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# EDITED TRANSCRIPT

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## CORPORATE PARTICIPANTS

**Michael Gorenstein** *Cronos Group Inc. - Chairman, CEO, President & Corporate Secretary*

**Peter Righetti**

**Rodney Cocks**

## CONFERENCE CALL PARTICIPANTS

**Daniel Pearlstein** *Eight Capital, Research Division - Principal of Cannabis and Healthcare Research*

**Jason Zandberg** *PI Financial Corp., Research Division - Special Situations Analyst*

**Jesse Pytlak** *Cormark Securities Inc., Research Division - Analyst of Institutional Equity Research*

**Martin Landry** *GMP Securities L.P., Research Division - MD Equity Research & Equity Research Analyst*

**Matt Bottomley** *Canaccord Genuity Limited, Research Division - Analyst*

## PRESENTATION

### Operator

Good morning. My name is Dan, and I will be your conference operator today. At this time, I would like to welcome everyone to the Cronos Group Incorporated Launch of Cronos Australia Conference Call. (Operator Instructions) Mr. Gorenstein, you may begin your conference.

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**Michael Gorenstein** - *Cronos Group Inc. - Chairman, CEO, President & Corporate Secretary*

Good morning, everyone. Thanks for joining. We know it'll be a busy Monday, so we'll try to keep this quick. We're extremely excited to announce that we have launched Cronos Australia. It's a joint venture between Cronos Group and 2 -- led by 2 very important gentlemen we have on the phone today from NewSouthern Capital, Rodney Cocks and Pete Righetti. I'll let the 2 of them introduce themselves, and then we could jump right into questions.

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**Rodney Cocks**

Thanks very much...

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**Peter Righetti**

Thanks very much, Mike.

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**Rodney Cocks**

You go ahead, Pete.

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**Peter Righetti**

Well, let me first. My name is Peter Righetti, and I'm a Director and the Chief Operating Officer of Cronos Australia. Cronos Australia, as Mike said, is a 50-50 joint venture between Cronos Group and NewSouthern Capital Pty Ltd. Cronos Australia will serve as the group's hub for Australia, New Zealand and Southeast Asia, bolstering the group's import and export supply capabilities and distribution network. Cronos Australia will leverage



the group's intellectual property and iconic brands to deliver premium cannabinoid-based products to Australasia. I would like to introduce my Co-Director and CEO of Cronos Australia, Rodney Cocks, who, along with Mike, will be pleased to address any questions that you may have. Rodney?

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#### **Rodney Cocks**

Thanks, Pete. Good morning, all. Rodney Cocks on the line here, the CEO of Cronos Australia. Looking forward to discussing this important milestone in the life of Cronos Australia, and talking about the market and our plans down under.

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#### **Michael Gorenstein** - Cronos Group Inc. - Chairman, CEO, President & Corporate Secretary

Thanks, guys. We want to go ahead and open up to questions now.

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### **QUESTIONS AND ANSWERS**

#### **Operator**

(Operator Instructions) Your first question comes from the line of Martin Landry with GMP Securities.

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#### **Martin Landry** - GMP Securities L.P., Research Division - MD Equity Research & Equity Research Analyst

Wondering if you can give us a little bit of details on the Australian market. I know it opened up, I think, in 2016, and it's still in its infancy. But do you have any visibility on its size right now and its potential size down the road?

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#### **Michael Gorenstein** - Cronos Group Inc. - Chairman, CEO, President & Corporate Secretary

Sure. I'll let Rodney give the details. As you said, yes, it's still in its infancy, and it's very similar to what we saw early on in Canada and Germany up until about the middle of last year. So we've seen this before, where it takes a little over a year for the framework to get in place and for everyone to get comfortable. But I'll leave it to Rod to give some details there.

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#### **Rodney Cocks**

Yes, thanks, Mike, and thanks for your question, Martin. In terms of the time frame of patient access for medicinal cannabis in Australia, in February 2016, the federal government announced a licensing regime, quickly followed up in October 2016 announcing commercial licensing of companies. And then followed up around about 12 months later in just last month in -- on the 4th of January, the government announcing an export program. As Mike said, we've seen a wider momentum which broadly follows other markets and particularly Canada. And we see a lot of similarities between the regulators' approach from The Office of Drugs Control (sic) [The Office of Drug Control] and the federal Department of Health in Australia to the [federal] Health Canada regulatory scheme. Currently, at the moment, medicinal cannabis is available in Australia by 2 pathways, firstly by authorized prescribers or by [this] on issuance of Special Access Scheme. This allows really 2 patient groups to have access, pediatric epilepsy patients, and secondly, those in palliative care. Certainly, the government has signaled through its recent announcements, particularly pertaining to export that patient access is increasing. And this is mirrored by analysis which is being completed by Deloitte, somewhat dated now, back in 2016 with -- their analysis revealed that there were over 30,000 patients at that time who were -- would be able to take up immediate -- produce immediate demand for medicinal cannabis. We believe that's moved significantly, particularly with the interest and attention of focus on the industry and the announcement the government has been making.



**Martin Landry** - GMP Securities L.P., Research Division - MD Equity Research & Equity Research Analyst

Okay, that's helpful. And then can you give us a bit of visibility on how many licenses have been granted so far?

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**Rodney Cocks**

Yes. To date, there's been 13 additional cannabis licenses issued. We believe we're the 14th, that 13th number was issued by The Office of Drugs Control (sic) [The Office of Drug Control] in November last year, so we believe we're the 14th company to have one.

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**Martin Landry** - GMP Securities L.P., Research Division - MD Equity Research & Equity Research Analyst

Okay. And will there be restrictions on the number of license issued or?

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**Rodney Cocks**

We've got no information. We've asked that question to the regulator, and they haven't come back with the definitive position on restrictions.

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**Martin Landry** - GMP Securities L.P., Research Division - MD Equity Research & Equity Research Analyst

Okay, okay. And last one for me, just timing on your production capacity, Mike?

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**Michael Gorenstein** - Cronos Group Inc. - Chairman, CEO, President & Corporate Secretary

Sure. So initially the facility that we have designed at 2,000 kilos per year, but we've also set the facility up to be able to handle extra capacity, and it's certainly something we plan on expanding as sort of the market and the team grows. But one of the things that will be beneficial for Cronos Australia is having access to any supply from our other facilities in Canada, Israel and future countries that come online. So for us, it's a little bit of a toggling. We think initially we'll be importing to meet demand, and eventually, we'll be exporting not just throughout the different states in Australia, but into New Zealand and some of the Southeast Asia markets.

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**Operator**

Your next question comes from the line of Matt Bottomley with Canaccord Genuity.

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**Matt Bottomley** - Canaccord Genuity Limited, Research Division - Analyst

Just a couple of quick questions on my end. Just wondering if you can detail sort of the longer-term view on this joint venture in Australia versus the one in Israel? Are they going to have different competitive advantages between the cost of production versus the markets you plan on exporting to down the road?

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**Michael Gorenstein** - Cronos Group Inc. - Chairman, CEO, President & Corporate Secretary

Sure. So I think that I view the 2 of them -- one thing that's similar is, there are advantages to research and development. I'll let Rodney jump in as soon as I'm finished with this part, in the -- some of the incentives that are provided for doing R&D in Australia. And as you know, it's one of the strongest places for pharmaceutical R&D. As far as production costs, we don't see this as the same as Israel. I think Israel, from a climate perspective and the uniqueness of how we have things set up, it makes it a little bit more of a focus on low cost. Australia though will be -- I think it's a bigger market for distribution, and it's something where we think you need to have a presence to be able to gain market share in that region of the world,

especially given the time differences. And in terms of long term, beyond Australia, New Zealand, we think that -- and Rodney can speak to this too, the gateway into Asia, Australia, whether it's in produce or in pharmaceuticals, has really been the leader in international ties to Asia. Rodney?

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**Rodney Cocks**

Yes, I'll just pick up those 2 points then. On the question of R&D tax incentives, it's -- what Mike's referring to is the -- is a scheme in Australia which encourages innovation and R&D to be conducted here. And we've seen a lot of multinationals move research activities to Australia. Depending on the type of research activity and how the company is structured, it's around about a 40% rebate on the cost of the R&D, so significant. And that has fostered a lot of R&D over recent years to use that scheme. So that's going to be a big incentive for conducting R&D here, and potentially moving R&D that's going on in other parts of the world down here. In terms of Southeast Asia and Australian produce and how it's regarded there, we definitely have strong demand for produce which is considered very clean, very pure and of very high quality and purity, which resonates well in the Asian market, and also proximity from the logistic supply chain point of view. And that's carried through commodity type items, whether that's dairy, veg and so on, all the way up to more niche play such as dairy versus just the wine industry. And this Southeast Asian markets reacted extremely well to the Australian produce. And we think we can leverage off the back of that with the produce coming from that production facility.

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**Matt Bottomley** - *Canaccord Genuity Limited, Research Division - Analyst*

And maybe just in the Australian market itself, is there any indication on where pricing might land? Or how reimbursement might work compared to what we're seeing in other markets where Cronos is, like Germany?

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**Rodney Cocks**

Yes. We think it's -- that's obviously evolving with the federal government now in terms of -- you're talking about reimbursements from a health care point of view with the government, is that what you're referring to?

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**Matt Bottomley** - *Canaccord Genuity Limited, Research Division - Analyst*

That's right. Or just a climate for private reimbursement as well?

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**Rodney Cocks**

Yes, got it. We believe that the framework here will largely mirror what we're seeing in other markets, such as Canada and Germany. They're, obviously, with -- that is an evolution with what's happening with the government at the moment, but certainly we look at the other parts of regulation and the activities surrounding medicinal cannabis, it's largely mirroring what's happening in markets such as Canada, and I'd also include Germany in that also.

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**Matt Bottomley** - *Canaccord Genuity Limited, Research Division - Analyst*

Okay, perfect. Just last on my end. Just if there's any license classifications that you still need? Is it just the medical and R&D, are those the only 2 license classes? And I'll leave it there.

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**Rodney Cocks**

No. Good question. We are now holders of medicinal cannabis license, which as I said is the -- we're the 14th one of that was issued. We also hold a cannabis research license. There's 6 of those issued, we'll be the seventh. There's 1 sort of license called manufacture license, and so far there has been 6. We hope to be the seventh in the coming weeks. And typically that has been the flow of licenses, some companies get them one at a time.

With our first 2 licenses, we got them at the same time. We understand from the regulator that our assessment is being completed. And it sits in the hands of the delegate in terms of its decision there. So that's where that manufacturer license stands. And again, we believe it's a very short time away.

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**Matt Bottomley** - *Canaccord Genuity Limited, Research Division - Analyst*

And Mike, I may have cut you off there. Apologies.

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**Michael Gorenstein** - *Cronos Group Inc. - Chairman, CEO, President & Corporate Secretary*

Sure. I was just adding a note on pricing. I think it'll fall somewhere likely between Canada and Germany. From what we've seen internationally, Canada tends to be on the lower end of the pricing spectrum and Germany tends to be on the higher end.

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**Operator**

And your next question will come from the line of Jason Zandberg with PI Financial.

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**Jason Zandberg** - *PI Financial Corp., Research Division - Special Situations Analyst*

Just a couple more questions on the Australian market. I heard a patient number of 30,000, and I wasn't sure if that was the potential or that was the current. If maybe we -- if we get a current patient number. And then just the compare and contrast, how a patient is enrolled in a program in Australia versus, say, compared to in Canada's ACMPR process?

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**Rodney Cocks**

Sure. I'm happy to address both of those. So just recapping on patient number. Patient number is currently enrolled in the combination of what is called here the authorized prescriber or the Special Access Scheme. There's around about 300 patients. And they are primarily from 2 patient groups. Firstly, pediatric epilepsy patients, and secondly, palliative care patients. The 30,000 figure I quoted earlier was in reference to a Deloitte report that was written in 2016, which provided analysis of the market. And we mentioned 30,000, the exact figure is 30,400 patients that they saw if there was full access given to medicinal cannabis that they would be taking up use of those products. We believe that given that, that report is now 2 years old, and with the additional attention focus from both the industry and government on medicinal cannabis, we believe that number is a lot larger now. We understand that, that research is being revisited, and we should have updated numbers in the coming months. In terms of the programs that you are asking about. The Authorized Prescriber Scheme allows for doctors to become authorized prescribers, and then patients can see that doctor who has that classification, and they can be prescribed medicinal cannabis. The second pathway to access is the Special Access Scheme, and it's almost the reverse where the patient initiates the request to go through any doctor and then that doctor requests through the Special Access Scheme. Again, this area is evolving in line with the government comments, and we see that changing again in the coming months with increased access -- with increased patient access to medicinal cannabis products. That -- as it stands currently, they are 2 pathways to access.

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**Jason Zandberg** - *PI Financial Corp., Research Division - Special Situations Analyst*

Okay, great. The second question...

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**Rodney Cocks**

Hello?



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**Peter Righetti**

Sorry, I think we lost our -- we lost Jason there.

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**Operator**

And your next question will come from the line of Daniel Pearlstein with Eight Capital.

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**Daniel Pearlstein** - *Eight Capital, Research Division - Principal of Cannabis and Healthcare Research*

Wondering if you could talk a little bit about on some of the key differences between the Australian market and Canada other than what we've discussed here so far? Is there anything kind of worth pointing out that makes Australia unique at this current juncture?

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**Peter Righetti**

Can we take that offline?

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**Michael Gorenstein** - *Cronos Group Inc. - Chairman, CEO, President & Corporate Secretary*

Thinking on our side, one key difference is the lower threshold for microbials, which has partly drove the decision for starting off the indoor cultivation. And then I would just note that it's still treated a little bit more pharmaceutical than in Canada. But we expect this to be somewhat of a hybrid in pharmacy distribution. I'll let Rodney speak to thoughts there, but likely to be the model.

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**Rodney Cocks**

So Mike, just to pick up on the pharmacy distribution piece. Pharmacies are controlled by state legislation in Australia according to a national framework. And we see the pharmacies playing key role or that they will play the role. And they're playing that right now with the authorized prescriber and also the Special Access Scheme. So we see there the main point of distribution through [pharmas] on a state-based program, but in accordance with the national framework.

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**Daniel Pearlstein** - *Eight Capital, Research Division - Principal of Cannabis and Healthcare Research*

Okay, cool. And what are some of the -- that was helpful. What are some of the key catalysts from an industry regulatory perspective of as how you somewhat alluded to a little bit earlier, what might be some of the key things to watch for changing over the coming 6 to 12 months?

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**Rodney Cocks**

I think what we're seeing in the market is increased -- the -- an increased weight of voices or momentum around medicinal cannabis access for patients beyond those 2 patient groups I mentioned earlier, pediatric epilepsy and palliative care. Particularly -- that's across all groups, wider than those. And what we're seeing now is that mainstream acceptance and the regulators and the legislators listening to that and engaging with them to make those changes. And again, having spent time with Mike and the Cronos Group team, both on the ground and also with former and current Health Canada officials, it just seems that, that, I think, we are probably several years behind where Canada is now. And I think that the same catalyst you're seeing in the market in Canada are at play now in Australia. I think the difference is, is that the speed of change, I think, we'll see here will accelerate because we've got analogues to grow on and look at -- and lessons to learn from other jurisdictions. So I think that, that speed -- the pace of change will certainly increase. And we're seeing that even in the time that we've been -- had the application to the license.



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**Daniel Pearlstein** - *Eight Capital, Research Division - Principal of Cannabis and Healthcare Research*

Okay, great. Last...

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**Michael Gorenstein** - *Cronos Group Inc. - Chairman, CEO, President & Corporate Secretary*

And sorry one thing that I've kind of noticed is that in terms of perception, we see a direct link, not just in Australia, but globally on general views towards using opiates to treat chronic pain, and how that affects acceptance of cannabis. And Rodney, maybe you could mention a little bit about what's recently gone on in Australia there.

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**Rodney Cocks**

Yes, that's a good point, very relevant and very current. We just last Thursday, there was an extreme tightening of over-the-counter access of opiate-based pain-relief medication, where a lot of the high-end pain-relief medications could be bought over the counter at a pharmacy without the need, requirement for a doctor's prescription. And there was a lot of public attention on that issue. And a lot of coverage, both on those that have had problems with addiction to those substances as well as those that rely on them for -- to basically get through the day. So what that's done, it's also put a spotlight. I don't want to conflate those 2 issues of opiate-based pain killers and medicinal cannabis. But what it's done is put the spotlight on alternatives for opiate-based pain-relief medication, at the same time, where we're getting this crescendo of voices around medicinal cannabis access. And the legislators are listening even more to those voices now. So again, I just see that pace of change really picking up over the coming months.

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**Daniel Pearlstein** - *Eight Capital, Research Division - Principal of Cannabis and Healthcare Research*

Sure. That was helpful. Last quick question for me. Just on the product form, anything around just the dry -- beyond just the dried flower. I assume it's still medical just for the time being. But anything around oils or derivatives and that medical aspect?

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**Michael Gorenstein** - *Cronos Group Inc. - Chairman, CEO, President & Corporate Secretary*

Yes. Any [med] we're able to make, you can expect to see in Australia. So I think over the coming months you'll see tinctures, and you'll see softgel capsules. And we're exploring a few other form factors, but those are likely the first 2 beyond flower that we'll start with.

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**Operator**

(Operator Instructions) Your next question comes from the line of Jesse Pytlak with Cormark Securities.

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**Jesse Pytlak** - *Cormark Securities Inc., Research Division - Analyst of Institutional Equity Research*

Just kind of hoping you can maybe give us some further details on what's involved in obtaining that import license and if there's any major hurdles with that?

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**Peter Righetti**

Sure, I can take that one. So the import license requires federal and state authorization. Federal authorization works through 2 agencies The Office of Drugs Control (sic) [The Office of Drug Control] and the Therapeutic Goods Association (sic) [Therapeutic Goods Administration]. And we've already started that process with those agencies. In comparison to the cultivation license, relatively straightforward. And now we're working with



the Victorian Government, which is the state government where Cronos Australia is domiciled for the import permits. We're not expecting any significant delays or hurdles with that process. And we're just going through the checks and balances that the state needs to undertake in order to get that. And, of course, it certainly helps when the product is coming from a known source in Canada, which is high-quality premium producer like the Cronos Group. And then proving to the federal government what that is, and then getting that permission to do that. But all in all, I'm not expecting any hurdles to that process.

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**Jesse Pytlak** - *Cormark Securities Inc., Research Division - Analyst of Institutional Equity Research*

Okay, great. And then just kind of circling back to the facility plans. Can you give any further details just on the timing of when you're actually planning to begin construction and when you could probably expect to see the first harvest out of that?

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**Rodney Cocks**

Sure. Good question. And the facility will be modeled on what the Cronos Group is doing in Canada, with obviously any local tailoring that needs to be done to take care of climate and the like. We're expecting to commence construction on that facility in the coming months with the first output from that facility likely in Q3 of 2019. So it's still a little bit of runway, but again, getting back to your first question, that gap in terms of supplying Australian patients with high-quality medicinal cannabis products will be covered by the import of those products during that time.

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**Operator**

And there are no further questions in the queue at this time. I'll turn the call back over to the presenters.

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**Michael Gorenstein** - *Cronos Group Inc. - Chairman, CEO, President & Corporate Secretary*

All right. Thank you, everyone, for joining. And we appreciate it. Please feel free to follow up by e-mail with any other questions. Rodney, Peter, thanks very much and congratulations.

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**Peter Righetti**

Thanks very much, Mike.

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**Rodney Cocks**

Thank you all, and great to discuss the licensing of Cronos Australia this morning. Thanks, again.

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**Operator**

Thank you to everyone for attending today. This will conclude today's call, and you may now disconnect.

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