**Aleafia Health, Inc(Q2 2023 Earnings)**

**November 09, 2022**

**Corporate Speakers:**

- Unidentified Company Representative; Aleafia Health; Unknown
- Patricia Symmes; Aleafia Health; CEO
- Matthew Sale; Aleafia Health; CFO

**Participants:**

- Matthew Baker; Cantor Fitzgerald; Analyst

**PRESENTATION**

Operator^ (Operator Instructions).

Unidentified Company Representative^ Good morning, ladies and gentlemen, and welcome to the Aleafia Health Fiscal Year 2023 Second Quarter Results Conference Call. This morning, Aleafia Health filed on SEDAR its financial statements and associated management discussion and analysis for the 3 months ended September 30, 2022. 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. 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 Aleafia Health's CEO, Tricia Symmes. Please go ahead.

Patricia Symmes^ Thank you, and welcome, fellow shareholders. On behalf of Matt Sale, our CFO and the entire team at Aleafia Health, we wish you a warm welcome this fall morning. Today, on November 9, Matt and I are excited to tell you about how Aleafia continues to accomplish exceptional things and is surpassing expectations on the path to profitability. First of all, under the topic of surpassing expectations, we are very proud to announce some very important news. In Q2 of fiscal year 2023, the company is pleased to announce it has reached a major milestone, having achieved adjusted breakeven EBITDA well in advance of our previous end of fiscal year 2023 estimate.

An accomplishment we are very proud of as it has been a lot of hard work and very tough decisions to get us here this quickly. We believe we are the first Canadian LP of similar size, scale and operational footprint to attain sustainable breakeven adjusted EBITDA profitability. Relative to the prior year, we grew adjusted EBITDA by $7.7 million, reducing adjusted SG&A by 45% with an additional 6% fewer FTE since Q1 2023. One of the ways we accomplished this was by extracting $10 million in cost reductions over the last 9 months.

We said we'd get to breakeven, and we not only did it, but we also did at 2 quarters ahead of our goal, a monumental milestone for Aleafia Health. This clearly expresses our strong momentum, our drive for results and our increasing financial success. Now I will take you through some of the core objectives of the company. We identified 4 core strategic objectives earlier this year, and these continue to demonstrate growth, leadership and execution across all 4 on our path to profitability. They are: one, targeting a top standing end market in the second half of fiscal year 2023; two, leadership in medical cannabis; three, growing our international business and of course, four, achieving adjusted breakeven EBITDA profitability, which we now have achieved.

Presently, we are operating with $23 million in run rate net revenue and the third highest growth rate among top 20 Canadian LPs and retail sales pull-through over the last 6 quarters. While other seed market share ranking is #14 in our core markets for Q2 and Divybrand leadership in the drive cannabis value segment market share has been maintained above 3% in Q2. In medical cannabis, our run rate net revenue is $12 million, and we are enjoying deepening penetration in key high-value markets, including veterans, Quebec and third-party clinics.

The result, 7.5% market share in the overall Canadian medical market. Internationally, we are now operating with $2.6 million in run rate net revenue and Q2 international sales have now approached a record $700,000. In a promising development, we have a new international partner and a purchase order executed that will commence product shipments this month. We will discuss that more in an upcoming slide. Now we want to share with you a little bit about the transformation of the business over the last 9 months. Looking at the company, it was 1 year ago in what was Q3 of our previous fiscal year ending September 30, 2021, and it is today ending September 30, 2022.

The difference is remarkable. We set out to be a branded adult-use cannabis company and pivot away from being a wholesale bulk provider. There was a strong revenue growth in branded channels, partially offset by higher excise duties. Branded cannabis revenue grew 21% to $13.3 million in fiscal year Q2, up from $10 million for the same period last year. Branded cannabis net revenue moved up 11% to $9.4 million from $7.6 million. While the percentages of adult use in medical cannabis were somewhat similar year-over-year, look at the change in both bulk use and international percentages.

A year ago, on this chart on the left, there was a negligible international revenue and wholesale comprised 20% of the business. If you look at the right, there's international now at 6% and growing and wholesale has been strategically reduced to 11% overall. That's how we placed the company in the higher margin, higher growth segments of the cannabis market. Now we never speak about some of the more exciting things that we are up to in the adult use landscape. So I wanted to share a little bit about how the company is becoming recognized for its many innovations in both product development and marketing events, earning Aleafia a great deal of buzz among media and purchases this past quarter.

As you may know, the prestigious Toronto International Film Festival is among the top 3 film tests in the world, bringing celebrity here from all around the globe. In this year's TIP, for the first time ever, a CBD canvas product, our very own and noon and night Nico, a first-to-market combination of CBD suspending in melatonin was featured in an exclusive product suite for Hollywood A-Listers. Immediately after that group, our second annual harvest party brought over 250 enthusiastic retailers, consumers and purchasers nor Toronto to the company's Port Perry outdoor growth firm. the first and largest in Canada, where they celebrated the impeding harvest of more than 70,000 plants. And ramping out the quarter, Ventia, the international go-to spot for investors wanting to learn more about the growth companies feature the Aleafia Health story on its all-access live show.

Altogether, this build out a very busy month of buzz for the company and continues to add to our deepening penetration in the market, driving both brand awareness and brand loyalty. Now back to the business as we turn our attention to the company's business overview. We'll start with the Q2 fiscal year 2023 highlights in the adult-use channel, continuing to show strong demand, the on-trend flagship Divvy brand drives robust adult-use net revenue growth. The company achieved 31% growth in revenue over the prior year with adult-use revenue moving to $9.4 million from $7.2 million, 14% growth rate in net revenue over the prior year, up to $5.7 million from $5 million in 2021. This added up to a top 3 standing or 36% in total retail sales growth among top 20 LPs over the last 6 quarters in our core markets.

Continuing our pattern of growth. The chart on the left details Aleafia impressive 36% compound quarterly growth rate in participating markets since Q1 2021 compared to its peers. Retail sell-through growth has been close to 90% year-over-year in British Columbia, Alberta, Saskatchewan and Ontario in our core markets. Among the highest are pre-rolls and milled flower, 2 of the fastest-growing high-margin market segments. In pre-rolls, we've achieved 3% market share in listed regions, 35% growth rate in retail sales pull-through in Ontario, and 80% compound quarterly growth rate in Q1 calendar year 2021.

Milled flower is equally impressive, with the #2 ranking for market share in Ontario was an impressive 7.8%, 19% quarterly growth rate since Q3 fiscal year 2022. Now we will talk a little bit about the value segment and the Divvy ranking. The estimated total addressable market, or TAM, of the value segment, where Divvy plays is approximately $750 million per year. Divvy maintained its impressive continued trajectory, demonstrating brand awareness by remaining a top search brand on ocs.ca as well as market leadership positions in key high-margin Ontario product segments with milled flower achieving the #2 position with 7.8% market share and pre-rolled rising to the #4 rank with 4.6% market share in Ontario.

Milled flower enjoys the #10 rank with 2.1% share, a remarkable achievement considering the loss of $5 million in revenue due to higher demand and capacity as well as the cyber attack at OCS and the B2 strike. Vapes continue to show promise as a category for the company with the #21 rank and 1.4% share and remain a goal for us to break into the top 10 category. A highlight of this story, however, is our popular pineapple Nuken in 12 pack of pre-rolls, a runaway single SKU, achieving a #3 ranking in Ontario for Q2, a real breakthrough success story since its launch in January.

Now we will turn our attention to the Port Perry harvest update. We are very proud of our Port Perry, Ontario outdoor growth facility and continue to drive improved results from our operations there, which has enabled us to monetize these bio-assets into branded cannabis products in the market. This year, more than 250 enthusiastic retailers and other supporters joined us to celebrate the harvest, which started sooner, reducing costs by $0.3 million. It yielded more than 70,000 plans with flower to be in the market before this quarter's end based on purchase order needs already for pre-rolls and milled flower. The results were very impressive.

THC dominant strain yield was up 77% of the total harvest compared to 60% last year. We saw an 11% increase in harvest of THC cultivars over 2021. We are seeing a 25% improvement in the yield per plant of THC cultivars -- our top-selling cultivar from this facility, Pineapple Nuken, yielded 4,000 kilos of 20% plus THC, with over 3.6% trypan profile, an incredible result for outdoor grown flower and a tribute to the skill of our growers and their diligent management of our assets. We also saw operational cost savings of $0.3 million year-over-year at this facility.

Now we turn our attention to an update on our Gimsby greenhouse facility. In Q3 fiscal year 2023, the company is enacting further cost savings initiatives with the wind down of its Grimsby greenhouse, representing an annualized net savings of approximately $4.1 million. The company is focused on continuing to build the brand awareness of its everyday value brand divvy by supplying its consumers with innovative, sought-after cultivar strains from the best sources of flower supply, whether that be internally grown or produced from other third-party growers. The company will commence the process of winding down operations effective November 2022 that will impact 41 employees.

Over the last 4 quarters, the company has experienced consistent whole flower stockouts as the scale of the Grimsby greenhouse was outstripped by consumer demand for our products. And we have now mitigated this issue by onboarding strategic partners to supply our ongoing requirements. The wind down will begin this month as the remaining harvests are completed, and we will continue to review potential strategic options, including monetization. Net proceeds will be primarily used for debt repayment. The end result of this decision will enhance the company in many tangible ways as we continue to scale growth of our high-margin offerings.

We'll now turn to a discussion on our medical channel. The growth in the Emblem medical product portfolio in the increasingly challenging Canadian medical market, offset industry trends and increased year-over-year growth. Emblem is driven by deepening penetration in new regions and key high-value segments, including veterans, Quebec and third-party clinics. Medical net revenue increased 16% to $3 million for the quarter ended September 30, 2022, compared with $2.6 million in the comparable calendar quarter last year. We also expanded product selection with the Divvy catalog and third-party producers to create a one-stop medical cannabis shopping experience.

We've increased flower selection with a focus on securing more quality and variety flower for patients, including a total of 31 new SKUs since the fiscal year began. We've also improved the patient journey with Emblem and the clinic network. We now turn to some highlights on Q2 fiscal year 2023 international sales channels. Record quarterly revenue of $0.7 million were achieved for the company's promising international market with a new partnership agreement signed in fiscal year Q2 EU GAP certification and a purchase order in hand, shipments to this new international partner are expected to begin early in Q3.

International revenue growth remains a key strategy as it enhances margins. It diversifies our sales mix and unlocks new untapped and growing markets. We continue to drive high-margin growth for the company in Germany and Australia, executing against sales commitments and minimum purchase order requirements with our new year and peer partner. I will now turn it over to our CFO, Matt Sale, to give a financial update.

Matthew Sale^  As Tricia noted earlier, we achieved adjusted EBITDA profitability 2 quarters faster than targeted in fiscal year 2023. It's an enormous achievement due to so many factors. These include aggressive SG&A cost rationalization across all our sites and business units. -- vendor consolidation towards trusted and scalable relationships, negotiated volume rebates on major production input materials and supplies at SKU optimization to align our product portfolio on the highest selling product formats with the strongest margin profile. Strategic out price increases to buck the trend of price compression, which many of our peers resorted to. Our current adjusted SG&A profile is flexible and scalable to facilitate continued revenue growth.

We're not stopping there. Numerous other projects are underway to continue to drive improved adjusted EBITDA profitability and eventually positive cash flow generation. These include strategic relationships to unlock further flower supply and capture missed revenue opportunities with a retaining offering under our new Divvy Buyers Club, launching large-format SKUs focused on the dry flower and milled product format categories, adding SKUs under our house of brands in higher-margin derivative categories, including roll-ons, sublingual strips and bath balls. The Grimsby greenhouse wind-down, which will augment our cost structure, reducing our fixed costs and represents $4.1 million in annualized net cost savings.

SG&A cost containment, which includes continuing dynamic assessment of all discretionary G&A expenditures. -- enhanced B2B logistics and warehousing services to further utilize our existing asset footprint and drive high-margin service-based revenue growth. B2B private labeling services, which have the effect of increasing our scale and aiding us with even better input material price discounts based on volume. In addition to producing positive and improving adjusted EBITDA profitability, we are focused on cash flow from operations generation. This quarter, we improved our cash flow from operations before changes in working capital by $12.1 million from negative $12 million in the prior year to $0.2 million in this quarter ended September 30, 2022. This is a tremendous improvement and a testament to our relentless focus on building a profitable branded cannabis producer.

This slide details our drive to achieve over $11 million in annualized cost savings and adjusted SG&A over the last 4 quarters and dramatically reduced the company's cash burn for its lowest level ever and rapidly approaching positive cash flow from operations to. Among the key cost reductions completed are in-sourcing certain legal, finance and IT functions integration of the 3 channels in our medical business, a headcount realignment of over 35% reduction over the last 4 quarters.

The nonrecurring brand and product launch costs round down. To achieve economies of scale, we have engaged in vendor consolidation and negotiated on day tender discounts while creating a dynamic focused grassroots sales and marketing organization. We believe our internal sales and marketing team, which drives sales pull-through on both our out use and medical channel is a key competitive advantage for us and allows for further operating leverage as we drive top line growth with limited incremental hit count required to do so. And now I'd like to take you through a few of our Q2 fiscal 2023 financial highlights. Branded cannabis net revenue across all our channels, Aleafia, medical and international are driving profitability and growing.

In our first adjusted EBITDA positive quarter since the transformation of our business from a bulk wholesale producer to a branded Cannabis supplier. Total revenue increased 21% to $15 million over the prior year. Net revenue increased 11% to $10.6 million over the prior year, primarily driven by a 23% growth in branded cannabis net revenue. In the adult-use market, net revenue increased by $0.7 million or 14% over the prior year, primarily driven by strong mill and pre-roll performance. These results were impacted by our flower supply shortages, the OCS cybersecurity tack and BC strikes. We estimate that due to these factors, there was total missed flower sales of approximately $4.9 million in the quarter. At the same time, we increased medical net revenue by $0.4 million or 16% over the prior year, aided by the continued ramp-up in our veteran and Quebec sales initiatives.

While our sales growth was strong as I previously mentioned, it could have been stronger. That said, at Aleafia, we are more focused on profitable revenue growth over absolute revenue growth. You can see this demonstrated in the vast improvement in gross profit margin before fair value adjustments to 35% versus negative 7% in the prior year. Our portfolio optimization in Q5 of fiscal 2022 is driving these results, and we continue to balance driving high revenue growth in avenues with the growth in medical and international channels, which deliver our highest margin sales. Aleafia trades at a deep discount by 58% to the average of its peers despite top quartile growth rates in retail sales pull-through in our core markets and a clear and achievable pathway for improved adjusted EBITDA profitability in the very near term.

Amongst our closest peers of size, scale and business focus to reach this important milestone, we believe that our strong growth and continued financial outperformance of a branded cannabis producer, a catalyst for a potential rerate evaluation. We are pleased to report on our balance sheet transformation in progress. We continue to have liquidity from our receivables facility to drive growth and out-use sales. We have no near-term refinancing required or anticipated. In fact, December 2023 is the nearest term refinancing of our credit facilities.

The company's net debt was reduced from $52 million to $43 million in the quarter end September 30. We possessed the liquidity to drive growth that we've been discussing today, including $1.9 million in total cash on hand, $3.9 million undrawn from our $7 million receivables facility as of the date hereof. We've reported previously on successful agreements with holders of the convertible debentures in which there are no mandatory cash interest payments until June 30, 2024. Next, I'd like to tell you about the company's net working capital and how it is being optimized to improve liquidity and enhance return on capital. Net working capital as a percentage of net revenue has decreased over the past year. Aggressive cost containment and accounts payable has driven a $7 million reduction in an excise duty payables.

On the topic of excise, the company continues to monitor developments on the excise tax regime and potential changes to the calculation to reduce the burden that Canadian LP face and drive it towards the targeted 10%. For Aleafia, AdXsides remained at 10% of sales. Aglivrepresents a $12 million windfall for the company. Inventory management is an important part of optimizing our working capital. With rightsizing inventory a key part of that effort. Inventory turnover increased from 0.8x in Q2 of fiscal 2022 to 1.3x in Q2 of fiscal 2023, driven by the monetization of slower moving off spec flower and bulk distillate materials in the wholesale sales channel. The company continues to evaluate its inventory position with the goal of continued efficiency in inventory turnover metro.

There was a $13 million increase in bioassits in this quarter, primarily due to the seasonal growth spending from our strong outdoor posturing. On the topic of growth, the numerous initiatives underway to drive net revenue growth across all 3 of our core branded sales count. These initiatives have produced branded Canada's net revenue of $38.5 million for the 12 months ended September 30, 2022, with our current run rate of $42.3 million. Note that wholesale net revenue occupies a much smaller ratio, reflecting the success of our pivot to being a branded cannabis producer. On guidance for fiscal year 2023, we estimate a range of between $53 million and $58 million in total net revenue. This is a reduction of the top end by $5 million due to the aforementioned mid-flow sales opportunity and macro events in the industry, including OCS Cybersecurity Tax and DC Strike.

With $53 million of net revenue in adult use, we have a goal of becoming a top 10 market share player, up from our current position of #14 on the market share ranking. We plan on doing this by expanding our high-margin product line, recapturing market share in the flower category, where missed sales due to demand outstripping supply and continuing to build the loyal fallen through dynamic marketing and consumer engagement initiatives. In Medical, the continued onboarding of new patients, particularly in the veteran segment and the referrals is important to build a sticky revenue base, making the patient journey easier for actively reaching out to patients to drive engagement and providing them a one-stop shopping experience, are some of the key strategies we are implementing.

For international, we are focused on executing farlessly on our committed sales agreements, solidifying new international partnerships to further our position in key international jurisdictions. We believe we are on track to meet our fiscal year 2023 targets, including net revenue, margin and adjusted EBITDA. Net revenue continues to grow profitably across all our 3 core sales channels, while margin pressure in a very competitive out of the segment is being combined with cost reduction strategies and is also lifted by our higher-margin medical and international cans.

I'm delighted to share that we are able to increase our adjusted EBITDA guidance for our range of negative $7.5 million to $2.5 million to a new range of between negative $1 million and positive $1.5 million adjusted EBITDA for full year fiscal year 2023. Now that we've achieved positive adjusted EBITDA, we anticipate and target to continue delivering profitability for our shareholders. Before I turn the presentation over to some Q&A, can I just conclude by saying from my perspective as CFO, Aleafia, we are aware you to be to achieve our main goals for growth, profitability and financial health. We appreciate your support and your efforts. And as you can see, we are achieving what we have failed to do this year. There's more to come. This concludes our presentation today. Thank you for listening. I'll turn it back to Patricia Symmes for a few closing remarks

Patricia Symmes^  Thank you, Matt. Aleafia shareholders, analysts and everyone listening today. I am very proud of our management team and what we have been able to do and accomplish before the end of this calendar year. We said we were going to deliver, and that is exactly what we continue to do. Accomplishing clearly plotted out goals, making lives better together as a team by growing and creating innovative products and expanding brands with adult-use consumers and medical patients are attracted to, while at the same time, increasing revenue, increasing market share, reducing costs and achieving a monumental turnaround in our financial standing to bring us to breakeven adjusted EBITDA profitability.

This is Aleafia Health today devoted to building the company into a truly great organization in this challenging yet exciting sector. Our incredible team is motivated to create the best branded cannabis company in the country, devoted to serving our adult-use and medical customers with branded products targeted to fulfill the recurring needs while delivering for our shareholders, creating accretive value for the company. And finally, because we won't be meeting until the new year, on behalf of the entire team at Aleafia, I wish you and yours a warm and safe holiday season. Hopefully, it will be filled with Divvy pre-rolls and CBD bath bombs and some SHUT EYE Kin Slips to help you out. Thank you, and we will now turn it over to the question-and-answer period.

## QUESTIONS AND ANSWERS

Operator^ (Operator Instructions). Our first question comes from Pablo Zuanic with Cantor Fitzgerald. Your line is now open.

Matthew Baker^ Good morning. This is Matthew Baker on for Pablo. Thank you for taking my question. Could you give more color on how you think about sales and margins for 3Q and the second half of calendar '22? And what are the main debt payments you have left until December 2024. I have more follow-ups after, but just talking now.

Patricia Symmes^ Yes, absolutely. Thank you, Matthew, for your question, and we can answer that in 2 parts. So for the second half of 2022, which we're well into the last quarter of this calendar year, we anticipate this to be one of the strongest quarters, if not the best that we've seen in the company's history. We see a rapid uptake in the adult use sales channels. We have many new SKUs that are listing in the Divvy portfolio, one of which specifically the Divvy buyers Club, which will continue to offer greater value and opportunity for consumers, specifically with highly sought after cultivars and allowing for a unique range of not only strong THC products, but differentiating value that allows consumers to experience different strains within this key category.

We also see a strong momentum on our medical sales going into the back half of the year, through some of the new initiatives that we laid out earlier. And in addition to our full flower category, which was one category that we struggled with last quarter as the demand for our products outweighed our supply.

The other exceptional opportunity we have is that we are already harvesting and putting into market our Port Perry harvest, which is leading for us in the branded cannabis sector of the mills and pre-roll products and we've continued to develop high margin for us as we've seen significant improvements in gross margin. So I think in summary, when you look at our 3 pillars, you will see exceptional strong growth in the adult-use channel now that we have rectified our whole flower situation, continued monumental growth with our new listings in the Divvy category in addition to pre-rolled and mills.

A continued uptake in the medical sector. And in the international channel, of which we actually shipped our first shipment this morning to Germany. So when you round out all of that opportunities, the growth in the back half of Q4 this year will be very strong for us. I'll now turn it to Matt to give a few comments on enhanced margin profile.

Matthew Sale^ So this quarter, I'll just have one comment on the sales the $10.6 million of total net revenue. And as we discussed, due to the OCSBC and lower supply shortages, we missed out on, I guess, over $3 million of net revenue. So pro forma this quarter could have been close to $14 million. To get to the low end of our guidance of 53% we need 2 quarters of approximately $15 million per quarter. We feel confident we can achieve that. There are -- continue to be competitive pressures, particularly in abuse. But given the trends that we've been seeing and the growth of being with #2 highest growing LP over the last several quarters, we believe we can get there.

On margin, this quarter, we had 35%. That's a blended margin. If you look at on the branded cannabis side, which includes out-use medical and international, that was actually 40%. Our guidance for this year is to stay in that range, so between 32.5% to 37.5% for the full year, and we continue to believe that is achievable. On debt, there are no debt repayments required or principal repayments this year or next year. The nearest term debt refinancing in December of 2023. Both of our credit facilities are due at that time.

Matthew Baker^  Thank you for that. And then just more generally, it seems that the Canadian medical market is staging to and become more competitive. Is this true? And what needs to change from the regulator side? And what can you do to adapt? And then regarding your rec sales, are they more skewed towards certain provinces? And if you can just give any color in that regard? Thank you.

Patricia Symmes^  Yes. Absolutely. Great question, Matthew. So the Canadian medical market continues to decline, yet Aleafia maintained very strong growth rate within this category and is now raised to over 7.5% market share. and it continues to be a very important pillar of our businesses. As Matt mentioned, this is strict sticky reoccurring high-margin revenue of patients that are suffering from chronic conditions that are using consistent therapy. We believe with the advent of increased opportunity in the recreational sales channel model, the ability for nontraditional medical patients to acquire cannabis easily at every street corner has been a part of the decline in the medical market, yet there is an increased focus on reimbursement and third-party channels and benefit providers that continue to recognize medical cannabis is an important part of health care. We are largely playing within that sector with our veterans and other union support programs that continue to reimburse patients for medical conditions, both across CBD and THC. And that gives us a unique advantage within that category.

And we also have very strong partnerships with Spectron and the Quebec medical market that continues to see an increase in rise in our patients. We've also been very strategic in looking for opportunities where other Canadian medical LPs have left the medical market and where we have been successful in acquiring their patient base and ensuring that we can offer the highest value products to them. One of that being in the flower category, where we have procured now highest quality, high-quality flower and THC specifically for Veterans Group that has made a significant advantage to our entire product portfolio. So we believe that this continues to be a very important channel and Aleafia takes the position of continuing to grow its medical business, which you've seen over the past 3 quarters, but also looking for opportunities that exist within this space. on the recreational side of the business.

The focus for us mainly remains in the top 3 categories on flower, pre-rolls and vapes. Specifically, we have developed a very strong following on giving in the mill category, as we mentioned, on the pre-roll category, which is representative from our very strong outdoor harvest and allows us to put a low-cost product into the value segment at premium quality. And the other opportunity for growth for us, specifically in the whole flower segment. As Matt mentioned, we missed that in about $3 million of net revenue last quarter, where we had purchase orders in hand for whole flower, but the demand was so strong with Divvy really outstripped our supply.

We have now rectified that 2 ways through procuring product from other highly sought-after cultivars that brings some unique genetics into the market and by launching a very unique SKU into the marketplace, one of the first branded divvy Buyers Club that allows you to have additional types of flowers that are nonstraint-specific, consistently rotating within that category. And we see the whole flower category being one of the strongest categories for us to increase our momentum now that we have access to available supply.

Operator^ (Operator Instructions). I would now like to turn the conference back to Tricia Symmes for closing remarks.

Patricia Symmes^ I just want to thank all of you who attended today on being part of the Aleafia story and Aleafia journey. As Matt and I mentioned, we are very proud of the accomplishments that Aleafia has brought to you over the last year and 9 months hitting adjusted EBITDA profitability 2 quarters ahead of schedule is just the first step as we continue to transition the company and bring more great success and news to you over the following quarter. Thank you, and we wish you all a warm holiday season.

Operator^ This concludes today's conference call. Thank participating. You may now disconnect.