SNDL Inc.(Q2 2026 Results)

July 28, 2026

Corporate Speakers:
- Zachary George; SNDL; Chief Executive Officer
- Alberto Paredero; SNDL; Chief Financial Officer

Participants:
- Aaron Grey; Alliance Global Partners; Analyst
- Frederico Gomes; ATB Cormark Capital Markets; Analyst

PRESENTATION

Operator^ Good morning. And welcome to SNDL's Second Quarter 2026 Financial Results Conference Call.

This morning, S&DL issued a press release announcing their financial results for the second quarter of 2026 ended on June 30th, 2026.

This press release is available on the company's website at SNDL.com and filed on Edgar and CDAR as well.

The webcast replay of the conference call will also be available on SNDL.com website.

SNDL has also posted a supplemental investor presentation in addition to the conference call presentation we'll be reviewing today on its 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 cause actual results are detailed on the company's financial and other public filings that are made available on CDAR and EDGAR.

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

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

I will now turn the call over to Zach George.

Please go ahead.

Zachary George^ Welcome to SNDL's Second Quarter 2026 Financial and Operational Results Conference Call.

During the second quarter of 2026, SNDL continued to operate through a challenging market environment across both liquor and cannabis. Net revenue declined 3.7% year-over-year to $235.8 million, reflecting persistent demand softness and broader market headwinds.

While these conditions pressured results, we stayed focused on discipline execution, cost optimization, and initiatives that strengthen our long-term earnings power. Profitability was impacted by lower net revenue, new product production ramp up costs in cannabis operations, and a relatively small Sunstream valuation adjustment.

At the same time we continue to exercise financial discipline and maintain a relentless focus on spend management which partially offset these pressures.

Importantly, we continue to generate positive operating cash flow and improve free cash flow compared to the same period last year. Free cash flow was negative 6.7 million in the quarter, an improvement of 1.2 million year over year, despite seasonal payments and a 2.7 million increase in cash in transit.

We also continue to act on our strategic priorities.

During the quarter, we accelerated our share repurchase activity, deployed profit enhancement initiatives expected to drive more than 20 million of incremental operating income, mostly over the remainder of the year, and completed a significant milestone in the parallel restructuring.

The parallel restructuring is particularly important because it opens the door for SNDL to obtain direct exposure to and control over US medical cannabis operations in Florida, Texas and Massachusetts subject to satisfying the remaining legal regulatory accounting and NASDAQ requirements. Periods of market pressure require sharper focus and disciplined execution.

Our teams are responding with targeted commercial and operational initiatives including improved promotional discipline, operational efficiency, and targeted investments in high performing platforms while preserving balance sheet flexibility. Consistent with our board approved share repurchase program, we repurchased 11.7 million common shares during the second quarter.

Since the fourth quarter of 2024, total repurchases have exceeded 29 million shares, representing approximately a 7% reduction in shares outstanding.

We remain encouraged by the strategic optionality created by our balance sheet. With 183.2 million of unrestricted cash, no outstanding debt as of June 30th, 2026, and a portfolio of cannabis related investments with a carrying value of 415.2 million.

SNDL is well positioned to pursue discipline growth, strategic investments, acquisitions, and continued return of capital to shareholders.

Over now to Alberto for more detail on our second quarter financial performance.

Alberto Paredero^   Thank you, Zach.

Before moving on, I'd like 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 and reconciliations where applicable, please refer to SNDL's management discussion and analysis on the earnings press release issued today. Net revenue was $235.8 million in the second quarter of 2026, representing a 3.7% decrease compared with the same period of the prior year.

The decline was driven by market headwinds across both liquor and cannabis segments. Gross profit was 56.3 million, a decline of 11.3 million, or 16.6% year-over-year. Growth margin was 23.9%, down 3.7percentage points, mainly driven by cannabis operations and liquor retail, partially offset by margin expansion in cannabis retail.

Operating loss was $7.8 million in the quarter. And adjusted operating loss was $7 million.

The year-over-year reduction was driven primarily by the impact of new production ramp-up costs in cannabis operations, revenue and margin decline in liquor retail, and the absence of prior year impairment reversals in cannabis retail and a $2.3 million reduction in the Sunstream valuation, partly offset by lower corporate overhead costs.

Free cash flow was negative 6.7 million, improving by 1.2 million compared with the same period last year. The result was primarily driven by the $6.9 million annual payment of the 2025 management incentive and a $2.7 million increase in cash in transit.

Our second quarter performance reflects continued market pressure across the portfolio.

Net revenue and gross profit declined year over year, and adjusted operating income was impacted by the lower gross profit, production ramp-up cost, and the downstream valuation impact.

Looking ahead, our focus remains on driving sustained profitability and free cash flow growth, while continuing to invest selectively in our strategic growth agenda and shareholder value creation.

Looking more closely at segment-level contributions across our key financial KPIs, consolidated net revenue declined by $9 million year-over-year. The largest contributor was liquor retail which declined by 7.2 million, followed by cannabis operations which declined by 3.6 million, and cannabis retail which declined by 1.2 million. Cannabis eliminations partly offset the decline by 3 million.

Gross profit decline by 11.3 million year over year. Liquor retail contributed a $2.7 million decline, while cannabis operations contributed an $8.7 million decline.

Cannabis retail gross profit was essentially flat, increasing by 0.1 million here over here. Adjusted operating income declined by $12.8 million year-over-year to a loss of $7 million, primarily reflecting declines in liquor retail, cannabis retail, cannabis operations, and investments partly offset by a 1.4 million improvement in corporate cost.

Pre-cash flow improved 15.2% year-over-year from negative 7.9 million to negative 6.7 million. The improvement was supported by more favorable working capital and differences in timing of rent expenses compared to prior year, even as earnings represented a year-over-year headwind. The chart on the right-hand side of the slide illustrates the seasonal nature of free cash flow, with Q2 historically impacted by seasonal payments and the second half typically representing a stronger cash flow generation period. Turning to the commercial segments, I will begin with LicoRetail.

As a reminder, starting in 2026, we began allocating applicable direct and indirect overhead costs from corporate to each operating segment within general and administrative expenses.

The comparative periods have been restated to reflect this allocation. Liquor retail net revenue was $134.7 million, a decline of $7.2 million, or 5.1% year-over-year. The decline was driven by persistent softness in market demand which impacted same-store sales by 6.2%, despite the contribution of two new YNAB Yonah stores, opening Q4, 2025, and private label sales outperforming national brands by 13 percentage points in the quarter. Gross profit was 33.8 million, down 7.4% year-over-year, and gross margin was 25.1%, down 60 basis points.

The marketing decline was driven by increased promotional activity aimed at stimulating sales volume. Adjusted operating income was $3.2 million, down $3.5 million year-over-year. The decrease was driven by lower revenue, increased promotional support, and higher SD&A expenses associated with the recent YNAB on-store openings.

Cannabis retail net revenue was $83.2 million, down $1.2 million or 1.4% year-over-year. The decline was driven by negative same-store sales of 4.6%, reflecting market contraction in Alberta and Ontario, partially offset by new store openings and value-backed store conversions.

Gross profit was $22 million, increasing slightly by $0.1 million year-over-year, while gross margin expanded 50 basis points to 26.4%. This improvement was supported by promotional efficiencies, pricing actions, and product mix management. Adjusted operating income was $3 million, down $1.2 million year-over-year. The decline was primarily due to prior year asset impairment reversals which upset the current year benefits from margin expansion and overhead efficiency.

Cannabis operations net revenue was $32.2 million, a decline of $3.6 million or 10.1% year-over-year.

The decline was driven by market headwinds and the absence of business-to-business flower deliveries, as some of our partners are also experiencing demands of shortfalls. These impacts were partially offset by a $1.2 million increase in international sales which reached $5 million in the second quarter of 2026. Gross profit was 0.6 million, down 8.7 million year-over-year, while gross margin was 1.8%, a decline of 24 percentage points from the prior period.

In addition to the revenue decline, we experienced significant inefficiencies associated with the Jeeter production ramp-up during the second quarter.

While we're working closely with our partners to implement process improvements and increase labor efficiency, some of these cost headwinds are expected to persist over the coming months.

Adjusted operating loss was $9 million compared with an adjusted operating loss of $2.8 million in the prior year. The decline was primarily due to the production ramp up inefficiencies impacting gross profit.

Over to you, Zach, for additional comments on our capital allocation priorities and strategic milestones.

Zachary George^   Turning now to capital allocation and strategic milestones, I would like to highlight the progress we made in the quarter on two areas. Discipline share purchases and the completion of the parallel restructuring milestone.

Starting with share purchases, we accelerated execution in Q2 while maintaining balance sheet flexibility.

During the quarter, we repurchased 11.7 million common shares for cancellation for 23.3 million of cash outflows, excluding commissions, at a weighted average price of $1.43 US per share.

Since the fourth quarter of 2024, SNDL has repurchased more than 29 million shares with an aggregate repurchased value of approximately 64.5 million and an average price of $1.58 US per share.

We believe this represents discipline, capital allocation at attractive prices and reflects our confidence in SNDL's intrinsic value and long-term prospects. The completion of the parallel restructuring is a transformational milestone for SNDL. Parallel provides exposure to medical cannabis operations in Florida, Texas, and Massachusetts with 56 retail locations, three cultivation and manufacturing sites, approximately 800 employees, and near-term annualized revenue expected to be approximately 150 million.

Subject to satisfying the remaining legal, regulatory, accounting, and NASDAQ requirements, we expect to obtain direct control of Parallels Medical Cannabis operations in the coming months.

This will provide us with a significant U.S. medical cannabis platform and a creative margin profile and the potential to exceed $1 billion Canadian in annual revenue and become the largest cannabis retailer in the world by store count.

Importantly, this transaction concludes a complex multi-year restructuring of one of Sunstream's largest legacy credit investments and substantially reduces Parallel's historical debt burden, creating a more sustainable capital structure to support future growth. The successful completion of the restructuring preserves and enhances the value of a significant legacy investment while establishing a stronger foundation for the future performance of the business.

We believe Parallel's operating footprint, established brands, and positions in key medical cannabis markets provide meaningful long-term strategic optionality as we pursue the next phase of the transaction.

This transaction also demonstrates the value of differentiated investment strategy and balance sheet strength.

Our ability to navigate a complex restructuring process and ultimately convert a distressed credit position into significant economic exposure to a scaled us operator highlights the strategic flexibility provided by our capital resources and investment platform.

While current market conditions remain challenging, we are taking decisive action to improve profitability, preserve balance sheet strength, and allocate capital with discipline.

I want to thank our teams for their continued focus and resilience and our shareholders for their ongoing support.

We remain committed to building long-term value through operational improvement, strategic growth and the discipline return of capital.

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

QUESTIONS AND ANSWERS

Operator^ Thank you.

(Operator Instructions).

Our first question comes from Aaron Grey with Alliance Global Partners. Your line is open.

Aaron Grey^ Good morning and thank you very much for the question. Zach, I want to pick up where you just left off in terms of capital allocation strategy, particularly as you think about the transformational parallel deal that's set to be complete in the coming months. Just given the fact that obviously you've had some share repurchases the past quarter and year-to-date, how can we think about that changing now that you're on the verge of having direct access into the U.S., either via M&A or CapEx into markets like Texas? Does that now change in terms of capital allocation going forward versus what we saw in the first half?

Thank you.

Zachary George^ Thanks, Aaron. Thanks for the question. There was a lot there.

So just trying to work backwards. Certain things are going to change, certain things are not going to change.

Okay. So we still have the view that our equity is trading well below its intrinsic value. And when we look at investments that are available to us across the sector, it’s still an attractive use of capital to reduce our outstanding share count.

We're one of the only companies that is aggressively doing that in the sector.

We've also put ourselves in a position where we have access to both debt and equity capital with a debt-free balance sheet.

So it creates a lot of opportunity.

And I would point out that when you at the cost of debt capital that is experienced by a number of U.S. operators, having Canadian exposure in terms of a sizable operating base both in liquor and cannabis really gives us a cost of capital advantage on the debt side when you think about the willingness of Canadian banks to lend at competitive rates which have been shown to us in like the mid single digits.

So there's a lot of optionality, a number of levers we can pull.

As you point out, we do intend to invest going forward in the United States, whether that be to improve processing capabilities in Florida to increase and get more competitive in terms of that network and door count which has been dormant with parallel being stuck in this foreclosure process for several years, and also view Texas as a really incredible opportunity going forward which will likely have a very slow burn upwards. But would note that for the existing operators, just with the introduction of vape alone in the last couple months, it created an immediate 40% bump in revenue.

So coming off of a low base, but a pretty exciting market that is largely distillate based today that will continue to grow. And you're hearing word from other competitors that are excited to try to be in market and acquire patients later this year.

Aaron Grey^ Okay, appreciate that. That was really helpful color there, Zack. Second question for me, just on cannabis operations. Maybe first off, if you talk about how much of the gross margin pressure was from the Jeeter ramp versus maybe higher cost related to the absence of b2b the supply. And then regarding the supply, maybe how much of that do you think particularly is near term? You mentioned some near term pressure in the coming quarters, versus something that you can eventually evolve beyond. And do you think that this increases the need to get more vertical in Canada via M&A or investing in cultivation?

Zachary George^ It's a great -- it's a great question.

I think if you look at our 2025 results and year to date, what I would say with transparency is that we have some acute issues that we are managing through, specifically with regards to the team in Kelowna and that asset. That's also where the ramp in Jeeter production has been happening.

In terms of attribution of that pressure, I'll ask Alberto to comment.

But what I would say is that no, the challenges that we have experienced we believe are fixable. They also are a negative overlay on what is otherwise a platform that's generating significant free cash flow. So it's been muted by some of these issues, but we still expect to generate positive free cash flow for the full calendar year. And as you know we have some cyclicality that impacts the business throughout the calendar year.

But the solution may not be to simply go further upstream and pay a big premium for cultivation, it actually may be to go the opposite direction.

And it's very clear that in the domestic market, the winners on the dried flower category are going to be scaled best in class hybrid glasshouse operators. And that you just really have to appreciate the price differential in these various markets. Again, just pointing to one simple example, but with the launch of Vape in Texas, Operators are selling half-gram 510 carts at approximately $45.

And you can -- that's USD -- you can basically access the same half-gram 510 cart on the streets of Toronto for about $17, $18 equivalent USD. So the competitiveness and compressed environment with an inefficient tax structure is still impacting LPs in Canada when you look past some of the benefit from excise free trade that's happening internationally for some of the best in class flower producers.

But I'll let Alberto comment a little bit more just in terms of the segment and those pain points.

Alberto Paredero^   No. [Thanks, Zack]. Great question, Aaron. The vast majority, I would say 80, 90% of the gross margin shortfall that we have experienced in the second quarter in cannabis operations is driven by the Jeeter ramp-up.

We did have a couple of minor impairments of inventory during the quarter.

But in a way we are about 25 percentage points of margin short in this segment compared to what we would like or would need to be. And 20% of this point of margin is driven by Jeeter.

Aaron Grey^   Okay. Great. That's helpful color.

I'll go ahead and turn back in the queue.

Operator^   Thank you.

One moment for our next question.

Our next question comes from Frederico Gomes with ATB Cormark Capital Markets. Your line is open.

Frederico Gomes^   Good morning.

Thanks for taking my questions here. I want to ask about the cannabis retail segment.

So two questions here. Number one, you mentioned market contraction in Alberta and Ontario.

So can you talk maybe about the drivers behind that contraction in those areas to market specifically and whether you see a return to growth anytime soon. And then second, in terms of your M&A strategy for cannabis retail, considering the failed 1CM transaction.

How are you looking at that and how should we be thinking about M&A in cannabis retail? Thank you.

Zachary George^   Yes. It's a great question and I'll have Alberto share his thoughts here as well.

But clearly you have growth in terms of consumption and broader sales at the provincial levels flattening out very, very quickly.

But in addition to that, if you look at a market like Ontario, we've seen a continued ramp up of the store count.

So you have an increasing number of doors and operators competing for what really are the same dollars and that's putting pressure on a number of operators.

The discount, scale discount operators are faring much, much better.

So we're not seeing the same declines that we were seeing across the broader market. And there's some other players that are demonstrating the same resilience.

But we expect that dynamic to continue, and we think that consolidation in the space is eventual further penetration of ecomm is going to further transform that retail experience, but continues to perform.

We continue to see margin opportunities.

And as we get our mix right in retail, we actually expect both margin and free cash flow accretion going forward.

So it's really been a pillar of stability in the model, if anything.

As you point out, the M&A question really is one of capital allocation. And so we have a strong bias towards organic rollout.

We are at the verge of a resolution in terms of our path in Ontario and continue to see small pockets of white space that we are looking at elsewhere.

But as we move into the U.S. as a true cross-border operator, you're going to have more opportunities that are competing for our capital. And we need to be very disciplined about ensuring that we are focused on the most attractive rates of return on a risk-adjusted basis across all of these markets. And that's really what we're focused on discerning right now.

Alberto Paredero^ Just maybe to add from my side specifically on cannabis retail, so yes, those (technical difficulty) the large majority of our footprint, they had relatively large single-digit declines in the first quarter. The situation improved a little bit in the second quarter, as we were anticipating, but it was still on the negative side. Differences in trajectory from April to June, April we were still seeing some of these provinces go up in 3% to 4%.

In the month of June we were starting to see closer to break-even growth from that standpoint.

One anticipated the second half of the year to be much better.

I mean the main driver for the decline that we saw in the first half in these two provinces, we're lapping a very strong first half market-wise and as well from our own standpoint in the first half of last year, where as you probably remember some of the top retailers, we were reporting high single digits, sometimes even double digits of revenue growth in market growth of 5% to 7% given the first half of last year.

There were significant efforts at that point in time from most of our competitors and ourselves in terms of margin investments and promotional activities. This year, you're seeing margins improving, not only us, but as well as some of the other retailers in these two provinces.

So there's significantly less in terms of intensity on promotional activity which is eroding a little bit the growth rate, but it's improving the skilled margins and gross profit (technical difficulty) dynamics and what we're lapping from last year and we're expecting to return -- the market to return to growth in the second half of the year at low single digits.

Frederico Gomes^   Thank you.

I appreciate that. Then my second question on liquor retail.

Obviously still same-star sales declined in that segment.

I know that previously you were expecting a recovery, but that hasn't happened yet.

Now we also saw some margin decline there with promotion activities. So how do you think about the future of liquor retail as part of your broader strategy and platform, considering these ongoing headwinds in the industry as well as, I guess your entrance or expected entrance into the U.S. cannabis market which is a huge opportunity.

Thank you.

Alberto Paredero^   Yes, maybe take that one.

Obviously it's a tough environment, the one that we're seeing right now with liquor.

It's a global phenomenon, as we know in the sense that pretty much all markets, they are declining in the low single digit or in the mid single digit declines. We're not expecting a massive turn in that performance in the foreseeable future.

It's difficult to predict when and how these markets will stabilize. Obviously we're talking to a lot of experts in multiple markets, not just Canada.

And while some are expecting that we will continue seeing for the next couple of years single-digit declines, some others are expecting that sooner than later, we're going to start seeing stabilization that these current trends are not sustainable.

We're starting to see already, for example, if we look at the wine category, starting to have some months where we're seeing already some growth.

It's not yet the case in the spirits and beer.

So it's still a mixed bag when it comes to the overall market performance. That said, obviously we are -- we're playing in a tough economic environment and macro environment when it comes to the segment, but there are still quite a lot of things that we can do to improve our own performance within the segments and gain market share.

We know that our convenience banner it's not performing as well as our Wine and Beyond banner.

Within the segment, we're seeing Wine and Beyond is still growing, we're seeing our private label growing very nicely at accretive margins.

So there are certainly some aspects that gives us the encouragement to continue working in the direction that we're going.

But at the same time we know we need to improve convenience, which is the part of the market that is struggling the most right now.

We're not going to be making the same level of investments in productivity in the second half of the year, so we should be anticipating margins to be flat or going back to growth compared to last year in the second half.

But there are still a lot of things that we can do from a mix management perspective and managing the velocity of our items within Convenience Banner to get to better performance in the second half of what we have seen in the first half.

Operator^ (Operator Instructions)

I'd like to turn the call back over to Zach for any closing remarks.

Zachary George^ Thank you, Operator, and thank everyone for your time and the continued interest in SNDL.

We appreciate the support.

We look forward to updating you next quarter. Thank you, Operator.

Operator^ Thank you, ladies and gentlemen. This does conclude today's presentation.

We thank you for your participation.

You may now disconnect and have a wonderful day.