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Cresco Labs, Inc. (CL.CA)

Q3 2025 Earnings Call

CORPORATE PARTICIPANTS

T. J. Cole

*Senior Vice President-Corporate Development & Investor Relations,
Cresco Labs, Inc.*

Charles Bachtell

Chief Executive Officer & Director, Cresco Labs, Inc.

Sharon Schuler

Chief Financial Officer, Cresco Labs, Inc.

Gregory Butler

President, Cresco Labs, Inc.

OTHER PARTICIPANTS

Aaron Grey

Analyst, A.G.P. / Alliance Global Partners LLC

Frederico Gomes

Analyst, ATB Capital Markets, Inc.

MANAGEMENT DISCUSSION SECTION

Operator: Good day, and welcome to Cresco Labs Third Quarter 2025 Earnings Conference Call. All participants will be on listen-only mode. [Operator Instructions] After today's presentation, there will be an opportunity to ask questions. [Operator Instructions] Please note this event is being recorded.

I would now like to turn the call over to T.J. Cole, Senior Vice President of Corporate Development and Investor Relations for Cresco Labs. Please go ahead, T.J.

T.J., please go ahead.

T. J. Cole

Senior Vice President-Corporate Development & Investor Relations, Cresco Labs, Inc.

Thanks, [ph] Sam (00:01:05). You can go ahead and start the call.

Unverified Participant

Thank you. Good morning and welcome to Cresco Labs third quarter 2025 earnings conference call. On the call today, we have Chief Executive Officer and Co-Founder, Charles Bachtell; Chief Financial Officer, Sharon Schuler and President, Greg Butler, who will be available for the Q&A.

Prior to this call, we issued our third quarter earnings press release, which has been filed on SEDAR and is available on our Investor Relations website. These preliminary results for the third quarter are provided prior to completion of all internal and external reviews and therefore are subject to adjustment till the filing of the company's quarterly financial statements. We plan to file our corresponding financial statement and MD&A for the quarter ended September 30, 2025 on SEDAR and EDGAR later this week.

Before we begin, I want to remind you that statements made on today's call may contain forward-looking information. Actual results may differ materially. The risk, uncertainties and other factors that could influence actual results are described in our earnings press release and in the most recent annual information form and MD&A filed with the securities regulators. This call also contains non-GAAP measures also outlined in our earnings press release and in the MD&A filed with the securities regulators. Please also note that all financial information on today's call is presented in US dollars, and all interim financial information is unaudited.

With that, I'll turn the call over to Charlie.

Charles Bachtell

Chief Executive Officer & Director, Cresco Labs, Inc.

Good morning, everyone, and thank you for joining Cresco Labs' Q3 earnings call.

This quarter demonstrated the power of our disciplined execution and resilient platform and we delivered consistent results while positioning Cresco for the next phase of industry growth. The cannabis industry continues to evolve, entering a new era defined by scale, efficiency and strategic leadership. Growth will come from increased consolidation and scale in existing markets, expansion in the new state regulated markets and by broadening our reach beyond the traditional state-regulated cannabis system.

Cresco Labs is built for this moment. Our focus remains clear: execute in our core markets with precision, strengthen profitability and invest intelligently for long-term value creation. In Q3, Cresco Labs generated \$165 million in revenue, up 1% sequentially. We produced \$80 million in adjusted gross profit, \$40 million in adjusted EBITDA and \$6 million in operating cash flow. Importantly, we completed our debt refinancing, reducing the size of the debt, extending maturities, improving flexibility, and reinforcing our balance sheet to fund future growth. This quarter also reflected our ongoing commitment to improving the quality of our earnings. We're focusing on durable cash-generating operations and making portfolio decisions such as our California exit that strengthened long-term profitability and balance sheet health.

The industry trends we've been watching over the last several quarters continue to play out with clear signs of consolidation emerging across markets. Every decision we make is guided by one objective: building a more productive and cash-generating platform that delivers value today and creates substantial growth for tomorrow.

Let me walk through how we're executing on that strategy. First and foremost, our number-one priority is maintaining a solid balance sheet with a strong cash position. We built a balance sheet that enables the stability and flexibility our strategy requires. With a solid cash position and debt refinancing behind us, we've successfully extended maturities, eliminated near-term obligations, and improved flexibility for future investments. We're now positioned to lean into disciplined M&A and broader growth initiatives. Our pipeline includes several compelling opportunities that align with our operational strength, [ph] accretive (00:04:49) synergistic and strategically located. The quality of deals available today is the strongest we've seen in years, and we expect M&A to become a meaningful growth lever in 2026.

As part of our ongoing effort to strengthen our business and ensure long-term sustainability, we closed on the sale of our California operations on October 31st. While the transaction has a nominal cash value, it improves our go-forward profile by removing liabilities, eliminating operating losses, and reducing organizational complexity. California has been an important part of Cresco Labs' evolution, but stepping away allows us to focus resources squarely on our most productive and strategically aligned projects. We have a strong and flexible balance sheet with capacity for strategic investment that will be used to create long-term value for our shareholders.

Second, our focused footprint uniquely positions us to win with organic growth from our core markets and growth potential from target expansion markets. We're methodically expanding in markets where we already lead, while laying the foundation for new opportunities.

In Ohio, we're holding the number-one retail share position as we've opened the first of three new dispensaries planned to open through early 2026. The new store's early performance has exceeded expectations, validating our disciplined site selection and operational playbook. The next two Ohio dispensaries are on schedule to open in the first quarter, further strengthening our position in one of the most promising emerging US markets.

We're also making progress in Kentucky, where we're preparing to open operations in one of the country's newest medical markets. Our cultivation and processing facility buildout is advancing on schedule, positioning us to bring our consistent, high-quality products to patients starting in late Q2 and ramping up through the second half of 2026. We believe Governor Beshear and state leaders have developed a smart, sensible regulatory framework that's focused on safety, patient access and responsible growth. And we're excited to be a part of it.

While near-term financial drivers and disciplined execution are top priorities, we're also reaching beyond US-regulated markets to nurture opportunities that can grow our platform over time, including hemp in international markets.

In the coming weeks, we will be taking an important first step globally by launching our flagship Cresco Branded Flower in Germany, marking our entry into the European Union. We've spent considerable time learning about the European market and believe Germany's well-structured medical framework and its standing patient base make it an ideal place to pilot our brand strategy and consumer insights model. This test-and-learn approach allows us to make small, cost-effective bets that have the big long-term potential, while keeping our core US market performance at the forefront.

We're in control of our growth story. Every decision to expand is wrapped in a clear understanding of where it can add value and how we can execute with discipline. We're balancing organic growth, nurturing long-term bets, and weighing new acquisitions and new channels to enable a resilient, profitable, performance-driven platform. And lastly, our proven retail and wholesale capabilities will keep enabling us to outperform the market.

In wholesale, adding cultivation capacity has directly translated to performance gains. We grew share quarter-over-quarter in Illinois, Pennsylvania and Massachusetts, landing number-one branded share positions in all three states and maintaining top five positions across our limited license wholesale markets. Our deep expertise across cultivation, manufacturing and distribution is making Cresco Labs the producer of choice for some of the most respected brands in the industry. Brands like Kiva and a growing roster of premium partners look to us for reliability, innovation and consistency, qualities that define true category leadership.

On the retail front, we continue holding top share positions in our limited license states, including the number one position in Illinois and Ohio. We're tapping into our long-standing history of retail technology innovations to drive new efficiencies that also enhance the customer experience. For example, Sunnyside recently rolled out self-serve kiosks to improve transaction speed, increase throughput and optimize staffing, all while maintaining high-touch service. The result is faster checkouts, higher customer satisfaction and improved operating margins.

Our integrated retail and e-commerce ecosystem continues to scale profitably while deepening shopper engagement. Recently, our Sunnyside.Shop platform surpassed \$1.5 billion in cumulative sales, a testament to the enduring strength of our omni-channel retail strategy and the loyalty of our customer base. Our wholesale and

retail performance reflects our ability to execute with precision, adapt to evolving market dynamics, and lead through both growth and margin focused cycles. With these capabilities in hand, Cresco Labs is positioned to not only outperform the market, but also to exemplify leadership within it.

In closing, Cresco Labs is ready for the next chapter of growth. In Q3, we delivered results in line with expectations, maintained our leadership positions across key markets, strengthened our balance sheet through the successful completion of our debt refinancing and streamlining our footprint. Together, these actions reinforce our financial foundation, preserve shareholder value, and create greater flexibility to invest in the future of Cresco Labs. This approach reflects the discipline that has guided us from the start: building a scalable, stable platform designed to outperform in every environment.

With that, I'll turn it over to Sharon to walk you through our Q3 financial performance in more detail.

Sharon Schuler

Chief Financial Officer, Cresco Labs, Inc.

Thank you, Charlie, and good morning, everyone. We reported \$165 million in revenue, representing a 1% sequential increase from Q2. Our results reflect the continued stability of our core business and the benefits of increased cultivation, which helped offset price compression across several of our markets. Wholesale revenue grew 10% quarter-over-quarter, driven by that expanded capacity and strong market share gains in both Illinois and Pennsylvania.

On the retail side, one new dispensary opening in May helped partially offset continued price pressure across the network, resulting in sequential retail revenue down 4%. As discussed last quarter, gross margins were in line with Q1 as some of the one-time favorable mix and production factors we benefited from in Q2 did not repeat. The quarter reflected a mix of progress and expected transitory factors. We continue to make incremental operational improvements across our network increasing yields, optimizing cultivation practices and lowering unit cost.

As we ramped production in Illinois and Pennsylvania, we sold through high-cost flower during the quarter, resulting in adjusted gross margins of 49% consistent with Q1 and our guidance. We've made continued progress on streamlining our business, removing \$2 million from adjusted SG&A compared to Q2. Our team's focus on the bottom line and unending quest for efficiency is leading to small savings across the organization that makes a collective difference. Adjusted EBITDA was \$40 million or 24% of revenue, which is consistent with underlying performance trends when excluding the non-recurring benefits realized in the prior quarter.

In Q3, we generated \$6 million in operating cash flow and invested \$7 million in capital expenditures for Kentucky, as well as upgrades in Ohio and Florida. Year-to-date, we generated \$45 million and operating cash flow, resulting in free cash flow of \$20 million. We ended the quarter with \$82 million in cash, including restricted amounts after paying down \$35 million of principal from our debt. With our debt refinancing behind us and no near-term cash obligations, our balance sheet is in a strong position to execute our strategy.

Looking ahead to Q4, we expect revenue from our core platform to remain roughly in line with Q3. Expanded cultivation capacity in Illinois will help offset ongoing price compression across several markets and increased retail competition anticipated near high-volume Sunnyside dispensaries. Revenue will be further reduced following our exit from California, which in Q3 contributed less than 3% of revenue on a consolidated basis. While our expanded cultivation network positions us well for 2026, we expect to continue selling through higher cost flower in Q4. This is the natural result of ramping new production with lower yields and utilization early in the process. We also expect price compression to continue to act as a headwind for gross margins.

We're expecting SG&A to remain relatively stable going forward. While we continue to look for opportunities to optimize, the next phase of margin expansion will primarily come from top line growth and operating leverage. Our team remains focused on disciplined execution and productivity, optimizing our asset base, and positioning the business for stronger margin contribution and growth in 2026.

With that, I'll turn it back to Charlie for closing remarks.

Charles Bachtell

Chief Executive Officer & Director, Cresco Labs, Inc.

Thank you, Sharon. The cannabis industry is entering a new phase of growth and consolidation. Operators with scale, efficiency and financial discipline will define the next chapter and Cresco Labs is built to lead it. You can see our leadership in Illinois and Ohio, where we outperform expectations and hold the number one retail share, and number one branded portfolio in core wholesale markets like Illinois, Pennsylvania and Massachusetts. These results underscore the strength of our integrated model and our ability to execute consistently, even in challenging environments.

While we're optimistic about federal reform, we're not waiting for it. Momentum in Washington represents meaningful upside for the entire industry, but our strategy does not depend on it. By leveraging our core assets, capabilities and operational excellence, we are building an emerging growth platform designed to create long-term value both within and beyond the regulated US cannabis.

I want to thank the Cresco team for their continued commitment, adaptability and teamwork in positioning the company for long-term success.

With that, we'll open the call up for questions.

QUESTION AND ANSWER SECTION

Operator: Thank you very much. [Operator Instructions] Our first question comes from Aaron Grey from A.G.P. Your line is open, Aaron. Please go ahead.

Aaron Grey

Analyst, A.G.P. / Alliance Global Partners LLC

Q

Hi. Good morning. Thank you very much for the questions here today. So, first one I talk about is your international aspirations. You announcing the initial launch in Germany. Maybe just some additional color you can talk about in terms of, you know, the supply chain, the partnerships, assuming it's more asset-light in the near term. So, how you're looking to approach that initiative. And then more longer term, I know you're still in test and learn, but how important do you feel like it is to own the supply chain, potentially international, similar to the US? Or could you potentially have more of an asset-light strategy even in the long term? Thank you.

Charles Bachtell

Chief Executive Officer & Director, Cresco Labs, Inc.

A

Yeah. Good morning, Aaron. It's a great question. The way that we were thinking about the evolution of the international expansion, I think it's the same way that we're thinking about the evolution of cannabis in general. It's dynamic. It's going to have certain characteristics today that could change and evolve over time. And so, developing a dynamic approach to it, to the international expansion is the same way that we think about growth within the US cannabis space as well. So, we're excited to be taking this first step.

You asked about the supply chain. It is – it's an interesting supply chain where you don't necessarily have to own and operate it. There is infrastructure that's in place. There is cultivation and manufacturing from certain countries, there's processors from other countries that are EU GMP certified that can bring your product into the EU, and then there's distribution channels within Germany. So, this is part of the rationale for the test-and-learn approach.

It's different in the way that you can implement an asset-light international multi-country distribution approach unlike the US market. So, we're really excited about it, but a lot to be learned and we'll continue to provide updates.

Aaron Grey

Analyst, A.G.P. / Alliance Global Partners LLC

Q

Okay. Great. Appreciate that, Charlie. Second question for me, it also sounds like [ph] you pretty much (00:17:43) talked about some evolving thoughts on hemp. So, if you could expand on that a bit, are those specific for formats? Obviously a lot of people have been getting more into the beverages in terms of, you know, some of your peers. So, just more color in terms of how you're looking to potentially, you know, think about hemp over the near and the long term. Thanks.

Charles Bachtell

Chief Executive Officer & Director, Cresco Labs, Inc.

A

Really comes back to THC and cannabinoids. Right? So, it's how do we think about THC and cannabinoid, both production, branding, branded products and distribution. How the hemp regulations evolve or don't evolve is just part of the broader cannabis story. And so, again, it's forming Cresco to be a leader in the normalization

professionalization of the cannabis industry. It really is in the production and distribution of branded cannabinoid products.

So, again, similar to international, I want to make sure that we are educating ourselves, that we are testing and developing approaches regardless of how state or federal or international reform occurs relating to the cannabis plant as a whole.

So, it's an interesting opportunity to reach more customers today than through the regulated state legal cannabis channel. So, we're developing products, we're developing go-to-market strategies, and again, I think it's a very interesting and unique opportunity for us to develop the skill sets and the approach regardless of how reform happens for cannabis going forward. And Greg has additional comments.

Gregory Butler

President, Cresco Labs, Inc.

A

Thanks, and Aaron, good morning. I think it's [indiscernible] (00:19:36) as we look at hemp, we do see the potential, the regulatory patchwork of frameworks does both create opportunities, as Charlie mentioned, also risks that we had to be thoughtful about. But as we think of this, a couple of things that are in play for us right now. We have a number of prototype products that are both in beverage and also in the edible form. We're really pleased with the quality of the products and we think in this space, quality and repeat purchase is going to win. It's very akin, I think, to the craft beer industry.

We have a lot of players quickly getting into the space with a story about kind of the anti-booze positioning. We're seeing that happen. Our positioning will be a high-quality product that needs a few other needs. But I think why we're taking this a bit slow right now is, one, the regulatory frameworks. We'd like to see more clarity on it. But, two, I think both distributors and retailers are also figuring it out. There are some things that excite them. We've also talked to a lot of retailers and a few distributors too about what is frustrating with – right now with the profitability profile and the velocity profile of what's out there. And so we want to give the time to let them test and learn, so we can really meet their needs with products.

But as Charlie mentioned, it's exciting time, I think, for hemp and we feel really good that as we figure out what's the right profitable path forward, we have some really high-quality products that we're really proud about that will do quite well.

Aaron Grey

Analyst, A.G.P. / Alliance Global Partners LLC

Q

Okay. Great. Really appreciate the detail there, both Charlie and Greg. I'll go and jump back into the queue.

Operator: [Operator Instructions] Our next question comes from Frederico Gomes from ATB Capital. Your line is open, Frederico. Please go ahead.

Frederico Gomes

Analyst, ATB Capital Markets, Inc.

Q

Thank you. Good morning. Thanks for taking my questions. First question on the comment about M&A and how that could become a meaningful growth lever in 2026. So, could you talk a little bit more about what's the size of transactions you're looking at, how meaningful could it be? And then in terms of valuations, [ph] how are they (00:21:51) looking like, you know, just broader comments on the M&A environment, and how are you thinking about that. Thank you.

Charles Bachtell

Chief Executive Officer & Director, Cresco Labs, Inc.

A

Thanks, Fred. So size of the transactions, valuations associated with it, it'll depend. What we're seeing now is more deal flow than we've seen in recent years. And partly because of the new opportunities that have been created in cannabis, but also part of it stemming from the frustrations of operating in the cannabis space and limited access to capital and the expense of it. So there's some good assets that are out there that are currently owned by distressed operators.

So, it really does run the gamut from single store opportunities all the way to multi-state platforms and everything in between. And so as we look at it – and valuation wise, I think valuations are starting to move with general valuations in the sector and become interesting value plays because these assets need good operators.

There's a trend that we're seeing and we think we're a great opportunity, not only for us, but great opportunity for existing owners and/or lenders as these assets need better homes. And we're excited to evaluate all of them and find the ones that fit best for us.

So, again, it really does – it runs the gamut from single store operations to multi-state footprints. And we're weighing the ROI on each of them and we're going to be real disciplined and patient with how we allocate capital and make sure it's setting us up for great long-term growth and shareholder value.

Frederico Gomes

Analyst, ATB Capital Markets, Inc.

Q

Thank you. Appreciate that. Second question on the commentary about that you still expect to see – to sell higher costs flower in Q4. So, just curious about the ramp there in terms of when's that expected to be worked through and sort of normalize, and that could be a tailwind for margins, I guess, next year. Thank you.

Charles Bachtell

Chief Executive Officer & Director, Cresco Labs, Inc.

A

Sure. And this one Sharon you want to handle this one?

Sharon Schuler

Chief Financial Officer, Cresco Labs, Inc.

A

Sure. Yeah. Let me take that one. Yeah. So, obviously, seeing some of the impact in Q4, I think you'll see some continue slightly into the beginning of next year. And then, you know, obviously, I think as we mentioned, right, some of the improvements we expect or continue to refine will come in the space of margin over time. But I would say we still probably have a good couple of quarters to work through some of the higher cost.

Frederico Gomes

Analyst, ATB Capital Markets, Inc.

Q

Thank you. Appreciate that.

Operator: We currently have no further questions. So, I'd like to hand back to Charlie for some closing remarks.

Charles Bachtell

Chief Executive Officer & Director, Cresco Labs, Inc.

I appreciate everybody's time today. Thank you for joining the call. And we look forward to talking to you in 2026. Thanks, everybody.

Operator: This concludes today's call. We thank everyone for joining. You may now disconnect your lines.

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