Aleafia Health, Inc (Q4 2021 Earnings)

February 15, 2022

Corporate Speakers:

- Tricia Symmes; Aleafia Health Inc.; CEO
- Matt Sale; Aleafia Health Inc.; CFO

Participants:

- Rahul Sarugaser; Raymond James Ltd.; MD and Equity Analyst of Healthcare, Biotechnology & Cannabis
- Jack Keating; Research Capital Corporation; Research Associate

PRESENTATION

Operator: Good day, ladies and gentlemen, and welcome to the Aleafia Health 2021 Fourth Quarter and 12 Months Results Conference Call. This morning, Aleafia Health filed on SEDAR its financial statements and associated management discussion and analysis for the 3 and 12 months ended December 31, 2021. All comments to be made on this call today should be taken with reference to and are qualified in their entirety by those documents.

Today's call includes estimates and other forward-looking information from which our actual results could differ. Please review the cautionary language in today's press release regarding various factors, assumptions and risks that could cause our actual results to differ. Please review the cautionary language in today's press release regarding various factors, assumptions and risks that could cause our actual results to differ.

Furthermore, during this call, we will refer to certain non-IFRS financial measures, including branded cannabis net revenue, adjusted gross margin and adjusted EBITDA. These measures do not have any standardized meaning under IFRS and our approach to calculating these measures may differ from that of other issuers, and so these measures may not be directly comparable.

Please see this quarter's MD&A for more information about these measures. I will now pass the call over to our Aleafia Health's CEO, Tricia Symmes.

Tricia Symmes: Thank you, Howard, and welcome fellow shareholders. I am very excited about Aleafia's future and exciting year ahead of us. The prospects for our company are the best they have ever been, and we look forward to continuing to show shareholders and investors what great things we can do in this industry. Our mission is very direct; to improve people's lives and that is what will see us realize our personal and business ambitions.

Embracing this mission is now more important than ever. First off, I would like to thank Geoff Benic, our former CEO for the last 3.5 years for his leadership, passion and mentorship to Aleafia Health. He put together a phenomenal team, got Aleafia off the ground and where we are today, and we wish him well in his next challenge.

Now let's talk about the company as it is today. The core strategic objectives that will drive Aleafia Health to sustained profitability reflect a pivot to focus on branded cannabis revenue. In 2021, we transformed our business evolving from a wholesale producer to a branded cannabis company, and that is a major change. Today, you will hear the word sticky and hyper growth, 2 concepts that are driving us forward. Sticky, of course, means that sales will occur over and over, as customers will be using our products again and again.

It occurs in the medical cannabis segment, where the revenue is recurring at attractive gross profit margins. And hypergrowth characterizes our trajectory in both the adult-use sales channel and the opportunity we see in select international markets.

Now let's talk about Aleafia's transformation and what has it meant to our Q4 and 12-month results. Our revenue is driven by 3 strategic pillars: an exciting CPG-branded adult-use portfolio, generating $24 million run rate net revenue; leadership in medical cannabis with its $10 million run rate net revenue; and burgeoning international sales, where we are well positioned in 3 countries, Germany, the U.K. and Australia and have developed partnerships with key established European supply distributors. We consider international sales to be an important opportunity and have already delivered products overseas. More to come on that.

Another highlight is that we are targeting the second half of 2022 to achieve breakeven adjusted EBITDA profitability. To do this, we are improving adult-use margins through portfolio optimization, and we are reallocating the company's headcount strategically to optimize talent and maximize revenue velocity. I can tell you today that we are poised to achieve a top 10 market share position in 2022, driven by leadership in the broad-ranging adult-use value cannabis category.

Our very appealing Divvy value brand is consistently among the top searched brands at the Ontario Cannabis Store. Our 5 cannabis brands span the spectrum from premium and craft flower to the value category where we enjoy significant leadership. Since Q4 2020, 37 new SKUs have been launched, as we are aggressively pursuing and gaining market share in the 3 largest categories: dried flower, pre-roll and vapes. We are pleased to report that Aleafia delivered a top 3 change in market share rankings out of 40 Canadian licensed producers from Q1 2021 when we launched our Sunday Market House of Brands to Q4 2021.

Here's what the results tell us. In 2021, the total net cannabis revenue of $36.1 million represented a highly diversified sales mix, with our 2 hyper growth segments in adult use and medical cannabis achieving 80% of net revenue, a complete turnaround from 2020, where bulk-wholesale product represented 67% of net revenue. This is a complete change. We are moving away from lower-margin bulk wholesale sales where the relationship with the consumer is distant. Our focus now is to understand and deliver what the consumer demands.

To look at it another way, for the 12-month period ending December 31, 2021, branded cannabis net revenue advanced 96% to $28.7 million from $14.6 million in 2020. For Q4 2021, it increased 60% to $8.3 million from $5.2 million in Q4 2020. We are in the top 3 of Canadian LPs in market share rank increase to #15 in Q4 2021, up from #30 in Q1 2021. There was also a 37% rise in Q4 2021 retail sales pull-through relative to Q3 2021.

Aleafia is now a branded products company, and we are very proud of our Sunday Market House of Brands. It has achieved 396% growth year-over-year, and it is anchored around Divvy, the everyday brand focused on quality, high-margin and high velocity sales categories, including dried flower, pre-roll, vape and select cannabis derivative products. We delivered top 10 Q4 2021 retail sales increase relative to Q3 with a 37% sales growth. The company's adult-use market share increased from 0.3% in Q1 2021 to 2.0% in Q4 2021.

Adult-use net revenue increased a very impressive 396% to $16 million compared to $3.2 million in 2020 and increased 326% to $6 million in Q4 2021 compared to $1.4 million in Q4 2020. This growth was led by expansion of our flower and pre-roll retail sales, which each grew by 1,000% during the last quarters. Our Divvy value brand, a top searched brand on OCS.ca, reached the tenth percentile in Ontario for its vapes and its oils, are one of the top SKUs in the province.

Our market share is on a dramatic upward trend, rising 27% Q4 versus Q3 2021 and achieving 15 positions from 30 at the end of Q1 2021, when the Sunday Market House of Brands was launched, to 15 at Q4 2021. In the second half of 2021, there was approximately a 3x increase in gross adult-use sales over the first half of 2021. This momentum has continued into 2022. As you can see, our market share rank continues to rise. Over this period, the company delivered strong retail pull-through in each of the 3 major categories, with flower retail sales climbing approximately 1,400%, pre-roll increasing approximately 1,000% and vape retail sales increasing approximately 200%.

Aleafia is a significant player in the medical cannabis market through our flagship Emblem brand. And there, too, revenue is climbing due to its sticky and recurring revenue base with strong gross margins. Medical cannabis net revenue increased 33% to $10.6 million in 2021 compared to $8.0 million in 2020, driven by strong script growth and new strategic clinic and benefit provider partnerships that see the benefit in joining the Aleafia medical ecosystem.

Script count increased 17% year-over-year while the market declined at minus 23%. We had double digit growth in medical cannabis sales despite the overall market decline. Third-party clinics now represent just about 55% of gross medical revenue and 4 new unionized employers were added in 2021. Key wins include a 22% increase in Unifor patients in Q4 over Q3, a 67% increase in prescriptions from Veteran patients in Q4 2021 over Q3 2021 and a 2,000% increase in Quebec scripts in Q4 2021 over Q3 2021.

The medical channel represents a highly scalable, sticky, recurring revenue base. Through Unifor and our new strategic partnerships, we are poised to accelerate new patient uptake and continue to pursue those patients who are reimbursed for their medical cannabis. We are seeing strong fundamentals relative to our competitors with year-over-year script count up 17% from 32,191 in 2020 to 37,779 in 2021 and an active patient base which grew 13% from 17,400 in 2020 to 19,700 in 2021.

One of the important drivers of our competitive advantage is in producing large format dried flower SKUs in Port Perry, one of the only successful outdoor cultivation facilities in Canada. As one of the first operational, large-scale, legal outdoor grow in Canadian cannabis history, it launched in 2019 and was an industry disruptor that enabled Aleafia's strategic pivot as we began to produce large-scale harvest of THC dried flower.

Dried flower and pre-rolls represent more than half of the total adult-use market, and we are a high-quality and low-cost producer of dried flower. A record-breaking outdoor harvest in 2021 puts us in a strong position to supply our burgeoning adult-use sales channel. Thanks to the expertise of the team there, we produced high-potency flower that averaged 22% THC and reached up to 27% THC, the kind of level consumers are looking for.

We are seeing the market evolve such that in addition to potency, consumers are paying increasingly more attention to terpenes, which went from 2.7% to 5.7% in 2021 compared to a maximum 3.3% in 2020. The harvest this year is exponentially higher quality than 2020. In high potency flower, we cultivated approximately 500 kilos in 2020 versus 11,650 kilos in 2021, all of which is the highest grade flower already being sold at retail under the Divvy brand.

I will now turn the presentation over to Matt Sale, our CFO, and he will tell you more about some of Aleafia's important metrics. Matt?

Matt Sale: Thank you, Tricia. Good morning. It's great to speak with you all today. In this quarter and the 12-month period, there are many defining moments that point toward the kind of company Aleafia is rapidly becoming. Our product mix has shifted almost completely to branded cannabis adult-use and medical products from lower-margin bulk-wholesale products. Net branded cannabis revenue increased 96% over 2020 to $28.7 million and now represents 80% of our total net revenue.

This is a complete turnaround from 2020, where bulk-wholesale product represented 67% of total net revenue. This was driven in part by the redirection of high potency flower from our outdoor harvest in Q4 to the adult-use sales channel, where it will supply higher revenue per gram products in the first half of 2022.

We have diversified our sales mix with higher quality, direct-to-the-consumer, adult use and medical sales, which deliver stronger growth and net realizable margin. They're more stable, provide greater visibility into future revenue and pave the way for sustainable, long-term top line growth.

This change leads the emergence of Aleafia as a leading consumer packaged goods, or CPG company with multiple brands. We call this our House of Brands and believe they will win consumer loyalty, enabling a sticky, quality revenue stream for Aleafia as evidenced by the success of Divvy. With branded cannabis net revenue now representing 80% of our total, we believe this is a significantly more diversified revenue base while delivering higher growth and net realizable margin.

Now let me unpack some of the key growth drivers in our adult-use business. We generated $1.7 million of net cannabis revenue in Q1 2021, $3.2 million in Q2 2021, $5 million in Q3 and $8.3 million in our most recently completed Q4 2021 period, representing a healthy 19% quarter-over-quarter increase and a 1,237% compounded annual growth rate since Q3 2020.

While the Q3 and Q4 increases have been strong, the net cannabis revenue could actually have been meaningfully higher as consumer demand evidenced by purchase orders from the provincial supply boards exceeded our ability to fulfill them as we experienced operational inefficiencies in our Grimsby, Ontario indoor grow facility.

Adult-use cannabis, including flower, pre-rolls and vapes, is our single largest sales channel with the highest growth rate and is exactly where we want to be. In the second half of 2021, there was an approximate 3x increase in adult-use retail sales pull-through of our products over the first half of 2021 based on HiFyre data. Catalysts for this growth included accelerated retail penetration, our portfolio optimization and expanding our cultivation capacity with a continued focus on high-value flower at an attractive price point.

Our outdoor harvest positions us well to continue ramping adult-use net revenue, as this high potency flower can be redirected into the large-format pre-roll category. We are already seeing robust purchase order activity in the first 6 weeks of this quarter, positioning us well to continue our quarter-over-quarter growth trajectory.

As you may recall, Aleafia began its journey in cannabis in the medical sales channel with the acquisition of Emblem. And in 2021, we built on that success with the expansion of our medical ecosystem. This channel is an important one for Aleafia. Our medical business is growing, and we're optimistic about its future. Our net revenue over the last 8 quarters has increased from $1.4 million in Q1 2020 to $2.2 million in the most recently completed Q4 2021 period, representing a CAGR of 30%.

We are encouraged to continue this growth and have numerous favorable tailwinds and initiatives to drive this. We are focused on growing our active patient base. Under our exclusive Unifor partnership, we onboarded 4 unionized employers in the second half of 2021 and see lots of runway. With each new employer onboarded, we refine our process to expedite the onboarding of future new employers.

Additionally, we are targeting expanding clinic partnerships by 20%, with numerous new potential clinic partnerships in our pipeline with attractive underlying active patient basis. We are focused on serving high-value patients that have higher average ordering values, or AOVs, and order frequency.

As an example, we see certain Veteran patients that exhibit AOVs that are 2.7x that of our non-veteran patient base and order twice as frequently. We are relentlessly focused on better serving our patients and are undertaking a complete restructuring to integrate our physical clinics, our virtual clinic and third-party clinic platforms and believe this will drive operational efficiencies, reduce our SG&A profile and unlock future revenue growth.

Our medical ecosystem is positioned to continue leading the industry with research education for clinic partners and our active patient base to ensure they all continue engaging with our ecosystem. Reducing adjusted SG&A expenses are a key driver to profitability for us. Adjusted SG&A declined 35% from $11.2 million in Q4 2020 to $7.1 million in the most recently completed Q4 2021 period.

We implemented several initiatives throughout 2021 to reduce our cost profile and make our infrastructure scalable to sustain significantly higher revenue volumes. We implemented an internal direct sales force to sell into both the adult-use and medical channels. We put in place an operational management team at each of our 3 production facilities, who are capable and prepared of managing significantly higher ordering throughput.

We developed a suite of corporate shared services, including information technology, finance, human resources and legal, which are now leveraged across all our sales channels. Further, we saw significant nonrecurring costs in the first half of 2021 related to our House of Brands build-out, which are now largely complete.

The company reviewed its inventory and fixed assets and identified certain slow-moving assets, primarily related to the bulk-wholesale sales channel. As a result of the company's focus on branded consumer products, the company recorded a $19.6 million inventory provision.

Additionally, the company recorded a $28.8 million impairment of property, plant and equipment due to changes in marketing conditions for these assets. Although we have made great progress in 2021, reducing our quarterly adjusted (inaudible) by 35% over the last 4 quarters, while branded net revenue grew 60% over that same time period, we have further initiatives actively underway to reduce costs and enhance profitability.

We have a renewed focus on cost discipline to accelerate the pathway to adjusted EBITDA breakeven profitability. We are focused on enhancing gross profit margins. Total adjusted gross profit margin before fair value adjustments and inventory provision was 27% in Q4 2021 compared to 50% in Q4 2020, primarily due to the company's focus on branded cannabis products that deliver higher overall net margin per gram.

We are undergoing a SKU optimization to align our portfolio on best-selling product formats to optimize our margin profile. Moreover, we believe the market can bear moderate strategic price increases while still achieving an attractive value proposition for our products. We are optimizing our operating expense profile to further extract costs and drive towards profitability.

In that regard, we reviewed our sales channels to embrace those that delivered the highest net realizable margin per gram of flower sold, and we methodically reviewed Aleafia's cost structure to optimize our talent and resources towards those channels. The company completed a strategic restructuring plan in the second half of 2021, which saw significant headcount reductions.

In Q4 alone, the headcount reduction, continuing into early January 2022, represents $1.9 million in annualized savings. We are integrating our physical, virtual and third-party clinic medical channels, which is expected to further optimize our cost profile and facilitate new patient onboarding and servicing on an ongoing basis. In 2021, we delivered $36.1 million in total net revenue.

And currently, our run rate net revenue is approximately $41.9 million. This is based on approximately $24 million in adult use, $10 million in medical and international and $8 million in bulk wholesale net revenue. We have a multipronged growth strategy to scale this to between $53 million and $63 million in net revenue in fiscal year 2023.

The core pillars to achieve this are: attaining a top 10 market share position in the overall Canadian adult-use market by focusing on quality, high-margin and high-velocity sales categories; expanding our leadership position in medical by onboarding additional third-party clinics; and accelerating market uptake under our exclusive Unifor partnership; building on existing partnerships to unlock the key European market and continue driving expanded international sales.

To help finance these ambitious growth targets, the company completed 2 financings in the second half of 2021, including a $10 million senior secured term credit facility in August and a new $19 million credit facility in December. The new credit facility consists of a $12 million term loan and a revolving receivables facility up to $7 million. The revolving receivables facility remains undrawn, providing the company with liquidity to fund working capital investments required to continue rapidly scaling our adult-use sales.

The company is also actively engaging with holders of our listed unsecured convertible debentures, maturing on June of 2022, with a view to affecting changes in key terms that are equitable to both the holders and the company and provide a sustainable foundation for the company's continued growth. We believe these fiscal year 2023 targets for net revenue, adjusted gross profit margin, adjusted SG&A and adjusted EBITDA are achievable based on the strategies we have outlined here today. Tricia, over to you.

Tricia Symmes: Thank you, Matt. As demonstrated, we have launched a multipronged growth strategy across 3 high-value pillars to achieve these estimated growth projections. The pillars are: adult use, in which our goal is to attain top 10 market share in the overall Canadian adult-use market; medical, where we will onboard additional third-party clinics and accelerate market uptake under the exclusive Unifor partnership; international where our goal is to build on existing partnerships to unlock the key European market.

I became CEO on February 7 of this year. Previously, I was the company's Chief Commercial Officer. My background is in building and rebuilding companies and taking them to the next level of growth and profitability. A big part of our mission is engaging with the consumer. And to accomplish that, we've attracted a very lean top executive sales and marketing team with an internal sales force that truly understands the CPG marketplace and what consumers want.

Our team is focused on the need to drive value, to secure loyal customers and drive and maintain market share. Aleafia's success will be based on understanding the consumer and providing a value proposition that others have not capitalized on. And this is why we are achieving hypergrowth. In 2022, we intend to be leaders in our 3 pillars: adult, medical and international. We are very optimistic, and we would like you to share in this optimism. For Aleafia Health, the best is yet to come.

Thank you for being here today and listening to this presentation. We will now take questions.

QUESTIONS AND ANSWERS

Operator: (Operator Instructions) Our first question or comment comes from the line of Rahul Sarugaser from Raymond James.

Rahul Sarugaser: So congratulations on the large percentage growth that you've seen, particularly in the adult use, as well as somewhat in the medical channel. So -- I guess my first question is, while those percentage increases are impressive, on a dollar basis, it's not. It's still sort of middle of the pack.

And given that market share really is the determinant of success in the Canadian market and Aleafia's sitting at around plus or minus 1.5% of adult use and to become really relevant, we need to be at least north of 3% to potentially 5%. How do you plan on -- how does your road map drive you towards that sort of relevant market share?

Tricia Symmes: Well, thank you very much for your question. I think your points are very valid. I would provide a few answers to help clarify. So first of all, on the adult use of the business, I think what's important to note is that we only entered into the adult use of the business in the second half of 2021. And really, this is going to be the first full year that we will see sustainable run rates with the Divvy House of -- with the Sunday Market House of Brands and with Divvy.

Our projections this year will help to take us north of that 3% market share that you shared on. And really, what's that's going to be driven by is obviously the superior and strong brands that we're continuing in the value category, but also with us going into larger formats that we discussed in terms of the flower, the milled product and other segments, such as vapes, in which those products were not previously launched in the first part of this year.

We're also starting to see more of a sustained run rate of these products as we did have some supply challenges in the last part of 2021, where we had actually greater demand for our products than we were able to pull through. We're now starting to see significant improvements in our greenhouse, and we're also seeing significant improvements in operational efficiency.

And we really believe that we've built a brand that consumers want. It's really focused around, obviously, high-quality product, but obviously offering at a value that is sustainable for consumers and ensuring that we're maintaining that sticky revenue. So the adult portion of our business will continue to be a very strong growth driver as we start to realize those consistent run rates and increase exponential growth quarter-over-quarter.

We're also looking at strategic price adjustments within our portfolio. As you know, it was very important for us to establish the brand first and create a loyal consumer following. And as we start to move into some of those higher categories that, obviously, can generate more improved margins for us and increase the brand strategically, this will have a very important effect on the overall adult-use portfolio.

I think the second most important part of our continued growth to generate, obviously, higher market share value as a company will be in the medical side of the business. We have an exclusive partnership with Unifor, where, as you pointed out, there are some good growth improvements in Q3 and Q4.

But unfortunately, due to COVID and the challenges that many companies have experienced there, it was very difficult to be present in front of potential patients to be able to onboard them as quickly as possible. We have actually seen excellent growth in new players onboarding with us that will be ratifying those agreements and see insurance coverage.

And we've also just acquired the retiree base, which represent a significant increase in new medical patients that will have access to over $2,500 per year in reimbursed medical benefits with cannabis. So that will continue to be a very important pivotal part of our growth as the medical part of the business is sticky and recurring revenue and, obviously, at higher margins.

And then the last portion, which is obviously one that we're extremely excited about, is the international side of the business. Again, as a key differentiator for us to help move and improve our market share overall in the Canadian market is that these are at much higher margins and a higher price point.

We've already established excellent partnerships in the end of 2020. We have leveraged our first shipments into European markets, and we already have a strong base of POs and export permits that we will capitalize on as we move into 2022. So it's really the 3 pillars that will help to take us to that next level and get us into the top 10 LP status that we just discussed on this call.

Rahul Sarugaser: Great. So to drill down then on the medical side specifically and in terms of the Unifor contracts because we cover the health care space more broadly, we've certainly seen the difficulty for sales folks, irrespective of where on the industry getting to talk to, whether it's doctors or patients. But now that that's opening up, hopefully, that certainly should benefit your sales team. So how should we be thinking about that channel starting to provide material and durable revenue sort of -- and what should we think in terms of the time line for that?

Tricia Symmes: Yes. Excellent, excellent question. So the medical cannabis pillar of our business, as you mentioned, is a key strategic future growth driver, and it's based kind of on a multipronged strategy. The first is a strong and growing patient base. So we did recognize this in 2021, and we're one of the only medical companies to be able to continue to increase patient base and show growth versus an overall decline in the industry, which is largely driven by a lot of consumers moving towards the adult segment. We believe that it's important to continue to grow the size. It's a sticky revenue base, and it's also one in which we have a lot of control with our own virtual clinic platform.

That's an important transition that we made this year outside of the brick-and-mortar to be able to seek patients virtually, make sure that access was easier for these patients and that we can continue to onboard new patients, which you know is one of the important points of this, is onboarding patients, but then continuing to be able to repeat their prescriptions.

The other focus for us on the medical side, which we've seen tremendous growth in Q3 over Q4, was based on our third-party partnerships. And we've taken a strategic look at how we can have exclusive partnership with Unifor over the 300,000 members, but more importantly, how we can onboard those potential patients at a more rapid level as we come out of this COVID period. And that we've also looked specifically at other third-party benefit providers, partnerships in both the Quebec market and with Veterans that are all a recurring revenue base that will help to strategically grow our medical platform and ensure that this becomes a critical pillar of ours.

I think the other thing that I would mention is despite the challenges that many of us experienced during this COVID period, we were still able to onboard 4 new employers, and that only represents less than 5% of the total opportunity with that Unifor base.

As these agreements begin to become ratified, as we have opportunities to be in front of these potential patients in person through education and onboarding and as we start to tap into the retiree group, which just received their reimbursement at the end of January this year, this will help to see substantial increase in growth in our medical platform.

And we really believe that this will be a catalyst for moving us into that higher-insurance-covered area for medical patients, which is really, myself having come from pharmaceuticals, is the most important thing that you have a platform where patients can have reimbursement for their therapy and it is one that can be continuous, recurrent and sticky. So this is part of our strategy on the medical side to help inflate and accelerate our growth.

Rahul Sarugaser: Great. And we'll certainly look forward to seeing growth there. And if you -- want to indulge one last question just around margins. Given that historically, margins were quite dynamic given essentially outdoor indoor grow, the mix between wholesale and, of course, the different channels. So how should we be thinking about margins sort of in the medium term as they sort of settle out and as you start to focus on these 3 primary channels that you outlined?

Matt Sale: Yes, thanks for the question. I think directionally, where Q4 was is a good starting point to think about our margin profile. I will say with the change in sales mix towards branded cannabis products away from wholesale, the biggest benefit we see is in margin per gram sold. So it's -- as opposed to just looking at a percentage, wholesale directionally has had quite a bit of volatility over time with some quarters quite higher.

And Q3 in particular, was quite a bit lower. Our adult-use portfolio and our medical portfolio, I think, will each deliver margins in and around the kind of 30s to 40s with medical, I think, at the higher end of that and adult at the lower end of that. And depending on our sales mix, it will move around. The guidance we're putting out for fiscal '23 is to achieve between 32.5 and 37.5.

Operator: Our next question or comment comes from the line of Jack Keating from Research Capital.

Jack Keating: My first question was, I was wondering how we should think about the relationship with wholesale going forward?

Matt Sale: Yes, thanks for the question. So wholesale, it historically was a very important part of our revenue mix. In 2020, it represented 2/3 of total net revenue. As we have now launched our House of Brands and are focused on branded cannabis products, we see it having, overall, a lower percentage of our total net revenue.

I will say it is still -- can be an important sales channel, particularly for [off-spec] or lower-quality flower that we're able to maximize the net realizable margin on our entire harvest. But I think going forward, our -- really, our focus is you should expect to see a majority of our revenue based on branded cannabis products.

Jack Keating: Okay. Awesome. I was also wondering if there will be any seasonality impacts on revenue in Q1.

Matt Sale: Yes. So from a seasonality perspective, I think our medical business is -- has some ebbs and flows, particularly in the summer months, inability or less focus on getting prescriptions refilled. But generally is a sticky recurring-type revenue base. So each quarter is pretty consistent over the period, so has least volatility.

Our adult-use business, I think we're having just -- we had strong growth in Q4, growing over 19%. We see that same momentum continuing in Q1 of this year and throughout fiscal '23. I think in the first half of this year, we have the benefit of our outdoor harvest, which only comes down once a year.

So that will really benefit the first half momentum more so than the second half momentum. And then on international and wholesale, I'll say, wholesale is less able to predict seasonality. I think it's much more opportunistic than the other 3 sales channels. Does that -- hopefully, that's helpful to you.

Operator: I'm showing no additional questions in the queue at this time.

Tricia Symmes: Well, thank you very much for spending this morning with us, and we look forward to continuing to update on our journey as we move through this next exciting period. Thank you very much.

Matt Sale: Thank you.

Operator: Ladies and gentlemen, thank you for participating in today's conference. This concludes the program. You may now disconnect. Everyone, have a wonderful day.