# FQ2 2020 Supplemental Earnings Slides

April 8, 2020


KUSHCOHOLDINGS™

OTCQX: KSHB

# IMPORTANT CAUTIONS REGARDING FORWARD LOOKING STATEMENTS

This presentation includes "forward-looking statements" within the meaning of the safe harbor provisions of the United States Private Securities Litigation Reform Act of 1995. These statements are based upon the current beliefs and expectations of KushCo Holdings' management and are subject to significant risks and uncertainties. If underlying assumptions prove inaccurate or risks or uncertainties materialize, actual results may differ materially from those set forth in the forward-looking statements. Risks and uncertainties include but are not limited to general industry conditions, competition, and general economic factors, including interest rate and currency exchange rate fluctuations. KushCo Holdings undertakes no obligation to publicly update any forward-looking statement, whether as a result of new information, future events or otherwise, except as otherwise required by law. Additional factors that could cause results to differ materially from those described in the forward-looking statements can be found in KushCo Holdings' filings with the Securities and Exchange Commission (SEC) available at the SEC's website (www.sec.gov). The information contained in this presentation is current as of the date presented. The company assumes no duty to update the information to reflect subsequent developments. Consequently, investors should not rely upon the information as current or accurate after the presentation date.


# AGENDA

1. Intro Remarks and FQ2 2020 Highlights
2. FQ2 2020 Financial Summary
3. New Strategic Plan to Accelerate Path to Positive Adjusted EBITDA
4. Q&A Session

# Intro Remarks and FQ2 2020 Highlights

KUSHCO HOLDINGS

# FQ2 2020 HIGHLIGHTS

- ✓ **FQ2 net revenue of $30.1 million**
  - ✚ Down 14% QoQ and YoY, due to **continued weakness in CA and slower-than-anticipated rebound in vape and start to hemp trading**
  - ✚ **Continued robust sequential growth in many key markets**, such as IL, MI, MA, and Canada
- ✓ **Gaining Incremental Traction with Larger ("Core") Customers**
  - ✚ **52** customers spent more than $500,000 in TTM, **up from 42 in FY 2019**
  - ✚ Customers spending more than **$1 million** in TTM purchased an average of **84 SKUs, up from 69 in FY 2019**
- ✓ **Non-GAAP Gross Margins of 22%, up from 20% Same Period a Year Ago**
  - ✚ **Fifth consecutive quarter of 20%+ non-GAAP gross margins**
- ✓ **Significant Cost Cutting & Restructuring During FQ2 to Accelerate Path to Positive Adjusted EBITDA**
  - ✚ 26-person reduction in headcount during FQ2 generating **$3.7 million in annual savings** (along with 49-person reduction in headcount in March 2020 generating **$4.0 million in annual savings**)

TTM = Trailing twelve months

# REVENUE BREAKOUT BY LOCATION

| Geography | Q2 2020 Revenue | % Q2 2020 Revenue | YoY Growth | QoQ Growth |
|---|---|---|---|---|
| CA | $5.9 | 19.6% | -72% | -24% |
| CO | $2.4 | 8.1% | 4% | -23% |
| WA | $2.3 | 7.7% | -8% | -9% |
| MI | $2.2 | 7.3% | 391% | 105% |
| OR | $1.9 | 6.3% | 7% | -5% |
| MA | $1.9 | 6.2% | 90% | 209% |
| NV | $1.2 | 3.9% | -19% | -29% |
| IL | $1.1 | 3.7% | 766% | 71% |
| ME | $0.3 | 1.0% | -13% | -6% |
| Other Rec States | $0.2 | 0.7% | -7% | 3% |
| **REC STATES TOTAL** | **$19.4** | **64.5%** | **-37%** | **-3%** |
| Medical States | $7.1 | 23.5% | 142% | -36% |
| Canada | $3.5 | 11.5% | 1,076% | 174% |
| Other Countries | $0.1 | 0.3% | -54% | -71% |
| Other* | $0.1 | 0.2% | -93% | -98% |
| **TOTAL REVENUES** | **$30.1** | **100.0%** | **-14%** | **-14%** |

| | QoQ Growth | YoY Growth |
|---|---|---|
| **RECREATIONAL STATES** | -3% | -37% |
| **MEDICAL STATES** | -36% | 142% |
| **TOTAL REVENUE** | -14% | -14% |

KUSHCO HOLDINGS™

Note: Amounts in millions. Total amounts may not add up due to rounding
* Other includes states that currently do not have an adult recreational use and/or medical use program

# REVENUE BY 4 CATEGORIES QoQ + YoY

| Product Categories | Q2 2020 Revenue | % of Revenue | YoY Growth | Q2 2019 Revenue | QoQ Growth | Q1 2020 Revenue |
|---|---|---|---|---|---|---|
| Vape | $20.7 | 68.8% | -17% | $25.0 | -3% | $21.3 |
| Packaging, Papers & Supplies | $6.9 | 23.0% | 18% | $5.9 | -4% | $7.2 |
| Energy & Natural Products | $2.3 | 7.5% | -44% | $4.0 | -28% | $3.1 |
| Services** | $0.2 | 0.8% | -22% | $0.3 | -93% | $3.3 |
| **TOTAL REVENUES** | **$30.1** | **100.0%** | **-14%** | **$35.2** | **-14%** | **$35.0** |

* Amounts in millions. Total amounts may not add up due to rounding
** Services revenue includes sales from hemp trading, retail services, and the Hybrid Creative
NM = Not Meaningful

# SKU CROSS-SELL PROGRESSION (TTM)

| Customer Value | # of Customers | Avg Revenue | Avg # of SKUs | Change from Q1 (TTM) (Customers) | Change from Q1 (TTM) (SKUs) |
|---|---|---|---|---|---|
| $10 – 49K | 550 | $22,160 | 12 | -29 | -1 |
| $50 – 99K | 117 | $69,763 | 19 | -1 | -2 |
| $100 – 249K | 85 | $158,749 | 25 | -6 | -3 |
| $250 – 499K | 36 | $345,847 | 40 | -3 | +1 |
| $500 – 999K | 33 | $699,473 | 53 | +3 | -8 |
| $1,000K+ | 19 | $4,109,180 | 84 | +0 | +3 |

LEGACY ↕ CORE

| Customer Size | FY 2016 | FY 2017 | FY 2018 | FY 2019 | TTM |
|---|---|---|---|---|---|
| $50-99k | 6 | 29 | 88 | 126 | 117 |
| $100 - $249k | 5 | 13 | 51 | 89 | 85 |
| $250 - $499k | 2 | 7 | 18 | 39 | 36 |
| $500 - $999k | 0 | 5 | 10 | 23 | 33 |
| $1000k+ | 0 | 0 | 4 | 19 | 19 |

LEGACY ↕ CORE

KUSHCOHOLDINGS

**Note:** KushCo considers "Core" customers to be financially stronger and more creditworthy MSOs, LPs, and leading brands that currently drive the majority of the Company's business.

# FQ2 2020 Financial Summary

# FQ2 2020 INCOME STATEMENT SNAPSHOT

| | Q2 2020 | Q2 2019 |
|---|---|---|
| **Net Revenue** | **$30.1** | **$35.2** |
| GAAP Gross Profit [Margin][1] | ($8.9) [NM] | $4.5 [13%] |
| **Non-GAAP Gross Profit [Margin] [2]** | **$6.0 [22%]** | **$7.1 [20%]** |
| Cash SG&A[3] | $13.6 | $13.4 |
| **Adjusted EBITDA[4]** | **($14.8)** | **($6.7)** |

1) Gross profit during fiscal Q2 2020 was impacted by several restructuring activities the Company implemented to execute its strategic plan of aligning more closely with its Core customers and achieving positive adjusted EBITDA. These activities led to an $11.9 million excess and obsolete inventory write-down and a $3.3 million purchase order cancellation charge, both driven by the Company's decision to discontinue nearly all of its stock SKUs in order to focus more on custom and best-selling stock inventory demanded by its Core customers.

2) Non-GAAP Gross Profit excludes the impact of certain non-recurring items. Non-GAAP Gross Profit Margin is calculated by dividing Non-GAAP Gross Profit by Non-GAAP Net Revenue [Net Revenue minus the total amount billed for Section 301 Tariffs]. Non-GAAP Net Revenue for the three months ended Feb. 29, 2020 and Feb. 28, 2019 were $27.4 million and $35.2 million, respectively.

3) Cash SG&A excludes non-cash expenses, such as bad debt, depreciation, amortization, and stock-based compensation.

4) Adjusted EBITDA in fiscal Q2 2020 includes $9.1 million in bad debt expense, which was substantially higher than the same period a year ago due to the worsening credit conditions in California which have impacted the Company's ability to collect from customers in this market. The Company considers this higher-than-usual expense to be primarily one-time in nature.

Amounts in millions. NM = Not Meaningful

# FQ2 2020 BALANCE SHEET SNAPSHOT

| | Feb. 29, 2020 | Aug. 31, 2019 |
|---|---|---|
| **Accounts Receivable, Net[1]** | **$16.9** | **$26.0** |
| Inventory, Net[2] | $26.4 | $43.8 |
| **Cash** | **$11.4** | **$3.9** |

1) The decrease in Accounts Receivable, net was driven by a significant increase in the Company's allowance for doubtful accounts. This increase was driven primarily by the worsening credit conditions in California, which have impacted the Company's ability to collect, in part or in full, amounts owed by customers in this market.

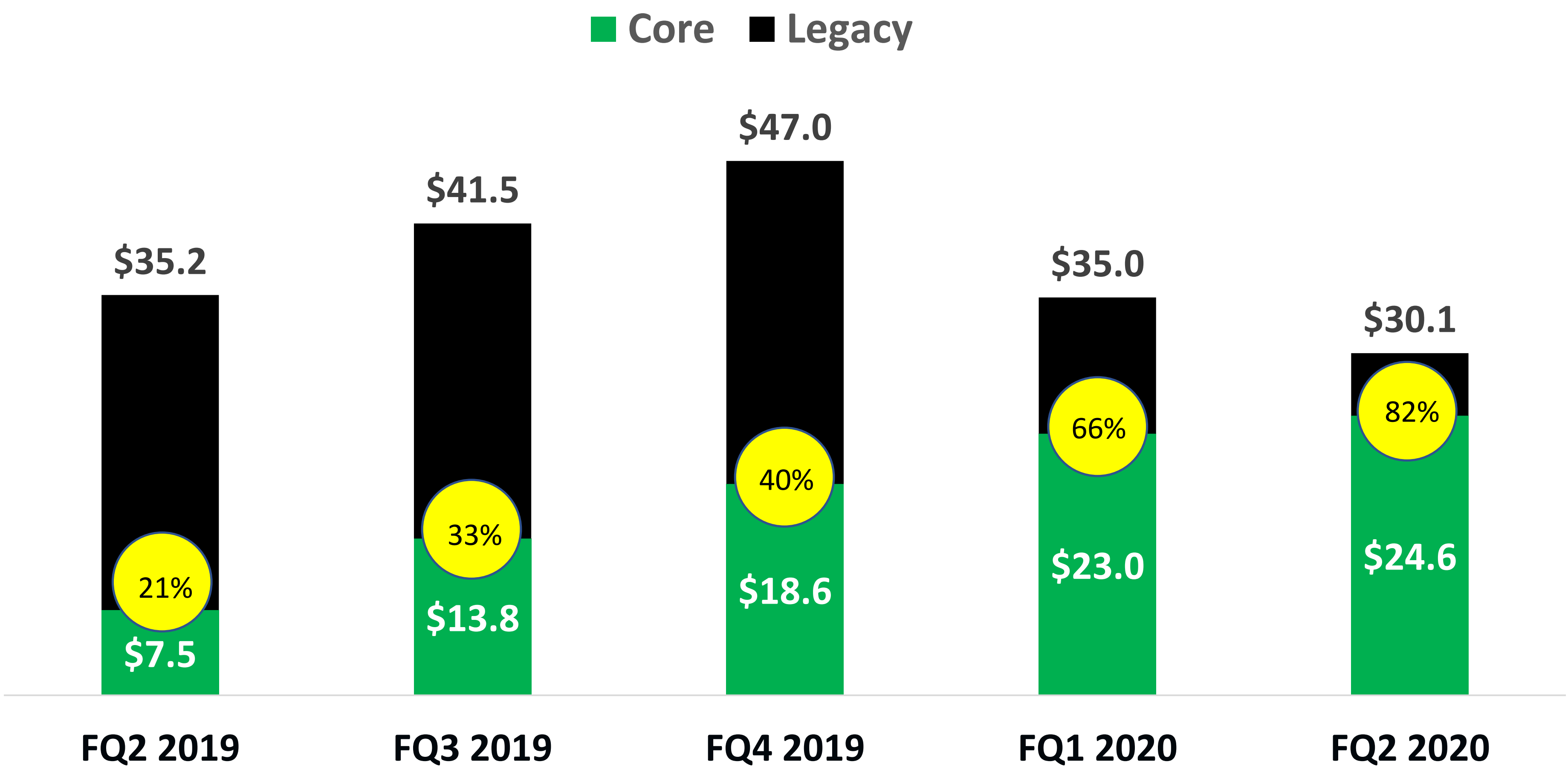
2) Given the Company's enhanced focus on the MSOs, LPs, and leading brands, who largely purchase custom inventory versus stock items, the Company has made the decision to discontinue nearly all of its stock (i.e. non-custom) items with the exception of its best-selling stock-keeping units (SKUs). As a result, during the second quarter of its fiscal 2020, the Company recognized an inventory write-down of approximately $11.9 million and a $3.3 million purchase order cancellation charge.

Amounts in millions.

# New Strategic Plan to Accelerate Path to Positive Adj. EBITDA

KUSHCOHOLDINGS™

# REVENUE BY CUSTOMER GROUP




KUSHCOHOLDINGS™

**Note:** Core customers are represented by the Company's top 100 MSO, LP, and leading brand customers as of the most recent quarter. The figures in yellow dots represent the percentage of the quarter's total revenue that is represented by the Core customers.

Revenue in millions.

# NEW STRATEGIC PLAN

✓ **Going Deeper with MSOs, LPs, and Leading Brands**

- 80%+ of business today driven by this more stable, predictable, creditworthy and financially stronger customer group
- Strategic shift should result in better forecast of demand, reduced inventory & warehouse space, improved collections & cash flow, and upside from expansion & consolidation activity

✓ **Implementing a Profitable, More Efficient, and Automated Approach With Legacy Customers**

- Servicing these customers in more cost-effective ways, including cash-only transactions, stock SKUs, and 24/7 customer service support line

✓ **Reductions in Force to Better Align Workforce with New Strategy**

- New strategy requires less dedicated sales reps and other related headcount to service fewer overall customers
- 50% overall headcount reduction since Sept. 2019, generating approximately $12 million in annual cash compensation savings

✓ **Warehouse Optimization and Reduction of Other Operating Expenses**

- In process of consolidating warehouses, while significantly reducing 3rd-party consulting costs and other expenses

# GETTING TO POSITIVE ADJUSTED EBITDA

**Revenue**

| Cash SG&A | Post-Restructuring 35 | Post-Restructuring 40 | Post-Restructuring 45 | Pre-Restructuring 55 | Pre-Restructuring 65 | Pre-Restructuring 75 |
|---|---|---|---|---|---|---|
| **7.5** | $ (0.2) | $ 0.9 | $ 2.0 | $ 4.1 | $ 6.2 | $ 8.3 |
| **8.5** | $ (1.2) | $ (0.1) | $ 0.9 | $ 3.1 | $ 5.2 | $ 7.3 |
| **9.5** | $ (2.2) | $ (1.1) | $ (0.1) | $ 2.1 | $ 4.2 | $ 6.3 |
| **11.5** | $ (4.2) | $ (3.1) | $ (2.1) | $ 0.0 | $ 2.2 | $ 4.3 |
| **13.5** | $ (6.2) | $ (5.1) | $ (4.1) | $ (2.0) | $ 0.2 | $ 2.3 |
| **15.5** | $ (8.2) | $ (7.1) | $ (6.1) | $ (4.0) | $ (1.9) | $ 0.3 |

***Significantly lower revenue levels needed to achieve positive adjusted EBITDA,***
*following comprehensive restructuring activities*

**Note:** The figures above represent quarterly levels. The graph assumes the Company maintains a 21% gross margin.

Amounts in millions.

# THANK YOU


**Investor Relations Contact:**

**Najim Mostamand, CFA**
Director of Investor Relations
714-539-7653
ir@kushco.com


# Appendix

# NON-GAAP FINANCIAL MEASURES

| | Three Months Ended Feb. 29, 2020 | Three Months Ended Feb. 28, 2019 |
|---|---|---|
| Net Revenue | $ 30,143 | $ 35,176 |
| China tariff surcharge | (2,705) | - |
| **Non-GAAP Net Revenue** | **27,438** | **35,176** |
| GAAP Gross Profit | $ (8,908) | $ 4,522 |
| GAAP Gross Profit % | (29.6%) | 12.9% |
| Adjusted for non-recurring air freight costs | - | 255 |
| Adjusted for non-recurring temporary direct labor costs | - | 877 |
| Restructuring – excess and obsolete inventory | 11,879 | - |
| Purchase order cancellation charges | 3,327 | - |
| Adjusted for China tariff impact, net | (330) | 1,397 |
| **Non-GAAP Gross Profit** | **$ 5,968** | **$ 7,051** |
| Non-GAAP Gross Profit %* | 21.7% | 20.0% |
| **GAAP Net Loss** | **$ (44,375)** | **$ (8,915)** |
| Adjusted for non-recurring air freight costs | - | 255 |
| Adjusted for non-recurring temporary direct labor costs | - | 877 |
| Adjusted for China tariff impact | (330) | 1,397 |
| Non-recurring litigation and consulting costs | 1,970 | - |
| Change in fair value of warrant liability | (1,391) | (1,271) |
| Change in fair value of equity investment | 696 | 1,128 |
| Change in fair value of contingent consideration | - | (5,602) |
| Restructuring costs | 7,301 | - |
| Severance costs | - | - |
| Loss (gain) on disposition of assets | - | - |
| Stock-based compensation | 3,427 | 4,362 |
| Restructuring – excess and obsolete inventory | 11,879 | - |
| Purchase order cancellation charges | 3,327 | - |
| **Non-GAAP Net Loss** | **$ (17,496)** | **$ (7,769)** |
| Non-GAAP Net Loss per basic and diluted share | $ (0.16) | $ (0.09) |
| Basic Weighted Average Shares Outstanding | 110,008 | 86,772 |
| Diluted Weighted Average Shares Outstanding | 110,008 | 87,066 |
| **Non-GAAP Net Loss** | **$ (17,496)** | **$ (7,769)** |
| Depreciation and amortization expense | 1,070 | 548 |
| Interest expense | 1,619 | 491 |
| **Adjusted EBITDA** | **$ (14,807)** | **$ (6,730)** |

*Non-GAAP Gross Profit % is calculated by dividing Non-GAAP Gross Profit by Non-GAAP Net Revenue [Net Revenue minus the total amount billed for Section 301 Tariffs]. Non-GAAP Net Revenue for the three months ended Feb. 29, 2020 and Feb. 28, 2019 were $27.4 million and $35.2 million, respectively.

KUSHCOHOLDINGS™