

SNDL Inc.(Q3 2026 Results)

October 27, 2026

Corporate Speakers:

- Zachary George; SNDL Inc.; Chief Executive Officer
- Alberto Paredero-Quiros; SNDL Inc.; Chief Financial Officer

Participants:

- Frederico Gomes; ATB Cormark; Analyst
- Aaron Grey; Alliance Global Partners; Analyst

PRESENTATION

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

This morning, SNDL issued a press release announcing their financial results for the second quarter of 2026 ended on September 30, 2026.

This press release is available on the company's website at sndl.com and filed on EDGAR and SEDAR as well.

The webcast replay of the conference call will be also available on the 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 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 will move on to analyst questions.

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

Please proceed.

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

During the third quarter, SNDL delivered improved underlying financial performance while continuing to deploy capital against our highest conviction strategic priorities.

We generated record quarterly free cash flow of \$20 million and returned to positive adjusted operating income despite continued market pressure and significant challenges in cannabis operations.

Cannabis Retail delivered record quarterly net revenue and gross margin, while Liquor retail also achieved a new quarterly gross margin record.

These results demonstrate the value of disciplined pricing, mix management, procurement productivity and continued cost control across our retail platforms.

At the same time cannabis operations remained below our expectations.

We took decisive action during the quarter to simplify the portfolio, exit the unprofitable domestic dried flower category, reduce costs and concentrate resources on higher-value products.

We have also initiated a strategic review of the segment to assess a range of strategic and operational alternatives including potential asset divestitures and broader productivity initiatives.

We continue to allocate capital with discipline during the quarter.

We repurchased 5.4 million shares and announced our intention to pursue a potential substantial issuer bid of up to \$50 million, subject to required approvals and documentation.

We also made significant strategic investments in the United States. Following the completion of Parallel's restructuring in July, our participation in its rights offering increased our indirect equity ownership from approximately 67% to approximately 92%.

We also funded investments supporting a new cultivation facility in Gainesville, Florida and the acquisition of an additional portion of Parallel's take-back debt at a material discount to its face value. These actions reflect our priorities: improve operating performance, preserve financial flexibility, return capital when our shares represent an attractive investment and selectively pursue opportunities that can create meaningful long-term value.

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

Alberto Paredero-Quiros^ Thank you, Zach.

Before moving on, I would 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-IFRS measures.

For definitions of these measures and reconciliations where applicable, please refer to SNDL's management's discussion and analysis and the earnings press release issued today. Net revenue was \$238 million in the third quarter of 2026, representing a decrease of \$6.2 million or 2.5% compared with the same period of the prior year.

Growth in cannabis retail and the impact of lower cannabis eliminations partially offset declines in liquor retail and cannabis operations. Gross profit was \$57.9 million, a decline of \$6.3 million or 9.8% year-over-year. Gross margin was 24.3%, down 2percentage points as record margins in both retail segments were more than offset by a weak performance of cannabis operations.

Operating loss was \$48.3 million, reflecting a \$52 million noncash goodwill impairment associated with the cannabis operations. Adjusted operating income which excludes intangible impairment charges and restructuring costs, was positive \$5.2 million, an improvement of \$14.8 million compared with the same period last year.

Change in cash and cash equivalents was negative \$50.7 million, primarily reflecting \$60.8 million of capital contributions to equity accounted investees and \$10 million of share repurchases. Free cash flow was a record \$20 million, up \$3.3 million or 19.5% year-over-year including a \$10.6 million benefit from the initial unwinding of our captive insurance.

Looking at our performance over the past several quarters, we're encouraged by the progress in adjusted operating income and free cash flow despite continued headwinds in revenue and gross profit. This reflects the financial discipline we have brought to the business and our continued focus on improving underlying profitability and cash generation.

While there is still work to do, particularly in cannabis operations, we believe we are making meaningful progress towards a more profitable and cash-generative business.

Looking more closely at segment contributions, consolidated net revenue declined by \$6.2 million year-over-year. Liquor Retail declined by \$4.6 million and cannabis operations declined by \$10.3 million.

Cannabis Retail increased by \$0.6 million, while the change in cannabis eliminations provided an \$8.2 million offset. Gross profit declined by \$6.3 million, driven by cannabis

operations which accounted for a \$6.6 million decline. Liquor Retail declined by \$0.3 million, while cannabis retail increased by \$0.7 million.

Adjusted operating income improved by \$14.8 million from a loss of \$9.5 million in the prior year quarter to income of \$5.2 million, a \$9.9 million improvement in corporate expenses and a \$6.6 million improvement from investments more than offset weaker results in cannabis operations and Liquor Retail. Free cash flow increased from \$16.7 million in the third quarter of 2025 to a record \$20 million this quarter.

Compared with the prior year quarter, lower cash earnings reduced free cash flow by \$1.1 million and year-over-year working capital change reduced by \$11.8 million. Working capital optimization contributed \$2.5 million in the third quarter of 2026, but this benefit was lower than in the prior year quarter due to differences in the timing of working capital movements. These impacts were more than offset by \$16.2 million of other items including a \$10.6 million benefit from the initial unwind of the captive insurance arrangement.

While the captive insurance contribution to Q3 free cash flow is a onetime item, we expect a second and final \$8 million cash neutral in the fourth quarter as we complete the unwinding of the captive structure. Turning to the commercial segments.

I will begin with Liquor Retail.

As a reminder, beginning in 2026, applicable direct and indirect overhead costs are allocated from corporate to its operating segment within general and administrative expenses and comparative periods have been recast. Liquor Retail net revenue was \$134.8 million, a decline of \$4.6 million or 3.3% year-over-year.

Persistent softness in market demand continued to affect same-store sales which declined 6% Growth from the three new Wine and Beyond store opened during the last 12 months, together with continued momentum in private label sales which outperformed national brands by 8.5percentage points in the quarter, helped partially offset the same-store sales decline. Gross profit was \$36.4 million, down \$0.3 million, while gross margin expanded 70 basis points to a record 27.0%.

The margin improvement was driven by pricing, product mix management and procurement productivity. Adjusted operating income was \$6 million, down \$0.6 million year-over-year as the benefit from gross margin expansion was more than offset by lower revenue and higher SG&A expenses associated with the recent store openings.

Cannabis Retail net revenue returned to growth and reached a new quarterly record of \$85.6 million, an increase of \$0.6 million or 0.7% year-over-year.

New store openings and value-add conversions more than offset a 3.8% decline in same-store sales caused by market contraction in Alberta and Ontario. Gross profit increased by \$0.7 million to \$23.1 million, while gross margin expanded by 60 basis points to a record

27.0%. The improvement was supported by promotional and product mix efficiencies and increased data revenue. Adjusted operating income was \$5.3 million, an increase of \$0.2 million or 4.7% as promotional and product mix efficiencies and increased data revenue more than offset the impact of higher asset impairment reversals in the prior year period.

Cannabis operations net revenue was \$27.0 million, a decline of \$10.3 million or 27.7% year-over-year.

The decline was primarily attributable to our exit from the unprofitable domestic dried flower category as we reshaped the segment to focus on higher-value product categories. Gross profit was negative \$1.6 million with a gross margin of negative 6%. These results were primarily driven by inventory adjustments associated with our exit from dried flower as well as the Jeeter cost variances. Adjusted operating income loss was \$11.4 million compared with a loss of \$10.2 million in the prior year.

While the segment results remain below our expectations, we took decisive action during the quarter to reduce manufacturing costs and other operating expenses, particularly at our Kelowna facility.

These actions included a workforce reduction of more than 30% at that site.

We expect the P&L benefits of these actions to begin contributing in the fourth quarter. Given the segment's continued underperformance, we have also initiated a strategic review to evaluate alternatives to improve its financial performance and reduce its impact on our consolidated results. The review will consider a range of alternatives including potential asset divestitures and broader productivity initiatives.

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

Zachary George^ Turning first to capital allocation.

We continue to repurchase shares while maintaining balance sheet flexibility.

During the third quarter, we repurchased 5.4 million common shares for \$10 million, excluding commissions at a weighted average price of USD 1.31 per share.

Including repurchases completed in October through the measurement date showed in the presentation, we have repurchased 34 million shares since the fourth quarter of 2024 for \$73.5 million at an average price of USD 1.54 per share. This represents an approximately 8% reduction in shares outstanding since the fourth quarter of 2024.

During 2026, we have significantly accelerated these repurchases. And under the current repurchase program, we have repurchased approximately 23 million shares for over \$45 million at an average price of USD 1.41 per share. These shares represent approximately 9% of the 263.4 million common shares outstanding at the beginning of 2026.

We have also announced a potential substantial issuer bid for an aggregate purchase price of up to \$50 million at a price per share not to exceed USD 1.35. The proposed SIB would further accelerate capital returns while maintaining balance sheet flexibility.

The completion of Parallel restructuring was a transformational milestone for SNDL's U.S. investments.

During the third quarter, our participation in Parallel's rights offering increased our indirect equity ownership from approximately 67% to approximately 92%. The funding provides liquidity to support inventory, product availability and essential supply chain infrastructure.

SNDL also funded SunStream's investments supporting the build-out of a new cultivation facility in Gainesville, Florida.

In addition, SunStream acquired a further portion of Parallel's take-back debt at 75% of face value, increasing its ownership of that debt from 39.4% to 69.4%.

As previously shared, Parallel currently operates in Florida, Texas and Massachusetts with 56 retail locations, three manufacturing and cultivation sites, approximately 800 employees and approximately USD 150 million of net revenue.

We are evaluating different paths to direct ownership and the financial consolidation of Parallel's medical cannabis business as we believe it offers meaningful scale, an attractive margin profile and a platform for continued growth.

We will provide further information as the path forward and timing become more clearly defined.

We are encouraged by the progress towards resolving the long-standing regulatory matters involving the Alcohol and Gaming Commission of Ontario.

Subject to the completion of definitive documentation and payment of a \$200,000 monetary penalty, the anticipated resolution is expected to provide a path towards normalized franchise operations.

The contemplated structure includes approximately \$30 million of third-party secured financing from a Tier one financial institution to repay existing SNDL debt. The proceeds received by SNDL are expected to remain restricted as collateral. The arrangement would also transition the relationship to a modified franchise structure under which SNDL would provide administrative services only.

As a result, the Ontario franchise operations are expected to be deconsolidated from SNDL's financial statements.

Based on the trailing 12-month amounts presented, deconsolidation would reduce reported net revenue by approximately \$105 million, while the impact on operating income would be significantly smaller at approximately \$2 million.

Our third quarter results demonstrate progress, but they also reinforce the important work still ahead.

We delivered record free cash flow, returned to positive adjusted operating income and achieved record gross margins in both retail segments.

At the same time cannabis operations remains below expectations, and we are taking decisive action to improve its performance and evaluate strategic alternatives.

We continue to approach capital allocation with discipline.

We are returning capital to shareholders, investing selectively in opportunities such as Parallel and maintaining the flexibility provided by our debt-free balance sheet and investment portfolio.

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

We remain committed to improving operating performance and creating long-term value.

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

QUESTIONS AND ANSWERS

Operator^ (Operator Instructions) Our first question that comes from Frederico Gomes with ATB Cormark.

Frederico Gomes^ First question, I guess you guys passed the audit for EU-GMP Atholville.

Could you talk about how material actually getting the EU-GMP certification would be from a financial standpoint for that facility? What could be the potential upside here, savings and opportunities in international?

Zachary George^ Frederico, thanks for the question.

So in terms of the receipt of the certification itself, we're expecting that any day now.

It was a big milestone for the team to successfully pass the audit.

As you know the standards are quite stringent.

It really depends -- you can look at this from a number of different angles.

If you were -- if you had to rely on processors, you're looking at costs of anywhere from \$0.20 to \$0.45 a gram.

So that's eliminated.

But more importantly which also makes this mood is we're going through a series of upgrades within the

Atholville facility which is going to change the capabilities of that facility including modern generation lights and HVAC upgrades.

So we're expecting to see better quality and yields which are going to be critical to improving realized pricing as we look at international markets. And so that's really where the focus is today.

Frederico Gomes^ And then just looking at your decision to exit flower domestically. Maybe could you explain a little bit better why did you make that decision? And do you think it could impact, I guess sales in other categories that you have given that, I guess you won't have branded flower product anymore?

Zachary George^ Yes. I appreciate it.

I think it's really important to distinguish where this market is on a price point basis. And you can see the dynamic very clearly with the broader peer group.

So higher quality and also more expensive production from indoor facilities really is not well suited for where the domestic market is on dried flower.

So we have strong partnerships and commercial relationships with LPs that have very strong underpinnings with hybrid glasshouse environments of 5 million square feet or more.

And so that's a capability and a strategic advantage that SNDL does not possess.

So we really don't think it makes sense to try to compete with those who have the lowest cost of production given that infrastructure that they're owning and managing through their individual enterprises.

So look, we have a dominant position in edibles and beverages as well. These are smaller categories, do quite well across a number of infused (inaudible) categories.

So we're really focused on distribution of branded products.

As you know we also have some very important and profitable license relationships.

So we don't believe that this will impact sales in other categories. They need to stand on their own, that being said.

But in this case, it's really about looking at marginable activities and ensuring that we're focused on areas where we can develop competitive advantage in terms of our capabilities.

Operator^ (Operator Instructions) One moment for our next question that comes from Aaron Grey with AGP, Alliance Global Partners.

Aaron Grey^ I guess maybe a little bit piggybacking off of the last question and then just thinking about the strategic review and alternatives for the cannabis operations business.

I would love to get your perspective in terms of what do you think are the core competencies needed to win within cannabis operations? I think you just alluded to one maybe being low-cost cultivation greenhouse or otherwise which obviously Sundial doesn't currently have.

But maybe outside of that, where do you feel like there's ways to win to where maybe you could add on to your existing asset base or sell one of your current assets to someone else where it might be complementary.

I would love to get your broader perspective there.

Alberto Paredero-Quiros^ Aaron, thank you for the question.

So obviously there are multiple dimensions in which we believe we need to improve to be competitive in the marketplace and to win.

Starting with our commercial execution, driving the right focus behind the right categories with the right consumer understanding of consumer needs is an important capability that we have been building and we need to continue making improvements in that direction including as well our commercialization strategy and improving the distribution that we have for our key products. Even with those products that are market leaders, as Zach mentioned a second ago, in (inaudible) numbers.

So that still represents an opportunity that we need to pursue and continue strengthening that commercial capability is certainly one priority.

Right now the biggest struggle that we're having is with our operational execution in some of our facilities.

We believe that we have appropriate infrastructure.

We certainly have ideas on how we can step up and improve the -- with a better layout and with some capital investments that we can drive significant productivity.

But it starts with better execution of our sales and operating planning process, our labor efficiencies.

So there is a significant amount of opportunities that we are identifying there, some of which are low-hanging fruit, some of which may be a little bit more harder to get to.

While we are approaching this strategic review, we're certainly not leaving anything on the table. All options are valid.

We know the value of some of those assets.

We know the value to us.

We know the value to some other people.

We know the value that we can generate if we were to improve some of those capabilities.

So all of those things I said will be on the table.

We'll look at all of the possible options, and we are confident that we'll be able to make the right decisions at the end of the exercise.

Aaron Grey^ That was really helpful in terms of how you guys are evaluating it.

Second question for me, just in terms of some of the U.S. assets. You mentioned some in terms of Florida with Gainesville, but also just looking at Texas, I know we talked about it last call.

But just as we think about the ability to potentially consolidate speaking with the exchanges or otherwise, can you talk about the dynamics needed for you to deploy capital into the U.S. market? Can you do that now? Would you have to wait? Would love to just get more color in terms of how you think about the U.S. and the capital allocation strategy that you alluded to earlier.

Zachary George^ Yes. Thanks, Aaron.

I think as you know and we've discussed, we have the ability today and we see it in our sort of trailing activities to deploy capital into the U.S. through our SunStream joint venture.

We've done so with direct exposure to credit through that joint venture.

We've also done -- we've also been able to get indirect exposure to equity through that vehicle.

We're now at a point where most of the capital has been repatriated and the next step will be to reconcile these remaining exposures and work to consolidate the medical exposure.

I think you've seen a number of other transactions in the marketplace where recreational assets have been ring-fenced and owned indirectly to facilitate an uplisting.

So that would, at this point, given the lack of clarity on Schedule III for rec in the U.S., be part of that.

So we're not going to wait for the U.S. government action to focus on the controllables.

But to directly answer your question, we have deployed capital.

We have the ability to do so. And the next step is to work with the relevant regulatory bodies as well as exchange to facilitate the consolidation of at least the medical exposure into our recurring P&L.

Operator^ Thank you. Ladies and gentlemen, this will conclude our Q&A session. And I would like to turn the conference back over to Zach George for closing remarks.

Zachary George^ Thank you.

I want to thank our owners, commercial partners and employees across the organization today. To everyone joining us, thank you for your time and continued interest in SNDL.

We appreciate your support.

And look forward to updating you again in the near future.

Have a great day.

Operator^ Thank you. And this concludes our conference call.

You may disconnect your lines. Thank you for participating.

And have a pleasant day.