

CEA Industries Inc. NasdaqCM:VAPE

M&A Call

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Call Participants

EXECUTIVES

Anthony K. McDonald
*Chairman of the Board, President &
CEO*

Jordan Vedoya

ATTENDEES

Sean Mansouri
Elevate Ir

Presentation

Operator

Good afternoon, ladies and gentlemen, and welcome to CEA Industries Business Update Conference Call. Joining us today are the company's Chairman and CEO, Tony McDonald; and Fat Panda's Co-Founder and President, Jordan Vedoya.

[Operator Instructions] Before we begin, please be advised that this call may contain statements of a forward-looking nature relating to future events. These forward-looking statements are based on what we believe are reasonable assumptions, which ultimately could prove to be inaccurate and are subject to the inherent uncertainties in predicting future results and conditions. These statements reflect CEA Industries' current beliefs, and a number of important factors could cause actual results to differ materially from those expressed in this call, including the risk factors set forth in the company's Form 10-K, which was filed with the SEC. Please refer to their SEC filings for a more detailed discussion of the risks and uncertainties associated with their business.

The forward-looking statements that the company has made are intended to be within the meaning of forward-looking statements in Section 27A of the Securities Act of 1993 as amended. Also, please note that the company issued a press release announcing its new investor presentation earlier today. The presentation can be found on the Investor Relations section of the company's website at www.ceaindustries.com.

It is now my pleasure to turn the floor over to Mr. McDonald, Chairman and CEO of CEA Industries. Sir, the floor is yours.

Anthony K. McDonald
Chairman of the Board, President & CEO

Thank you, and good afternoon, everyone. We are pleased to join you today for the first time since closing our acquisition of Fat Panda. Before diving into our prepared remarks, I'd like to introduce the Co-Founder and President of Fat Panda, Jordan Vedoya. For background, Jordan co-founded Fat Panda in 2013 and has been leading the company since that time. Jordan led Fat Panda's expansion to over 33 retail locations, generating CAD 38.5 million in revenue for its fiscal year ended April 2024. Under his leadership, Fat Panda more than doubled revenue and adjusted EBITDA from 2021 to 2024, and Jordan has overseen key acquisitions, established franchise agreements and remains an influential advocate in the vape industry. He is also active with the Canadian Vaping Association, which represents and advocates for more than 200 businesses nationwide.

I'll now pass it over to Jordan to share a few words on the inception of Fat Panda. Jordan, please go ahead.

Jordan Vedoya

Thank you, Tony, and good afternoon, everyone. I appreciate the opportunity to speak with you today to share the origins of Fat Panda and how that journey has brought us to the exciting new chapter with CEA Industries.

Back in 2013, my co-founders and I were operating foster homes for at-risk youth. It was deeply meaningful work, and it made us reflect seriously on the example we were setting, especially as lifelong smokers. We were trying to encourage healthy positive habits in young people. That contradiction sparked a personal and professional shift. After exploring various smoking cessation tools without success, we discovered a small but passionate vaping community online. The products weren't widely available in Canada at the time, so I drove across the border to purchase our first kits. What struck me the most wasn't just the product, it was the fact that for the first time in over a decade, I didn't feel the need or the urge to smoke a cigarette. That moment changed everything.

After seeing how quickly vaping helped us quit smoking, we recognized a broader opportunity. We wanted to help others transition away from traditional tobacco and believed we could do it in a way that combined product integrity, education and accessibility. So with CAD 12,000 in savings, we opened our first store here in Winnipeg. That initial location grossed CAD 2 million in its first year, a clear validation that we were addressing a real market need. Since then, Fat Panda has grown to 33 locations across Canada. We've also built a proprietary product portfolio and developed a vertically integrated business model that gives us strong operational control and consistent customer experience.

Of course, our journey hasn't been without challenges, but we've built a team, a platform and a set of processes that we believe can scale and scale profitably. Joining CEA represents a turning point with institutional capital, experienced leadership and public company infrastructure behind us, we're better positioned than ever to pursue a full scope of our vision. I'm excited for what lies ahead and proud of what our team has built over the past decade.

Thank you for your time. And with that, I'll hand it back to Tony.

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Anthony K. McDonald
Chairman of the Board, President & CEO

Thank you, Jordan. Our acquisition of Fat Panda marks a significant milestone for CEA as we expand into the dynamic high-growth vape industry, which is benefiting from strong consumer demand. Fat Panda brings an established brand, experienced leadership and a highly profitable operating model that can be rapidly scaled with our access to capital and strategic support. Importantly, this acquisition exemplifies our commitment to identifying accretive opportunities that can unlock meaningful long-term value for our shareholders.

I'd like to walk you through what this acquisition means for our company and why we believe we're well positioned for the future. CEA Industries now operates 2 distinct verticals, which include Fat Panda, a high-margin consumer platform in the regulated vape industry; and Surna, a facility design and equipment business for indoor and controlled environment agriculture facilities. While our strategic focus today is on accelerating consumer platform growth, we continue to evaluate the optimal path forward for Surna with capital discipline and shareholder value creation at the forefront.

With 33 corporate-owned retail stores across Manitoba, Ontario and Saskatchewan, Fat Panda commands over 50% market share in the region. Its retail footprint is complemented by a comprehensive portfolio of products, including its own line of premium e-liquids manufactured in-house, along with a robust portfolio of trademarks and intellectual property. As one of Central Canada's first dedicated vaping product retailers, Fat Panda focused exclusively on one thing, delivering high-quality vape products. This singular focus enabled them to build out a best-in-class catalog of hundreds of devices in a wide array of flavors, carefully curated to meet the needs of new users, seasoned customers and everyone in between. Their customer-first mindset is a core part of the company's DNA, considering factors like ergonomics, nicotine history and device familiarity in how they stock and serve.

Turning to manufacturing. For over a decade, Fat Panda has developed proprietary formulations for their e-liquids and invested heavily in in-house production. These in-house products are exclusive to Fat Panda stores and select wholesale partners in markets where they don't have a retail presence. This has created stickiness with customers, strong brand equity and meaningful margin benefits. Their vertical integration extends into warehousing and logistics as well. Fat Panda's Winnipeg headquarters serves as the central distribution hub, handling weekly shipments to every store while supporting their e-commerce platform.

Fat Panda's omni-channel presence is another major strength. In addition to in-store traffic, our national e-commerce platform continues to grow its loyal high repeat customer base. The operation is lean, run by a single employee and fully integrated into their centralized logistics system, creating operating leverage, while ensuring a consistent brand experience.

Let me take a step back and spend a moment on the category. Canada represents one of the most attractive global markets for nicotine vapor with strong per capita spending, leading penetration levels and accelerating category adoption. In 2023, Canada led the world in per capita vape spending and posted 13% year-over-year vapor growth, outpacing the global average of 8%. The market continues to exhibit strong fundamentals, high spend per user, a premium product mix and one of the highest vape penetration rates among developed markets, all of which point to a durable and highly valuable consumer base. These dynamics support a robust and expanding total addressable market for scaled operators like Fat Panda.

On the regulatory front, Canada provides a supportive environment. The Tobacco and Vaping Products Act sets high quality -- sorry, high standards for product quality, labeling, marketing and age restrictions. Fat Panda operates fully within these guardrails, turning what could be a headwind into a competitive moat. In fact, their alignment with regulation and ability to consistently meet these requirements is one of the reasons they've sustained such strong growth while others in the market have struggled.

Let's touch on competition. Being the first mover gave Fat Panda a solid head start. They established their presence in a largely empty market back in 2013. And by the time competitors entered, the Fat Panda brand had already become synonymous with vaping in the region. In many cases, the only real competition to a Fat Panda store was the next Fat Panda store down the street. That said, they remain vigilant. Management constantly monitors 4 regional competitors with notable share and remains opportunistic about exploring partnerships, acquisitions or retail innovation where it makes sense.

From a growth standpoint, we see multiple levers. First, there's clear white space to drive organic growth through retail expansion in underserved markets. Second, we are actively pursuing M&A opportunities to expand our geographic footprint and customer base. And third, we're optimizing the current store network by reinvesting in high-performing formats and improving operational efficiency across the board. The financials reflect this discipline. Based on preliminary and unaudited financials for fiscal year 2024, Fat Panda generated CAD 38.5 million in revenue, \$8 million in adjusted EBITDA and 39% gross margins. Revenue grew 14% year-over-year in fiscal 2024. Operating expenses reduced 11% and net income increased by 126%.

These are the kinds of trends we want to see, not just growth, but profitable growth driven by sound fundamentals. We're incredibly excited about the synergies between Fat Panda and CEA Industries. Fat Panda has lacked the capital and resources to fully execute their plans and deliver on their growth objectives. And CEA brings the capital access, leadership experience and public company platform to help Fat Panda fully execute its growth objectives and deliver long-term shareholder value.

We're also thrilled to welcome Jordan Vedoya and his entire experienced team to the CEA family. Jordan will continue to lead Fat Panda through this next phase of growth and his experience scaling Fat Panda over the last decade will be invaluable as we take this business to the next level.

In short, this is exactly the kind of acquisition that we set out to find, one that aligns with our strategy, enhances our financial profile and unlocks new pathways to growth. We look forward to providing updates as we execute on our plan and deliver unmatched value to our customers, partners and shareholders alike. This concludes our prepared remarks. We will now open it up for questions from those participating in the call.

Question and Answer

Operator

Thank you, Tony, Jordan and Sean. [Operator Instructions] Before we begin live Q&A, I would like to pass it over to Sean Mansouri, Investor Relations at CEA with some pre-submitted questions. Sean, over to you.

Sean Mansouri

Elevate Ir

Thank you, Tony and Jordan, and thank you, everyone, for participating in the conference call. As we gather the queue for live questions, we'd first like to address a few of the questions that have come in via e-mail over the past couple of days. Starting off, how does CEA plan to fund Fat Panda's growth going forward?

Anthony K. McDonald

Chairman of the Board, President & CEO

I'll take that, Sean. This is Tony. Growth will be funded through internal cash flow, eventual refinancing of our interim loan and the pursuit of a new credit facility. We would also be opportunistic with equity via an ATM or at-the-market offering, but only if the cost of capital is right. We're very sensitive to any dilution in our equity.

Sean Mansouri

Elevate Ir

Got it. And another one that came in, what is the long-term strategy to expand Fat Panda's market leadership?

Anthony K. McDonald

Chairman of the Board, President & CEO

Jordan, do you want to take that one?

Jordan Vedoya

Absolutely. Sure. With over 50% market share in Central Canada, Fat Panda provides a strong foundation for expansion into underpenetrated provinces. We can further drive scale through new store openings, franchise opportunities and strategic acquisitions with your help.

Sean Mansouri

Elevate Ir

Got it. And the last one here that was submitted via e-mail. What synergies are expected from the acquisition?

Anthony K. McDonald

Chairman of the Board, President & CEO

Yes, I'll take that, Sean. Well, we think our combined platform enables efficiencies in procurement, logistics and shared services. And of course, we will also be able to support Fat Panda's growth through our centralized capital planning, digital infrastructure and operational experience.

Sean Mansouri

Elevate Ir

Got it. Operator, that wraps up the e-mailed Q&A, if you want to turn it back to live Q&A.

Operator

[Operator Instructions] Okay. And this does conclude today's conference. An audio replay of this call will be available on ceaindustries.com/investors beginning on June 11 at 5:30 p.m. Eastern Time and will remain available until June 25, 2025. You may now disconnect your lines at this time, and have a wonderful day. Thank you for your participation.

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