



# Charlotte's Web Holdings Reports 2019 Q3 Earnings

*Q3 revenue increases 42% YoY to US\$25.1 million*

*Building out CPG infrastructure ahead of FDA regulatory growth catalyst*

**Boulder, Colorado, November 13, 2019** – (TSX:CWEB, OTCQX:CWBHF), Charlotte's Web Holdings, Inc. ("Charlotte's Web" or the "Company") the market share leader in full spectrum cannabidiol (CBD) hemp extract products, today reported financial results for the third quarter ended September 30, 2019. All amounts are expressed in United States dollars. Certain metrics, including those expressed on an adjusted basis, are non-IFRS measures.

## Third Quarter 2019 Financial Highlights

- Organic consolidated year-over-year revenue growth of 41.8% to \$25.1 million
- B2C ecommerce sales increased 38.7%, B2B retail sales increased 66.4%
- Gross margin of 71.3% (before biological asset adjustments) produced gross profit of \$17.9 million
- Increased operational investments in preparation of FDM channel growth
- Increased investment into expand production, distribution R&D and extraction capacity
- Adjusted EBITDA \$0.7 million, 2.8% of consolidated revenue reflecting infrastructure build
- \$35M cash and \$96M working capital

## Third Quarter 2019 Business Highlights

- Surpassed 9,000 doors carrying Charlotte's Web™ products
- Expanded into new states and locations with current and new retail partners
- Increased retail breadth and product depth with new CBD oil flavors, pet and gummy SKUs
- Evolved CPG leadership team and commenced buildout of infrastructure to expand production, distribution, R&D and extraction capacity processes ahead of the anticipated mass retail channel growth
- New 136,610 sq ft facility expected to increase current capacity by 10X with significant future operational and production cost savings through higher efficiencies by Q3 2020
- Executed additional actions to support regulatory progress at the federal and state levels

"In an increasingly crowded, noisy and confusing CBD market, brands matter, and Charlotte's Web is the most trusted hemp extract in the world," said Deanie Elsner, Chief Executive Officer of Charlotte's Web. "Consumers are becoming more informed about product ingredients, production quality, and variances between CBD isolate and full spectrum hemp extract efficacy. Consumer education is increasing and a 68% year-over-year increase in traffic through our online store drove Q3 B2C sales to new highs. As the CBD category's flagship brand, we saw a similar 66% increase in sales pull into our B2B segment which includes the food/drug/mass ("FDM") and natural health retail channels. This helped drive Q3 growth to 42% year-over-year. The majority of our FDM channel partners to only sell CBD topicals while awaiting legal and regulatory clarity from the U.S. Food and Drug



Association ("FDA"). Topicals account for less than 15% of our sales at independent stores that carry both our topical and ingestible CBD product lines. This indicates the potential revenue catalyst of a broad adoption of ingestible products within the FDM channel. We are prudently investing in the expansion of our production and distribution capacities as planned, ahead of anticipated FDA regulatory clarity that could enable wider adoption of our product portfolio. We remain hopeful that broad political support will help drive quick regulatory resolutions in 2020."

Ms. Elsner updated the Company's revenue guidance: "We're pleased with our growth of 42% for Q3 and 49.6% year-to-date. We expect full year revenue for 2019 to be in the range of \$95 to \$100 million and to maintain growth rates for 2020 in the 40% to 50% range or until clear regulations are set."

### **Business Review**

In the third quarter Kroger Co., America's largest grocery retailer, expanded distribution of Charlotte's Web products into five new states for a total of 22 states and 1,350 store locations. Subsequent to the quarter, Kroger has further expanded the distribution increasing the total to 1,497 locations. Vitamin Shoppe, an omni-channel specialty retailer of nutritional products, commenced selling the new line of Charlotte's Web CBD gummies in 738 stores across 45 states in Q3. Combined, Charlotte's Web's largest FDM retail partners expanded by 787 locations selling product during the quarter. In addition, several smaller regional chains began selling Charlotte's Web products through a combined total of 296 new doors.

Early sales traction for the new 12 SKU pet line from Charlotte's Web has been encouraging with a 57% year-over-year increase in revenue with notable success in the independent retail channel. The new pet line includes functionally focused chews with synergistic ingredients to support specific health functions - Calming, Hips & Joints and Cognition. Two pet food and pet products distribution partners were also added during the quarter covering more than 5,000 potential retail customers.

The impact from the traditional mass retail channel's entrance into the CBD category in 2019 will influence suppliers to function like CPG manufacturing organizations in order to succeed. To help lead this transition at Charlotte's Web, top tier CPG management was added to the leadership team, including Russ Hammer as Chief Financial Officer, Tony True as Chief Customer Officer, and Paul Lanham as Chief Information Officer.

The Company is investing to expand production, distribution, R&D and extraction capacity, with the signing of a building lease on a newly constructed 136,610 square-foot industrial building located at 700 Tech Court in the Colorado Technology Center (CTC) in Louisville, Colorado. The new location enables the Company to prepare for increased demand from the mass consumer retail channels. The capacity gains from this facility are expected to support more than ten times the current production capacity and deliver significant production and distribution cost savings.



**Financial Review**

Financial Summary for the three and nine months ended September 30, 2019:

U.S. \$ millions, except per share data	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
Revenue	\$ 25.1	\$ 17.7	\$ 71.8	\$ 48.0
Gross profit before biological assets adjustment	\$ 17.9	\$ 13.8	\$ 52.2	\$ 37.1
Net impact, fair value of biological assets	\$ -	\$ 1.5	\$ (0.5)	\$ 1.0
Gross profit	\$ 17.9	\$ 12.3	\$ 52.7	\$ 36.0
Operating expenses	\$ 19.6	\$ 9.8	\$ 49.1	\$ 24.4
Other (income) and expense, net	\$ (0.1)	\$ (0.3)	\$ (0.7)	\$ (0.2)
Income (loss) before taxes	\$ (1.6)	\$ 2.8	\$ 4.3	\$ 11.9
Net income (loss)	\$ (1.3)	\$ 1.8	\$ 3.2	\$ 8.7
EPS basic	\$ (0.01)	\$ 0.02	\$ 0.03	\$ 0.11
EPS diluted	\$ (0.01)	\$ 0.02	\$ 0.03	\$ 0.10
Adjusted EBITDA	\$ 0.7	\$ 5.3	\$ 8.5	\$ 16.0
<b>Assets:</b>	<b>Sep 30, 2019</b>	<b>Jun 30, 2019</b>	<b>Mar 31, 2019</b>	<b>Dec 31, 2018</b>
Cash and cash equivalents	\$ 35.0	\$ 51.4	\$ 69.1	\$ 73.4
Total assets	\$ 181.0	\$ 157.2	\$ 171.7	\$ 139.1
<b>Liabilities:</b>				
Long-term liabilities	\$ 28.3	\$ 8.3	\$ 4.6	\$ 3.5
Total liabilities	\$ 51.9	\$ 22.3	\$ 20.1	\$ 17.6

Quarterly revenue growth for the Company's nine most recent fiscal quarters:

U.S. \$ millions	Q3 2019	Q2 2019	Q1 2019	Q4 2018	Q3 2018	Q2 2018	Q1 2018	Q4 2017	Q3 2017
Total revenue	\$ 25.1	\$ 25.0	\$ 21.7	\$ 21.5	\$ 17.7	\$ 17.2	\$ 13.1	\$ 12.5	\$ 11.3

Revenue for the third quarter ended September 30, 2019 totaled \$25.1 million, compared to \$17.7 million for the same period in 2018, representing a 41.8% increase. Human consumables, topicals and pet products grew by 43.6%, 156.7% and 57.5%, respectively. On a year-over-year basis for the quarter ended September 30, 2019, B2C sales grew by 38.7% and accounted for 51.2% of total revenue in the quarter as online traffic increased 68% through expanded marketing and social media programs. B2B sales grew by 66.4% year-over-year and accounted for 48.8% of total revenue in the quarter as mass retailers including Kroger Co., Vitamin Shoppe and CVS Pharmacy locations entered the market in 2019.

Gross margin prior to biological asset adjustments was 71.3%, compared to 78.0% for the same period in 2018. Gross profit totaled \$17.9 million for the quarter ended September 30, 2019, compared to \$12.3 million for the same period in 2018, a year-over-year increase of 45.5%.



Third quarter operating expenses were \$4.7 million, a year-over-year increase from \$2.4 million to support the Company's growth and transition to a consumer-packaged goods operating company. During the quarter the Company relocated into larger office facilities in Boulder and added senior CPG management to the leadership team along with related personnel. Employee headcount was 307 at September 30, 2019, a 35.8% increase from 226 at September 30, 2018.

Adjusted EBITDA for the third quarter was \$0.7 million or 2.8% of consolidated revenue compared to \$5.3 million and 29.9% of consolidated revenue for the third quarter of 2018. The lower Adjusted EBITDA ratio during the third quarter reflects investment in infrastructure and personnel as the Company builds its internal capabilities to support expected future revenue growth from the FDM channel.

The Company used \$24.8 million of cash in operations during the first nine months of 2019 compared to \$1.5 million of cash provided from operations during the same period in 2018. Cash used in operations during the first nine months of 2019 primarily reflects the investment in planting, cultivation and inventory required to supply increasing retail and consumer demand. Net cash of \$12.9 million used in investing activities for the nine-month period was primarily for the purchase of equipment, building and land used in the Company's cultivation and manufacturing operations. At September 30, 2019 the Company held cash of \$35.0 million and working capital of \$95.9 million.

#### **Ernst & Young LLP Appointed Auditors**

During the quarter Charlotte's Web board of directors has approved the appointment of Ernst & Young LLP ("EY") as the Company's new auditor, replacing prior auditor, MNP LLP as the Company continues its transition to a U.S. CPG manufacturing company and U.S. stock exchange cross-listing in addition to its current listing on the Toronto Stock Exchange.

The decision was made following an extensive and competitive review involving a number of accounting firms, and was not the result of any disagreement between the Company and MNP on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure.

"This appointment reflects the commitment of the Company and its Board of Directors to continued strong corporate governance, domestically and internationally," added Ms. Elsner.

The Notice of Change of Auditor, together with the required letters from MNP and EY have been filed on [sedar.com](http://sedar.com).

#### **Consolidated Financial Statements and Management's Discussion and Analysis**

The Company's unaudited interim condensed financial statements and accompanying notes for the periods ended September 30, 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](http://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 third quarter 2019 results at 8:00 am ET on Wednesday, November 13, 2019. Charlotte's Web CEO Deanie Elsner, CFO Russ Hammer and Director of Investor Relations Cory Pala, will host the call, followed by a question and answer period. To participate in the call, please dial 1-647-427-7450 or 1-888-231-8191 approximately 10 minutes before the conference call. A recording of the call will be available through November 20, 2019. To listen to a replay of the earnings call please dial 1-416-849-0833 and provide conference ID 7899894. 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. Charlotte's Web product categories include human consumables (tinctures, capsules, and gummies, topicals, as well as 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](http://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 Toronto Stock Exchange (TSX) under the symbol "CWEB" and are quoted in U.S. Dollars in the United States on the OTCQX under the symbol "CWBHF". As of November 12, 2019, Charlotte's Web had 57,046,941 Common Shares outstanding and 103,860.4775 Proportional Voting Shares convertible at 400:1, for an effective equivalent of 98,591,132 Common Shares outstanding.

<sup>1</sup>. 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, depreciation and amortization. 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).

## **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.*

**For further information subscribe to Charlotte's Web news, or contact:**

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**CHARLOTTE'S WEB HOLDINGS, INC.**

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(In thousands of United States dollars)

	September 30, 2019	December 31, 2018
<b>ASSETS</b>		
Current assets:		
Cash	\$ 34,980	\$ 73,404
Trade and other receivables, net	6,661	4,874
Note receivable	1,400	-
Inventories	57,631	23,969
Prepaid expenses and other current assets	15,337	3,917
Income taxes receivable	3,464	1,787
	119,473	107,951
Non-current assets:		
Property and equipment, net	34,890	6,806
Intangibles	1,317	619
Deferred tax assets	24,283	23,449
Loan due from related parties	107	128
Other long-term assets	913	181
	\$ 180,983	\$ 139,134
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 4,075	\$ 3,379
Accrued liabilities	16,182	10,014
Deferred revenue	484	467
Current portion of notes payable	9	9
Current portion of lease obligations	2,799	283
	23,549	14,152
Non-current liabilities:		
Long-term note payable	5	12
Long-term lease obligations	17,443	113
Deferred rent	-	73
Other long-term liabilities	10,885	3,286
	51,882	17,636
Shareholders' equity:		
Share capital	105,368	101,175
Contributed surplus	2,697	2,498
Retained earnings	21,036	17,825
	129,101	121,498
	\$ 180,983	\$ 139,134



**CHARLOTTE'S WEB HOLDINGS, INC.**

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

	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
Revenue	\$ 25,045	\$ 17,736	\$ 71,765	\$ 48,046
Cost of sales	7,181	3,967	19,612	10,990
Gross profit before loss on fair value of biological assets	17,864	13,769	52,153	37,056
Realized fair value amounts included in inventory sold	(65)	(147)	(561)	(600)
Unrealized fair value loss on growth of biological assets	48	1,622	48	1,622
Gross profit	17,881	12,294	52,666	36,034
Expenses:				
General and administrative	13,064	5,272	30,585	14,252
Sales and marketing	6,281	3,910	17,368	8,385
Research and development	255	132	1,099	386
Initial public offering related costs	-	473	-	1,332
	19,600	9,787	49,052	24,355
Operating income (loss)	(1,719)	2,507	3,614	11,679
Financing costs	107	31	241	160
Interest income	(187)	(138)	(853)	(191)
Other income	(66)	(196)	(60)	(196)
Income (loss) before taxes	(1,573)	2,810	4,286	11,906
Income tax expense (benefit)	(259)	987	1,075	3,250
Net income (loss) and comprehensive income (loss)	\$ (1,314)	\$ 1,823	\$ 3,211	\$ 8,656
Weighted average number of common shares - basic	97,486,347	83,472,950	95,244,686	80,792,665
Weighted average number of common shares - diluted	106,124,170	91,501,078	106,206,202	86,937,632
Earnings (loss) per share - basic	\$ (0.01)	\$ 0.02	\$ 0.03	\$ 0.11
Earnings (loss) per share - diluted	\$ (0.01)	\$ 0.02	\$ 0.03	\$ 0.10



**CHARLOTTE'S WEB HOLDINGS, INC.**

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY  
(In thousands of United States dollars)

Nine months ended September 30, 2018	Share capital	Contributed surplus	Retained earnings	Total
Balance - December 31, 2017	\$ 5,835	\$ 787	\$ 6,017	\$ 12,639
Initial Public Offering	71,958	-	-	71,958
Private Placement	4,256	-	-	4,256
Exercise of common stock options	42	-	-	42
Issuance of broker stock warrants	(845)	845	-	-
Exercise of broker stock warrants	1,782	-	-	1,782
Share-based compensation expense	-	639	-	639
Share issuance costs	(3,806)	-	-	(3,806)
Net income	-	-	8,656	8,656
<b>Balance - September 30, 2018</b>	<b>\$ 79,222</b>	<b>\$ 2,271</b>	<b>\$ 14,673</b>	<b>\$ 96,166</b>

Nine months ended September 30, 2019	Share capital	Contributed surplus	Retained earnings	Total
Balance - December 31, 2018	\$ 101,175	\$ 2,498	\$ 17,825	\$ 121,498
Exercise of common stock options	963	(268)	-	695
Exercise of broker stock warrants	1,328	(842)	-	486
Income tax benefit from stock options	1,902	-	-	1,902
Share-based compensation expense	-	1,309	-	1,309
Net income	-	-	3,211	3,211
<b>Balance - September 30, 2019</b>	<b>\$ 105,368</b>	<b>\$ 2,697</b>	<b>\$ 21,036</b>	<b>\$ 129,101</b>



**CHARLOTTE'S WEB HOLDINGS, INC.**

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands of United States dollars)

	Nine months ended September 30,	
	2019	2018
<b>Cash flows from operating activities:</b>		
Net income	\$ 3,211	\$ 8,656
<b>Items not involving cash:</b>		
Depreciation and amortization	2,516	951
Change in fair value of biological assets	(513)	1,622
Accretion on convertible note	-	71
Change in fair value of convertible note	-	(66)
Expected credit losses	212	119
Inventory reserve	1,536	181
Deferred rent	(73)	(22)
Share-based compensation	1,309	639
(Gain)/Loss on disposal of fixed assets	8	(28)
Deferred income taxes	(3,619)	(2,617)
<b>Changes in working capital:</b>		
Trade and other receivables, net	(1,999)	(1,446)
Inventories	(33,451)	(11,391)
Prepaid expenses and other current assets	(11,420)	(3,863)
Accounts payable	696	2,727
Accrued liabilities	13,768	3,494
Income taxes	3,011	(104)
Deferred revenue	17	(52)
Other long-term liabilities	-	2,643
	(24,791)	1,514
<b>Cash flows from investing activities:</b>		
Funding of note receivable	(1,400)	-
Purchases of property and equipment and intangibles	(10,806)	(2,503)
Proceeds from sale of assets	53	38
Proceeds from related party	21	-
Other investing activities	(732)	313
	(12,864)	(2,152)
<b>Cash flows from financing activities:</b>		
Proceeds from initial public offering	-	71,958
Proceeds from private placement	-	4,256
Proceeds from common stock option exercise	695	-
Proceeds from stock warrant exercise	486	1,782
Payments on notes payable	(7)	(20)
Payments on lease obligations	(1,943)	(226)
Payments on convertible note	-	(1,000)
Debt settlement	-	(45)
Share issuance costs	-	(3,806)
Proceeds from sale of common stock	-	42
	(769)	72,941
Increase (decrease) in cash	(38,424)	72,303
Cash, beginning of year	73,404	7,056
Cash, end of period	\$ 34,980	\$ 79,359
<b>Supplemental disclosures of cash flow information:</b>		
Cash paid for interest	\$ 241	\$ 31