

## **SNDL Inc(Q2 2025 Results)**

**July 31, 2025**

### **Corporate Speakers:**

- Zachary George; SNDL; Chief Executive Officer
- Alberto Paredero; SNDL; Chief Financial Officer

### **Participants:**

- Frederico Gomes; ATB Capital Markets; Analyst
- Aaron Grey; AGP; Analyst
- Pablo Zuanic; Zuanic & Associates; Analyst

## **PRESENTATION**

Operator^ Good morning. And welcome to the SNDL's Second Quarter 2025 Financial Results Conference Call.

This morning SNDL issued a press release announcing their financial results for the 2025 second quarter ended June 30, 2025.

This press release is available on the company's website at [sndl.com](http://sndl.com) and filed on EDGAR and SEDAR as well.

The webcast replay of the conference call will also be available on the [sndl.com](http://sndl.com) website.

SNDL has also posted a supplemental investor presentation in addition to the conference call presentation we will be reviewing today on its [sndl.com](http://sndl.com) website.

Presenting on this morning's call we have Zach George, Chief Executive Officer; and Alberto Paredero, Chief Financial Officer.

Before we start, I would like to remind investors that certain matters discussed in today's conference call or answers that may be given to questions could constitute forward-looking statements.

Actual results could differ materially from those anticipated.

Risk factors that could affect results are detailed in the company's financial reports and other public filings that are made available on SEDAR and EDGAR.

Additionally, all financial figures mentioned are in Canadian dollars unless otherwise indicated.

We will now make prepared remarks. And then we'll move on to analyst questions.

I would now like to turn the call over to Zach George.

Please go ahead.

Zachary George^ Welcome to SNDL's Q2 2025 Financial and Operational Results Conference Call. The second quarter of 2025 marks a pivotal milestone for SNDL as we report positive operating income and net earnings for the first time in our history, highlighting the effectiveness of our strategic improvement agenda.

We experienced growth across all operating segments during the quarter, led by our cannabis business, which expanded at nearly 3x the rate of the Canadian recreational market and ahead of our direct competitors.

Our Liquor Retail segment also posted revenue growth, albeit marginal for the first time in several quarters. Each segment delivered year-over-year gross margin expansion. And on a consolidated basis, we matched the record high margin achieved in the first quarter of 2025.

Our teams continue to demonstrate strong productivity improvements including synergies resulting from the Indiva acquisition.

We've maintained a disciplined focus on cost management extending to G&A expenses including share-based compensation, which resulted in an absolute reduction of \$5 million year-over-year despite inflationary pressures and continued investments in growth. This robust performance gives us the confidence to continue investing in our business and people, affirming that we are on the path to delivering sustainable long-term value to our shareholders.

Our operational improvements are undeniable. Coupled with a strong balance sheet, unlike many of our peers, we believe this represents a highly compelling investment thesis as we continue building a resilient and growth-oriented company.

With no debt and over \$200 million in unrestricted cash, we are uniquely positioned to pursue a range of high-return organic and inorganic growth opportunities.

Beyond strengthening our competitive position in Canada, we are actively monitoring the United States market through our exposure to markets like Florida and Texas, while continuing to expand our international footprint.

Today we are proud to be serving patients in the U.K. and Continental Europe through the export of both branded finished goods as well as wholesale flower.

Now I'll turn the call over to Alberto for more insights on our second quarter financial performance.

Alberto Paredero-Quiros^ Thank you, Zach.

I want to remind everyone that the amounts discussed today are denominated in Canadian dollars, unless otherwise stated. Certain figures referred to during this call are non-GAAP and non-IFRS measures.

For definitions of these measures, please refer to SNDL's management discussion and analysis document.

Our second quarter financial results demonstrate continued progress in overall performance with notable improvements visible in the income statement. Net revenue in the second quarter of 2025 reached \$245 million, reflecting 7.3% increase compared to Q2 of last year. This growth was driven across all segments as our cannabis business continues to outperform the market significantly, and we also saw our Liquor Retail segment returning to top line growth.

Gross profit of \$67.6 million represents a \$9.4 million increase or 16.2% growth year-over-year, resulting in a 210 basis point improvement in gross margin, helping us match the record gross margin of 27.6% reported in the previous quarter. All segments contributed to this margin expansion.

The biggest highlight is the achievement of positive operating income for the first time in SNDL's history. The \$5.8 million adjusted operating income represents a \$10.4 million year-over-year increase, a 226% growth.

It is important to note that we only adjust operating income for restructuring-related charges and intangible asset impairments.

In Q2, we recorded \$0.8 million in restructuring charges and no intangible impairments, resulting in an unadjusted operating income of \$5 million. This milestone underscores the effectiveness of our strategic focus and continuous improvement agenda.

Free cash flow was negative by \$7.9 million in the second quarter as the strong P&L performance was more than offset by working capital investments to support our international growth in the second half of the year, annual payments related to incentive programs and insurance premiums as well as capital expenditures for the upcoming store openings.

Our historical quarterly performance continues to display a clear upward trajectory, reflecting our sustained focus on growth and operational efficiency.

Additionally, we observed that free cash flow tends to be impacted in the first half of the year due to seasonal factors.

Looking at the contributions from each segment across our main financial KPIs, we can see how each segment is contributing to net revenue and gross profit growth. Most of this growth is driven by our cannabis segment, although we are also pleased to see the Liquor

Retail segment returning to growth during the second quarter. The revenue elimination for cannabis is related to the sales from the Cannabis Operations segment into our own retail. This elimination is increasing as a result of the cannabis business growth.

Adjusted operating income showed similar trends with all operating segments reporting clear improvements compared to the second quarter of 2024. The Corporate segment reflects the positive impact of our ongoing restructuring and cost optimization initiatives, while the Investment segment, although reporting a positive absolute operating income in the second quarter of 2025 was affected in the comparison to the same period in prior year by lapping a 2024 favorable SunStream valuation adjustment.

In the second quarter of 2025, no material valuation changes were recorded in our investment portfolio. Free cash flow for the quarter was negative \$7.9 million, slightly below the prior year level despite notable earnings improvements. This was primarily driven by working capital investments supporting international growth planned for the second half of the year, alongside capital expenditures for future store openings.

As was the case last year, the second quarter was also impacted by seasonal payments associated with annual incentive programs and insurance premiums.

In the second quarter of 2025, free cash flow was influenced by several key factors. Earnings made a significant positive contribution with net income plus noncash add-backs totaling \$19.6 million.

However this strong earnings contribution was outweighed by working capital and CapEx investments as well as seasonal cash outflows.

Inventory growth in Q1 and Q2 was largely driven by the scale-up of our

Atholville cultivation facility in support of increasing international export volumes.

In Q2, we made our annual management incentive payout and insurance premium payments, resulting in a seasonal cash outflow of \$12 million. CapEx and lease payments rose during the quarter, reflecting our continued organic expansion of the retail network ahead of anticipated openings in the second half of the year. Despite these growth investments, year-to-date we're still \$3 million ahead of prior year.

The Liquor Retail segment delivered net revenue of \$141.9 million in the second quarter, marking a 1% year-over-year increase. This modest growth was partly supported by a calendar shift in Easter timing, which favorably impacted our consumer demand compared to the prior year, driving a 2.7% growth in same-store sales.

Notably, our Wine and Beyond banner stood out with a robust 7.2% growth, contributing meaningfully to the segment performance.

Additionally, private label sales remained a key growth driver, posting an 8.1% increase as consumers continue to gravitate towards high-quality offerings at competitive pricing.

While this quarter's growth may not set a precedent for future performance, we are encouraged by the trend improvement compared to prior quarters.

Gross profit of \$36.5 million represents an increase of 2.2% year-over-year. This improvement was driven by the revenue growth and 30 basis point expansion in gross margin, resulting in record high gross margin of 25.7% for the segment.

Operating income reached \$11.1 million, marking a \$2.6 million or 31% increase year-over-year. This performance was driven not only by revenue and gross profit gains, but also by enhanced efficiency in SG&A expenses.

Cannabis Retail achieved a new quarterly net revenue record of \$84.4 million, representing 11% year-over-year growth. This performance was driven by an 8.2% increase in same-store sales, far outpacing the market and underscoring the strength of our value-based model. The combination of robust revenue expansion and a 60 basis points improvement in gross margin led to a 14% year-over-year increase in gross profit. The segment also saw a strong profitability with \$8.1 million in operating income, more than doubling versus prior year quarter. This growth was supported by gross profit momentum and continued efficiency improvements in SG&A expenses.

Our Cannabis Operations segment continues to deliver the largest P&L improvements. Net revenue for the second quarter of 2025 was \$35.8 million, reflecting a \$10.9 million or 43% growth compared to the prior year. This growth was driven by edibles following the acquisition of Indiva in the fourth quarter of 2024 as well by accelerating international sales.

Gross profit achieved a significant increase compared to the prior year, driven by a 13 percentage point expansion in gross margin, reaching 25.8%. These improvements are mainly driven by our productivity program and initial synergies from the Indiva acquisition.

As a result of the revenue growth and margin expansion, adjusted operating income for the second quarter came in at a positive \$2.7 million, marking a \$4.6 million improvement year-over-year.

Over to you, Zach, for additional comments related to our strategic priorities.

Zachary George^ Delivering consistent short-term financial performance is very important to us, while we also remain focused on our three strategic pillars, which are essential to our long-term success: growth, profitability and people.

Starting with growth, our Cannabis Retail segment, particularly our successful Value Buds banner continues to outperform the market.

As previously mentioned, this segment delivered net revenue growth of 11% in the second quarter of 2025, supported by same-store sales growth of 8.2%, which translated into a 30 basis point gain in market share.

Liquor Retail also grew revenue in the quarter despite the rationalization of some of our store footprint, driven by a 2.7% same-store sales growth.

We are pleased to see how our Wine and Beyond banner grew 7.2% in the second quarter.

Our consumers also reward us with their loyalty and appreciation of our unique offering of quality private label products at attractive prices, sales of which grew 8.1% during the quarter.

In April, we announced the acquisition of 1CM, reinforcing our strategic commitment to expanding our cannabis retail footprint in Canada.

We expect to close this transaction as planned by the end of Q3.

Our teams are already evaluating opportunities to deploy organic investments to scale this new format and incorporate enhanced shopper insights once the 1CM assets are integrated into the SNDL portfolio.

Our Cannabis Operations segment posted another strong quarter with 43% revenue growth. This performance was primarily driven by the contribution of our Indiva acquisition as well as additional momentum gained with our international partners, resulting in \$3.8 million in export revenues for Q2.

We see this run rate increasing substantially into Q3.

Under our profitability strategic priority, our continued operational improvements and focus on cost management enabled us to achieve almost \$6 million in adjusted and \$5 million in unadjusted positive operating income in the second quarter.

As previously mentioned, this is a significant milestone as it is the first time in our history that we have achieved quarterly positive operating income.

Our upward trajectory and pipeline of additional productivity projects gives us confidence in our ability to continue raising the bar in quarters to come.

Year-over-year productivity improvements totaled \$3 million in the second quarter, driven primarily by efficiencies in procurement, manufacturing and cultivation within our Cannabis Operations segment. These improvements contributed to matching the record gross margin reported in the first quarter.

Through focused resource allocation, effective execution of our restructuring program initiated mid last year and enhanced spend management, we achieved a \$5 million year-over-year reduction in overhead expenses. This represents a net decrease in absolute spending despite inflationary pressures and ongoing growth investments.

Additionally, data licensing revenue contributed \$4.7 million in the quarter, providing further support to gross margin expansion.

We continue to nurture and invest in our greatest competitive advantage, our people.

We are pleased to see our strategic talent review process maturing and proving to be a valuable asset to the organization. Through assessments of individual potential, managers and their teams are able to craft personalized development plans that strengthen capabilities and maximize career growth, ultimately enhancing employee impact and overall company success.

Building on insights gathered from our most recent annual employee engagement survey, along with deeper visibility into workforce trends, we have solidified our action plan and begun executing several initiatives aimed at elevating our employee value proposition.

We're also proud to continue onboarding world-class diverse talent into key roles. Their contributions are already making a meaningful difference, and we are also strengthening our leadership bench.

As we conclude this presentation, I'd like to express how encouraged we are by the momentum we've built and how energized we feel by the progress that we're making.

Our team remains highly focused and motivated to navigate the challenges of a dynamic industry in pursuit of our ambition to become a global cannabis leader.

Once again, I'd like to thank our entire team for their contributions and our shareholders for their continued trust.

I will now hand the call back to the operator for the analyst Q&A session.

## QUESTIONS AND ANSWERS

Operator^ (Operator Instructions) And the first question will be coming from Frederico Gomes of ATB Capital Markets.

Frederico Gomes^ Congrats on the great quarter.

So you reported some good growth in international sales this quarter.

At the same time I believe that you had lower provincial board sales.

So I have two questions on this.

First, are those two related such that maybe you are maybe prioritizing international exports as opposed to domestic sales?

And second, could you talk about the outlook for those international sales? You mentioned some working capital investments there.

So what sort of growth can we expect through the year?

Zachary George^ Thank you for the question. There is quite a lot going on beneath the surface there.

So I wouldn't extrapolate any kind of lack of focus on the Canadian recreational market.

We are expecting meaningful growth into the back half of the year in terms of international, but it will be off this very slow base. And we're monitoring those markets very carefully and developing great relationships with distributors on the ground in the U.K. and EU.

Frederico Gomes^ Perfect.

Second question on your RISE Rewards loyalty program.

Can you comment on how the program is rolling out so far? How many members have signed up? And is that going in line with your expectations?

Zachary George^ Yes.

So we are making daily progress in terms of new loyalty program members.

We're going to be making announcements as we hit key milestones, but it's still early days with the program only being out for several months. And so we're in the 6-figure range, but we're going to be putting out a lot more disclosure around that as we hit our key milestones.

It's early days.

Frederico Gomes^ Got it. Just a final question about your view on cultivation Zach. Just -- considering that we are seeing, I guess, an increase in wholesale prices in Canada, better supply/demand here with exports to international markets.

So how do you look at a potential expansion of your cultivation footprint? Is that something that could make sense?



Are you in any way, I guess, constrained on your cultivation side of things? And just how do you view that potential expansion?

Zachary George^ So I think it would be worth noting that our Atholville facility, while medium-sized in nature is now fully ramped and committed both internationally and domestically for supply.

Our cultivation efforts represent about 15% of our total biomass needs.

So it's certainly a hedge in a rising price environment.

Our relationships and the nature of our platform through our B2B partnerships and our strong retail positioning puts us in an interesting place for procurement relationships.

And in the short term, we're actually seeing some additional supply hit the market.

So we're watching the cycle very carefully.

But we've been able to access biomass in the quantities required at specs that we need to serve consumers in Canada.

So no real concerns at that point.

Obviously there are a number of opportunities in different cultivation mediums to grow our exposure there.

We're trying to be very conservative with capital. And so to date, we've continued to take advantage of procurement opportunities in the market versus investing tens of millions of dollars in new cultivation facilities.

Operator^ And our next question will be coming from the line of Aaron Grey of A.G.P.

Aaron Grey^ Nice quarter here. Just want to follow up a bit for the question that Fred asked kind of regarding the supply chain, maybe bring it back to international. Are you guys satisfied with the supply chain you guys have today? Zach, you mentioned some of the relationships you're building with distributors or otherwise.

Can you maybe touch on the margins you're achieving?

I know a lot of your peers tout the higher margins in Europe versus Canada, but a lot of times, it seems to depend on the supply chain that they're working with.

So any commentary you could provide on that? And then maybe just any market-specific guidance in terms of where you're feeling most constructive in terms of international growth?

Zachary George^ Thanks for the question. Yes, absolutely.

Look, we see -- it's still very early days in Europe. You've got a tremendous growth opportunity, but there are -- the margins are extremely high today.

We're seeing some volatility and some compression in spots.

And there have been a few external shocks to the supply chain, which have also served to keep pricing higher.

But these are emerging markets in every sense of the word. And you have a number of middlemen earning outsized economic returns in that market, and we think there'll be pressure on those levels going further.

So we're still committed absolutely to winning in Canada, and we're unapologetic about that.

But we're also excited about some of these new streams of cash flow and relationships we're building internationally.

Alberto, would you like to comment further on margin profile?

Alberto Paredero-Quiros^ Yes.

So our margin of international sales is certainly accretive.

Obviously there is a range depending on the customer and depending on the type of product that we're shipping.

But they are nicely accretive to our national margins at the moment.

It's one of the reasons as why we're dedicating an important portion of our cultivation efforts towards international, given the good quality flower that we were able to produce in Atholville.

And we are expecting still for the time being, those margins to remain higher than Canadian average.

But as Zach mentioned, obviously things can change very quickly in an emerging market.

Aaron Grey^ Okay. Really appreciate that color there.

Second question for me, I just want to talk liquor for a bit.

I know there's some challenges in that segment. Nice to see return to growth in the quarter.

Could you provide some commentary? Do you believe that was more specific to the things attributable to the company or broader category dynamics? I know alcohol as a whole has been under some pressure.

So just any further color you can provide because I believe you did mention there was some positive same-store sales there.

Zachary George^ Yes. It's a great question and arguably could be one of the most important stats of the quarter. This narrative around secular decline in alcohol consumption is certainly being challenged by our numbers.

I would say that the approach to individual banner management is a big driver for the success in the quarter. Wine and Beyond really was the lead horse there and put up really impressive results.

So sort of this notion of selection as brand and the incredible theater that's created at retail with north of 10,000 SKUs is something that's a real draw for the consumer.

That's clear. And you may see us lean into that even further in the future. That being said, we're still observing a shifting consumer behavior and a shifting relationship generally with our Bev.

So we're continuing to monitor that and not taking anything for granted.

Operator^ (Operator Instructions) Our next question comes from Pablo Zuanic of Zuanic & Associates.

Pablo Zuanic^ Look, just first to start, the housekeeping question. Do you disclose of the wholesale revenue number for cannabis, the \$11 million, how much is international? And I'm sorry if I missed that, but can you clarify that?

Alberto Paredero-Quiros^ Yes, Pablo, the international sales were disclosed in our press release. And for the second quarter, they amounted to \$3.8 million.

Pablo Zuanic^ Okay. All right. And then, Zach, obviously congratulations on the performance in domestic Canada, right? As you said, you grew around, I think, Hifyre say 16%. That's about 3% -- 3x the market average growth.

But SNDL in Canada is still about #12 with about 2% market share.

I mean when you say more medium, longer term, what's the aspiration there in terms of scaling up, whether organically or via M&A to the top rec in Canadian rec?

Zachary George^ Thanks, Pablo.

Can you just repeat the question? You were asking about duration?

Pablo Zuanic^ No. I'm sorry, I want to repeat again.

I'm saying in the case of Canada in domestic recreational sales, right, obviously in the quarter, you grew 3x the market average growth rate.

So that's great.

But SNDL is still about #12 in Canadian rec with about 2% market share.

So I'm just thinking more medium, longer term, what's the aspiration?

Do you want to be a top three player? How do you think about that?

Zachary George^ Aspiration, yes, understood.

Look, I think we've discussed this on calls previously.

But if you really look at the Canadian marketplace, almost every single discernible industry has taken the shape of an oligopoly effectively with a small handful of very large dominant players and a handful of very active strong peripheral operators. And we don't think that cannabis will be any different.

We think that we're still coming out of the trough in the cycle, and you still see significant consolidation ahead.

So we're really focused on profitable growth. And there are many levers we could pull if market share was the sole objective.

But as you can see, operating income and free cash flow are the biggest priorities for us.

Pablo Zuanic^ Okay. And then just moving on to the U.S. assets.

I don't know if you can give an update in terms of where you are in terms of taking full ownership and control of those assets and you start consolidating them.

I know you own them through SunStream, right?

So if you can just clarify where we are there in terms of consolidating those assets? And then I have a follow-up.

Zachary George^ Sure.

So Pablo, working backwards, any ability to consolidate those assets will require the closing of the restructurings.

In the case of Parallel, you have a foreclosure process ongoing.

In the case of Skymint, it's a receivership. And there are two, what I would call irritant litigations that we're still just waiting on rulings from the courts for.

It's been a frustrating process for sure, with an elongated timeline. And that's really driven by the lack of U.S. operators' ability to access the federal bankruptcy courts. And so you end up in courts with -- in environments where there's much less experience with complex commercial and distressed files. And so we should have received word from these courts now almost two months ago as an outside date, and we're still waiting.

So we're eager to see those results, and then we'll be able to move to close. And as you may have seen publicly, our Board is reviewing listing status to make some strategic decisions about how to manage that exposure going forward.

Pablo Zuanic^ Right. Understood. And then -- and again, in terms of what you can disclose, but are you able -- I mean who's managing Parallel right now? I mean do you have a -- does SNDL have any say in terms of -- or SunStream any say in the way that operation is being run? Or you're more limited in terms of what you can do there?

If you can disclose that.

Zachary George^ That's correct, Pablo.

So SNDL is not engaged in any plant touching activities whatsoever in the United States, and that's really critical to maintain our strong and positive relationship with Nasdaq.

So at this point, we are not able to put a hand on the wheel, so to speak, in any form.

But of course, we're monitoring as a creditor and certainly have a lot of ideas on operations that we are restricted from executing on given our operating experience internationally.

Pablo Zuanic^ Right. And one very last one.

So in the case of Pennsylvania and Texas, I understand that there was a relationship with IPR.

I think in the case of Pennsylvania, that operation has been given up that lease pretty much.

But in the case of Texas, SunStream still has a stake there, right?

You have not given up that operation.

Can you clarify the difference between the Pennsylvania and Texas situation?

Zachary George^ Sure.

Let me maybe give a broader picture for Parallel.

So Parallel's asset base today really consists of operations in Florida, Massachusetts, and they're one of very few license holders today in Texas, although we believe that will expand in the future. The majority of that business is levered to being a top five player in Florida.

You're correct in that quite some time ago, the Pennsylvania assets were disclaimed. The stakeholders and special committee of Parallel in this context can make additional decisions into the close of that transaction to shed certain contracts or liabilities, but those decisions have not been made. And so we're eager to update our investors on progress with this as soon as we hear from the courts.

Operator^ And this concludes the question and answer session.

I would like to turn the conference back over to Zach George for closing remarks.

Zachary George^ Thank you, Operator. And thank you all for joining our second quarter conference call.

We look forward to updating you on our progress in the near future.

Have a great day.

Operator^ This concludes today's conference call.

You may now disconnect your lines. Thank you for participating.

And have a pleasant day.