

**HEXO Corp.**

**Third Quarter Fiscal 2019 Earnings Call**

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**Oliver Rowe**

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**Chris Carey**

*Bank of America — Analyst*

**Brett Hundley**

*Seaport Global — Analyst*

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*AltaCorp Capital — Analyst*

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## **PRESENTATION**

### **Operator**

Good morning, and welcome to HEXO Corp.'s third quarter fiscal 2019 earnings call.

After the presentation, we will conduct the question-and-answer session. All lines have been placed on mute to prevent any background noise. If you would like to ask a question during this time, simply press \*, then the number 1 on your telephone keypad. If you would like to withdraw your question, please press the \*, followed by 2. Thank you.

Please note that this call is being recorded today, June 13, 2019, at 8:30 a.m. Eastern Time.

I would now like to turn the call over to Jennifer Smith, Director of Investor Relations at HEXO Corp.

Ms. Smith, you may proceed.

**Jennifer Smith** — Director of Investor Relations, HEXO Corp.

Good morning, everyone, and welcome to HEXO's third quarter earnings call. We will start with a presentation by our CEO, Sebastien St. Louis, who will recap the Company's third quarter results, the recently completed acquisition of Newstrike Brands Limited, and our financial outlook before opening the floor to questions from financial analysts.

Before we begin, I would like to remind you that today's presentation contains forward-looking information that involves known and unknown risks and uncertainties and other factors that could cause actual events to differ materially from current expectations. These statements should not be read as assurances of future performance or results.

Such statements involve known and unknown risks, uncertainties, and other factors that may cause actual results, performance, or achievements to be materially different from those implied by such statements.

A more complete discussion of the risks and uncertainties facing the Company appear in the Company's Annual Information Form and the Company's Management Discussion and Analysis for the three- and nine-month periods ended April 30, 2019, which are available under the Company's profile on SEDAR.

You are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date of this presentation. The Company disclaims any intention or obligation, except to the extent required by law, to update and revise any forward-looking statements as a result of new information, future events, or for any other reason.

Sebastien?

**Sebastien St. Louis** — Chief Executive Officer, HEXO Corp.

Thank you, Jennifer. Q3 was a busy quarter. Our vision to become a top-three global cannabis company and the top two in Canada is based on three pillars: operational scalability, product innovation, and brand leadership.

Our investment in our resources, technology, infrastructure, and especially human capital is critical to achieving that goal. And through this quarter, we've made meaningful progress.

Under the direction of our Chief Innovation Officer, Veronique Hamel, we're continuing to expand our R&D and innovation team with top scientists, chemists who have extensive experience in CPG companies, such as Kellogg's, Church & Dwight, Coca Cola, Philip Morris, Campbell Soup, Smucker's. That's just to name a few.

We now have 25 PhDs on staff. They're focused on developing new and innovative products for the market, best-in-class technology for our Powered by HEXO experiences.

Building on our innovative technology is critical in building brand. We believe that brand will be the final moat by which CPG cannabis companies are differentiated.

But in the meantime, those products and that moat will be built on distribution and technology. Having consistent quick-on and quick-off cannabis experiences that include sleep, sport, focus, diet, sex, and fun delivered through a full range of Powered by HEXO products is what we're striving to create. Developing these experiences in partnership with Fortune 500 partners through our hub-and-spoke is how we're going to achieve that goal.

We've added key people to the team with extensive leadership and CPG experience, including our new COO, Donald Courtney; notable experience at Mars, Pepsi Bottling Group, and also at the head of MedReleaf.

As well, we've recently welcomed Michael Monahan as our newly appointed Chief Financial Officer. Michael's guidance will help the Company drive our global strategy moving forward based out of the US, and he brings his wealth of experience from privately held and public companies such as Nutrisystem, where he had a very successful exit.

We recently secured about 200,000 kilograms of hemp supply for CBD, a non-THC cannabinoid extraction, in fiscal 2020. And closer term, we've done a secondary supply agreement of approximately 60,000 kilograms of hemp to be supplied in the next two quarters as we prepare for the upcoming demand in edibles and concentrates, pending legalization in October in Canada.

Our hemp supply chain is a critical element to our strategy to be in eight US states in 2020 legally through traditional non-MJ channels. We're looking forward to the following months so that we can elaborate on that strategy.

We've signed a multiyear extraction agreement with Valens to extract a minimum of 30,000 kilograms in year one and 50,000 kilograms in cannabis and hemp biomass in year two. So this helps to smooth out our operating ramp-up and curves as we expand our production to our near-term target of 150,000 kilograms and prepare for the legalization of edibles in October.

Note that our Belleville site that I'll speak about later in the call will actually be built to support the extraction using all types of extraction technologies for about 375 tonnes of processing capacity annually.

We were the first cannabis company to join Food & Consumer Products of Canada, which is the largest voice of the Canadian food, beverage, and consumer products industry. We welcome the addition of 374 new employees, which brings our headcount to 822 employees at the end of the Q3. And today, very proud to say that the team has grown to 1,100, and everyone's working very hard. I thank them very much.

We continue to expand our CSR initiatives and focused on being good corporate citizens. Our support has helped to ensure that those who depend on the services of Moisson Outaouais and the Ottawa Food Bank will continue to receive the necessary access to fresh, sustainable food using environmentally sound technology.

Our customers remain our focus. To date, we have sold over 7.5 million grams of adult use and medical cannabis to Canadians who depend on our safe, reputable, and high-quality products. Adult-use

grams and grams equivalent sold increased 9 percent to 2,700 from last quarter as we continue to expand our distribution across Canada.

Q3 2019, we produced approximately 9.8 tonnes of dried gram equivalent, so 9,800 kilograms, a 98 percent increase from the previous quarter. That was due mainly to our increased yields in our 250,000 square foot B6 greenhouse, and also our first harvest of our million square foot B9 greenhouse. First harvest, I remind everyone, that happened five quarters out from us announcing that we would build that facility; one of the fastest build-outs of a large-scale modern cannabis facility on the planet.

We're preparing for phase 2 of the Canadian adult use market with the legalization of edibles and concentrates, which is expected in October 2019, although there is some timing risk to that date. We may see a delay from a regulatory perspective of up to 60 days pushing us into December.

We are developing gummies, a premium vape line, and a line of cannabis-infused beverages with Truss, our joint venture with Molson Coors Canada.

We remain focused on delivering net revenue in fiscal 2020 of over \$400 million, and that, of course, excludes Truss beverages.

Subsequent to the end of Q3 2019, we completed the acquisition of Newstrike, providing us with a near-term increase in production to 150,000 kilograms annually, expanding our cultivation to three campuses, giving us resiliency and redundancy, and giving us access as well to nine provincial agreements. So now reaching over 95 percent of the Canadian population and increasing the HEXO family by approximately 250 employees.

I mentioned Belleville earlier on the call. I'm very proud to say we are on track. Phase 1 was onlined in May as planned, and we plan on having the building fully operational by the fall. That will include not only HEXO Corp. operations in about 580,000 square feet, but also the Truss Molson Coors joint

venture, which we're expecting to have a full line of bottling and canning made available to be ready for October legalization, should regulations allow.

Our 1.5 million square foot facility will also allow future Fortune 500 partners a licensed, centrally located facility optimized for their specific manufacturing requirements. Looking forward to sharing the future on our future partners.

It was a very exciting announcement this morning. We announced that HEXO is now officially international, licensed in multiple jurisdictions with our Greece update. So we announced that HEXOMed has received its medical cannabis installation licence in Europe. And that's another step towards our plan of providing regulatory access to Fortune 500 companies so that we can use their existing distribution networks in countries such as the UK, France, and all supplied from a European domicile.

Financial results. Our total gross revenue was 15.9 million for the third quarter, an increase of 11.8 times over the same quarter in the prior year. As I guided last quarter, gross adult-use revenue remains flat at 14.6. In comparison to the same period in 2018, it increased by almost 1,000 percent, which included only medical sales last year.

We expect revenues to double this quarter, with realized sales from the first harvest from B9 and our million square foot facility, and also as we start to ship flower outside of Quebec, which we're very excited to do.

Sales volume increased 9 percent to 2,700 kilograms from 2,500 kilograms in Q2. Flower and dry products accounted for about 84 percent of gram and gram equivalents sold during the quarter; oils accounting for the remaining 16.



We achieved adult-use revenues per gram of \$5.29, a \$0.54 decrease over last quarter due to a shift in product mix. And 91 percent of our sales were done in Quebec, with 9 percent coming from Ontario and BC, reminding everyone that we have not begun starting selling flower in Ontario and BC.

Cost of sales remains consistent with the prior quarter, about \$6.6 million, including the cost of dried flower and the transformation costs related to oil and value-added products. The fair value adjustment on the sale of inventory was 4.7 million, which is increased from 572,000 in Q3 '18 due to an increase in sales, which was offset by lower fair value per gram on the adult-use market.

The fair value adjustment on biological assets was \$20 million compared with \$2.5 million in Q3 2018. This is due to an increase in the number of plants on hand, the result of bringing B6 and B9 fully online. So B9's full of plants today. You can see that in a video that was publicized on Tuesday. I'd invite everyone on the call to go Google for that HEXO reel. You can see our staff hard at work and B9 full of plants.

We also drove higher yields this quarter on a per plant and per square foot basis, and we expect that to continue meaningfully as we ramp to our 150 tonne a year production capacity.

Our gross margin before fair value adjustment on biological assets was \$6.4 million, yielding a 49 percent gross margin on net revenue, so holding towards the 50 percent. We do expect over the next 24 months, as there is significant pricing compression, that the flower might drag those gross margins towards the 40. We do expect that as we introduce more and more advanced products, we'll be able to pull that gross margin back towards the 50 percent. But do expect some turbulence on gross margin in the short term.

Operating expenses. Our G&A increased to 10.5 million in Q3 from 2 million in Q3 2018. This reflected the growth in operations, as we continue to strengthen our general, finance, administrative staff; an increase of \$3 million. Rental expense increased by \$790,000 related to rent on the Belleville facility.

Professional listing and legal expenses increased by 900,000, as the result of corporate development initiatives and increased financial reporting and regulatory requirements from the TSX and the New York Stock Exchange American. And insurance increased \$1.8 million, due to an increase in property, plant, and equipment being covered and D&O premium increase as a result of listing on the New York Stock Exchange. G&A is expecting to trend with revenues over the remaining quarter in 2019.

On marketing and promotion, we had an increase to \$5.1 million in Q3 from 2.1 million in Q3 2018. And this reflects the implementation of our adult-use marketing and promotion events to build brand recognition and establish HEXO in the adult-use market. We expect this to trend with revenues in the final quarter of 2019.

Our long-term goal on our marketing spend is to be roughly around 5 percent of revenue, and we believe we're on target looking at forward revenue of 400 million, or 20 million for the year, excluding sales and operations, of course, so just on pure marketing spend.

So our stock-based compensation increased to \$8.1 million in Q3 2019 from 783,000 in Q3 '18. This relates to an increase in the number of options outstanding and represents our increase in headcount as a result of the significant increase in the underlying market prices of those options granted during the period.

Net loss from operations of \$2.2 million in Q3 2019 compared with a \$2.7 million loss in Q3 2018. And this was offset by higher revenues and increased biological fair value adjustments as our production increases. Net loss from operations decreased 61 percent over last quarter, due to an increase in fair

market value adjustment on biological assets based on increased scale of operations and the additional plants in our B9 greenhouse.

Other income and expense of \$5.5 million loss in Q3 2019 compared with 682,000 in Q3 2018 was due to reevaluation of financial instruments of about \$1.1 million and a fair value loss on a convertible note receivable of 4.1 million.

Happy to turn it over to our analysts on the call; looking forward to taking your questions. Thanks for being here.

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## Q&A

### Operator

Thank you. Ladies and gentlemen, we will now begin the question-and-answer session. Should you have a question, please press the \*, followed by the 1 on your touch-tone phone. You will hear a three-toned prompt acknowledging your request, and your questions will be polled in the order they are received. Should you wish to decline from the polling process, please press the 2—excuse me, the #, followed by the 2. And if you are using a speakerphone, please lift the handset before pressing any keys.

Your first question comes from Rupesh Parikh of Oppenheimer. Please go ahead.

### Erica Eiler — Oppenheimer

Good morning. This is actually Erica Eiler on for Rupesh. Thanks for taking our questions. So first, I wanted to touch on the \$400 million revenue target. We were just curious the sensitivity and ability to hit this target if we do see the regulatory delays in advanced products? And also, maybe you could talk about some of the risks you see to potentially achieving this target.

### Sebastien St. Louis

Thank you, Erica. Yeah. There are two key risks to the 400 million. So the first one is, of course, as you pointed out, the regulatory risk. So if we don't get the advanced products, that would put—and I believe the risk of not getting it is negligible. I think the risk is really in delays. As I mentioned on the call, I think a delay to December ... it would be prudent to expect a delay potentially into December. But if it's further delayed, that could put upwards of \$100 million of that 400 million at risk, as that we're planning advanced products to be about 25 percent of that number.

The second risk is an execution risk, so much more in our control, relating to our Belleville facility. So to achieve that 400 million target, we do need Belleville to be operational in the fall. And we are on track for that, but if something should happen outside of expectation, that would put that number at risk. We are confident we will deliver an operational facility in time.

**Erica Eiler**

Okay. Great. That's very helpful. And then I just also wanted to quickly touch on market share. Is there any update on your sense of what your market share is currently?

**Sebastien St. Louis**

We believe that we're holding pretty strong as one of the top Canadian LPs. We're not sure exactly where. Put us somewhere between top three and the top five is probably a good guess, but we have some more work to do on those numbers.

**Erica Eiler**

Okay. Great. Thank you so much.

**Operator**

Your next question comes from Oliver Rowe of Scotiabank. Please go ahead.

**Oliver Rowe** — Scotiabank

Yeah. Good morning. Thanks for taking my question. When I think about Quebec, which is obviously an important market for you, you're expecting 20,000 kilograms of sales to Quebec in the first year of rec. I think we're over halfway through that year now, and sales have been about 5,500 kilograms to that province. So it seems to me like it could be a bit challenging for the SQDC sales to triple over the remaining five months. Do you see a risk that the SQDC doesn't need that much product, but takes it anyway and that leads to significant inventory builds, and maybe even impacts demand on your year two contract?

**Sebastien St. Louis**

Yeah. So definitely a risk. I think the demand is there in Quebec. I think the SQDC's been doing a fantastic job. But since there were inventory supply shortages on the early dates from most LPs—so HEXO was delivering on its purchase orders, but the SQDC wasn't getting fully supplied—they slowed their store ramp. So the original plan called for about 25 stores in Quebec by this day, and last quarter we were at about 13.

Now the good news is SQDC has now gone back to seven days of full-time selling, so that adds significant demand. They've added more stores now, so we have a brand-new store in Gatineau, right next to an Ottawa population centre. I do think there could be some timing risk around a few of those tonnes, of those 20 tonnes.

Now of course, as you pointed out, it is a take-or-pay contract, but we value our relationship with SQDC more than the few million dollars in revenue we could get this quarter. So we're working very closely with them to invest in our SKU mix to create more interesting products. We plan on launching a whole bunch of new products over the following couple quarters, which we think will help that.

But expect some timing risk, whether it's an October, November, December timeline to hit the full 20, I think would be a reasonable assumption. We're confident we can completely offset that and more, of course, in other provinces.

**Oliver Rowe**

That's helpful. And just to follow up on Quebec, I know the province recently added six more suppliers to the prior six, and I believe that you're targeting a 30 percent share in Quebec. So is that at risk as they increase supply? Or do you think 30 percent is a pretty sustainable number for you, no matter how many suppliers they have?

**Sebastien St. Louis**

Well, it's always going to be a risk. I mean, people are going to be gunning for the top spots in Quebec. I mean, it's the second-largest market in Canada, and now people are finally realizing that. Thankfully, HEXO has a preferred supplier. That is, we have a great reputation in Quebec, our products are loved, so I think it's very feasible to defend our 30 percent market share.

But, of course, we'll have to be very vigilant. We'll have to keep listening to our customers and responding to their needs.

**Oliver Rowe**

Great. That's helpful. Thank you.

**Operator**

Your next question comes from Chris Carey of Bank of America. Please go ahead.

We have a question from Chris Carey.

**Chris Carey — Bank of America**

Hi. Can you hear me?

**Sebastien St. Louis**

Yes. Thank you, Chris.

**Chris Carey**

Hi. So just on your expectation for the 40 percent gross margin in the near term, I mean how much of that is investment without getting kind of the requisite sales leverage and mix, mix being flower and oils? And really, what I'm trying to get at is, what you think your capacity for a longer-term margin is? Because clearly expectations are for your gross margins to be a little bit higher over even the medium-term horizon, so I wonder if you could just talk to the near- and longer-term dynamics around that gross margin line.

**Sebastien St. Louis**

Yep. Absolutely. Thank you. I think ... so longer term, I think 50 percent is definitely doable, but that will be contingent on us building a brand moat long term. I think the 50 percent will be reserved to the top three or four global cannabis companies if they're able to create brand pull. Otherwise, cannabis companies as a whole, not just HEXO, will be pushed towards the 30, right, in the long term.

I think in the short term the pressure is completely different. The pressure is because, as we've mentioned in Quebec, new producers constantly coming online, coming to the provinces. And we're talking right now about, for example, in Quebec, six new producers onlining. But remember that there's 150 companies in Canada that have licensing that want to start to sell flower.

So what's going to happen in the next 18 months is that those companies are coming to the provinces saying, I want to get my flower listed. These companies are not sophisticated. They're small-scale, they have high cost, and they need to get a listing and they need to get sales revenue. So in turn, what we believe is going to happen is, is the province is going to say, well, we have enough flower SKUs.

We have trusted partners. We don't need your flower. And then the smaller producers are going to have no other choice but to drop their price.

In consequence, what's going to happen is that the provinces will then call their preferred suppliers—HEXO and other major licensed producers in the country—and will say, well, guys, you get to keep your listing, but you need to be competitive with these smaller guys. What that will do is that will create a shakeup in the industry over the next 18 to 24 months. We believe there will be 80 percent of smaller licensed producers that will go bankrupt because they will be unable to obtain significant listings and leverage. And as such, their financing will also dry up.

I think that'll be an incredible painful process, and that'll put downward pressure on our ability to generate margin from flower in the short term. That's what brings me to 40 percent.

Now the good news is less competition and nobody, except the majors, focused on advanced products. And HEXO being at the top of the list as an advanced products company with great partners such as Molson Coors, we believe that we'll be able to introduce products that are in the 60 percent-plus margin range, which helps to balance us out. So over time, as we shift from flower to advanced products, able to kind of stabilize in the 50 percent range.

### **Chris Carey**

Thanks for that. And so as the market stays long flower over a longer period of time, how quickly do you think your own product mix will shift toward new product forms? So you're 84 percent, I think, in this quarter on flower. Will it stay at that level for the next six to nine months? Or do you envision being able to capitalize on these opportunities in the near term, both for things like your sprays, but also, obviously, you have the beverage lines coming at the end of the year?

### **Sebastien St. Louis**



Yeah. And that—well, the biggest question there, Chris, is going to be the regulatory risk around the legalization. So if we're live in October, which is still very possible, but at risk, so if we're live on shelves in October, and HEXO is ready. So we're ready for that date. We're going—we're ready to load in starting September, so we're very excited with that.

The Truss products are phenomenal. They taste great. They work super-fast, so we think those are going to be a home run. So if we launch in October, to your question, in six to nine months, absolutely, I think that's going to move the needle. I don't expect the needle to move from 84 percent flower to 20 percent flower. It's not going to be that kind of seismic shift; it's going to be a month-by-month. People are going to try these new products, there will be some excitement, but look for a gradual move where flower takes less and less and less of our total sales.

Flower will not go away. And I believe that even long term, flower will remain about 35 percent of the total addressable cannabis market. And we plan on maintaining that position in Canada. I think for us to get there, if you look to Colorado historicals, could take about five years.

So if you take us from 84 percent flower now and kind of straight-line down to 35 percent in five years, I think that's a reasonable guess, taking into account certain regulatory risks. So if I don't get my advanced products before December, for example, then I think expect flower to remain in the 80 percent-plus range for six to nine months.

**Chris Carey**

Okay. Thank you. If I could squeeze in one more, I appreciate it. How quickly can you enter the US? And just any flavour on that launch? Thank you.

**Sebastien St. Louis**

We're very excited about the US. So I've committed to be in the US in 2020. I think we can do multiple states, so the number I've mentioned is eight. I think we can do those states legally with Powered by HEXO non-THC-based experiences, so that'd be focus, sport, and sleep to start. We think we can enter with our Fortune 500 partners and our hub-and-spoke strategy. We think we can lever their existing distribution and go through traditional non-marijuana channels.

So I think this is going to be a key advantage for us as we use our hemp supply and the Farm Bill and our extraction technology to clean outdoor field hemp. I think we can use all that in our formulation technology and our Powered by HEXO team to gain—to essentially leapfrog the multistate operators. So instead of being limited to, say, 60 individual retail stores, our strategy is to go with non-THC experiences at first through traditional retail where we could get a listing in a traditional retail like a Walgreens or CVS, thereby getting 1,000-plus stores at once.

So that's—watch for that in 2020. And of course, if we're able to do that a bit faster, you'll see it in the news right away.

**Chris Carey**

Thank you.

**Operator**

Your next question comes from Brett Hundley of Seaport Global. Please go ahead.

**Brett Hundley — Seaport Global**

Good morning, Sebastian, and thank you for all this detail around near-term revenue and margin. It's really helpful. If I can go a step further and think about your specific route to the new 2.0 market. As we get beyond fiscal Q4 and maybe look at the early part of fiscal '20, what parameters might you put in

place for us thinking about revenue performance in Q1 into Q2 as you potentially short the flower market and get product ready for the 2.0 market?

**Sebastien St. Louis**

Yeah. So we haven't provided guidance, Brett, on specific brands for the 400 million, but you can expect that it'll be an incremental step function. So try to—I think if your model is a linear model, it'll get pretty close. And that's probably a good place to start.

**Brett Hundley**

Okay. I appreciate that. And then I wanted to go back to a comment you just made on entering the US because I think what you're saying does make some sense insofar as competing well with the MSOs if, in fact, you're able to get product into traditional markets—traditional channels, rather, and leverage some of these hub-and-spoke partners. And it gets back to a question that I wanted to ask you broadly just about hub-and-spoke trends.

We personally were hoping to see more in the way of strategic tie-up at this point in time. And it's at least my understanding that maybe big CPG and Big Pharma are looking a little bit away from marijuana and maybe towards hemp and biosynthesis insofar as getting cannabis into their branded products sooner rather than later. And I'm clearly here focusing more on the US market. Can you just talk a little bit about your own discussions with hub-and-spoke partners and what you think they're looking for at this point in time and whether or not that's changed relative to six or nine months ago? I'd really appreciate it.

**Sebastien St. Louis**

Yeah. Thanks. I think you're absolutely bang-on that hemp is a key part of the strategy. So one thing that hasn't changed for the Fortune 500s, I mean we're talking over 60 of them right now in the

funnel; obviously talking to more than that, but 60 in various stages of discussion. So we remain on track for our plan of kind of one a year over the next five years to round out our wheel.

The hemp strategy is key because if you want to operate legally in the US, and of course not pseudo-legally on a state-by-state basis, but legally at all levels of government with FDA and DEA, no contest, you'd need to source from hemp. And so that's why HEXO has put in place these hemp relationships. That's why we already now have 260 tonnes of hemp biomass secured under contract. That's why we've invested heavily in specific extraction technology to be able to clean out those field hemp.

I think one of the things that the Fortune 500 companies—and you've seen this from a few of them—some of them are taking a strategy of saying, we don't need the marijuana companies; we don't need LPs. We're going to go it our own, and then they take a hemp strategy. And then they come up with a product that perhaps doesn't taste as great as what they would normally have; that doesn't have the right actives; that doesn't work fast enough; and quite frankly, becomes a subpar offering.

Now just going with a pure hemp product, like if you're going with a hemp oil, much easier alternative than going with a complex formulation is something that we're trying to achieve with Powered by HEXO. So I think the discussions are still very lively. We're still very excited about delivering kind of our one a year spoke partner.

In the meantime, Truss, our existing spoke partner, is performing very well. We're developing that business plan, and the drinks are going to be absolutely dynamite, we believe, in traditional retail channels, so working away at that.

**Brett Hundley**

That's really helpful. Thank you for going through that. Just lastly for me, do you guys have a target for reaching profitability on the EBITDA line? We can all do the math, given your commentary over the near term, but have you disclosed any target as far as profitability on that line?

**Sebastien St. Louis**

No. We haven't guided, but I'm happy to share with you that 2020 we're going to make some money. I mean, obviously \$400 million at the kind of margin we're throwing off, it'd be a little foolish not to, so we're going to do that. But we're in growth mode.

So the reason I don't want to guide EBITDA is because I'm ramping up my R&D team. And nobody's investing in marijuana today for the EBITDA I'm going to generate next year. If we were all investing in marijuana for that reason, none of these companies should be worth what they're worth.

What we're building are global branded companies. What we're building is a sustainable moat around not only that brand, but the technology and the Powered by HEXO experiences, and that takes significant investment. With these top PhD scientists we've hired, I mean this team of 25 obviously there's significant cost to that. But I don't want to stop there. Twenty-five's not enough. We plan on having 100 PhDs on staff. We believe that that will actually create a human capital moat as well beyond just the pure technology and IP. There's not 1,000 of these top food scientists on the planet, and HEXO is continuously attracting top talent.

So we believe that over time that erects the technology moat over the next three years, and then that gives you one more reason to go back to the Fortune 500s and say, well our technology is fundamentally better. You can go it on your own and spend hundreds of millions of dollars to try to develop a product that'll be subpar, or you can solve it immediately; global supply chain already solved in the US in eight states, in the UK, in France, and then we also solve the technology piece.

So I think that yes, absolutely, able to be profitable next year, but the number will be modulated, given our investments back into R&D.

**Brett Hundley**

Thanks, Sebastien.

**Operator**

Your next question comes from Graeme Kriendler of Eight Capital. Please go ahead.

**Graeme Kriendler — Eight Capital**

Hi. Good morning, and thank you for taking my questions here. Just first off, as a matter of housekeeping and mentioning in the press release this morning about revenues doubling in the next quarter, I just want to confirm that that ... the doubling there would not include anything on the Newstrike side of things? That would be strictly from the number reported on the HEXO side this quarter?

**Sebastien St. Louis**

So the doubling of revenue would ... will include the Newstrike numbers, which are expected to be consolidated in next quarter, yes.

**Graeme Kriendler**

Okay. Understood. Thank you. I wanted to just elaborate a little bit on the US strategy. And understanding that you have supply agreements signed for 2020 to source the biomass there, but when you think about that strategy, how capital-intensive does that get for you? We've seen some other of your peers looking to invest a significant amount of capital on the processing/manufacturing side, so how does HEXO look at the US opportunity? And how capital-light or capital-intensive would that be?

**Sebastien St. Louis**

Yeah. So well, the US, I mean at a very broad level, right, when I look at our worldwide plan, when I talk about becoming a top three global cannabis player, if I look at what it took to become a top three Canadian player, that was about \$400 million, right, deployed ultimately down between CapEx/operations. And that was pretty efficiently deployed.

So if I look to Europe as 5 times the size of the Canadian market, that'd be 400 times 5 gets you to 2 billion in investment required for Europe. The US is about 10 times the size, so you're looking at 4 billion. So look at a total capital deployment of about \$6 billion. Now that's not all going to come from treasury in the form of capital raises. I think there's significant M&A opportunity in the US, and so the exact mix of what's going to be done through M&A out of that 6 billion and what's going to be done through capital ... future capital raises is yet to be determined.

So whether that's 40/60 or 50/50, we're not sure yet. We believe that that level of investment fundamentally long term will be required in the US, and then of course that'll break down between your capital, your R&D, and then your marketing spend as we get the traditional channels and we lever the ability to build brands in the US, which is very exciting because that's going to unlock our potential. And as you've seized in that marketing video we put out on our B9 greenhouse on Tuesday, the HEXO marketing team is doing a great job in putting some exciting material out there.

So that gives you a high-level idea over kind of the next 5 to 10 years a 6 billion requirement to become a top three global player. And of course, HEXO will continue to manage its capital responsibly, continuing to rely on our great finance team in calculating our IRR, making sure we return a good return on capital, and continuing to penetrating new markets.

**Graeme Kriendler**

Okay. Understood. Appreciate the colour there. Just to follow up with respect to the entrance into the US market, is that something where you would lead in with the HEXO brand? Or would this be leading in through the Truss JV?

**Sebastien St. Louis**

So leading in with the Truss suite of products, so we're really excited for Truss to come out and have a conference call with Brett later next week, and we're excited to be able to start to plan that rollout. Obviously, a lot of questions around what the brands are going to be. They're very exciting. We're touching over 85 percent of consumer occasions, and the marketing team at Truss have done an absolutely dynamite job. But I'll let him take that thunder.

The exciting piece is that we're going to have Powered by HEXO marks on every single product going out. So the idea, of course, is to build a long-term brand around Powered by HEXO. Think Intel Inside. Think a draw where someone can walk into a store, know that Powered by HEXO Sleep has worked very well in the drink format, but then know that if they need to go take a plane the next morning, they can also find a face cream by a trusted cosmetics brand that has Powered by HEXO Sleep as well.

So that's our long-term build on the HEXO brand itself. And of course, in Canada we'll continue to have HEXO as core products.

**Graeme Kriendler**

Got it. Thank you. And finally with respect to the eight states, is there any additional colour you can provide at this time in terms of which markets are at the top of the priority list?

**Sebastien St. Louis**

We're keeping that as a bit of a competitive advantage. Figuring out all the regulatory work around how to operate legally in the US is a key strategic advantage. Our regulatory team is absolutely



phenomenal under the direction of our General Counsel, Roch Vaillancourt. He's built an amazing legal team, which I really think that if you look 10 years out, those are going to be the two core functions at HEXO is going to be R&D and innovation and our legal and regulatory team. So we're really making great inroads there, so I'm not disclosing a whole bunch of colour on where we're going to be.

But what I can tell you is we will be legal at all levels of government, and we will have no contest from both DEA and FDA.

**Graeme Kriendler**

Okay. Thank you very much. Appreciate that. That's it for me.

**Operator**

Your next question comes from Matt Bottomley of Canaccord Genuity. Please go ahead.

**Matt Bottomley** — Canaccord Genuity

Good morning, Sebastian. Thanks for taking all these questions. Just wanted to touch back on something Graeme mentioned with respect to what we're expecting for next quarter on that top line. So maybe it has to do with the dynamics of the production ramp up versus getting everything packaged and labelled and excise tax into the wholesale channels. But considering you're producing close to 10,000 kilogram as of this reported quarter versus sales of 3,000, I would have anticipated that that double next quarter would be facilitated just from the HEXO side of things, independent of Newstrike. So can you just comment on the dynamics of how that shapes out?

**Sebastien St. Louis**

Yeah. Happy to, Matt, and thanks for the question. So it all boils back down to infrastructure. So I think last quarter I mentioned that we'd be flat this quarter, we'd double in Q4, and I pointed that the

key reason for that is that our infrastructure to package what we were growing was still ramping up, right? And now that infrastructure this particular quarter has caught up, and that's what's leading to the double.

So your insight is right. The infrastructure that's allowing us to package everything is really from HEXO, from the HEXO side leading to that double. Obviously, we're going to grow much more, right? Our yields continue to go up every day. We're going to add the Newstrike deals, which is going to be great. But fundamentally, to truly unlock our infrastructure requirements I need my Belleville facility. So I need the facility that's going to have processing capacity for 375 tonnes per year, and that kicks in in the fall.

So that's why we're going to double and not much more immediately, as you pointed out, because we're catching up our infrastructure in two phases. Phase 1 now complete and Belleville in the fall.

**Matt Bottomley**

Great. That's helpful. Makes sense. And then just on the guidance again, I know this was for 2020 you touched on a little bit already, but you gave some good colour there that about 25 percent relates to derivative products. And obviously there's some timing there that isn't in your control based on what the government puts out. Can you give any other sort of splicing of that number with respect to just the domestic contribution in Canada between Quebec and other markets? Obviously it's about 90 percent-plus now just in Quebec on a trailing basis, so of that 400, how much of that would be just Canada? And then what would sort of the goalpost be between Quebec and ex-Quebec?

**Sebastien St. Louis**

Yeah. Well, you can work back to our five-year contract with the Province of Quebec, year two, 35-tonne commitment there, so that gives you a good sense of where that should round out. Expect that Ontario will be pretty close as a large market. Alberta certainly doing a great job with their rollout, so

we're excited to be in-market there. And so it's fundamentally all going to wash out to kind of population base with HEXO being overweight in Quebec.

So that gives you a good sense, but we're still working through the exact numbers before we share those.

**Matt Bottomley**

No. That's understood. And then just on the Quebec side of things. So given that there was six more LPs entering that market, I know initially when you announced the five-year deal—and I understand there's assumptions that go into this number—but sort of that headline \$1 billion five-year contract, did that contemplate other entrants coming into the market? And would you still classify it at that quantum over a five-year period?

**Sebastien St. Louis**

I still think the potential for that contract is absolutely to hit \$1 billion in five years, yes.

**Matt Bottomley**

Okay. Great. And I'll slip one more in. And apologies, I know Brett was talking about the hemp side of things and the US deal; I was pulled out of my office for a second. But can you comment if you would anticipate an execution strategy in the US similar to what you're doing on the beverages with Truss where maybe you partner with cosmeceutical, nutraceutical? I know pet care's becoming more and more topical right now. Is it certain entities outside of HEXO as part of that rollout? Or are you expecting it to be completely in the economics of your current entity?

**Sebastien St. Louis**

No. We're absolutely planning on using our Fortune 500 partners. So in Canada, HEXO has all the distribution. We're listed now nine provinces, touch 95 percent of the population. So we actually provide

the marijuana distribution to our partners like Truss and Molson and our other spoke partners, so when we add cosmetics, when we add health and wellness, when we add edibles, when we add vape. So in the other markets, we're going to rely on their distribution. So we're actually getting their international distribution.

So in the US, obviously Molson very strong with a top four position in beverages; top two in the UK. But as we add more spoke partners, that gives us all that more opportunity. So as we're focused on the technology and supply chain piece, those partners are bringing a deep understanding of consumer occasion, the international distribution piece, and of course the base product, which is very important because there's really two parts to creating an awesome cannabis product. It has to work, and it has to work better than the rest. And so HEXO's got that covered.

But I do think one risk that most cannabis companies are ignoring is that it will be very difficult for a cannabis to make a better chocolate than a Nestlé, to make a better face cream than a L'Oréal, and a better beer than a Molson. So that's why I think our strategy fundamentally leads to better products, which will lead to better success in-market.

**Matt Bottomley**

Great. Thanks, Sebastien.

**Operator**

Your next question comes from Robert Fagan of GMP. Please go ahead.

**Robert Fagan — GMP Securities**

Hey, Sebastien, and thanks for taking the questions. Just wanted to ask about the ramp-up of capacity at B9. Obviously, we saw in the video how it seems to be already quite filled up with plants. And

just wondering if you can give us kind of a cadence of how much of the overall capacity of that facility is already ramped up and what's left to ramp up?

**Sebastien St. Louis**

Yeah. Absolutely. Thanks, Rob. So the facility's full. So as you've seen in the video, there's plants the entire—the entire million feet is full of plants. So with the first harvest out of greenhouse, there's always dialling in. And you'll see, if you look at our historical numbers for B6, so our 250,000 square foot greenhouse, that'll give you a really good idea of how we dial in the environmentals in the new greenhouse; how we start to improve yields quarter over quarter.

I think to get to our 150-tonne ramp, reasonable to see us early 2020 to be at that number on a run rate basis. And so that'll really reflect incremental yield improvements, but the facility is full. And now it's just a question of you should see meaningful improvement every quarter.

**Robert Fagan**

Great. No, that's quite impressive. Is there any potential delays from beginning sales from that facility around licensing in any kind of way? Does that create any type of hurdle to actually get sales generation from that facility?

**Sebastien St. Louis**

Rob, we have our sales licence. We just didn't think it was a big deal. It's kind of order or operations these days. So no, we're selling from that facility. I'd say we've begun. And so no, that facility is fully licensed, so no worries there.

**Robert Fagan**

Excellent. Just shifting to extraction now. In light of your agreement with Valens and in the context of Belleville hoping to be able to accommodate 375 tonnes of input material for extraction, how

do you see kind of the margin evolution from your cannabis 2.0 products as a result of perhaps a shift in capacity from third party to your own for the production of those products? And then if you can just give us maybe a bit of insight on how you intend to go about extraction operations in the US with that hemp biomass being secured?

**Sebastien St. Louis**

Yeah. I think from a long-term strategy perspective, if we get a third-party extractor that can match or beat, A) our capacity; two, our quality; three, our technology, we'd conceptually be happy to work through a third-party operator, and which is why we're working with Valens and they're been great so far.

From a—remember that 10 years out, if HEXO were to look like a team of lawyers and a team of scientists and a great brand powered by HEXO in hundreds of different Fortune 500 products, that's what we're striving for.

In the meantime, we have to make sure that we can deliver certain products, and that means having enough capacity for HEXO's scale, which is shooting to be a top three global player. And quite frankly, there's nobody else, whether that be extractors, other LPs that have shot for the level of scale that we're putting in. We are preparing for the possibility that we could shoot not just for a 20 percent share of Canada, but actually grow that.

So we are preparing ourselves. And let's say we were to say this is a 1,000 tonne market with 375 tonnes of potential processing power and 150 tonnes of grow, the idea is we're already starting to prepare to have less grow in the supply chain, so 150 tonnes moves to our manufacturing and extraction and formulation stage, which has 375 tonnes supplemented by hemp in the short term; in the medium term perhaps supplemented by other forward contracts with other licensed producers or imports from

overseas. And then moving on eventually to the final phase where we're simply an IP and technology company.

During that whole journey, as I mentioned, in the very short term we'll see some margin compression, especially as our sales on flower come in, but that margin should start to dilate back up. The nice thing is as we scale up, our costs are coming down significantly. And I think a testament to the team has been this quarter, as you see, our revenue per gram, of course, has dipped, but we've managed to hold our gross margin relatively stable.

So we're recovering the costs. Unfortunately, I do think that in the face of lowering costs, you will have continued selling pressure, so it will be difficult to translate those costs to additional gross margin until those advanced products come online.

#### **Robert Fagan**

Okay. Great. Thanks for that colour. So as a last quick one, if you could maybe—I don't know if you can give us an idea of the mix in terms of new products in Canada? You mentioned gummies, vape, and beverages. Can you give us an order of magnitude of the split there what would be the biggest drivers?

#### **Sebastien St. Louis**

So our top priority is our beverage launch, followed by our vape launch, and then gummies is one that we think from an edibles perspective will be very interesting. So they're in that order.

I think steady-state in the future, I mentioned on the call that at steady-state this market will be about 35 percent flower, 65 percent advanced products. Of the advanced products, we think that beverage and vape could easily be a third each, with other categories, such as edibles, which gummies is the largest part of the edibles segment, which would be less, right, to start to give you a bit of an idea of how we see the world.

**Robert Fagan**

Great. Thanks a lot.

**Operator**

Your next question comes from David Kideckel of AltaCorp Capital. Please go ahead.

**David Kideckel** — AltaCorp Capital

Good morning. Congrats on the results, and thanks for taking my call. I just wanted to go back to the US and with Truss, the JV in particular. So when we're talking about in the press release and we talked about this morning so far, when you're looking to enter into eight states in 2020—just to clarify for housekeeping here—does this only—and you also mentioned, Sebastien, that you want to lead into the US with Truss. But do these initial eight states, is this only going to be including the Truss products?

**Sebastien St. Louis**

No. So it'll be including Truss—well, and specifically I should clarify. So Truss is a Canadian joint venture, so it's Canadian only. So most likely the exact form of entity we haven't revealed exactly how we're doing this with MCBC yet, so MCBC and HEXO will be doing a joint release at some point in the future to explain exactly how under which brands. Of course, Truss and all of the work that's been done will be leveraged on the marketing side, so that's one piece.

The other piece is we're going to have our other spoke partners. So I've said one a year, so you could assume that in 2020, we have two at this point late 2020, maybe three. And yes, the idea is to enter the US using our spoke partners, not to go direct with HEXO core products in the short term.

**David Kideckel**

Okay. Thanks. That's helpful. And to clarify as well then, you mentioned that the Truss beverages are great, and so there's a lot of progress that has been made. So can we assume that the development



and the R&D, all the innovation behind the actual beverages, are those nailed down now? Or are they still being tweaked?

**Sebastien St. Louis**

Well, 1.0 is nailed down. And our 1.0 is amazing. It's better than anything that's in the US today, like hands down. But I think our 1.0 has a lot of room to grow.

What I'm excited about is the future, right? I'm excited about a two-minute onset. I'm excited about a 45-minute onset. I'm excited about diet experiences; a sparkling water where we reduce your appetite using the ingredients in cannabis that are non-psychoactive. These are all things that our R&D teams are working on, and I think that's going provide for a really exciting roadmap for the next five years.

Today, our starting lineup is best-in-class. It's better than anything that exists on the planet that I've seen, and so I'm tremendously excited about that.

**David Kideckel**

Okay. So then just to confirm then, so the Truss product, the beverages are ready to go subject to, I guess, number one, Canadian, the derivative legalization and then also with your eventual and near-term strategy in the US?

**Sebastien St. Louis**

Yes. We have technology. We have a level of technology and product quality right now that puts us in our own class. I expect that at launch you will probably be—we'll see how we're performing against the other top LP. Obviously, Canopy with their Constellation partnership, I'm sure are going to be coming out with something pretty impressive as well. But I haven't seen anything else in the industry right now that compares to what we have today.

So what we have from a technology perspective today is absolutely phenomenal. The team's done a great job. And now the question is going to be the ramp-up and infrastructure. And that ramp-up and infrastructure is dependent on our Belleville facility rollout and the Truss rollouts within that Belleville facility, which we are on schedule to deliver for the fall. But that is the risk to that full rollout.

And obviously, for the 2020 plan in the US there's some infrastructure in the US, which is why we formed HEXO USA, our corp in Delaware, to have that corporate structure to start acquiring assets and doing infrastructure build-out in the US.

**David Kideckel**

Okay. Great. Thank you for that. Another question—I have a couple more here, quick ones—I know, Sebastien, you mentioned sort of capital deployment over time around the \$6 billion mark, which could include both M&A and capital raises. Is there any—just to tweak this down a little bit over the next, say, 12 months or 6 to 12 months, can you provide any CapEx guidance for HEXO?

**Sebastien St. Louis**

We're not going to provide the CapEx guidance just yet, but so thanks for asking. We'll see what we can do over the following quarters in terms of thinking about that. But I want to make sure we nail down our numbers, and again, we don't give up exactly the how of how we're entering the US just yet. I'd rather do it and then tell you guys about it, if that's all right.

**David Kideckel**

Understood. That's great. My last question, Sebastien, actually I think it was brought up by another analyst before in passing around biosynthetics. I'm just wondering in all of your discussions with Fortune 500 partners, I mean it's apparent, I think, from a lot of our due diligence that a lot of the Fortune 500 partners, especially when considering cannabis, they really pride their final product with consistency,

purity, and potentially low cost as well. So on that note with biosynthetics, can you maybe—is there any colour you can give to your discussions with the Fortune 500s around any sort of biosynthetic discussion that’s of relevance for them? And how that could impact your strategy if you decide to move into the area of biosynthetics as well?

**Sebastien St. Louis**

Yeah. I think biosynthetics certainly have a lot to offer, but they also have a lot to prove. And so from our perspective, we’re waiting to see who will emerge as the biosynthetic winners before making significant investments in that space. And to us, the winners are not only the ones that’ll solve scale, but also the ones that’ll solve intellectual property and especially when it comes to rare cannabinoids that would be relevant to a specific Powered by HEXO experience.

So those are really the ones that are going to keep our attention. We have great relationships with quite a few of the biosynthetics companies. We’re keeping an eye on them. We’re tracking their progress. And I think from the Fortune 500 perspective, they’re leveraging our maturity in-market and our understanding of all that to kind of sort it out.

The Fortune 500s today, from my perspective, are not taking bets on technology to come. They need to solve the market access now. And that’s something that HEXO’s doing today from plant. In the future, of course, I’ve talked about the HEXO team being lawyers and scientists; that could very well mean that our supply chain is sourced from greenhouses in Canada for the flower, hemp fields in the US for 80 percent of our cannabinoids, and then a few biosynthetic providers for rare specific cannabinoids, as cost depends.

But I don’t plan on marrying myself now to a cost structure. I think we can pivot in the future, depending on which solution becomes best. And I think that the reason a Fortune 500 would need a HEXO

as a partner is because to figure all this out in a relatively effective way takes a lot of energy and expertise, which they simply don't have on their team. So that's why our Powered by HEXO partnership model has resonated very well with Molson and is resonating very well with a number of companies in our funnel.

**David Kideckel**

That's really great insight, Sebastien. Thank you. That's it for me.

**Operator**

Your next question comes from John Chu of Desjardins Capital Markets. Please go ahead.

**John Chu** — Desjardins Capital Markets

Hi. Good morning. Just a couple quick questions. On the US strategy, the \$400 million in revenue guidance for 2020, is that including any revenue generated from the US? And then secondly, just—

**Sebastien St. Louis**

No. It doesn't, John, and let me clarify. So the 400 million guidance is for fiscal ending July. When I say 2020 US, I'm talking to December calendar, so there's some offset. But the nuance to consider as well is that our current spoke partner, Truss, so with Molson and depending on how the future ones will be structured, the revenue itself does not consolidate up to HEXO.

We're going to see our 42.5 percent share of the net income or loss, so you will see it post bottom line, so obviously show up on our financials, but you wouldn't see the revenue. And so that's the primary reason it's not in the guidance.

**John Chu**

Right. Okay. And then to what extent does FDA approval on the CBD side come into play in terms of your entry into the US?

**Sebastien St. Louis**

Yeah. We're watching the FDA very closely because how they will decide to treat overall CBD treatment relative to the pharmaceutical, nutraceutical, et cetera will obviously have an impact on how we're operating. But we're currently following a path where we believe we'll have no contest from FDA. So very confident at this point in our strategy.

**John Chu**

Okay. And then just lastly, you mentioned in terms of shipping flower to Ontario, BC, and other provinces. Are you able to ship that officially right now? And what's the update on Alberta? That's a pretty big market and it doesn't seem you're having much exposure there at this point in time.

**Sebastien St. Louis**

Yeah. So when you look at the ... you look at our throughput, of course Quebec remains ... has remained a huge market, but that has not been demand constrained. That has been supply constrained to date. As we double this quarter and as we go, of course, and we start to ramp from there into our 400 million next year, as I mentioned, the infrastructure block goes away largely by fall. So you have more and more capacity to supply into these markets.

And we want to make sure that we are not only a preferred supplier in Quebec, but that we're a top supplier in all other provinces. So we want to make sure when we go into these provinces that we respect our commitments, we make sure that whatever's on the shelf is always available, and that we really provide a great customer experience.

So not so much demand capped, and that's why you haven't seen anything in Alberta yet, but expect to see more and more things in other provinces as the months go by.

**John Chu**

Okay. That's it for me. Thank you.

**Operator**

Your next question is from John Zamparo of CIBC. Please go ahead.

**Krishna Ruthnum — CIBC**

Hi. This is actually Krishna Ruthnum on for John. My first question is on pricing. And my apologies, I missed part of the prepared remarks. But there was a meaningful decline quarter over quarter in your pricing. And I just wanted to understand whether that was simply due to lower oil sales, a greater focus on Quebec, or maybe what you alluded to earlier, which was constraints on the packaging side?

**Sebastien St. Louis**

Yeah. Thank you. I think a little bit on oil, but it's really we're starting—so earlier in the call, I'm not sure if you caught the point, but I was talking about how we're going to go into a period of price compression around flower as you have these 150 smaller LPs that vie for market share and that really have very little ability to go to market, right? So we're already seeing that price compression in market begin. So that has started.

And I think that it's prudent that we all expect that to continue for a certain period of time. And I think that it's been prudent to have a bet on companies like HEXO that both have the scale and operational expertise and cost control to survive their margins in that price compression. So as we've seen, despite the price compression we've held our margins, so I'm not too worried about it. But the smaller producers over time will not be able to because they won't have the economy of scale.

**Krishna Ruthnum**

Okay. Thanks for that. I also had another question just around the 260 tonnes of hemp supply that you announced. Are there any terms? Or is there any additional colour that you can give us just sort of around that supply?

**Sebastien St. Louis**

So we're not disclosing the terms, but you can kind of look at how we operate. We always operate from a kind of a fungible supply, globally approved supply chain perspective. So when we look at our cost per milligram, we track everything. And then there's—so there's two things to look at: where do you need the supply to come from and how is that supply relevant to specific jurisdictions.

So in the US, you need hemp to participate; but then two, whether it's biosynthesis, hemp, or marijuana, we are continuously evaluating our cost per milligram of all cannabinoids in formulation and flower and then searching the most cost-effective alternative. So you can assume that our hemp transformation will be at a good price.

**Krishna Ruthnum**

Okay. Thanks for that. And one last question just on your guidance for Q4. Just given where we are in the quarter, just wondering if you can give us some comments on the trend to date, as well as the pace, and sort of your confidence of reaching that target?

**Sebastien St. Louis**

We're going to reach the target. I mean, I'd ask you and I continuously—I welcome a challenge, as I think the analyst community is doing a phenomenal job in our space. I welcome more transparency in our space, and I welcome a broader discussion for investors. If you ever hear me say something and not deliver, you have to call me out.

And in reverse, I would tell you today nobody's ever called me out on anything because HEXO has always delivered what we said we would. We're delivering a double this quarter.

**Krishna Ruthnum**

Thank you.

**Operator**

Ladies and gentlemen, as a reminder should you have a question, please press the \*, followed by the 1.

And there are no further questions at this time. Please proceed.

**Sebastien St. Louis**

Thank you very much, everybody, for your time and the great questions. Look forward to speaking with you during the following months and, of course, at our next earnings call.

**Operator**

Ladies and gentlemen, this concludes your conference call for today. And we thank you for participating, and ask that you please disconnect your lines.