THOMSON REUTERS STREETEVENTS

EDITED TRANSCRIPT

HEXO.TO - Q4 2019 Hexo Corp Earnings Call

EVENT DATE/TIME: OCTOBER 29, 2019 / 12:30PM GMT

CORPORATE PARTICIPANTS

Jennifer Smith *HEXO Corp. - Manager of Financial Reporting & IR*

Sebastien G. St-Louis *HEXO Corp. - Co-Founder, President, CEO & Director*

Stephen Harry-Donald Burwash *HEXO Corp. - CFO*

CONFERENCE CALL PARTICIPANTS

Adam Buckham;Scotiabank;Analyst

Brett Michael Hundley *Seaport Global Securities LLC, Research Division - Research Analyst*

Christopher Michael Carey *BofA Merrill Lynch, Research Division - Research Analyst*

Erica A Eiler *Oppenheimer & Co. Inc., Research Division - Equity Research Associate*

John Zamparo *CIBC Capital Markets, Research Division - Associate*

Matt Bottomley *Canaccord Genuity Corp., Research Division - Analyst*

Owen Michael Bennett *Jefferies LLC, Research Division - Equity Analyst*

Tamy Chen *BMO Capital Markets Equity Research - Analyst*

PRESENTATION

Operator

Good morning, and welcome to HEXO Corp.'s Fourth Quarter Fiscal 2019 Earnings Call. (Operator Instructions) Please note that this call is being recorded today, October 29, 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 - *HEXO Corp. - Manager of Financial Reporting & IR*

Good morning. I'm Jennifer Smith, the Director of Investor Relations for HEXO Corp. Thank you all for joining us this morning for our 2019 Q4 earnings call. We will start with the presentation by our CEO, Sebastien St-Louis, followed by a recap of our fourth quarter results by our CFO, Steve Burwash, 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 statements that involve known and unknown risks and uncertainties and other factors that could cause actual events to differ materially from current expectations. The forward-looking statements are based upon and include the company's current internal estimates, plans, expectations, opinions, forecasts, projections, targets, guidance or other statements that are not statements of fact.

Any statements contained herein or discussed during today's session that are not statements of historical fact may be deemed to be forward-looking statements. Such statements can often but not always be identified by the use of forward-looking terminology and other similar words and expressions that are predictions or indicate future events and future trends, including negative and grammatical variations thereof or statements that contain certain events or conditions may or will happen or by discussions of strategy. 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. Those risks and uncertainties include, but are not limited to those relating to the company's ability to execute its business plan, renew required permits, licenses and related regulatory compliance matters, implement its growth strategies, obtain and maintain financing at acceptable terms, maintain and renew required licenses, maintain good business relationships with its customers, distributors and other strategic partners, keep pace with changing consumer preferences, protect intellectual property, manage and integrate acquisitions, retain key personnel and release the company's competitive advantages, the development of new products and product formats for the company's products, changes in laws, rules, regulations and the absence of materially adverse changes in the industry or global economy. 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 3- and 12-month period ended July 31, 2019, which are available on the company's profile on SEDAR.

Although the company has based forward-looking statements on assumptions that it believes to be reasonable, it cautions the readers that actual results and developments, including the company's results of operations, financial conditions, liquidity and development in the industry in which the company operates may differ materially from those made or suggested by the forward-looking information contained herein. A number of factors could cause actual events, performance or results to differ materially from what is projected in these forward-looking statements. You are cautioned not to place undue reliance on these forward-looking statements, which only -- 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 or future events or for any other reason. Any forward-looking statement contained herein or discussed during today's session is expressively qualified in its entirety by the above cautionary statement.

Sebastien?

Sebastien G. St-Louis - *HEXO Corp. - Co-Founder, President, CEO & Director*

Thank you, Jennifer. Good morning, everybody. I'll just start by highlighting what an incredible year 2019 has been for the cannabis industry as a whole. We just passed the 1-year anniversary of recreational marijuana legalization in Canada.

This is something you see once in a lifetime. Over the past year, we've made significant steps forward. Canada became the first G8 country to legalize adult-use cannabis. HEXO's first plants were moved into our new B9 expansion on January 2019, 5 quarters after the project was announced. We signed a long-term lease for state-of-the-art manufacturing center, our center of excellence in Belleville and began retrofitting that facility. We closed our acquisition of Newstrike Brands. We significantly increased our distribution across Canada to 9 provinces. We strategically expanded our brand portfolio with both Up and Original Stash. Together with our partner, Molson Coors, we made significant progress towards launching beverages in Canada in anticipation of Canada's 2.0. We're just getting started.

Our company is still young. Despite all that we've accomplished, we've had some shortfalls. We recently retracted our fiscal 2020 guidance. Our fourth quarter revenues came in below our original expectations, and we hold ourselves accountable to that. We'd hope to achieve $400 million in revenue for fiscal 2020. There were several factors that contributed to the retraction of this guidance. So let's walk through the major ones. The retail store rollout in Canada has been slow to develop, particularly in Ontario and Québec, which represents approximately 60% of the Canadian population and currently less than 10% of the stores. While both provinces are committed to improving access to legalized cannabis, this has been slower than originally expected to develop.

SQDC store rollout was less than originally expected. And Ontario is now considering changing their distribution model. We don't believe the Canadian market will successfully penetrate the black market and see meaningful sales numbers until we can address the issues around access to legal cannabis and the in-store experience. I do want to add that the stores despite having a slower rollout, this is a first across the world, and we've still had quite a success. There is still customer lineups around most SQDCs.

Our contract with SQDC originally contracted for -- pardon me, so SQDC originally contracted approximately 58 tons for year 1 from all license producers. Due to supply shortages, initial sell-through is expected to be a little less than half of that amount. I want to stress that HEXO was part of that reduced amount. So shipping about 10 tons in of our 20-ton initial commitment but what I think is more important is to point out that HEXO maintained a 33% market share in Québec. So our original 20-ton commitment out of the 58 ton, we've held that market share, if not the volume.

Our contract required SQDC to purchase that tonnage. And while we didn't achieve those quantities, we don't think it would be responsible as a partner to demand that full 20 tons. We're in this for the long haul with our partner SQDC, and we're more interested in what we can do with revenues over the next 5 to 20 years versus the next 5 quarters.

Sales from the first year have provided us with invaluable data in terms of consumer taste. We're learning a lot about the different strains we're growing, both from THC content and pricing and also taste. Additionally, we originally expected to double our Q3 revenues in Q4 of 2019. Unfortunately, we were not able to achieve that goal.

In addition to the factors mentioned above, subsequent to the end of the fourth quarter, we made a management decision to set up a reserve provision to address possible returns from the provinces. This included price adjustments as a result of a reevaluation of our pricing strategy. This is becoming standard in the industry. But since there's no historical guidance to base this provision, we estimated it at $3.8 million.

While we've not seen returns in this amount, we felt it prudent to record this in the fourth quarter, and we'll continue to monitor this going forward. Important to note that we also saw a wholesale return of $2.9 million during the quarter, and that made up most of the delta to where we thought we would hit that quarterly double.

To further complicate matters, our sell-through was a bit lower than anticipated, and we expect to generate a fair amount of wholesale revenue. That did not materialize. I think that as we're starting to see the industry rationalize, our wholesale revenue will become more and more difficult as the key driver of company's success will be market share in-store in province.

Until the market matures and the retail channels are built out, we'll refrain from providing guidance.

Despite these uncertainties, we continue to believe that the long-term outlook remains very attractive. The black market remains strong in Canada, and we feel that we're well positioned to leverage our legal assets and products to attract those customers and grow the legal market.

We're ensuring that our company is properly capitalized to achieve our near and long-term objectives. In fact, we recently announced a $70 million private placement that is now committed and is expected to close earlier or mid next month.

In addition to outside investors, most of the Board of Directors and myself participated, and we're also in the process of setting up an at-the-market financing to raise additional equity to build a capital reserve and fund our high-priority initiatives.

As we move forward, we're realigning our strategy to address changes in the market. In the near term, we're focused on the following priorities: Driving sales through new product offerings and leveraging increased analytics for decision making. We're taking a multi-brand approach to the market that's focused on customer demand. We're broadening our domestic market penetration by working with the provincial regulatory authorities to lift HEXO up and our new Original Stash brand in provinces from coast to coast.

Last week, on the anniversary of legalization, we introduced Original Stash. We've developed Original Stash with a focus on attracting existing black market consumers. These are new consumers that typically do not walk into legal storefronts. Original Stash has been a resounding success, selling a 28-gram bag or 1 ounce for approximately $125 at retail, taxes included. This is 10% below black market pricing and is a profitable product. We're pleased, of course, to be the first LP to do that. HEXO has always been on a series of firsts, and we continue that tradition here.

Our second priority will be achieving operational excellence. We've brought on new leadership focused on demand, planning and production. We're implementing more effective techniques to streamline operations. We're using automation where it makes sense and expect meaningful improvements in our yields over time.

Our third priority is rightsizing our operational expenses to drive towards profitability. We're restructuring our operating expenses to align with our near-term revenue expectations. Our operational expenses increased at the end of our 2019 fiscal year to support prior near-term growth expectations.

We've taken the first steps to bring these back in line with current market conditions. Last week, we made the very difficult decision to say goodbye to approximately 200 members of our staff across our facilities. While it's never easy to make a decision like this, these were necessary short-term actions to ensure the long-term success of HEXO. We've scaled back our cultivation facilities to 1.1 million square feet with a temporary suspension of activity at our Niagara facility and a reduction of 200,000 square feet in Gatineau. Additional cultivation space is not currently required to supply the Canadian market today. We're able to continue to drive improvements in our yield and processing capabilities in our facilities.

When market conditions improve, we can bring these suspended facilities back online as required. Our current annualized run rate is 80 tons a year, comprised of approximately 45% to 55% dried flower, with the balance comprised of high-quality trim, which can be used in a variety of value-added products.

We're continuing to recalibrate operational expenses, taking a hard look throughout the organization to ensure we're lean and focused on core priorities to drive long-term value creation.

Fourth priority is commissioning our state-of-the-art manufacturing facility in Belleville. Our Belleville center of excellence is key to the development and rollout of our 2.0 products and driving our overall production costs down. Our construction teams have been working tirelessly, finishing the leasehold improvements and preparing the space for our teams.

Last Friday, very pleased to announce, we received our Belleville license. We're in the process of submitting the amendment required to sell all new classes of edibles produced under the license. And our pilot facility in Gatineau is fully licensed for Cannabis 2.0.

Our strategy, it's important to note, is a national portfolio launch, which means waiting for Belleville to be fully online before launching our 2.0 products. Our first 2.0 products are now expected to hit shelves within the first 6 months of calendar 2020. So there's still some regulatory risk associated with that date.

Continuing to invest in R&D and intellectual property. We're in this for the long term and firmly believe that R&D and IP are critical assets. Our team is focused on developing and improving on our cannabis technology for our portfolio of derivative products. Important to note that HEXO now has 38 patents filed, and that list is growing. We're making unbelievable progress on things like emulsification, emulsion, nanotechnology and vapes. All these technologies will empower our sixth priority, future partnerships through powered by HEXO strategy. We've made good progress with our partnership with Molson Coors. Truss now has 6 brands ready from planning to formulation. The beverages taste absolutely amazing. They look the mouthfeel. And with our new R&D license, we're able to actually try them. They're fantastic.

Last week, we saw the first of these brands announced, Flow Glow. We're super excited to partner with Flow Water on a line of CBD beverages. We believe that the key to the rollout and have a successful brand presence internationally is through powered by HEXO. We think that the key priority is to invest in regulatory access, IP and cannabis-based technology. And to flow through that technology to Fortune 500 partners throughout the world to lever their distribution and brand presence.

We're still on track to launch our first products in the U.S. during 2020, with 1 or 2 partners. We had initially targeted entry into 8 states, and we've updated that plan to have a more concentrated effort. I want to stress during all this hard work and time and focus on operations, our dedication to corporate social responsibility.

As we grow and move into new markets, we need to think about more than just our products and prices. We also have to examine the way our operations impact the natural and social environment on a local, provincial and national level. These include monitoring and reporting on our greenhouse gas emissions, setting targets to reduce those emissions and also offsetting our footprint.

Stay tuned for some big news to share on that front later this year. As members of the Global Cannabis Partnership, we'll also be reporting on other environment, social and governance impact areas based on global reporting initiative standards. Well that attitude translates into how we create products at HEXO. For example, our product development teams are working on creating new products, including THC vapes that contain intellectual properly developed by HEXO, and this is focused on addressing the safety of that category. Legal extract product will be stringently tested for contaminants like heavy metals and solvents, which is not a process currently done in the black market. We understand the thinning agents PG, PEG, VG found that some Canada's extracts are under increased scrutiny for having negative health impacts. As such, to produce high-quality vapes, HEXO will not develop products that use these carriers.

We believe that we can consciously and positively drive change while driving profitability and creating long-term value and amazing products for our consumers.

In closing, I'd like to say that I'm incredibly excited for the future of HEXO. Today, we're stronger. Our brands are unbelievable. Our capacity is in line with where we need it. Our teams are strong. And our technology now is world-class. We intend to keep strengthening our position within Canada and internationally. We're just getting started. I'd like to now hand over the floor to Steven Burwash, our CFO, so he can talk a little bit about the numbers. Steve?

Stephen Harry-Donald Burwash - *HEXO Corp. - CFO*

Thank you, Sebastien. Good morning, everybody. Q4 was an incredibly busy quarter. The total gross revenues were $20.5 million for the fourth quarter, an increase of 29% over Q3. Net revenue was $15.4 million. Gross adult-use revenues increased 30% from the prior quarter to $19 million, up from 14.6% in Q3.

Adult-use sales volume increased 45% to just over 4 tons from 2.7 tons in Q3. Flower and dried products accounted for 89% of gram and gram equivalents sold during the quarter, with oils accounting for the remaining 11%.

We achieved oil adult-use revenues per gram of $4.74, a decrease of $0.55 over the last quarter. This is due to a provision for sales returns and price adjustments, as Sebastien earlier mentioned. The provision is reflective of a general best estimate provision for returns and price adjustments based on our assessment of sell-through and slow-moving inventory.

Based on the assessment, the company has taken a $3.8 million provision on the -- based on the estimate impact of returns on inventory held by provinces and price adjustments as a result of a reevaluation of HEXO's pricing strategy. We saw a shift in our geographical reach with 971 kilograms being sold to ALGC (sic) [AGLC], representing 24% of adult-use volume during the quarter. The closing of the Newstrike acquisition partway through the quarter also added 396 kilograms, representing 10% of the adult-use volume and 15% of the gross adult-use revenue.

Cost of sales increased 56% to $10.3 million compared to the prior quarter, which was up $6.6 million as a result of increased sales volume partially offset by transformational cost savings as the result of shifts in product mix.

Cost of sales included the cost of dried flower, transformation costs related to oil and value-added products. The fair value adjustment on the sale of inventory was $7.3 million, which was an increase from $4.7 million in Q3. This is due to the 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 a negative $5.3 million compared with a negative $20.1 million in Q3 as a result of a change in estimates. The company recorded an impairment loss on inventory of [$16.9 million] in Q4. This is due to price compression in the market. The impairment loss was realized on cannabis purchased in fiscal 2019 to help meet the demand of the adult-use market. And the original cost of this inventory now exceeds the net realizable value.

Gross margin before fair value adjustments for Q4 '19 was $5.133 million or 33% of net revenue from sales goods compared to $6.440 million and 49% in the prior quarter. As a result of the previously mentioned provision, adjusted gross margin before fair value adjustment for Q4, adjusting for the sales provision we mentioned, would have brought the gross margin to $8.561 million or 45% of adjusted net revenue from sale of goods, adjusting for the sales provision that we made. Gross margin after fair value adjustments on biological assets was a negative $13.7 million.

Now I'll run through our operating expenses. G&A increased $22.4 million in Q4 '19 from $10.5 million in Q3. This reflected the scale-up of our operations as we continue to strengthen our general finance and administration -- administrative staff for an increase of $1.9 million. We added $3.3 million in costs related to the Newstrike acquisition and an additional $4.1 million from the addition of Newstrike's G&A activity during the period of Q4.

Professional listing and legal expenses increased by $1.1 million as a result of increased financial reporting and regulatory requirements from the TSX and NYSE. Insurance increased by $1.5 million due to the increase in property, plant and equipment being covered, and the D&O premium increase as a result of the listing on NYSE.

G&A is expected to decrease through 2020 from Q4 2019 levels as we rightsize the business for lower revenue expectations. We are striving to refocus the business on achieving operational excellence by developing lean, repeatable and scalable processes by leveraging IP.

Marketing and promotion increased to $9.5 million in Q4 from $5.1 million in Q3. This increase was primarily related to seasonal activations in brand marketing to build brand recognition in the adult-use market. Newstrike contributed an additional $800,000 in Q4. We are reevaluating the way we deploy our capital across marketing and expect this to decrease significantly as a percentage of revenue in 2020.

Stock-based compensation increased to $10.2 million in Q4 '19 from $8.2 million in Q3 '19. During the quarter, the company added the unvested outstanding options of Newstrike to its outstanding balance, which contributed an additional $1 million of expense in the period.

The net loss from operations was $60.7 million in Q4 compared with $2.3 million in Q3 '19. The increase was driven by increased operating costs due to the expanding scale of operations of the company, as I've outlined as well as the previously mentioned provisions for sales price adjustments and returns and the impairment loss on the purchased inventory.

As Sebastien mentioned earlier, management is reducing operating expenses with a focus on becoming EBITDA-positive in calendar 2020. We ended the year with $139 million in cash and cash equivalents, including short-term investments. We have just announced, as Sebastien mentioned, the $70 million convertible debentures private placement.

Looking ahead to fiscal 2020, we have an additional capital expenditures of $100 million to $110 million primarily in Belleville, but also with the completion of B9. We anticipate Q1 net revenues to be in the range of $14 million to $18 million. The reason for the range is that it could be subject to retroactive pricing adjustments as we continue to reevaluate our pricing strategy across the country. We expect sales to grow starting in Q2 in a stepwise fashion and combined with our operational rationalization, it should lead our business to be adjusted EBITDA-positive in calendar 2020.

This is -- these are estimates based on the assumptions we have today regarding store count, operational improvements and cost savings. While I'm new in this position, I have been at HEXO since March of 2019, and I'm extremely excited to have this new role. I know some of the analysts, and I look forward to meeting all of you in the upcoming months.

I'll now turn the call back to Jen.

Jennifer Smith - *HEXO Corp. - Manager of Financial Reporting & IR*

Thank you, Steve. We will now take questions from our analysts.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And your first question is from Tamy Chen from BMO Capital Markets.

Tamy Chen - *BMO Capital Markets Equity Research - Analyst*

First question, I'm just trying to understand, just taking a step back, how and where do things go wrong? Because HEXO started off with a sizable supply contract from Québec, the B9 greenhouse was constructed on time. We saw that sell-through data in August, it looked pretty good. So just wondering what's going on here? Why are you calling out such drastic pricing headwinds, doing pricing and product strategies like the Original Stash? Is it something specific to your product mix, that's maybe not hitting the right mark?

Sebastien G. St-Louis - *HEXO Corp. - Co-Founder, President, CEO & Director*

Tammy, thanks for the question. I don't think it's specific to HEXO, I think HEXO is ahead. And we've -- if you remember last quarter, I talked about pricing headwinds. I was foreshadowing that HEXO would drive this pricing penetration strategy. And so we were the first to do it. Other competitors will have to adjust now. I think in the broader context, what's important to note is that we've maintained market share. So if I bring you back to a quote, I've said in a few different conferences. The challenge for investors right now is not whether cannabis will be a huge industry or not. We know that, that's a pretty clear fact. It might be a bit slower than we thought, but cannabis is here to stay. What's less clear now is of the 150-or-so companies in Canada, which ones will be Amazon and which ones will be the Pets.com and forgotten. And I think if you look to the metrics and the way HEXO was managing and -- its business. The way we're making hard decisions on operations and the market share we've managed to keep, that tells a much stronger story than the quarterly revenue numbers. And so I'm more confident than ever that within the next year as we see that number of licensed producers dwindle drastically and as we see only a handful of licensed producers with a cost structure that are able to compete at prices that HEXO is already at, we are almost certain to be one of those survivors setting the stage to be one of the winners.

I think that right now, we're in a very challenging pullback in the market. And I think that, that's a very healthy thing. I think that if, again, to take that analogy from the tech days, where we're seeing the end of first bubble, and now we're seeing the real operating companies emerge. And I'm extremely pleased that we've achieved and maintained our 33% share in Québec despite, of course, a slower store rollout.

Tamy Chen - *BMO Capital Markets Equity Research - Analyst*

Okay. Got it. And my second question is on the cash position. So I think you noted that in October, you ended with about $64 million of cash and then adding on the $70 million financing you recently announced. At the current rate that you're burning through cash, I mean, that would last you 2 more quarters. I recognize you're now rightsizing the business. But can you help us understand -- you gave some color on the CapEx, but how about other aspects such as operations, working capital investment, what are other big upcoming spends? And you mentioned an ATM that you're working through on -- would that provide you sufficient capital to keep you going should you require additional funding?

Sebastien G. St-Louis - *HEXO Corp. - Co-Founder, President, CEO & Director*

Yes. So CapEx is the largest driver in our business, by far. I mean, if you look historically, HEXO has raised about $400 million, including this latest $70 million convert, that's all the money that's gone into the company. And CapEx, you'll see in our buildings improvement leasehold, everything is already over $250 million. So almost 75% of our cash has gone to CapEx.

With the current cash balance, including the investment led by insiders and myself that we've made into the company, we have sufficient cash to hit adjusted EBITDA profitability. And that takes us through the next 12 months.

The ATM is really about building additional capital reserve and is going to gauge how fast we can do international expansion. So I have mentioned on the call that we are concentrating our efforts in the U.S., specifically, coming down from the 8-state target, and that's largely a function of capital. So if the ATM provides more capital that provides more speed and more reach. And if we need to be more cautious, then we go more concentrated. We do have sufficient capital to go into the U.S. even without the ATM.

Operator

Your next question is from Rupesh Parikh from Oppenheimer.

Erica A Eiler - *Oppenheimer & Co. Inc., Research Division - Equity Research Associate*

This is actually Erica Eiler on for Rupesh. So I was hoping maybe you could share your latest thoughts on the advanced product build. I mean obviously, a lot of vaping headlines here in the U.S. So I was curious if you could share your thoughts on the vaping market? And then how you see the advanced product rollout, maybe particularly on the vaping front playing out from here, from your perspective?

Sebastien G. St-Louis - *HEXO Corp. - Co-Founder, President, CEO & Director*

Absolutely. So first of all, when we look at HEXO, our philosophy is safety, quality, speed. And from a safety perspective, to us, that is non-negotiable. So our vape technology has been concentrating on them delivering nothing but cannabis. So our innovation team has succeeded in putting together formulations that will -- that don't have any carriers. And that is -- that's technology that we're looking forward to elaborate on as we continue to make progress on some various patents.

We think that from where we sit today, that's one of the only ways, if not the only way to do safe vape. It's by providing consumers with only what's in naturally occurring in the plant. So we're tremendously excited about that technology. That moves us away from all the solvents and excipients that are used, especially in the black market because I'd note that most of the worst occurrences on vape have happened in black market. But it's not sufficient for us to just say, we're better than black market. We want to deliver safe products. Our clinical evaluation team is also hard at work on actually proving that out. So we'll get some preliminary data. And over the years, we'll continue to invest to make sure that all our offerings are as safe as possible.

Erica A Eiler - *Oppenheimer & Co. Inc., Research Division - Equity Research Associate*

Okay. Great. And then just given all the dynamics that are happening right now. I mean, are there any updated thoughts you can share on gross margins here in the intermediate term?

Sebastien G. St-Louis - *HEXO Corp. - Co-Founder, President, CEO & Director*

Absolutely. So I think that HEXO can comfortably deliver a low 40% gross margin business from a portfolio perspective. And that's a mix, obviously, of some products like Original Stash, which are at the lower end of the margin scale, but then some higher-end products like beverages and vape, which would bring that margin up. We won't be disclosing individual product margins for competitive reasons. But we're very confident in 40 -- low-40s gross margin on a go-forward.

Operator

Your next question is from Adam Buckham from Scotiabank.

Adam Buckham;Scotiabank;Analyst

So just on the outlook, I was wondering if it would be possible to share some of the assumptions I've gone into, the positive EBITDA guidance, particularly on the storefront expansion. Are you expecting Ontario and Québec to just expand to 75 and 25 stores? Or what are your assumptions there?

Sebastien G. St-Louis - *HEXO Corp. - Co-Founder, President, CEO & Director*

We're just pulling the exact number for you, just give us a moment. So specifically in Québec, it's 43 stores by March is what we're expecting. So that's the near term. The Canada-wide store count within the next 12 months is expected to be north of the 700 stores.

Adam Buckham;Scotiabank;Analyst

Great. So obviously, you guys had a big ramp here in G&A in the quarter. With the adjustments to your operating structure, how do you think this comes down over the next 2 quarters?

Stephen Harry-Donald Burwash - *HEXO Corp. - CFO*

So there's a lot of abnormal expenses in the Q4 number. For example, the Newstrike acquisition costs and the Newstrike additional expenses that came in, we also had marketing up R&D, was sort of the first full quarter of having an R&D group. The depreciation insurance are also up and then staff in G&A in general.

That said, as we move forward in 2020. We have taken a very hard look at all of our expenses to ensure that our expenses will line up with what we expect our revenue number to be.

And we -- as you heard from Sebastien, we made the hard decision last week of actually adjusting our workforce and adjusting our cultivation. We believe by doing those things and ensuring operational effectiveness, we can get to positive EBITDA by calendar 2020.

Adam Buckham;Scotiabank;Analyst

Great. Just one final question, and I'll jump back in the queue. So I was wondering if it might be possible to get an idea of what the severance costs are associated with the change in C-suite executives post quarter.

Sebastien G. St-Louis - *HEXO Corp. - Co-Founder, President, CEO & Director*

We won't share specific severance costs at this time.

Operator

Your next question is from John Zamparo from CIBC.

John Zamparo - *CIBC Capital Markets, Research Division - Associate*

I wanted to ask about the inventory impairment. So it seems related to product you purchase on the wholesale market, and you mentioned the price compression you've seen there. I guess, what I'm wondering is that given the lack of stores and sell-through isn't where you want it to be, what's the thinking behind buying so much product on the wholesale market at this time?

Sebastien G. St-Louis - *HEXO Corp. - Co-Founder, President, CEO & Director*

Well, John, I think purchasing that product was before we had full visibility on the store count. And so quite frankly, in hindsight, that's a -- purchasing that product was a mistake.

John Zamparo - *CIBC Capital Markets, Research Division - Associate*

Okay. Understood. If we can move to pricing. So I guess, 2 parts. First, can you confirm that 3 -- I think it was $3.51 per gram on a net basis, that is reflective of the provision you're taking. But secondly, just broadly, what do you think about pricing for the next year, particularly in Québec?

Yes, just any thoughts there would be helpful.

Sebastien G. St-Louis - *HEXO Corp. - Co-Founder, President, CEO & Director*

I think what's critical is to keep being very competitive with black market, especially when we're targeting those specific consumers. So that's about half your consumers. The pricing seems fairly stable on the legal market consumer. So current legal market consumers. But that does put pricing pressure overall, as I indicated last quarter. But we think that should stabilize as a blend of low 40s.

John Zamparo - *CIBC Capital Markets, Research Division - Associate*

Okay. That's helpful. And then just to confirm, Sebastien, you referenced the 30% to 33% market share in Québec in year 1. Was that true also in Q4? And has it moved around since the beginning of legalization?

Sebastien G. St-Louis - *HEXO Corp. - Co-Founder, President, CEO & Director*

Yes, it's certainly moved around. So when we first launched in Québec, I mean, there were just 2 LPs that we're supplying, HEXO was one of them. So we took 60% share right off of bat. 60% share is not sustainable. I believe that any 1 player will never get above 40% share in any sort of rational market. And so our contract commitment was to put us at about 1/3 market share. So we varied in and out. We've gone lower than that number temporarily. And we're -- this 33% market share number is the number we're getting directly from SQDC at this state for the past year. So that's a blended number that takes into account the year.

John Zamparo - *CIBC Capital Markets, Research Division - Associate*

Okay. And if I could sneak one more in. How do you feel about your positioning for derivative products given Québec's more restrictive approach on edibles and topicals? And how do you plan to gain share among the other provinces to offset that?

Sebastien G. St-Louis - *HEXO Corp. - Co-Founder, President, CEO & Director*

Our investment in technology has really been fantastic. And so I'm really excited about our beverage launch with Trust. We're very well positioned in Québec for beverages. Our gummies line has been downscaled. So we're going to do that as a proof of concept for our next Fortune 500 partner. So when we do the full international and national rollout for edibles, we're expecting to do that with a partner. We may do some pilot stuff on gummies and gummy is obviously not allowed in Québec. So it will be more challenging from a revenue perspective.

Our vape formulations are all complete, and we're standing up that line as we speak in Bellville. So that will be very positive because from what I'm hearing, we're only 1 of 2 licensed producers that are providing safety profile to the provinces. And so we're getting a really favorable response to that. We're being a little bit more cautious in putting our consumers first.

So quite excited about the 2.0 lineup. We're also continuing to upgrade our Elixir offering, both from a cost restructure. So you saw us drop the price significantly. On Elixir to be more competitive, while maintaining margin. So that was a function of a scale-up, but we're also working on Elixir 3.0, which includes some of our nanoemulsion technology, which will make it work faster, taste better, et cetera, that we can do under the new technology.

So we're quite excited about our 2.0 offering, and I think that the provinces are as well. Québec is really our first and home base, but we are looking forward to the rollout, and especially in Ontario, where we only fully got listed with all our products really a few weeks ago.

So that's also a story, I think, that's very important. To think that not only do we have 33% share in Québec, but that this revenue that you're seeing now is really representative of partial penetration in Alberta and a full penetration in Québec.

We still haven't shown what we can do in Ontario, but that is on its way now that all our flower SKUs are fully listed in every store.

Operator

Your next question is from Owen Bennett from Jefferies.

At this time your next question is now from Brett Hundley from Seaport Global.

Brett Michael Hundley - *Seaport Global Securities LLC, Research Division - Research Analyst*

Just a couple of quick questions on the EBITDA bridge, and then more of a philosophical question for you, Sebastien. So just first, on the EBITDA bridge, does your target of positive EBITDA within calendar '20 assume production restarts at Niagara and Gatineau?

Sebastien G. St-Louis - *HEXO Corp. - Co-Founder, President, CEO & Director*

No, it does not.

Brett Michael Hundley - *Seaport Global Securities LLC, Research Division - Research Analyst*

It does not. And then secondly, can you give us a sense of what percentage of sales mix you're baking in for Original Stash? I mean what do you have that kind of growing to as a percentage of your sales mix going forward? Or maybe a better way to ask that question would be, when you model out pricing across your portfolio into calendar '20, are you kind of assuming a steady state as everything is today? Are you assuming things go down, go up related to 2.0? Can you just give us some color on that?

Sebastien G. St-Louis - *HEXO Corp. - Co-Founder, President, CEO & Director*

So I'll stay away from specific color just because we've gotten burnt in the past with guidance and basically talking about the future given where the stores roll out. So we know a few things about Original Stash. We know where it works. We know what the target consumer is. And I'm not sharing that here because I don't necessarily want to tell my competitors how to compete. But that product has had a resounding success in specific markets. So we're going to double down on that. We think it's going to be very popular.

The reason I can't give you a specific number or that I won't share what's in our forecast is because depending on where the stores roll out and how that rollout is accomplished, it will meaningfully affect the percentage of Original Stash. But we do think it will be a stalwart of our business. So looking forward to what the next 12 months bring. So we can look at it and talk hard numbers.

Brett Michael Hundley - *Seaport Global Securities LLC, Research Division - Research Analyst*

Okay. No, I appreciate that. And then, Sebastien, just my philosophical question for you is, do you think HEXO is at an important crossroads here in so far as rebranding itself and its strategy? As you guys have come to market, you've been strategizing around this hub-and-spoke model. And even today, you're continuing to mention potential Fortune 500 partners. The hub-and-spoke model just doesn't seem to be gaining traction. And so I'm just curious to kind of get an assessment from you on whether or not you are at that crossroads and try and get a sense of what you still believe in your company's role in the future cannabis market?

Sebastien G. St-Louis - *HEXO Corp. - Co-Founder, President, CEO & Director*

Thank you for that. So first of all, the nonnegotiable is we have to be profitable in Canada, and we have to be a top 2 brand in Canada. That means 20% market share nationally. And I believe that we have the assets, the people, the cost structure to do that. That will give us the base by which to reinvest in our technology. The second thing I believe in that has never change is that we cannot succeed in cannabis by being farmers only. So we do have a nice regulated barrier to entry to cultivation. We have technology and know-how around our cost structure of cultivation, which are nice market hedges. There's only, by my estimate, say, 4 license producers today that have a cost structure that's even near HEXO. And so we're very confident that we're going to be one of those top-branded players on the flower side. But that's not enough. And that's not what shareholders are asking for. That's not what consumers are asking for.

And so from a Powered by HEXO perspective, we've delivered on quite a few things. We now have emulsion technology that we're using with Molson Coors, that works better than anything else I've seen in the market, works better than anything else that exists in the United States. You'll see how we enter the U.S. with our partners in the future. That strategy is a capital-light model. And I think it's a strategy that will be differentiated from what's currently happening from the retail-dominated MSO space in the U.S., I still think it's the right way to go.

I certainly agree with you that from a -- an uptake, it's taken a lot more time and still taking a lot of time to deliver the full wheel, under Powered by HEXO but I don't think that we should jump to conclusions now on that model, especially in the wake of us delivering our first spoke with Molson Coors. So we are tremendously excited to get to their earnings. And then subsequent to that, to share more news with the market and what we're doing. Our relationship with them is -- them has -- is stronger than ever, and the products are absolutely fantastic.

Having done that experience, having live that with Molson, I'm convinced more than ever that had we tried to do beverages alone, we would not have come up with something as wonderful as what Truss has delivered. And so I am convinced that the model is sound. In terms of executing that model, it remains challenging, but I remain committed to it.

Operator

The next question is from Owen Bennett from Jefferies.

Owen Michael Bennett - *Jefferies LLC, Research Division - Equity Analyst*

A couple of questions, please. First of all, just on the outlook, because I mean, I guess what you're trying to convince is for the market to really get conviction in your outlook around positive adjusted EBITDA. And I'm just kind of -- I mean, to that, I mean, you don't even give adjusted EBITDA currently. And by my estimates, if you could confirm, it's gone to minus 10 in the third quarter to minus 30 now in the fourth quarter. If you could just confirm that?

And then secondly, I think to get conviction in this, and therefore, you guys to be held accountable to actual operational excellence in delivery, you need to give some more specifics around the assumptions, you're giving to that positive EBITDA or in terms of -- yes, the store counts, the quantity of cost savings coming through, whether that is 20% market share. Because I just feel that when you pull back on the 400, it was an easy excuse to blame the retail store out because we never got any specifics in terms of what your assumptions were on delivering that. And -- so yes, that's just kind of -- if you could give some specifics around how you will get to that adjusted EBITDA and what you're actually running at currently, which I think is around minus 30?

And then secondly (sic) [thirdly], just kind of a more argument, when you spoke about the gross margin support from beverages. But as I understood before beverages, food choice was being booked below the line? Is it JV? Is that changing going forward now for that to impact gross margins?

Sebastien G. St-Louis - *HEXO Corp. - Co-Founder, President, CEO & Director*

It's a lot in there, Owen. Thank you, and great suggestions and giving more feedback. So on the adjusted EBITDA line, your math looks right at a quick glance here. So in terms of sharing more details, we certainly shared the store count now today. And I think the transparency that we're giving today is a step in the right direction. I don't think where -- we are where we need to be. I think over the next 12 months, hopefully, we get more visibility into the market. Hopefully, we could resume guidance at some point. But again, until the market stabilizes, I don't think today that any cannabis company is in position to give you those specific numbers.

I would certainly invite you to engage in specifics on a follow-up analyst call, and we can discuss the specifics you're looking for. And we'll take that into advisement for the next quarterly in sharing broader -- sharing assumptions more broadly.

The third question, sorry, on Truss. Yes. So -- sorry, could you just repeat that question again for me?

Owen Michael Bennett - *Jefferies LLC, Research Division - Equity Analyst*

Yes. As I understood before, Truss was always going to be booked below the line as a JV. So for it to impact gross margins now in terms of the beverages support. Is that changing how you're booking that above the line?

Sebastien G. St-Louis - *HEXO Corp. - Co-Founder, President, CEO & Director*

No, no. So that has not changed. The Truss shares should be booked as -- it will be booked as an investment. So you're correct, that won't hit gross margin.

Owen Michael Bennett - *Jefferies LLC, Research Division - Equity Analyst*

Okay. So that 40% where you said, there will be support from beverages in that?

Sebastien G. St-Louis - *HEXO Corp. - Co-Founder, President, CEO & Director*

Yes. So the beverages are -- you are correct. So I misspoke. So the beverages are a higher-margin product on their own, but will not individually affect our gross margin on the HEXO financials. But you are getting the investment on the HEXO side from the Truss JV, which should be meaningful.

Operator

The next question is from Matt Bottomley from Canaccord.

Matt Bottomley - *Canaccord Genuity Corp., Research Division - Analyst*

Just wanted to touch again on Cannabis 2.0, Sebastien. If you could just give us a little more color. I know you touched on in your prepared remarks over where you are logistically in getting your products approved for Cannabis 2.0? And then the timing within that 6-month period of what provinces you think you'd come online first? And then maybe the product classifications that you'll be targeting as a part of that initial launch?

Sebastien G. St-Louis - *HEXO Corp. - Co-Founder, President, CEO & Director*

So Health Canada gave us our 2.0 license for our Gatineau campus. Now the Gatineau campuses pilot scale. So what that would allow us to do, it'd allow us to pick off, say, a couple of different product streams in a couple of specific markets. But it's not sufficient capacity for our strategy.

For 2.0, we believe that the products will be differentiated enough. So when we look at vape, we'll actually have safety profiles. We'll have better technology. So when we actually launch that, I'm not in a rush to be first to market. I'd rather have a fulsome national launch. For that, I need my Belleville facility licensed for Cannabis 2.0. So we just got licensed for 1.0 in Belleville on Friday. So 2.0 should follow relatively soon, which is putting us in timing for a national rollout in that first half of 2020.

Obviously, if regulatory and licensing goes quickly, it's towards the front end, and there is risk of edits towards the back end. So that's why we're giving that broad range.

Matt Bottomley - *Canaccord Genuity Corp., Research Division - Analyst*

And what's your view just on the risk of, I guess, being -- obviously, you don't want to be -- rush to market if there's going to be stumblings, or if you have a better sort of national platform that you'd be looking at. But just in terms of -- in terms -- from a legal perspective, no one in Canada had a legal vape pen yet. So not being first in -- out of the gate with what those first branding initiatives will be, how do you assess the risk of being further behind than maybe some of your peers with respect to getting those branded products to market?

Sebastien G. St-Louis - *HEXO Corp. - Co-Founder, President, CEO & Director*

Sorry, can you elaborate a bit on legal vape pen? Just being -- you mean that -- because there's no vapes in market?

Matt Bottomley - *Canaccord Genuity Corp., Research Division - Analyst*

Well, yes. Just really, the sort of average person on the street doesn't really have any sort of brand awareness when it comes to any derivative products yet. So I imagine getting first to market right out of the gate in January, will be an important consideration in getting mind share. And I'm just curious how you view the market dynamics playing out given that this is going to be a first for pretty much everyone that chooses to participate in the legal channel?

Sebastien G. St-Louis - *HEXO Corp. - Co-Founder, President, CEO & Director*

I'll tell you one thing. So one thing we know how to build brand. I mean, we've done it on flower. You have people walking into Québec now with our third share. They're asking for Helios, they're asking for Lagoon. So that's been very successful.

I can tell you as well that the thing that keeps me up at night is losing that brand value. And you can have the best vape pen rollout in the world on day 1. If you hurt somebody, you will vaporize your brand. And that is unacceptable to both HEXO, to our shareholders and to our consumers. So I'm less worried about that first to market, I'm more worried about the quality. And on the quality side, we've got some amazing technology coming down, IP-backed, patent-protected, we're really looking forward to talk some more about that over the next quarter or 2.

Matt Bottomley - *Canaccord Genuity Corp., Research Division - Analyst*

Great. I appreciate that. And last, just maybe a housekeeping item on my end. Normalizing for some of the reserves this quarter, going back to a gross margin of 40% to 50%. I think you guided in the future context to be closer to 40%. Is there any sort of margin drag we should be factoring in for next quarter specifically, given that there might be some -- less utilization in the facilities you're taking your foot off the pedal on? And if so, what sort of magnitude should we be looking for?

Sebastien G. St-Louis - *HEXO Corp. - Co-Founder, President, CEO & Director*

We're not guiding quarterly margin on that. But again, the kind of medium term, I think a low 40s margin is where this business should stabilize.

Operator

Your next question is from Chris Carey from Bank of America.

Christopher Michael Carey - *BofA Merrill Lynch, Research Division - Research Analyst*

So can you hear me?

Sebastien G. St-Louis - *HEXO Corp. - Co-Founder, President, CEO & Director*

Yes, Chris. Thank you.

Christopher Michael Carey - *BofA Merrill Lynch, Research Division - Research Analyst*

So I hear you on the comments around cash flow expectations over the kind of, say, just think about fiscal '20. But I suppose if I take the cash level as of October and the credit facilities and the $70 million private placement with cash burn over fiscal '20, I'm still kind of coming up with negative cash. And so the ATM was quoted as being additive to kind of bolster your cash levels. And so is there something that I'm missing here? Or perhaps you can comment on your expectations for operating cash flow over that time period because clearly, CapEx is going to remain at least over $100 million over the course of this fiscal year given your capital projects?

Sebastien G. St-Louis - *HEXO Corp. - Co-Founder, President, CEO & Director*

Thanks, Chris. So again, getting into that dicey territory of guiding without guiding, so we're going to stay away from that one because if I gave you too many numbers and we box ourselves in. Based on the modeling that we're doing, based on the store count that we're seeing, based on the market share that we expect to have in the various jurisdictions, we're confident that without the ATMs, so if I don't raise another dollar, we'd make it to profitability. And so we're confident that, that's going to happen. As for specifics, we're going to sit tight while the market stabilizes before we get into more detail.

Christopher Michael Carey - *BofA Merrill Lynch, Research Division - Research Analyst*

Okay. Perhaps as more visibility on this front emerges, then there will be an opportunity to provide a bit more clarity on that line item going forward because I do think it's a key item for the market right now given the capital environment.

Sebastien G. St-Louis - *HEXO Corp. - Co-Founder, President, CEO & Director*

I agree with you, it's critical. And I think a specific, also critical, is in this space and back to my comment of which license producers are going to be around for the long term. I think it's important to note which companies are able to raise money in an up markets. And of course, HEXO was one of those companies, but perhaps more important is which company is unable to fund its initiatives and hit profitability in a down market. And HEXO was demonstrated a resounding confidence from its shareholders, from its insiders with the $70 million private placement. And so I'm very encouraged by that, and that commitment will remain. So the shareholder base that's there is absolutely phenomenal. And I think that's one of HEXO's strengths.

Christopher Michael Carey - *BofA Merrill Lynch, Research Division - Research Analyst*

Okay. And if I could, you commented a couple of times on the 20% market share dynamic. And my best guess, I suppose, is that the market share is trending more in the high single-digit range, if not mid-single-digit range right now. I fully appreciate that. There are many moving pieces and there's a level of variability that comes with that sort of estimate. But it does appear to me at least that there's an implied big ramp in market share relative to current levels, which I suppose some of the new strategies are with Original Stash and others are meant to address. But if that is the case, and I'm sort of extrapolating your 700-store count model on my own market model, it seems to me maybe Street estimates are still a bit too high, if not far too high for HEXO right now unless you can hit that 20% number. And actually, I fully appreciate that you don't want to guide, and I think that's actually very smart given the current uncertainty. But I guess, if I just sort of think about the puts and takes here, it does imply that you need quite a big ramp on share in the context of a 700-store environment with the Québec rollout that you had noted to hit kind of numbers where they are today. And so maybe you can just comment on whether that sort of framework is not justified or whether that sort of share ramp is not how you see it?

Sebastien G. St-Louis - *HEXO Corp. - Co-Founder, President, CEO & Director*

Yes, Chris, I think you make a lot of very compelling points. So first of all, so on share. Your ballpark math, I mean, whether the plus/minus and assumptions, but ballpark, national share where you're at now? Yes, you're probably -- we can dice it a couple of different ways, but we're probably around that from a national share perspective.

So how do we get to 20% plus? And that's all based on a framework and I believe that 3 companies will control 70% share eventually, based on the rule of 3s: 40, 20, 10, right? 40/20/10 share. Both companies are going to be behemoths, right? Because no matter what happens, we know the industry is sticking around. And if you survive and make it to be in that top 3, you have a phenomenal platform for worldwide growth, which then justifies a pretty accretive multiple, which in this current market, we're not seeing. How do we get that share?

So we've already demonstrated that we can hold a #1 spot. So we're holding the 33% share in Québec. And I think that's why you want to bet on this management team and on HEXO products. Because as I've said, we're not -- we weren't listed. In these numbers, you're not seeing any meaningful share in Ontario. And that was really a function of time to get everything listed in in-store, that's done now. So you should start to see that market share creep up as we level Ontario and level Alberta, you should start to see that contribute. And note that I don't need to get to 30% plus share in those specific markets to achieve a 20% plus national average. On what that means from an estimate perspective? I'll leave the estimate to yourself on where the stock prices should be. But I would note that if you take a look at market share and you take a look at some of our competitors. In fact, I would invite you to go take a look at the market share in adult-use cannabis of our top-6 competitors, I could pick 2 or 3 of them that have a market cap that's about 3 or 4x higher than HEXO's and no meaningful additional market share. In fact, some of them have less market share than HEXO.

So I think whatever happens in the estimates as we flesh out as competitors fail in the next 12 months, and we'll have lots of them failing, especially the small ones, I think that opens up a space for an equilibrium in the LP space where we will value license producers based on that share. And I'm still confident, I mean, HEXO is a top-4 player today, and that's certainly not reflected in our market cap. So lots of upside from a relative value basis.

Christopher Michael Carey - *BofA Merrill Lynch, Research Division - Research Analyst*

I appreciate you tackling that one. And if I could, just one sort of a clean-up question, so to speak. There is a growing concern about this unfinished inventory that is building up in the channel, the StatCan data this week put it at -- I think it's over 380,000 or I mean, 25 months of inventory at the current run rate. But I guess, what I also hear from companies, your peer companies, is that, that unfinished inventory number includes a lot of unsellable flower, maybe that stocks or molded material or seeded material. And I wonder if you could talk to what you think is in that unfinished inventory number? Or whether that's something that the market needs to be concerned about from a -- from the standpoint of pricing and maybe inventory write-downs on a go-forward basis?

Sebastien G. St-Louis - *HEXO Corp. - Co-Founder, President, CEO & Director*

Yes, I think your instincts bang on, Chris. The market should absolutely be concerned about that inventory. At HEXO, we've taken steps. And again, we're talking -- so we're sacrificing short-term market BS, right? Manipulating quarters, we're not doing that. We're taking a $3.8 million reserve this quarter, having not seen returns, by the way, this is just being conservative in preparing for this.

Our inventory at HEXO is good. And -- but will it hold given pricing? Do you need to do pricing adjustments? We've been proactive in taking on that pricing adjustment. Just like last quarter, I was proactive in foreshadowing the reduction in pricing. Unfortunately, that came true. This inventory situation will come true as well. And some of our competitors have been less proactive in adjusting that, which means that on aggregate, absolutely, that's something investors need to start taking a look at. Sell-through becoming incredibly important versus sell-in. And something that I think the numbers -- hard to see in the numbers. But if you really -- if you dig in behind the numbers for our quarter, this has been a pretty good improvement this quarter despite missing the guidance.

So forget about the year, I mean, going from $5 million to $50 million but look at quarter sell-through.

This quarter, Q4 didn't have meaningful sell-in, it was all meaningful sell-through. And so that bodes well for reduced-channel stuffing, real volume, real growth and so I'm very happy where HEXO was positioned. I think a lot of my competitors will have to adjust to position themselves the way HEXO is doing so. They haven't gone through that pain yet. We've now taken that pain, and that's reflected in our stock price, unfortunately, but also creates a buying opportunity.

Operator

That concludes today's Q&A. You may proceed with closing comments.

Sebastien G. St-Louis - *HEXO Corp. - Co-Founder, President, CEO & Director*

Everybody, thanks very much for your questions and continued support and interest in HEXO. I think that the key thing that is easy to forget. And in a world where we were talking about a certain number. And obviously, we're not going to hit that number, and that's on me. But what's easy to forget as we went from $5 million revenue last year to $50 million, 10x. As far as I know, that's the fastest-growing revenue company in the entire Ottawa-Gatineau region. This is a growth story. And despite the sad news that we had to let go 200 employees, we still have a 1,000 strong workforce of dedicated people that are moving mountains to come up with the next product, the next technology and being first with new offerings to market.

We're penetrating new consumers every day. Seeing this market evolve, where we know for a fact, it's a $1 billion market today, and it's growing towards that $7 billion target. Cannabis worldwide is here to stay and will transform the world. HEXO is right there, we're at the doorstep, we have some work to do to improve, and I'm looking forward to share the journey with you. Thank you for listening.

Operator

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