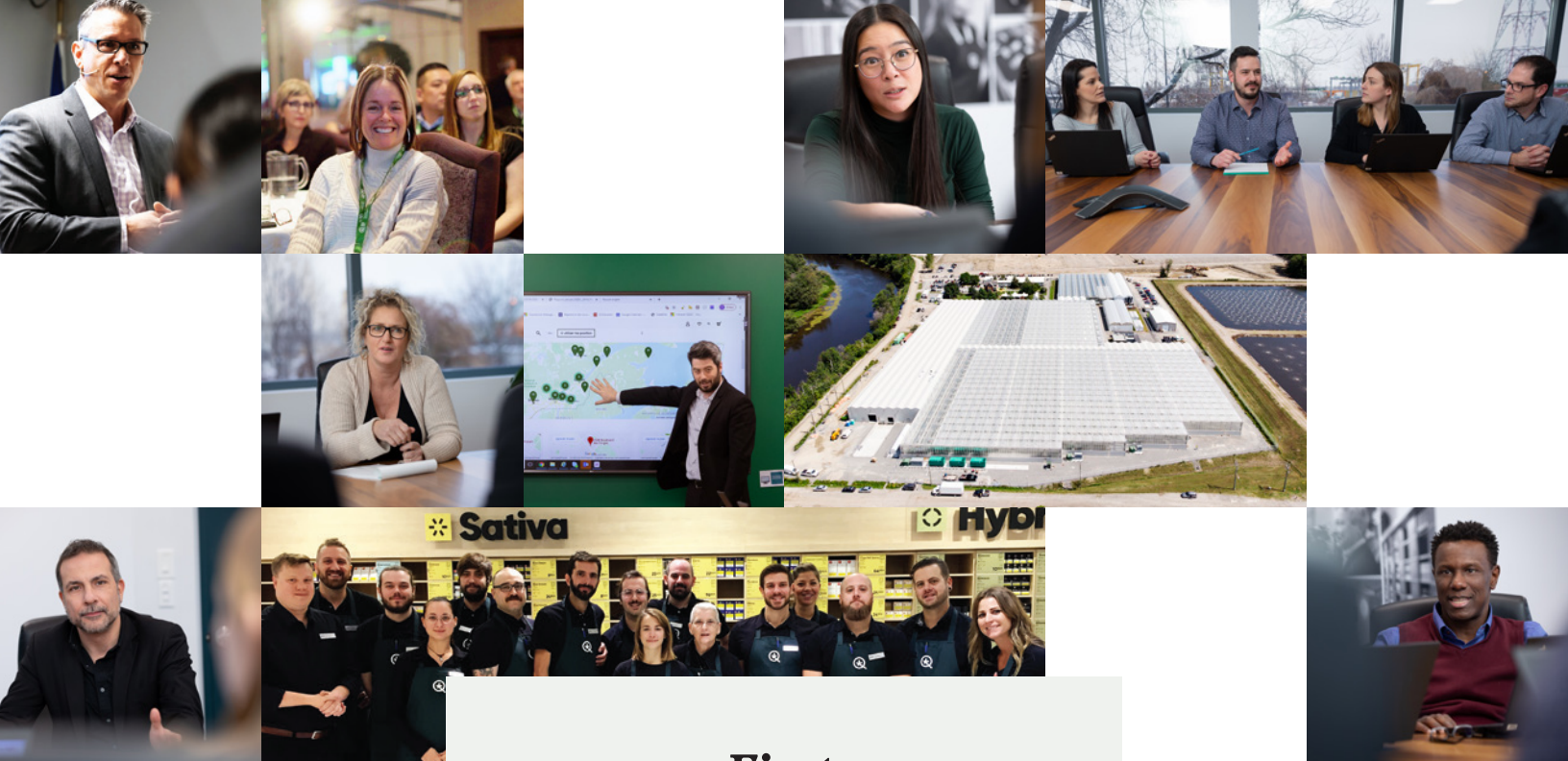




Strategic Plan 2021-2023

For
responsible
consumption





First Strategic Plan of the Société québécoise du cannabis



Welcome to the SQDC

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Message of the Chair of the Board of Directors



The company's priority remains Quebecers' health and safety.



The Société québécoise du cannabis (SQDC) was created in 2018 to be the sole distributor and retailer of recreational cannabis in Quebec. Granted by the Quebec government, its mandate came with a mission: to do business in ways that protect the health of Quebec customers—by informing them of the risks associated with cannabis use, educating them about the effects and ensuring that people not of legal age are prevented from buying cannabis in SQDC stores and on its website. The SQDC's mandate is thus to sell products but not to promote them or encourage their use, while also making sure its retail outlets are appealing enough to attract and retain customers from the black market.

The SQDC takes this responsibility seriously. In a single year, it developed an efficient operating structure and a secure, user-friendly transactional website. It offers high-quality products and exemplary advice and support. The foundation it has laid was and is solid. And it is on this foundation, with the prospect of earning a profit for Quebec, that the SQDC has built its first strategic plan.

The SQDC's priority remains Quebecers' health and safety. The company will therefore continue to expand its store network and product offer responsibly. It will also encourage partners to develop an ethical industry aligned with the principles of sustainable development.

The members of the Board of Directors will diligently support the Management Committee in this great endeavour. They will see that, besides efficiently carrying out its mission, the SQDC and its partners construct an industry always focused on health protection. The directors will thus ensure that the company establishes and requires adherence to the highest standards, from production to sales, and becomes the benchmark for the responsible cannabis industry.

Johanne Brunet
Chair of the Board of Directors

Message of the President and Chief Executive Officer



Built on the values of ethics, responsibility and health protection, our business model is both unique and a source of pride.



on the pillars of our customer promise and emphasizes product availability, store accessibility, customer support and fair pricing.

We intend to grow the SQDC responsibly by promoting our contribution to society, focusing on health protection and acting as an industry leader with the goal of developing an ethical, responsible ecosystem and, of course, minimizing our environmental footprint. We are also convinced that keeping our maintaining the efficiency and simplicity of our business model is part of this responsibility. Indeed, since day one at the SQDC, our ambition has been to act in an exemplary manner, as befits a government corporation, by minimizing the administrative side of our business and maximizing the service side.

Built on the values of ethics, responsibility and health protection, our business model is both unique and a source of pride. Quebecers and observers around the globe are watching us, and we are confident of making history with a model that is advantageous for the community. The legal sale of recreational cannabis is well under way in Quebec and Canada and the vectors for ensuring its responsible development remain to be defined. It is with great humility and an unwavering concern for our mission that we intend to carry out the mandate we have been given.

Jean-François Bergeron
President and Chief Executive Officer

Our Mission

Sell cannabis products

Through our store network and transactional website



With a focus on health protection

Through our advisory and support service, quality assurance and prevention program funding



In order to attract and retain users from the black market

Through our product offer, service, accessibility and competitive prices

Without encouraging use

Our Vision

Be the benchmark for the responsible cannabis industry

- By making ethics and health protection an integral part of our company and encouraging our partners to do the same
- By establishing the highest standards in the industry and ensuring compliance from production to sale
- By becoming the model of an efficient, flexible and responsible government corporation

Our Values

Responsibility

Responsibility forms the basis of who we are as a company. At all times, we place customers' health at the centre of our actions. We advise and support them in order to reduce the risks related to use of our products.

We are also committed to efficiently and effectively managing our business so our profits can benefit all Quebecers, in particular by funding cannabis research and prevention.

We have adopted the principles of sustainable development to limit our impact on the community and grow our value for Quebec.

Simplicity

Because we care deeply about efficiency, we strive to make the right choices and solve problems at the source. Every day throughout the company, our determination to do things differently and keep our processes simple guides our decision-making.

Proximity

At the SQDC, the notion of proximity underpins those of authenticity, openness and collaboration. Whether it is between colleagues, with our partners or with our customers, we establish a relationship of trust so we can all go farther together.

Proximity is also the determination to provide high-quality, accessible service to Quebecers in every region of Quebec.

Excelling

Every day, we work to build the SQDC by being bold and courageous. Our passion for our work and our collective desire to succeed drive us to constantly innovate, encourage initiative and always give our all.

Overview of Our Business

(March 2020)

674
employees

642
in stores

32
at head office

41
stores

13
active
suppliers

155
products
in stores

185
products
online

7.5 million^{*}
transactions

7.2 million
in stores

320,000
on our website

163,000
customer accounts
on our website

6.5 million^{*}
visits
on our website

45^{*}
metric tons
of cannabis sold

* In the last 12 months



Background and Challenges



The issue of health protection is one of our priorities.

While the cannabis black market is a relatively new phenomenon worldwide, the cannabis trade is not. In Quebec, the legalization of the product and creation of a legal industry has disrupted society on several levels: our morals and beliefs as well as, for some, our buying habits. It is through this sea of uncertain social acceptability, assertive regulation and a budding industry that the SQDC must chart its course. To prepare ourselves for the challenges we will encounter along the way, we carried out a broad analysis of our ecosystem and defined the main factors that could have an impact on attainment of our objectives.

1 Public health and safety

The SQDC distributes and sells cannabis with a focus on health protection. This mostly takes the form of selling quality-controlled cannabis products in an environment conducive to educating users about the product and providing customer assistance and support. In cooperation with the Ministère de la Santé et des Services sociaux and attentive to public health authorities, we also focus on preventing cannabis abuse and make a point of not promoting use. As the issue of health protection is a key priority, we closely track changes in Quebecers' behaviour in this area. Although, according to Statistics Canada's National Cannabis Survey¹, the legalization of recreational cannabis does not appear to have had a significant impact on public health in the months following legalization, our approach remains strongly focused on health protection. That is why all our advisors receive solid training developed in cooperation with Health and Human Services, which prepares them to guide customers toward responsible use.

1. Statistics Canada, National Cannabis Survey, 1st Quarter 2019, 2019.



2 Regulation

New cannabis products

The sale of edible cannabis products has been legal in Canada since mid-December 2019 and the SQDC has been selling a range of such products since January 2020. Quebec has opted for tighter regulation of these products and has specifically banned the sale of candies and other sweets (including chocolates) as well as topical products and concentrates for vaping. These additional controls are in keeping with our mandate not to encourage cannabis use. Whatever the development initiatives of authorized producers, new product introductions at the SQDC will always and uncompromisingly be aligned with our mission to protect health.



Packaging and labelling

The production, transportation and sale of recreational cannabis is subject to a complex legislative and regulatory framework that poses several challenges, in particular ones related to sustainable development. For example, producers must comply with all labelling and packaging regulations imposed by the Cannabis Act and by Health Canada. The goal of these very strict requirements is to avoid accidental use, deter children and young people from using cannabis products and provide consumers with enough information to make informed choices. However, they also reduce the number of lightweight packaging options available to suppliers. The SQDC is working with its suppliers to find solution paths that will reduce overpackaging while remaining compliant with the regulations in effect. These paths include integrating eco-responsible criteria into the choice of containers and packaging, reducing container size and implementing initiatives that favour container recovery.



1 million
users

150
metric tons²
of cannabis

3 Business environment

Procurement

The recreational cannabis industry is still in the early stages of its development, and several structural changes are likely in the coming years. While supply was a significant challenge across Canada in the first months following legalization, the situation has much improved. More cannabis producers are now in operation, production capacity is growing rapidly and supply is catching up to demand. If current trends continue, the SQDC could find itself in an environment where overproduction is the norm, as is now the case in the United States, where cannabis sales have been legal for several years. Although supply in excess of demand could result in lower prices, it could also weaken some producers and lead to a restructuring of the market.

Network development

The success of the company's mission—both in migrating consumers from the black market to the legal market and in guiding customers toward responsible use—is tied to the accessibility of its points of sale. Expansion of the sales network should be done in partnership with the larger community when choosing the municipalities and target zones concerned as well as with social acceptability and legal compliance in mind.

Competing with the black market

At the SQDC, we make every effort to offer products that are competitive with the black market, which remains our main competitor, even as we efficiently manage our business and maintain tight control over costs. That the government subsidize cannabis sales is out of the question.

Black market players, who also run illegal websites, flout regulations and offer prices that decrease the more one purchases. This price disparity places pressure on our profit margin since our mandate includes attracting and retaining black market customers. That said, we enjoy a significant differentiator: our supply process guarantees that SQDC customers have access to high-quality, safe cannabis products, to professional advice and support at the time of purchase and to prices that, when all is said and done, remain competitive.

Market intelligence

At the SQDC, we are building our store network and procuring cannabis products from suppliers based on estimates of Quebecers' consumption data. Taking as a starting point various studies carried out in recent years, we calculated that, when cannabis was legalized in 2018, we would be doing business in a market of one million users who could purchase some 150 metric tons² of cannabis a year. It is on this basis that we determine our gains in market share, and this volume remains the benchmark figure.

2. The volume estimates are based on a study of the Parliamentary Budget Director (Legalized Cannabis: Fiscal Considerations, https://www.pbo-dpb.gc.ca/en/blog/news/Legalized_Cannabis).



4 Influence on performance

Recruitment

With our store network set to grow further, with the minimum age for working at the SQDC now 21 and with Quebec experiencing full employment, the SQDC could face challenges in recruitment, especially when opening stores in areas outside the large metropolitan centres. Although no hiring problems have been encountered to date, we must remain vigilant and implement strategies for attracting, motivating and developing the loyalty of the employees we recruit. Examples of how we will do this include staying close to employees by providing adequate training and making sure employees are aware of the possibilities for developing and advancing in the company.

Resource sharing

At the SQDC, we are determined to remain an effective, agile and responsible company. That is why we favour a participatory management style in which each team member assumes a measure of responsibility and, when practicable, opt for shared services in order to avoid duplicating the Quebec government's existing material and human resources.

5 Social context

Social acceptability

Although the SQDC has been in existence for less than two years, the expectations regarding it are as numerous as for any other government corporation. The SQDC must be exemplary in every way, including management, ethics and accountability. It must be transparent to the public and demonstrate the relevance of its mission. A recent survey, conducted in September 2019, placed support for the legalization of cannabis at 55%. The study also indicated that 72% of respondents favour the Quebec model of cannabis being sold through a government corporation. In other words, even if Quebecers prefer that legal recreational cannabis be controlled by the government³, the SQDC still has to demonstrate the legitimacy of its mission.

(3) <https://scfp.qc.ca/wp-content/uploads/2019/09/Rapport-Cannabis-SCFP-4-septembre-2019.pptx> (in French only).



Strategic Orientations



Expand the network

Challenge

Accessibility to the legal market

	Strategy	Overall indicators	Target 2020-2021	Target 2021-2022	Target 2022-2023
1.1	Gradually achieve a geographic presence in every region of Quebec	Number of stores in operation	70	90	98
1.2	Maintain a simple and efficient business model	Ratio of net expenses to sales	13.8%	13.8%	13.8%
1.3	Create and promote a culture that is based on know-how and aligned with our values	Employees' awareness of and commitment to the SQDC's values	60%	70%	75%
1.4	Increase use of the Web channel for purchasing products	Increase in online sales	5%	5%	5%
		Online customers' overall satisfaction rate	70%	71%	72%

To combat the black market for cannabis sales in Quebec, we will expand the number of our points of sale for Quebecers age 21 and over. Out of a concern for equity, we will strive for a balanced distribution of our stores in Quebec's administrative regions. Whether it be in a store or online, Quebecers will be able to purchase high-quality, legal cannabis safely and conveniently. To limit the impact on operating expenses, we will ensure this growth is achieved responsibly and efficiently. Such an expansion of our network will mean having to hire a significant number of store employees. As selling cannabis also requires rigour and guidance, we will ensure our corporate values and responsible sales approach are understood and implemented by our employees.

The SQDC will have 41 stores in March 2020. At the end of the period covered by the Strategic Plan 2021-2023, it will have 98. While these are ambitious targets, this 133% increase in the number of stores will be accompanied by strict control of spending, enabling us to maintain our ratio of net expenses to sales at 13.8% for all three years. The success of this orientation will also be measured by employees' rate of awareness of and commitment to company values.



Competitive offer

Challenge

Competition from the black market

	Strategy	Overall indicators	Target 2020-2021	Target 2021-2022	Target 2022-2023
2.1	Ensure competitive pricing	Percentage migration from the black market ⁴	49%	66%	75%
2.2	Increase appreciation of the advisory service	Overall satisfaction of store customers	70%	71%	72%
2.3	Offer a diverse range of products	Customer satisfaction with product variety	54%	58%	62%

The black market offers competitive cannabis prices. To win market share and migrate Quebec consumers to SQDC sales outlets, we will rely on our distinctive advantages. In addition to the quality and traceability of our products and competitive pricing, we provide advice in our stores and offer a wide range of merchandise.

The targets we have set for ourselves are both daring and realistic. We intend to improve our customer satisfaction rate—in stores as well as online—one percentage point a year. This increase will be tied to a gradual increase in the service and products made available to customers. The arrival of newly legalized types of product in January 2020 and our efforts to expand our product catalogue will help accelerate the rise in satisfaction with product variety two percentage points over the course of the 2021-2023 strategic plan. We will also work to keep prices low, the better to shrink the black market without encouraging cannabis use. Migrating Quebec consumers to the legal market without increasing the number of users will be the indicator of our success.

4. The percentage migration from the black market is based on an estimate of cannabis demand in Quebec, namely 150 metric tons in the first year, 153 metric tons in the second year and 156 metric tons in the third year. These volume estimates come from a study prepared by the Parliamentary Budget Director (Legalized Cannabis: Fiscal Considerations, https://www.pbo-dpb.gc.ca/en/blog/news/Legalized_Cannabis)

3

Responsible development

Challenge

Social acceptability of the mission

	Strategy	Overall indicators	Target 2020-2021	Target 2021-2022	Target 2022-2023
3.1	Help protect health in collaboration with our stakeholders	Contribute to the fund for funding prevention, research and the fight against adverse effects related to cannabis	\$50 million	\$71 million	\$85 million
3.2	Promote the SQDC's social role to its target audiences	Media analysis measurement	63%	65%	67%
3.3	Develop and communicate the SQDC brand	Public support for the SQDC's mission	70%	72%	75%
3.4	Reduce our environmental footprint arising from product containers and packaging	Percentage of products that meet eco-responsible criteria	30%	50%	70%

Built on a strongly social mission, the SQDC must act in ways that protect Quebecers' health. We work for the public good by selling cannabis responsibly and providing advice that encourages lower-risk use. Our profits are remitted to the Quebec government for investment in research into and prevention of the ill effects of cannabis. In implementing our 2021-2023 plan, we will at all times demonstrate the SQDC's relevance as well as its efficiency and contribution to society. We will also become an initiator of sound ethical and environmental practices.

Although the SQDC does not have a financial objective set by the government, our goal is to remit profits that grow as our sales network expands though without our higher sales resulting from an increase in use beyond what is captured from the black market. Such growth will prove our success at migrating cannabis users to the legal market. This ambitious result will enable us to fulfill our mission by contributing more to the fund for funding prevention, research and the fight against adverse effects related to cannabis, all at no cost to taxpayers. The relevance of our social role will be measured by a survey of the Quebec population. The social acceptability of cannabis legalization cannot be taken for granted and achieving growth of two or three percentage points a year, as measured by the survey, will be a true challenge, especially as the SQDC cannot engage in any form of advertising. Moreover, our determination to improve the packaging of our products and influence our partners to do the same can be measured by the percentage of products that meet eco-responsible criteria.

Expected Results

The SQDC aims to steadily grow its sales and net earnings during the three years of the Strategic Plan 2021-2023, primarily by expanding its store network. Its target is a total dividend of \$206 million over three years, all of which will be remitted to the Cannabis Sales Revenue Fund. The monies will be used above all to fund prevention, research and the fight against adverse effects related to cannabis.

(millions \$)	Strategic Plan					
	2020-2021	Change (%)	2021-2022	Change (%)	2022-2023	Change (%)
Net sales	567	80.7%	799	41.0%	945	18.3%
Gross margin	128	79.9%	181	41.4%	215	18.6%
Net expenses	78	77.8%	110	41.4%	130	18.0%
Net earnings	50	83.1%	71	41.4%	85	19.6%
Total contribution to the Cannabis Sales Revenue Fund = \$206 million						
Operating ratios						
Gross margin to sales	22.6%		22.7%		22.7%	
Net expenses to sales	13.8%		13.8%		13.8%	
Net earnings to sales	8.8%		8.9%		9.0%	
Government revenue (consumption taxes and excise duties)	156		218		256	

Summary Table

Mission

To sell cannabis with a focus on health protection, the goal being to integrate consumers into the legal cannabis market and keep them in it without actually encouraging cannabis use

Vision

Be the benchmark for the responsible cannabis industry

Values

Simplicity
Proximity
Responsibility
Excelling

1		Challenge	Orientation		
		Accessibility to the legal market	Expand the network		
	Strategy	Overall indicators	Target 2020-2021	Target 2021-2022	Target 2022-2023
1.1	Gradually achieve a geographic presence in every region of Quebec	Number of stores in operation	70	90	98
1.2	Maintain a simple and efficient business model	Ratio of net expenses to sales	13.8%	13.8%	13.8%
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		Online customers' overall satisfaction rate	70%	71%	72%

2		Challenge	Orientation		
		Competition from the black market	Competitive offer		
	Strategy	Overall indicators	Target 2020-2021	Target 2021-2022	Target 2022-2023
2.1	Ensure competitive pricing	Percentage migration from the black market ⁵	49%	66%	75%
2.2	Increase appreciation of the advisory service	Overall satisfaction of store customers	70%	71%	72%
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3		Challenge	Orientation		
		Social acceptability of the mission	Responsible development		
	Strategy	Overall indicators	Target 2020-2021	Target 2021-2022	Target 2022-2023
3.1	Help protect health in collaboration with our stakeholders	Contribute to the fund for funding prevention, research and the fight against adverse effects related to cannabis	\$50 million	\$71 million	\$85 million
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The SQDC Strategic Plan 2021-2023 is based on extensive consultation with managers, employees and stakeholders.

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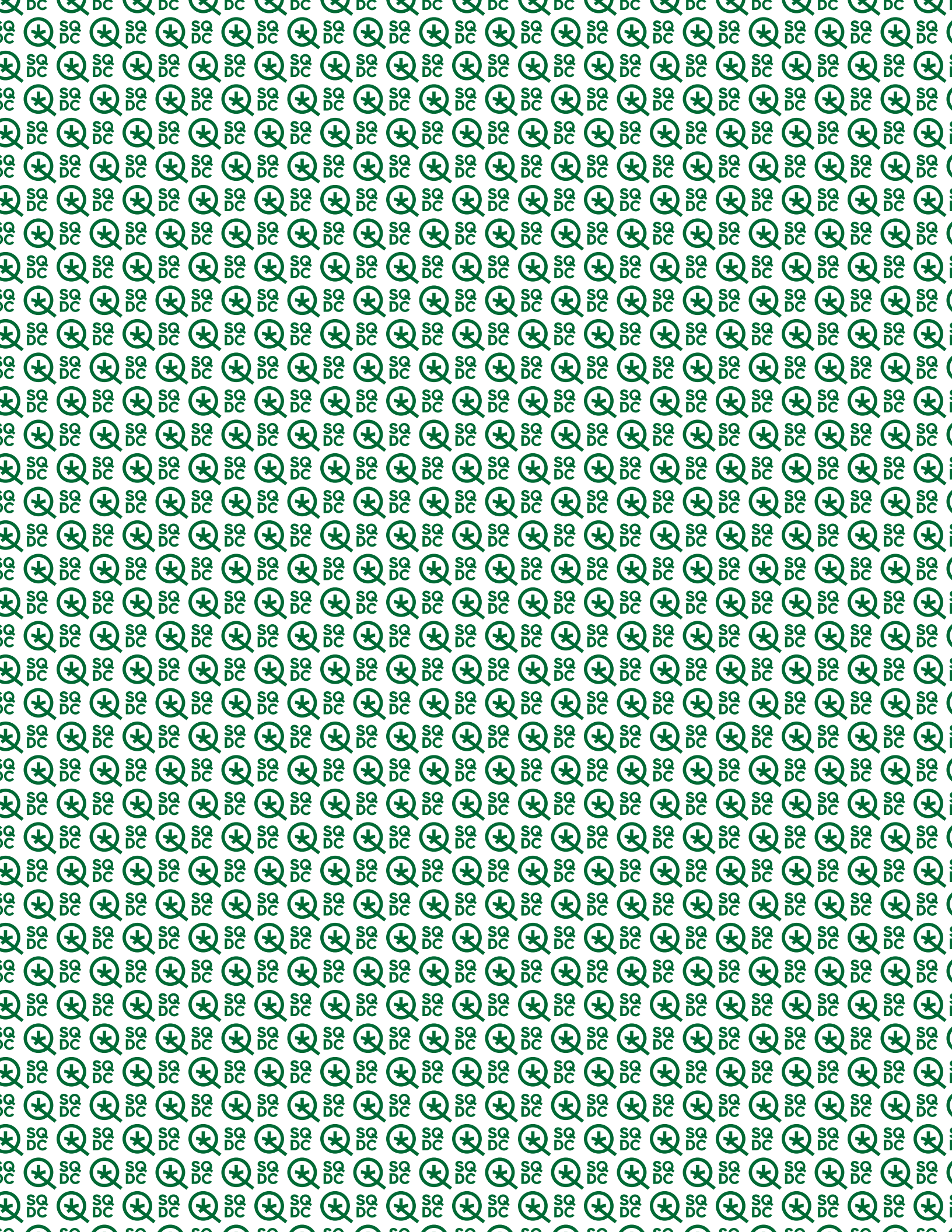
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