

Cresco Labs Announces Second Quarter 2021 Financial Results

8/13/2021

Company reports record revenue of \$210 million and reaffirms annualized revenue run-rate guidance of \$1 billion by the end of 2021

CHICAGO--(BUSINESS WIRE)-- Cresco Labs Inc. (CSE: CL) (OTCQX: CRLBF) (FSE: 6CQ) ("**Cresco Labs**" or the "**Company**"), a vertically integrated, multi-state operator and the number one U.S. wholesaler of branded cannabis products, today announced its financial results for the second quarter ended June 30, 2021. All financial information presented in this release is reported in accordance with U.S. Generally Accepted Accounting Principles ("U.S. GAAP") and U.S. dollars, unless otherwise noted, and all comparisons to prior quarter and prior year are made on an as-converted basis under U.S. GAAP.

Second Quarter 2021 Financial Highlights

- Revenue of \$210.0 million, an increase of 17.7% quarter-over-quarter and 122.8% year-over-year
- Gross profit excluding fair value markup for acquired inventory of \$107.0 million, or 51.0% of revenue, an increase of 22.2% quarter-over-quarter and 233.3% year-over-year
- Net Income¹ of \$2.7 million, an increase of \$26.8 million quarter-over-quarter and \$44.4 million year-over-year
- Adjusted EBITDA² of \$45.5million, an increase of 30.1% quarter-over-quarter
- Record net wholesale revenue of \$108.7 million, an increase of 13.7% quarter-over-quarter and 97.9% year-over-year
- Record retail revenue of \$101.3 million from 33 stores, an increase of 22.3% quarter-over-quarter and 157.6% year-over-year

Financial Outlook

The Company reaffirms the previously provided guidance of:

- Annualized revenue run-rate of \$1 billion by the end of 2021
- Gross profit margins in excess of 50% in the remaining two quarters of 2021
- Adjusted EBITDA² margin run-rate of at least 30% by the end of 2021

⁽¹⁾ Net income includes amounts attributable to non-controlling interests.

⁽²⁾ See “Non-GAAP Financial Measures” at the end of this press release for more information regarding the Company’s use of non-GAAP financial measures.

Management Commentary

“Q2 was a strong quarter of head down execution at Cresco Labs and once again we are hitting our stride as we enter the next phase of growth. During the quarter we continued to invest in infrastructure, operationalized new assets, and deployed our proven playbook to build top positions in the most important U.S. cannabis markets,” said Charles Bachtell, Co-Founder and CEO of Cresco Labs. “We are very proud of the record performance this quarter, driven primarily by organic growth, and we’re even more excited about what lies ahead as we begin recognizing contributions from growth initiatives initiated over the last 18 months. We remain dedicated to our differentiated strategy and continue to lay the foundation for long-term leadership in the U.S. cannabis industry.”

Balance Sheet and Liquidity

- As of June 30, 2021, current assets were \$293.7 million, including cash and cash equivalents of \$131.0 million. The Company had working capital of \$99.1 million and term loan debt, net of issuance costs, of \$189.4 million.
- Total shares outstanding on a fully converted basis were 417,848,980 as of June 30, 2021.

Capital Markets and M&A Activity

- On April 14, 2021, the Company closed the acquisition of Bluma Wellness Inc.

Conference Call and Webcast

The Company will host a conference call and webcast to discuss its financial results and provide investors with key business highlights on Friday, August 13, 2021, at 8:30am Eastern Time (7:30am Central Time). The conference call may be accessed via **webcast** or by dialing 1-844-200-6205 (US Toll Free), 1-646-904-5544 (US Local), 44-208-0682-

558 (Int'l) and providing access code 354624. Archived access to the webcast will be available for one year on the Cresco Labs' [investor relations website](#).

Consolidated Financial Statements

The financial information reported in this press release is based on unaudited management prepared financial statements for the three and six months ended June 30, 2021. These financial statements have been prepared in accordance with U.S. GAAP. The Company expects to file its unaudited interim condensed consolidated financial statements on SEDAR on August 13, 2021. Accordingly, such financial information may be subject to change. All financial information contained in this press release is qualified in its entirety with reference to such financial statements. While the Company does not expect there to be any material changes between the information contained in this press release and the consolidated financial statements it files on SEDAR, to the extent that the financial information contained in this press release is inconsistent with the information contained in the Company's financial statements, the financial information contained in this press release shall be deemed to be modified or superseded by the Company's filed 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, 2020, prepared under International Financial Reporting Standards ("IFRS") and previously filed on SEDAR.

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

U.S. GAAP Financial Reporting

Beginning with the quarter ended March 31, 2021, the Company has prepared its financial statements, including all comparative figures, in compliance with U.S. GAAP instead of IFRS. Changes to comparative figures for prior periods reflect their presentation in accordance with U.S. GAAP and is not a change in the Company's underlying performance as previously reported under IFRS.

Non-GAAP Financial Measures

EBITDA, Adjusted EBITDA, and Adjusted gross profit are non-GAAP measures and do not have standardized definitions under U.S. GAAP. The Company has provided these non-GAAP financial measures, which are not calculated or presented in accordance with U.S. GAAP, as supplemental information and in addition to the financial

measures that are calculated and presented in accordance with U.S. GAAP and may not be comparable to similar measures presented by other issuers. These supplemental non-GAAP financial measures are presented because management has evaluated the financial results both including and excluding the adjusted items and believes that the supplemental non-GAAP financial measures presented provide additional perspective and insights when analyzing the core operating performance of the business. These supplemental non-GAAP 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 U.S. GAAP financial measures presented herein. Accordingly, the Company has included below reconciliations of the supplemental non-GAAP financial measures to the most directly comparable financial measures calculated and presented in accordance with U.S. GAAP. The Company has not quantitatively reconciled its guidance for forward-looking non-GAAP metrics to their most comparable U.S. GAAP measures because the Company does not provide specific guidance for the various reconciling items as certain items that impact these measures have not occurred, are out of the Company's control, or cannot be reasonably predicted. Accordingly, a reconciliation to the most comparable U.S. GAAP financial metric is not available without unreasonable effort. Please note that the unavailable reconciling items could significantly impact the Company's results.

About Cresco Labs Inc.

Cresco Labs is one of the largest vertically integrated, multistate cannabis operators in the United States, with a mission to normalize and professionalize the cannabis industry. Employing a consumer-packaged goods ("CPG") approach, Cresco Labs is the largest wholesaler of branded cannabis products in the U.S. Its brands are designed to meet the needs of all consumer segments and comprised of some of the most recognized and trusted national brands including Cresco™, Cresco Reserve™, High Supply™, Mindy's Edibles™, Good News™, Remedi™, Wonder Wellness Co.™ and FloraCal Farms®. Sunnyside*®, Cresco Labs' national dispensary brand, is a wellness-focused retailer created to build trust, education and convenience for both existing and new cannabis consumers. Recognizing that the cannabis industry is poised to become one of the leading job creators in the country, Cresco Labs operates the industry's largest Social Equity and Educational Development initiative, SEED, which was established to ensure that all members of society have the skills, knowledge and opportunity to work and own businesses in the cannabis industry. Learn more about Cresco Labs at www.crescolabs.com.

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 Annual Information Form for the year ended December 31, 2020 filed on March 26, 2021, and other documents filed by the Company with Canadian securities regulatory authorities; 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 Labs' 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.
 Financial Information and Non-GAAP Reconciliations
 (All amounts expressed in thousands of U.S. Dollars)
 Unaudited Consolidated Statements of Operations
 For the Three Months Ended June 30, 2021, March 31, 2021 and June 30, 2020

(\$ in thousands)	For the Three Months Ended		
	June 30, 2021	March 31, 2021	June 30, 2020
Revenue	\$ 209,975	\$ 178,437	\$ 94,256
Cost of goods sold	108,994	91,414	62,469
Gross profit	100,981	87,023	31,787
GP%	48.1%	48.8%	33.7%
Operating expenses:			
Selling, general and administrative	71,605	59,549	40,842
Share-based compensation	8,814	5,595	7,034
Depreciation and amortization	5,690	5,641	4,849
Total operating expenses	86,109	70,785	52,725
Income (loss) from operations	\$ 14,872	\$ 16,238	\$ (20,938)
Other (expense) income:			
Interest expense, net	(11,481)	(11,302)	(7,732)
Other (expense) income, net	12,725	(12,340)	73
Loss from investment in associate	-	(1,196)	24
Total other (expense) income, net	1,244	(24,838)	(7,635)

Loss before income taxes	16,116	(8,600)	(28,573)
Income tax expense	(13,463)	(15,524)	(13,126)
Net income (loss) ¹	<u>\$ 2,653</u>	<u>\$ (24,124)</u>	<u>\$ (41,699)</u>

¹ Net income (loss) includes amounts attributable to non-controlling interests.

Unaudited Reconciliation of Gross Profit to Adjusted Gross Profit (Non-GAAP)
For the Three Months Ended June 30, 2021, March 31, 2021 and June 30, 2020

(\$ in thousands)	For the Three Months Ended		
	June 30, 2021	March 31, 2021	June 30, 2020
Revenue	\$ 209,975	\$ 178,437	\$ 94,256
Cost of goods sold ¹	(108,994)	(91,414)	(62,469)
Gross profit	100,981	87,023	31,787
Fair value markup for acquired inventory	6,053	585	331
Adjusted Gross Profit (Non-GAAP)	<u>\$ 107,034</u>	<u>\$ 87,608</u>	<u>\$ 32,118</u>
Adjusted Gross Profit %	51.0%	49.1%	34.1%

¹ Cultivation, manufacturing, and processing costs related to products sold during the period.

Cresco Labs Inc.
Summarized Unaudited Consolidated Statements of Financial Position
As of June 30, 2021 and December 31, 2020

(\$ in thousands)	June 30, 2021	December 31, 2020
Cash and cash equivalents	\$ 131,040	\$ 136,339
Other current assets	162,704	113,127
Property and equipment, net	298,565	228,804
Intangible assets, net	335,460	195,541
Goodwill	564,210	450,569
Other non-current assets	103,432	108,216
Total assets	<u>\$ 1,595,411</u>	<u>\$ 1,232,596</u>
Total current liabilities	194,646	252,846
Total long-term liabilities	470,137	404,418
Total shareholders' equity	930,628	575,332
Total liabilities and shareholders' equity	<u>\$ 1,595,411</u>	<u>\$ 1,232,596</u>

Cresco Labs Inc.
 Unaudited Reconciliation of Net Income to Adjusted EBITDA (Non-GAAP)
 For the Three Months Ended June 30, 2021, March 31, 2021 and June 30, 2020

	For the Three Months Ended		
	June 30, 2021	March 31, 2021	June 30, 2020
(\$ in thousands)			
Net income (loss) ¹	\$ 2,653	\$ (24,124)	\$ (41,699)
Depreciation and amortization	9,806	10,151	8,410
Interest expense, net	11,481	11,302	7,732
Income tax expense	13,463	15,524	13,126
Earnings before interest, taxes, depreciation and amortization (EBITDA) (Non-GAAP)	<u>37,403</u>	<u>12,853</u>	<u>(12,431)</u>
Other expense (income), net	(12,725)	12,340	(73)
Loss from equity method investments	-	1,196	(24)
Fair value markup for acquired inventory	6,053	585	331
Adjustments for acquisition and other non-core costs	5,280	1,738	3,526
Management incentive compensation (share-based)	9,518	6,280	7,831
Adjusted EBITDA (Non-GAAP)	<u>\$ 45,529</u>	<u>\$ 34,992</u>	<u>\$ (840)</u>

¹ Net income (loss) includes amounts attributable to non-controlling interests.

Cresco Labs Inc.
 Unaudited Summarized Consolidated Statements of Cash Flows
 For the Three Months Ended June 30, 2021, March 31, 2021 and June 30, 2020

	For the Three Months Ended		
	June 30, 2021	March 31, 2021	June 30, 2020
(\$ in thousands)			
Net cash (used in) provided by operating activities	\$ (43,191)	\$ 12,950	\$ (19,584)
Net cash (used in) provided by investing activities	(29,587)	(26,790)	22,155
Net cash (used in) provided by financing activities	(50,690)	132,206	(716)
Effect of foreign currency exchange rate changes on cash	(270)	(169)	780
Net (decrease) increase in cash and cash equivalents	<u>(123,738)</u>	<u>118,197</u>	<u>2,635</u>
Cash and cash equivalents and restricted cash, beginning of period	258,971	140,774	70,035
Cash and cash equivalents and restricted cash, end of period	<u>\$ 135,233</u>	<u>\$ 258,971</u>	<u>\$ 72,670</u>

View source version on [businesswire.com](https://www.businesswire.com/news/home/20210813005060/en/): <https://www.businesswire.com/news/home/20210813005060/en/>

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