



Charlotte's Web Holdings Reports 2019 Q1 Earnings

Q1 revenue increases 66% YoY to US\$21.7 million

Adjusted EBITDA of \$4.5 million and US\$0.03 EPS

Boulder, Colorado, May 28, 2019 (Business Wire) – Charlotte's Web Holdings, Inc. ("Charlotte's Web" or the "Company") (CSE:CWEB, OTCQX:CWBHF), the market share leader in whole-plant hemp extract products, today reported financial results for the first quarter ended March 31, 2019. All amounts are expressed in United States dollars. Certain metrics, including those expressed on an adjusted basis, are non-IFRS measures.

Highlights of First Quarter 2019 Results

- Organic consolidated YoY revenue growth of 66% to \$21.7 million
- Gross profit of \$15.9 million, 73% of consolidated revenue
- Adjusted EBITDA of \$4.5 million, 21% of consolidated revenue
- Net income of \$2.3 million, 11% of consolidated revenue
- 51% of revenue from retail outlets
- EPS basic of \$0.03 per share; EPS diluted of \$0.02 per share

Business Highlights

- Executive leadership expansion with CEO, COO and CGO additions
- First orders shipped to largest food and drug retailers in the USA
- Retail doors increased more than 60% from 2018 year-end to over 6,000 at May 8, 2019
- New pet line with 12 SKU's introduced
- Digital advertising and ecommerce pilot programs commenced with Google and Amazon
- Hemp acreage planting for 2019 more than doubling to over 700 acres
- Hemp Authority Certification received
- FDA commits to working with hemp industry on hemp product regulations

On May 15th, 2019 Charlotte's Web appointed Deanie Elsner as the Company's new Chief Executive Officer. Ms. Elsner comes to Charlotte's Web from Fortune 500 company Kellogg's where she was President of the \$3B dollar U.S. Snacks division - the largest business unit in the Kellogg Global portfolio and prior to that served more than 20 years in various leadership roles at the Kraft Foods Company including Chief Marketing Officer.

"Charlotte's Web has established itself as the market leader in sales, and more importantly as a trusted brand with an impeccable reputation," said Ms. Elsner. "As someone with an extensive career in the CPG industry leading global brands, I see a tremendous opportunity to further influence, shape and grow the CBD category while turning Charlotte's Web into a household product name that consumers can rely on around the world. My priority is to raise the Company's level of operational effectiveness and accelerate growth opportunities acting with urgency and decisiveness."



Q1-2019 Business Review

The first quarter concluded with significant retail expansion for Charlotte's Web as shipments commenced to three national brand supermarket/grocery and drugstore retailers in select states. Subsequent to the quarter, shipments commenced to a fourth national retailer and Charlotte's Web has surpassed 6,000 retail locations now receiving shipments of the Company's leading hemp CBD products. More than 2,300 new retail doors were added since the start of the year - more than all of 2018 - significantly expanding the Company's physical brick and mortar retail reach.

As of May 28, 2019, Charlotte's Web is shipping product to four national retailer locations covering 18 states combined. The Company expects additional states and stores to be added by these retailers throughout 2019. A major grocery retailer is carrying all categories of the Company's product portfolio including oils, capsules and topicals, while the remaining national retailers have begun their Charlotte's Web product introduction with topical products only.

Charlotte's Web recently launched a line of pet products including functionally focused chews with synergistic ingredients to target specific health functions including: Calming, Hips & Joints and Cognition. The CBD Pet market is forecast to grow rapidly at a Compound Annual Growth Rate (CAGR) of 151% between 2018-2022 to a market size of US\$1.16B according to market research firm, Brightfield Group.

The pet line was developed in adherence with the strict quality standards of the National Animal Supplement Council ("NASC"). NASC is at the forefront to safely regulate the pet market for animal supplements, offering a quality seal audit program and keeping in close contact with the FDA. Charlotte's Web is one of only a few hemp companies to be a member of the NASC.

To support the growing product portfolio and retailer demand, Charlotte's Web is more than doubling the number of acres planted for 2019 to over 700 acres. The Company planted 300 acres of hemp in 2018 and harvested 675,000 pounds of raw hemp compared to 63,000 pounds in 2017.

"With the passing of the 2018 Farm Bill, we experienced a rapid increase in the major retail category as hemp became federally legal," said Deanie Elsner, President and Chief Executive Officer. "This momentum is continuing as consumer awareness and retailer interest surrounding hemp and CBD increases. We believe we'll continue to see expansion in this area with additional retailers coming onboard and we expect continued roll-out to new states from existing retail customers throughout the year. Some retailers may wait for further clarity from the Food and Drug Administration (FDA) before including ingestible products, while others have been moving forward and expanding the number of stores that carry Charlotte's Web products."

The FDA will hold a public hearing on regulating hemp-derived CBD on May 31, 2019 to explore pathways for dietary supplements and/or conventional foods containing CBD and how it might regulate manufacturing, marketing and labeling. Charlotte's Web has significant interest in effective industry regulation and is coordinating its efforts through its membership with the U.S. Hemp Roundtable to submit verbal and written comments to the FDA.

Charlotte's Web also supports self-regulation of the hemp industry through its membership in the U.S. Hemp Authority™. The U.S. Hemp Authority Certification Program is a new initiative to provide high standards, best practices and self-regulation for the hemp industry. The certification requires meeting or exceeding stringent self-regulatory standards for Current Good Manufacturing Practices (cGMP) and passing an annual third-party audit.



The certification is designed to increase consumer and law enforcement confidence in hemp products being sold in the market today by designating them as safe and legal. Charlotte's Web has received certification from the U.S. Hemp Authority.

Q1-2019 Financial Review

First Quarter 2019 Results

The following table sets forth selected financial information for the periods indicated.

U.S. \$ millions, except per share data	Three months ended		
	March 31,		
	2019	2018	
Revenue	\$ 21.7	\$ 13.1	
Gross profit before biological assets adjustment	\$ 15.8	\$ 10.3	
Net impact, fair value of biological assets	\$ 0.1	\$ 0.2	
Gross profit	\$ 15.9	\$ 10.5	
Operating expenses	\$ 13.2	\$ 6.4	
Income before taxes	\$ 3.0	\$ 4.1	
Net income	\$ 2.3	\$ 3.1	
EPS basic	\$ 0.03	\$ 0.04	
EPS diluted	\$ 0.02	\$ 0.04	
Adjusted EBITDA	\$ 4.5	\$ 4.6	
Assets:	Mar 31, 2019	Mar 31, 2018	Dec 31, 2018
Cash and cash equivalents	\$ 69.1	\$ 10.4	\$ 73.4
Total assets	\$ 171.7	\$ 24.3	\$ 139.1
Liabilities:			
Long-term liabilities	\$ 4.6	\$ 0.4	\$ 3.5
Total liabilities	\$ 20.1	\$ 8.3	\$ 17.6

The following information sets forth selected quarterly revenue information for the Company's recent fiscal quarters.

U.S. \$ millions	Q1 2019	Q4 2018	Q3 2018	Q2 2018	Q1 2018	Q4 2017	Q3 2017	Q2 2017	Q1 2017
Total revenue	\$ 21.7	\$ 21.5	\$ 17.7	\$ 17.2	\$ 13.1	\$ 12.5	\$ 11.3	\$ 9.1	\$ 7.1

First quarter revenue increased 66% year-over-year to \$21.7 million as broader consumer awareness of CBD based products continues to drive increased usage in all product categories. Human nutrition products, topicals and animal nutrition products growing by 67%, 455% and 79%, respectively. Retail channel growth is increasing as the large mass retailers begin carrying Charlotte's Web products. During the first quarter 2019, retail channel revenue accounted for approximately 51% of total revenue compared to 47% for the same period in the prior year.



Adjusted EBITDA for the quarter was \$4.5 million or 21% of consolidated revenue compared to \$4.6 million and 35% of consolidated revenue for the same period in the previous year. The Adjusted EBITDA ratio during the first quarter reflects continued investment in infrastructure and personnel as the Company builds its internal capabilities to support expected revenue growth for the remainder of 2019 and beyond.

“We are forecasting revenue to grow at a faster pace than operating expenses, particularly in the back half of the year,” stated Rich Mohr, Chief Financial Officer of Charlotte’s Web. “This supports our adjusted EBITDA guidance in the 30%-35% range on an annualized basis, in line with our historical norms. Our sales volumes continue to increase on a quarterly basis and we’re expecting continued top-line growth during the second quarter and during the last half of the year. We reiterate our revenue guidance for 2019 of between \$120 million and \$170 million.”

The following table sets forth Adjusted EBITDA¹ as a percentage of revenue for recent fiscal quarters.

	Q1 2019	Q4 2018	Q3 2018	Q2 2018	Q1 2018	Q4 2017	Q3 2017	Q2 2017	Q1 2017
Adjusted EBITDA	\$ 4.5	\$ 3.7	\$ 5.4	\$ 6.1	\$ 4.6	\$ 4.7	\$ 4.4	\$ 2.4	\$ 0.9
Percent of revenue	20.9%	17.5%	30.7%	35.4%	35.4%	37.8%	39.4%	26.5%	19.7%

Balance Sheet and Cash Flow

The Company used \$3.7 million of cash in operations during Q1-2019 compared to \$4.1 million of cash provided from operations during Q1-2018. The reduction in cash flows from operations primarily reflects the investment in inventory associated with the growth required to supply new retail outlets and the planting of the 2019 hemp crop which will more than double in size over the previous year. The Company’s cash at March 31, 2019 was \$69.1 million compared to \$73.4 million on December 31, 2018. Working capital at March 31, 2019 was \$93.9 million compared to \$93.8 million at December 31, 2018.

	Three months ended		\$ Change	% Change
	March 31			
	2019	2018		
Cash beginning of period	\$ 73,404	\$ 7,056	\$ 66,348	940%
Cash flows from (used in):				
Operating activities	(3,689)	4,071	(7,760)	-191%
Investing activities	(707)	(649)	(58)	9%
Financing activities	47	(94)	141	n/a
Cash, end of period	\$ 69,055	\$ 10,384	\$ 58,671	565%

Consolidated Financial Statements and Management’s Discussion and Analysis

The Company’s unaudited interim condensed financial statements and accompanying notes for the periods ended March 31, 2019 and 2018 and related management’s discussion and analysis of financial condition and results of operations (“MD&A”) are available under the Company’s profile on SEDAR at www.sedar.com and on the Investor Relations section of the Company’s website at <https://investors.charlottesweb.com>.



Conference Call

Management will host a conference call to discuss the Company's first quarter 2019 results at 8:00 am ET on Wednesday, May 29, 2019. To participate in the call, please dial 1-647-427-7450 or 1-888-231-8191 approximately 10 minutes before the conference call and provide conference ID 7798405. A recording of the call will be available through June 5, 2019. To listen to the rebroadcast please dial 1-416-849-0833 and provide the same conference ID.

A webcast of the call can be accessed through the [investor relations section](#) of the Charlotte's Web website.

About Charlotte's Web Holdings, Inc.

Charlotte's Web Holdings, Inc. is the market leader in the production and distribution of innovative hemp-based cannabidiol ("CBD") wellness products. Founded by the Stanley Brothers, the Company's premium quality products start with proprietary hemp genetics that are responsibly manufactured into whole-plant hemp extracts naturally containing a full spectrum of phytocannabinoids, including CBD, terpenes, flavonoids and other beneficial hemp compounds. Industrial hemp products are non-intoxicating. Charlotte's Web product categories include [CBD Oil tinctures](#) (liquid products), [CBD capsules](#), [CBD topicals](#), as well as [CBD pet products](#). Charlotte's Web hemp-based whole plant extracts are sold through select distributors, brick and mortar retailers, and online through the Company's website at www.CharlottesWeb.com. The rate the Company pays for agricultural products reflects a fair and sustainable rate driving higher quality yield, encouraging good farming practices, and supporting U.S. farming communities.

Charlotte's Web is a socially conscious company and is committed to using business as a force for good and a catalyst for innovation. The Company weighs sound business decisions with consideration for how its efforts affect its employees, customers, the environment, and the communities where its employees live and where it does business, while maximizing profits and strengthening its brands. The Company's management believes that socially oriented actions have a positive impact on the Company, its employees and its shareholders. Charlotte's Web donates a portion of its pre-tax earnings to charitable organizations.

Shares of Charlotte's Web trade on the Canadian Securities Exchange under the symbol "CWEB" and in the United States on the OTCQX under the symbol "CWBHF". Charlotte's Web has 39,772,154 Common Shares outstanding and 138,332.38 Proportionate Voting Shares convertible at 400:1, for an effective equivalent of 95,105,106 Common Shares outstanding.

¹. Adjusted earnings before interest, taxes, depreciation and amortization (Adjusted EBITDA) is not a recognized performance measure under IFRS. The term EBITDA consists of net income (loss) and excludes interest (financing costs), taxes and depreciation. Adjusted EBITDA also excludes share-based compensation, IPO related costs, impairment of assets and adjustments for fair valuing of biological assets. Adjusted EBITDA is included as a supplemental disclosure because Management believes that such measurement provides a better assessment of the Company's operations on a continuing basis by eliminating certain non-cash charges and charges or gains that are nonrecurring. The most directly comparable measure to adjusted EBITDA calculated in accordance with IFRS is net income (loss). The following is a reconciliation of the Company's net income (loss) to Adjusted EBITDA.

Forward-Looking Information



This press release may contain forward-looking information within the meaning of applicable securities legislation. In the interest of providing the shareholders and potential investors of Charlotte's Web Holdings, Inc. with information about the Company and its subsidiaries, including management's assessment of the Company and its subsidiaries' future plans and operations, certain information provided in this press release constitutes forward-looking statements or information (collectively, "forward-looking statements"). Forward-looking statements are typically identified by words such as "may", "will", "should", "could", "anticipate", "expect", "project", "estimate", "forecast", "plan", "intend", "target", "believe" and similar words suggesting future outcomes or statements regarding an outlook. Although these forward-looking statements are based on assumptions the Company considers to be reasonable based on the information available on the date such statements are made, such statements are not guarantees of future performance and readers are cautioned against placing undue reliance on forward-looking statements. By their nature, these statements involve a variety of assumptions, known and unknown risks and uncertainties, and other factors which may cause actual results, levels of activity, and achievements to differ materially from those expressed or implied by such statements. The forward-looking information contained in this press release is based on certain assumptions and analysis by management of the Company in light of its experience and perception of historical trends, current conditions and expected future development and other factors that it believes are appropriate.

The Company's forward-looking statements are subject to risks and uncertainties pertaining to, among other things, revenue fluctuations, nature of government regulations, economic conditions, loss of key customers, retention and availability of executive talent, competing products, common share price volatility, loss of proprietary information, product acceptance, internet and system infrastructure functionality, information technology security, cash available to fund operations, availability of capital and, international and political considerations, including but not limited to those risks and uncertainties discussed under the heading "Risk Factors" in the MD&A and the Company's other filings with securities regulators. The impact of any one risk, uncertainty, or factor on a particular forward-looking statement is not determinable with certainty as these are interdependent, and the Company's future course of action depends on Management's assessment of all information available at the relevant time. Except to the extent required by law, the Company assumes no obligation to publicly update or revise any forward-looking statements made in this press release, whether as a result of new information, future events, or otherwise. All subsequent forward-looking statements, whether written or oral, attributable to the Company or persons acting on the Company's behalf, are expressly qualified in their entirety by these cautionary statements.

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CHARLOTTE'S WEB HOLDINGS, INC.

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(In thousands of United States dollars)

	March 31, 2019	December 31, 2018
ASSETS		
Current assets:		
Cash	\$ 69,055	\$ 73,404
Trade and other receivables	5,473	4,874
Inventories	26,944	23,969
Prepaid expenses and other current assets	7,036	3,917
Income taxes receivable	853	1,787
	<u>109,361</u>	<u>107,951</u>
Non-current assets:		
Property and equipment, net	10,701	6,806
Intangibles	621	619
Deferred tax assets	50,683	23,449
Loan due from related parties	114	128
Other long-term assets	181	181
	<u>\$ 171,661</u>	<u>\$ 139,134</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 2,863	\$ 3,379
Accrued liabilities	9,809	10,014
Deferred revenue	583	467
Current portion of notes payable	9	9
Current portion of lease obligations	2,205	283
	<u>15,469</u>	<u>14,152</u>
Non-current liabilities:		
Long-term note payable	9	12
Long-term lease obligations	1,974	113
Deferred rent	-	73
Other long-term liabilities	2,611	3,286
	<u>20,063</u>	<u>17,636</u>
Shareholders' equity:		
Share capital	129,455	101,175
Contributed surplus	1,984	2,498
Retained earnings	20,159	17,825
	<u>151,598</u>	<u>121,498</u>
	<u>\$ 171,661</u>	<u>\$ 139,134</u>



CHARLOTTE'S WEB HOLDINGS, INC.

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENTS OF INCOME AND OTHER COMPREHENSIVE INCOME
(In thousands of United States dollars, except per share amounts)

	Three months ended March 31,	
	2019	2018
Revenue	\$ 21,700	\$ 13,092
Cost of sales	5,906	2,744
Gross profit before loss on fair value of biological assets	15,794	10,348
Realized fair value amounts included in inventory sold	(142)	(189)
Gross profit	15,936	10,537
Expenses:		
General and administrative	8,461	4,066
Sales and marketing	4,560	2,063
Research and development	191	126
Initial public offering related costs	-	107
	13,212	6,362
Operating income	2,724	4,175
Financing costs	(57)	(64)
Interest income	356	21
Other income	(3)	-
Income before taxes	3,020	4,132
Income taxes	(686)	(1,029)
Net income and comprehensive income	\$ 2,334	\$ 3,103
Weighted average number of common shares - basic	93,213,977	79,554,964
Weighted average number of common shares - diluted	106,316,146	85,296,454
Earnings per share - basic	\$ 0.03	\$ 0.04
Earnings per share - diluted	\$ 0.02	\$ 0.04



CHARLOTTE'S WEB HOLDINGS, INC.

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(In thousands of United States dollars)

Three months ended March 31, 2018	Share capital	Contributed surplus	Retained earnings	Total
Balance - December 31, 2017	\$ 5,835	\$ 787	\$ 6,017	\$ 12,639
Share-based compensation expense	-	259	-	259
Net income	-	-	3,103	3,103
Balance - March 31, 2018	\$ 5,835	\$ 1,046	\$ 9,120	\$ 16,001

Three months ended March 31, 2019	Share capital	Contributed surplus	Retained earnings	Total
Balance - December 31, 2018	\$ 101,175	\$ 2,498	\$ 17,825	\$ 121,498
Exercise of broker stock warrants	1,246	(822)	-	424
Income tax benefit from stock options	27,034	-	-	27,034
Share-based compensation expense	-	308	-	308
Net income	-	-	2,334	2,334
Balance - March 31, 2019	\$ 129,455	\$ 1,984	\$ 20,159	\$ 151,598



CHARLOTTE'S WEB HOLDINGS, INC.

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands of United States dollars)

	Three months ended March 31,	
	2019	2018
Cash flows from operating activities:		
Net income	\$ 2,334	\$ 3,103
Items not involving cash:		
Depreciation and amortization	926	269
Change in fair value of biological assets	(142)	(189)
Accretion on convertible note	-	42
Change in fair value of convertible note	-	(30)
Allowance for doubtful accounts	170	43
Inventory reserve	373	-
Deferred rent	(73)	(9)
Share-based compensation	308	259
Gain on sale of assets	4	-
Deferred income taxes	(200)	9
Changes in working capital:		
Trade and other receivables	(769)	(295)
Inventories	(3,155)	(363)
Prepaid expenses and other current assets	(3,119)	(317)
Accounts payable	(516)	(132)
Accrued liabilities	(205)	781
Income taxes	934	999
Deferred revenue	116	(99)
Other long-term liabilities	(675)	-
	(3,689)	4,071
Cash flows from investing activities:		
Purchases of property and equipment and intangibles	(768)	(825)
Proceeds from sale of assets	47	-
Proceeds from related party	14	-
Other long-term assets	-	176
	(707)	(649)
Cash flows from financing activities:		
Proceeds from stock warrant exercise	424	-
Payments on notes payable	(3)	(15)
Payments on lease obligations	(374)	(79)
	47	(94)
Increase (decrease) in cash	(4,349)	3,328
Cash, beginning of year	73,404	7,056
Cash, end of period	\$ 69,055	\$ 10,384
Supplemental disclosures of cash flow information:		
Cash paid for interest	\$ 57	\$ 64