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INNER SPIRIT HOLDINGS SURPASSES \$100 MILLION IN SYSTEM-WIDE SALES IN 2020 AND KEEPS GROWING



Darren Bondar
 Founder, President & CEO
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"We started in as a retailer, and we have a lot of experience with retail, but our premise from day one was to focus on building the Spiritleaf brand in the cannabis space. What that means is we wanted to engage and grow with our customers, and we wanted to be a publicly traded company so customers could also own shares in our company and support where they buy their cannabis." Darren Bondar

CEOCFO: *Mr. Bondar, recently you put out a press release announcing that you had surpassed \$100 million system-wide retail sales milestone in 2020 through the Spiritleaf cannabis retail store network. That is quite an accomplishment! How do you account for that?*

Mr. Bondar: We are always excited to share our business performance with all of our stakeholders and shareholders. 2020 was certainly a pivotal year for Spiritleaf and Inner Spirit Holdings. In a relative new industry and in the midst of a pandemic, we grew from some 40 stores to start 2020 to having just opened our 70th store. That growth included entering the Atlantic Canada market to make us truly a coast-to-coast retailer with operations in B.C., Alberta, Saskatchewan, Ontario, and Newfoundland and Labrador. The past year has been marked by store openings, significant same-store growth, and Cannabis 2.0 products being introduced to the market. Those new products included edibles, beverages and vape products which brought in many new customers. We're also attracting a lot of legacy customers to shop with us too, so it's really a perfect storm for our company as we're able to continue to grow and achieve major milestones.

CEOCFO: *How many customers did you serve in your total network of stores in 2020? Can we expect the same for 2021 and why? What gives you confidence in your success?*

Mr. Bondar: Expanding the Spiritleaf store network across the country played a major role in our ability to serve more customers. We served approximately 2.3 million customers in 2020. That was a lot of people coming in and out of our stores and engaging with the Spiritleaf brand. I'm quite confident that number will continue to increase this year as our store count grows and there is further adoption by customers of the legal cannabis market.

CEOCFO: *You have recent store openings in Edmonton, Hamilton and Toronto. That is an aggressive approach to*

growing your business. What goes into selecting a location and the timing for opening a new location?

Mr. Bondar: We are very specific about our locations and where we plant the Spiritleaf flag. With cannabis store locations and with how long it takes to get through the licensing process, we typically secure them about six to twelve months in advance. We look at what competition there is locally, the co-tenancies that can help drive traffic to the Spiritleaf stores, and then we apply our disciplined thinking to making real estate decisions. As an example, our recent store opening in Edmonton is a central location in the busiest traffic thoroughfare in the city. Both sides of the street have great co-tenancies and we think this store will do a nice job of complementing our existing store mix in the city. We are quite methodical and strategic in how we approach our real estate. Our growth has been organic so it's been us playing a real smart real estate game and focusing on making each and every Spiritleaf store successful.

CEOCFO: You opened a new Spiritleaf store about every 14 days in 2020. Do you plan to keep up that pace in 2021?

Mr. Bondar: Yes, and I think it is actually going to be a little bit accelerated this year. We intend to have over a hundred stores opened by the end of 2021 and if we're lucky we will hit it earlier than that. We have a very busy three to six months ahead of us with a lot of stores already built or in the process of being finalized. With the country's largest market of Ontario accelerating its weekly license issue from 40 to 80, we expect to front-load our store openings for 2021. We have an incredibly talented team that does the work to open a location, hire and train talented staff, and optimize operations. I'm really looking forward to the business we'll do in 2021 with our existing network and with the projected growth in stores.

CEOCFO: What do you look for in franchise partners, strategic partners and employees that will enable you to continue with this growth model?

Mr. Bondar: We want people who share our values and share our passion for cannabis, and who understand the importance of what it means for Spiritleaf to be a truly great retail brand. This includes the retail floor workers who are engaging with our customers every day, our franchise partners who are investing their own capital to open stores and serve their local communities, and our support centre employees who ensure we operate effectively and always align our actions with the Spiritleaf brand.

We want our shareholders and strategic partners to also engage with our values. In addition to selling cannabis, we want to spread some peace, love and harmony across a world which seems to need it more than ever before.

CEOCFO: What is the mix of franchisees and corporate owned store and do you see that changing in 2021?

Mr. Bondar: We are very focused on a strong franchise model that is then supported by a strategic number of corporate-owned stores. Right now, we have 57 franchises and 13 corporate stores. We have plans and have secured locations for 80-plus franchises and 20-plus corporate

stores by the end of 2021. We will continue to open up franchise stores as we find the right store locations and real estate. Our corporate stores will provide that backstop and ensure we're operating in key locations and remain totally aligned with our franchise partners.

CEOCFO: *We last spoke in January 2020, just before the COVID-19 pandemic came into our lives. How were you able to guide Inner Spirit Holdings through this troubled time? Would you also tell us about the safety precautions you took for your employees and customers to ensure safety and customer confidence?*

Mr. Bondar: The COVID-19 pandemic wreaked havoc across the world including of course in Canada. So many businesses have been impacted and, in some cases, even closed. We in the cannabis retail sector have been very fortunate and I think there are good reasons that cannabis has been deemed an essential service during these challenging times. We have been very respectful of the situation and immediately put numerous protocols in place at our stores to keep our employees and customers safe, including everything from hand sanitizer and physical distancing stickers to mandatory mask-wearing. As a business, we already had a strong digital infrastructure and presence. So for us it's been seamless for us to flip the switch to enable online ordering, curbside pickup and even delivery where that was possible. We've learned so much in recent months about operating our business in difficult times, and I have to say our people have really risen to the challenge and done everything to keep each other and our customers safe.

CEOCFO: *Spiritleaf gives out annual awards to its stores. How did the idea of doing this come about, what is it based on and does it help to increase productivity?*

Mr. Bondar: The Spiritleaf awards program for the last few years has been a big hit within our stores and not only did we issue them to our employees and franchise partners but also to our suppliers who exhibited excellence whether it is in sales performance or service to our stores. The program reinforces a community feeling amongst Spiritleaf staff and amongst our customers who vote for their favourite stores and product. This has been something creative and fun that we have done for the last few years, and I anticipate we'll continue to do it for many years to come.

CEOCFO: *Spiritleaf was a featured winner of the Readers Choice award by the Calgary Herald. What does that mean for you?*

Mr. Bondar: Calgary being my hometown it was certainly nice to be recognized by the citizens as their favourite cannabis shop. We are very excited as a company and feel that we are providing great service. We are there to service the community and we're investing back into our community spending millions of dollars in store build-outs, supporting local entrepreneurs and providing employment opportunities.

It means a lot to get that recognition in Calgary and we've received many accolades across the country from other cities as well. I sense the Spiritleaf brand is resonating with our customers and we are their fans as much as they are our fans so it feels like we are building a real community.

CEOCFO: *You have celebrated the 2nd anniversary since the legalization of cannabis in Canada. What kind of growth have we seen in consumers over that time and do you see this continuing?*

Mr. Bondar: We are only two years into this new industry so there is still a lot of growth and upside. You have maybe 20% to 25% adoption by consumers for cannabis, whereas with alcohol you are up to 80%. In mature markets like Colorado, you have seen consecutive years of double-digit growth, so I still think there is a lot of same-store growth opportunity as more and more consumers become comfortable and leave the legacy market and shop in the legal market. I just think we are going to continue to see growth in cannabis retail and specifically in Spiritleaf in 2021 and for years to come.

CEOCFO: *Have there been any changes at your stores that we should be aware of?*

Mr. Bondar: Our stores have stayed relatively the same, although we have made some changes and enhancements to deal with the pandemic restrictions. What I have also seen is a lot more product selection in the stores, now there is over a thousand products available in the major Canadian market. We have also launched our Spiritleaf Collective customer benefits program so that every time a customer uses one of our stores they can be rewarded for that loyalty. We already have more than 185,000 customers in the program so these are loyal shoppers who are returning regularly and are becoming valued members of the Spiritleaf community.

CEOCFO: *With products that you put in your retail stores, what goes into making that decision? Is private label on your radar?*

Mr. Bondar: A lot goes into our selection and the one thing I love about the cannabis business is the number of inventory turns we get in a year. We are talking as many as 26 turns a year, which is truly incredible. Also, you have to be a good buyer and we have a very solid buying team that analyzes data but that also extends right down to the store level. Our franchise owners and employees know exactly what our customers are looking for because they are engaging with them on a daily basis.

The initial recommendations for buying for our stores come from our employees and our store managers and that has been supplemented with data. Each franchise owner can buy directly for their store and they have the benefit of having visibility to 70 other stores to realize what the top sellers are in the marketplace to ensure they have those in stock, and be able to customize the mix for their local stores. It is just working incredibly and as more product comes out, I think our customers are going to have more selection. Private label is certainly on the radar with us as our customers trust our cannabis knowledge and expertise and we are now developing a program tailored just for them.

CEOCFO: *Final thoughts? Why is Inner Spirit Holdings the leader of the pack in the cannabis industry?*

Mr. Bondar: We started in as a retailer, and we have a lot of experience with retail, but our premise from day one was to focus on building the Spiritleaf brand in the cannabis space. What that means is we wanted to engage and grow with our customers, and we wanted to be a publicly traded company so customers could also own shares in our

company and support where they buy their cannabis. We wanted it to be an entrepreneurial company where local business owners have the opportunity to get into the cannabis business which had traditionally been tailored to large operators. We wanted it to be a place where our franchise partners and employees could express themselves and share their love, passion and knowledge of cannabis with customers.