distinct competitive advantage as it replicates

its model to expand its national footprint. Cresco's proven ability to execute is complemented by a cutting-edge brand strategy spearheaded by several of the brightest minds in consumer marketing in the nation. Cresco's products are tailored to all major consumer segments: everyday cannabis, medicinally focused, connoisseur grade and chef inspired edibles by James Beard Award-winning pastry chef Mindy Segal. Learn more about Cresco at [crescolabs.com](http://crescolabs.com).

## Non-IFRS Financial Measures

Operational gross profit, EBITDA and Adjusted EBITDA are non-IFRS measures and do not have standardized definitions under IFRS. The following information provides reconciliations of the supplemental non-IFRS financial measures, presented herein to the most directly comparable financial measures calculated and presented in accordance with IFRS. The Company has also provided unaudited pro forma financial information, which assumes that closed and pending mergers and acquisitions in 2018 are included in the Company's financial results as of the beginning of the quarterly and annual periods in 2018 and that closed and pending mergers and acquisitions in 2019 are included in the Company's financial results as of the beginning of the quarterly and annual periods in 2019. The Company has provided the non-IFRS financial measures, which are not calculated or presented in accordance with IFRS, as supplemental information and in addition to the financial measures that are calculated and presented in accordance with IFRS. These supplemental non-IFRS financial measures are presented because management has evaluated the financial results both including and excluding the adjusted items and believe that the supplemental non-IFRS financial measures presented provide additional perspective and insights when analyzing the core operating performance of the business. These supplemental non-IFRS financial measures should not be considered superior to, as a substitute for or as an alternative to, and should only be considered in conjunction with, the IFRS financial measures presented herein.

## Forward Looking Statements

This press release contains "forward-looking information" within the meaning of applicable Canadian securities legislation and may also contain statements that may constitute "forward-looking statements" within the meaning of the safe harbor provisions of the United States Private Securities Litigation Reform Act of 1995. Such forward-looking information and forward-looking statements are not representative of historical facts or information or current condition, but instead represent only the Company's beliefs regarding future events, plans or objectives, many of which, by their nature, are inherently uncertain and outside of the Company's control. Generally, such forward-looking information or forward-looking statements can be identified by the use of forward-looking terminology such as, 'may,' 'will,' 'should,' 'could,' 'would,' 'expects,' 'plans,' 'anticipates,' 'believes,' 'estimates,' 'projects,' 'predicts,' 'potential' or 'continue' or the negative of those forms or other comparable terms. The Company's forward-looking statements involve known and unknown risks, uncertainties and other factors which

may cause the Company's actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements, including but not limited to those risks discussed under "Risk Factors" in the company's CSE Listing Statement filed with SEDAR; and other factors, many of which are beyond the control of the Company. Readers are cautioned that the foregoing list of factors is not exhaustive. Because of these uncertainties, you should not place undue reliance on the Company's forward-looking statements. No assurances are given as to the future trading price or trading volumes of Cresco's shares, nor as to the Company's financial performance in future financial periods. The Company does not intend to update any of these factors or to publicly announce the result of any revisions to any of the Company's forward-looking statements contained herein, whether as a result of new information, any future event or otherwise. Except as otherwise indicated, this press release speaks as of the date hereof. The distribution of this press release does not imply that there has been no change in the affairs of the Company after the date hereof or create any duty or commitment to update or supplement any information provided in this press release or otherwise.

Cresco Labs Inc.  
Unaudited Financial Information and Non-IFRS Reconciliations  
(All amounts expressed in thousands of U.S. Dollars)

Unaudited Condensed Interim Consolidated Statements of Operations and Comprehensive Income  
For the Three Months Ended March 31, 2019 and 2018

	For the Three Months Ended March 31,	
	2019 (Unaudited)	2018 (Unaudited)
Revenue	\$ 21,055	\$ 5,093
Cost of Sales – Production Costs	(15,168)	(3,456)
Gross Profit Before Fair Value Adjustments	5,887	1,637
Realized Changes in Fair Value of Inventory Sold	(15,441)	(321)
Unrealized Gain on Changes in Fair Value of Biological Assets	20,206	1,409
<b>Gross Profit</b>	<b>10,652</b>	<b>2,725</b>
<b>GP%</b>	<b>50.6%</b>	<b>53.5%</b>
Expenses:		
Selling, General and Administration	16,773	2,064
Depreciation and Amortization	973	39
Total Expenses	17,746	2,103
<b>(Loss) Gain from Operations</b>	<b>(7,094)</b>	<b>622</b>
Other (Expense) Income:		
Interest Expense, Net	(419)	(9)
Other Expense, Net	(134)	(13)
Income from Investment in Associate	36	-
Total Other Expense, Net	(517)	(22)
<b>(Loss) Income Before Income Taxes</b>	<b>(7,611)</b>	<b>600</b>
Income Tax Recovery	37	-
<b>Net (Loss) Income <sup>1</sup></b>	<b>\$ (7,574)</b>	<b>\$ 600</b>

<sup>1</sup> Net income includes amounts attributable to non-controlling interest.

Cresco Labs Inc.  
Unaudited Summarized Consolidated Statements of Financial Position  
As of March 31, 2019 and December 31, 2018

	3/31/2019 (Unaudited)	12/31/2018 (Audited)
Cash and Cash Equivalents	\$ 106,090	\$ 131,302
Other Current Assets	77,277	61,401
Property and Equipment, Net	50,823	39,721
Intangible Assets, Net	24,958	25,465
Goodwill	51,146	51,146
Other Long-Term Assets	53,750	9,076
<b>Total Assets</b>	<b>\$ 364,044</b>	<b>\$ 318,111</b>
Total Current Liabilities	\$ 37,029	\$ 25,230
Total Long-Term Liabilities	49,688	9,900
Total Shareholders' Equity	277,327	282,981
<b>Total Liabilities and Shareholders' Equity</b>	<b>\$ 364,044</b>	<b>\$ 318,111</b>

Cresco Labs Inc.  
Unaudited Revenue and Gross Profit Metrics  
For the Three Months Ended March 31, 2019 and 2018

	For the Three Months Ended March 31,	
	2019 (Unaudited)	2018 (Unaudited)
Revenue	\$ 21,055	\$ 5,093
Cost of Sales – Production Costs <sup>1</sup>	(15,168)	(3,456)
Realized Changes in Fair Value of Inventory Sold	(15,441)	(321)
Unrealized Gain on Changes in Fair Value of Biological Assets	20,206	1,409
<b>Gross Profit</b>	<b>\$ 10,652</b>	<b>\$ 2,725</b>
Cultivation Costs Expensed Under IAS 41 <sup>2</sup>	3,497	585
Net Impact of Fair Value of Biological Assets	(4,765)	(1,088)
<b>Operational Gross Profit (Non-IFRS)</b>	<b>\$ 9,384</b>	<b>\$ 2,222</b>
<b>Operational GP%</b>	<b>44.6%</b>	<b>43.6%</b>

<sup>1</sup> Production (cultivation, manufacturing, and processing) costs related to products sold during the period.

<sup>2</sup> Costs would be capitalized under IAS 2 and do not relate to costs of inventory sold in the period.

Cresco Labs Inc.  
Unaudited Reconciliation of Net Income to Adjusted EBITDA  
For the Three Months Ended March 31, 2019 and 2018

	For the Three Months Ended March 31,	
	2019 (Unaudited)	2018 (Unaudited)
Net (Loss) Income <sup>1</sup>	\$ (7,574)	\$ 600
Depreciation and Amortization	2,286	298
Other Expense, Net	134	13
Interest Expense, Net	419	9
Income from Investment in Associate	(36)	-
Income Tax Recovery	(37)	-
Earnings Before Interest, Taxes, Depreciation, and Amortization (EBITDA) (Non-IFRS)	(4,808)	920
Acquisition and Other Non-Recurring Costs	2,458	-
Share-Based Compensation	3,168	62
Adjusted EBITDA (Non-IFRS)	\$ 818	\$ 982

<sup>1</sup> Net income includes amounts attributable to non-controlling interest.

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