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OrganiGram Holdings, Inc. (OGI.CA)

Q2 2025 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning. My name is Christa, and I will be your conference operator today. At this time, I would like to welcome everyone to the Organigram Global's Second Quarter Fiscal 2025 Earnings Conference Call. After the speakers' remarks, there will be a question-and-answer session. We ask that you please limit yourself to one question and one follow up. You may requeue if you have any questions.

Thank you. Max Schwartz, you may begin your conference.

Max Schwartz

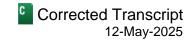
Director-Investor Relations, Organigram Global, Inc.

Thank you very much, and good morning, everyone. Thanks for joining us today. As a reminder, this conference call is being recorded and a recording will be available on Organigram's website 24 hours after today's call. Listeners should be aware that today's call will include estimates and other forward-looking information from which the company's actual results could differ. Please review the cautionary language in our press release dated May 12, 2025, on various factors, assumptions and risks that could cause our actual results to differ.

Further reference will be made to certain non-IFRS measures during this call, including adjusted EBITDA, adjusted gross margin and adjusted gross margin percentage. These measures do not have any standardized meaning under IFRS and are intended to provide additional information and as such should not be considered in isolation or as a substitute for measures of performance prepared in accordance with IFRS. Our approach to calculating these measures may differ from other issuers, so these measures may not be directly comparable. Please see today's earnings report for more information about these measures.

Listeners should be aware that the company relies on reputable third party providers in making certain statements relating to the market share data. Unless otherwise indicated, all references to market data are sourced from Hifyre in combination with data from Weedcrawler, provincial boards, retailers in our internal sales figures.

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Today, we'll be hearing from key members of our senior leadership team, beginning with Beena Goldenberg, Chief Executive Officer, who'll provide opening remarks and commentary followed by Greg Guyatt, Chief Financial Officer who will review our financial results for Q2 fiscal 2025.

With that, I will now introduce Beena Goldenberg, Chief Executive Officer of Organigram Global Inc. Please go ahead Ms. Goldenberg.

Beena G. Goldenberg

Chief Executive Officer & Director, OrganiGram Holdings, Inc.

Good morning, everyone, and thank you for joining us today for our Q2 fiscal 2025 earnings call. We're very pleased to report a record breaking quarter by revenue as well as some very encouraging operational results, which we anticipate will continue to improve as seasonal sales pick up in Q3 and Q4. This marks our first earnings call since rebranding Organigram Global, a name that better reflects our evolution into a diversified international cannabis leader. The refreshed brand identity aligns with our position as a market leader in Canada and underscores our active expansion across Europe, Australia, and most recently the United States. It's also the first quarter where the full impact of our Motif acquisition is reflected in our financial results.

Now let's start with a look at the Canadian market and how we're navigating the current landscape. In Q2, Canada's cannabis market grew 4% year-over-year with the strongest momentum in vapes and pre-rolls, two categories that together make up about half the market. We're especially well-positioned here. By the end of the quarter, Organigram was the number one LP by market share in both, including a leading 21.7% share in vapes. When you add flower to the mix, these three categories flower, vapes and pre-rolls represents around 85% of the total market and we've built a strong dominant presence across all three.

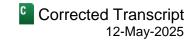
To put today's market structure in perspective, the top three LPs collectively hold just 27% of total market share, showing how fragmented and competitive many categories still are. But in categories like milled flower, gummies, hash, infused pre-rolls and vapes, the top three control between 45% to 70% of the market. These are the segments where scale, production capability and execution matter more, contributing to higher barriers and more concentration compared to flower and traditional pre-rolls.

While part of our competitive edge lies in our ability to win and defend share in fragmented high volume categories like flower and traditional pre-rolls, our strategy also includes reinforcing leadership in segments like flavor-forward milled flower, where we have over a 40% share. Hash, where we have a 20% share. And gummies where we have over 17% share. These are categories where innovation is more scalable and defensible and where we continued to outperform.

Our recent entry into beverages through the collective project acquisition is a strong example of this dual strategy in action, entering a smaller underpenetrated category with higher barriers to entry, where we see clear opportunity to build a dominant position as the market evolves. Collective Project beverages in Q2 represented 5.4% of the beverage market share nationally, with the majority coming from sales in Ontario. While we currently have some distribution in five other provinces, we see a path to expanding that footprint by leveraging our sales team with the goal of delivering similar sales performance as we see in Ontario.

In Canada, we believe beverages have significant runway for growth. The category has matured with better tasting products and higher consumer adoption, with the category now outpacing the growth of the overall market. We're optimistic that improved products, combined with potential future regulatory changes like selling outside cannabis retail stores, could unlock the growth potential of the category. Importantly, the Collective Project

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acquisition also marked our entry into the US hemp-derived THC beverage market. Today, our products are distributed in 10 US states and carried by major retailers like Total Wine and Top Ten Liquors. The US market for hemp-derived THC beverages is booming, having already surpassed CAD 1 billion in 2024 and projected to grow to over CAD 4 billion by 2028, according to Euromonitor International Limited.

Unlike in Canada, the US regulatory framework is more flexible, allowing these products to be distributed directly to consumers or in mainstream channels like liquor, grocery or convenience stores. When the product is available where consumers already shop, it seems that consumers are buying in. As they do, we have the products to meet their growing demand. In fact, a few days ago, Collective Project won recognition at the 2025 High Spirits Awards. Only a few short months following the launch of the brand in the US, we received the gold award for Blood Orange, Yuzu & Vanilla, and a platinum award for Mango, Pineapple and Coconut, hemp-derived THC beverages.

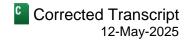
Organigram will begin consolidating revenue from US beverage sales immediately, beginning to tap into the world's largest consumer cannabis market and setting the stage for broader international growth. Further, we plan to launch beverages with our FAST nano-emulsion technology soon, which we believe will give us a competitive edge in the category. The onset duration and offset for beverages with FAST is even quicker than it is in gummies, more closely resembling alcohol. On the topic of international growth, we achieved CAD 6.1 million in international sales in Q2, a 177% increase from Q2 of last year. We anticipate the upward trend in international sales will continue as we deepen our relationships with customers abroad, particularly Sanity Group, where we've made a significant strategic investment to secure our continuous supply to the rapidly growing German market.

Germany continues to represent a large growth opportunity as approximately 10% of its 80 million population self-report cannabis use, while only 0.5% are registered medical cannabis patients. Mature medical jurisdictions experience 2% to 3% registration rates, and we believe there's still a lot of growth potential in the German medical market notwithstanding any movement on the recreational side. Outside Germany, we continue to supply cannabis to our customers in the UK and Australia. We're also excited to share that we expect to launch branded vape products in Australia before the end of the calendar year.

BOXHOT, which has grown into a CAD 150 million retail sales brand domestically, is poised to become a meaningful player on the international stage. And we see this as an important step in expanding our branded footprint globally. Also, factoring into our international growth plans is our Jupiter strategic investment pool. In February, we closed the final tranche of CAD 124.6 million strategic investment we received from British American Tobacco for gross proceeds of CAD 41.5 million. The Jupiter pool started off as an CAD 83 million pool earmarked for international M&A and strategic investment opportunities. After our first two strategic investments in Open Book Extracts in the US and Sanity Group in Germany, Jupiter has CAD 58 million remaining. We remain active in evaluating the best deployment opportunities for this capital, prioritizing strong ROI and increasing competitive advantages that will help accelerate growth in our international business.

Now moving on to Motif. We're making great progress integrating the Motif team, their facilities and their operations into the broader Organigram business. All personnel are now fully under the Organigram umbrella and collaborating across both operations and administrative functions. We've been particularly impressed by the depth of expertise and talent the Motif team brings, and we're already seeing the benefits of this combined strength, such as being able to close listing gaps in our combined portfolio. Thanks to a stronger, unified sales force and product line items. Operationally, we've moved all commercial THC extraction to the Aylmer facility that's helping us scale more efficiently and freeing up space and people in Moncton to focus on international flower.

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In March, we added additional shifts to Aylmer's hydrocarbon line, which now runs 24/7. With these changes, our monthly production capacity has grown significantly. We're also currently investing CAD 800,000 in capital to further expand the extraction capacity. More than doubling our distillate production to 2,900 kilograms and our hydrocarbon isolate to 1,400 kilograms annually. The enhanced capabilities give us better cost control of our derivative inputs while increasing our B2B opportunities, helping us realize some of the key synergies of the Motif acquisition. While we're very pleased with our progress and now have a view to higher synergies than previously estimated, there's more work to be done. Some ongoing projects include the integration of our ERP system, transitioning coated pre-roll production to in-house, streamlining workflow to enhance end-to-end production efficiencies across facilities and enhancing our London warehouse facility to allow us to distribute Moncton product through London with faster turnaround, enabling us to obtain Tier 1 status for flow through with the OCS, as well as cut freight costs and boost on time delivery, which should also drive demand. All in all, we're starting to feel the momentum that this integration adds to our business, and we expect to see larger contributions and synergy realization in the back half of the year.

With Collective Projects, we now have another business to integrate. However, this is a much smaller asset light business. Our focus with Collective Projects is less about integrating a large operation footprint like Motif and more on expanding the distribution of Collective Projects across Canada and the US. At the same time, we're pleased to share that we will begin bringing some beverage capabilities into our Winnipeg facility. Near the end of Q1, we committed to investing approximately CAD 1.2 million into a beverage manufacturing line to leverage Winnipeg into a production hub for more of our ingestible products.

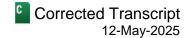
While we continue to rely on co-manufacturing for beverages in Canada and the US, bringing some of our production in-house will help us scale up our beverage expertise, experiment with novel formulations, including our fast acting soluble technology, and address incremental demand.

On the topic of capital investments, in Q2, we began the installation of upgraded high intensity LED lights in half our Moncton grow room, which is currently estimated to increase our flower production capacity by roughly 7,000 kilograms annually and is expected to be completed by June. This CAD 9 million investment before government subsidies are applied is part of the CAD 16 million capacity enhancing CapEx projects we outlined in Q1 to be phased over the next 18 months and will allow us to meet the needs of a market tightening supply and increase international demand. The other CAD 7 million project involves leveraging our London warehouse to open up space for additional grow room to Moncton, which is expected to increase capacity by another 7,000 kilograms annually.

The London Warehouse construction and licensing is expected to be completed by the end of the fiscal year and once completed we will relocate inventory from Moncton, freeing up space for the construction of nine additional grow rooms. This incremental Moncton capacity enhancement is expected to commence in early fiscal 2026.

In addition to ensuring we can supply our increasing domestic and international flower demand, higher capacity means spreading more of our fixed costs over a larger revenue base. And speaking of flower, a quick update on seed-based production. This is an enterprise level innovation, which we are pioneering on a scale -- on a large scale to modernize cannabis production and bring it to the same level as other mature agricultural industries. Seed-based harvest from F1 stabilized seeds are robust, uniform with dialed-in characteristics which together result in more consistent and repeatable flower. Given the demand for consistency and quality both at home and abroad, this lower cost and faster alternatives to clone-based production has the potential to transform the way cannabis is cultivated at scale.

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In Q2, 22% of our harvest came from seed-based production. We continue to work with our strategic investee Phylos Bioscience in the US to step up our efforts to stabilize strategic genetics, while we continue genomics research to identify genetic markers that influence things like resistance to powdery mildew, terpene expression, THC potency yield and more.

Looking at where we are now and where we want to go, we have a few key areas of focus in the coming quarter. One, we will focus on accelerating international revenue growth by capitalizing on increased export volume, initiating branded international sales in the US and Australia, and leveraging our forthcoming EU-GMP certification. Two, we will look to gain market share in Canada, leveraging consumer-centric innovations in the fastest growing categories like BOXHOT Diamond Doobies, SHRED [ph] X Heavies Slims (00:20:55), DEBUNK liquid diamond base and ongoing growth in Big Bag O' Buds. Three, we will increase gross margins and deliver consistent cash flow from operating activities through Motif's synergies, higher scale and capacity, growth in International and controlling costs. And four, as the market leader in Canada, we will continue to strongly advocate to key government officials through our enhanced government relations program, focusing not only on changes that will support our business, but the sector as a whole. Our goal is to build consensus at the federal, provincial and territorial level for the need for commonsense cannabis regulation, excise reform, and a national export strategy that defends an industry that contributes more to the Canadian GDP than breweries or wineries and distilleries.

On that note, I will turn it over to Greg to discuss our financial performance for the quarter.

Greg Guyatt

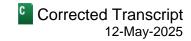
Chief Financial Officer, OrganiGram Holdings, Inc.

Thank you, Beena. We are very pleased to report a record quarter ahead of key seasonality in Q3 and Q4, as we believe our results will continue to improve throughout the year in line with previous guidance. We experienced strong year-over-year growth in the quarter. Our gross sales were up 79% and surpassed CAD 100 million for the first time in any given quarter. Similarly, our net revenue was up 74% year-over-year to reach CAD 65.6 million. These results were supported by a full quarter of financial contributions from our Motif business, as well as organic growth in our recreational and international businesses.

As we scale both domestic and international sales fueled by growth in Germany, the launch of branded sales in the US, and the expected launch of branded sales in Australia this fiscal year, we are beginning to approach the milestone of becoming a CAD 0.5 billion run rate business by ship sales. In Q2, our international sales increased 177% to CAD 6.1 million, from CAD 2.2 million in the same prior year period and increased 84% sequentially since last quarter from CAD 3.3 million. Building off of our leadership in Canada, we are aggressively pursuing growth in international markets through strategic acquisitions in growth markets and we continue evaluating a robust pipeline of strategic opportunities supported by our Jupiter pool of approximately CAD 58 million.

Adjusted gross margin for the quarter increased to CAD 21.9 million or 33%, compared to CAD 11.6 million or 31% in the same prior year period. This improvement was primarily driven by growth in our recreational business following the Motif acquisition, as well as increased contributions from international sales. On a sequential basis, adjusted gross margin remained flat. While we benefited from greater scale and stronger international segment, Motif margins were lower than the core Organigram business, which reduced our overall adjusted gross margin. Organigram standalone adjusted gross margin was 37% in the quarter. We expect Motif's margins will benefit from the realization of integration synergies, which will build throughout the back half of the year to CAD 5 million this year, partially driven by our recent capital expenditures designed to improve operational efficiency and capacity at Motif. As a result of the work done so far, we are now expecting our annual synergies to reach approximately CAD 15 million next year, up from the previously disclosed CAD 10 million.

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Although these offsetting factors averaged as a flat adjusted gross margin in the quarter, we exited March with an adjusted gross margin of over 39%. As noted in previous quarters, we continue to expect adjusted gross margin to stabilize around 35% for fiscal 2025, with stronger performance anticipated in Q3 and Q4 with our long term adjusted gross margin target of 40% in the second half of fiscal 2026.

G&A costs in the quarter were flat at CAD 14.9 million compared to Q2 of last year, including the incremental cost from Motif. This is reflective of controlling overhead and new business integration. Included in our G&A costs were ERP expenditures of approximately CAD 0.6 million for the final phase of our ERP project, which is expected to be completed by the end of this year.

Selling costs for the quarter, including marketing, were CAD 7.5 million versus CAD 5.4 million last year. The increase was attributed to higher trade investments with retail partners to support the growth of the business. Total SG&A costs for the quarter were CAD 22.4 million, a modest increase of 10% versus the prior period last year. As a percentage of net revenue, SG&A was 34%, down from 54% last year and 40% last quarter. Adjusted EBITDA in the quarter was CAD 4.9 million compared to negative CAD 1 million in the prior year period. The year-over-year increase was primarily due to higher gross margin as a result of higher international sales and increased operating efficiency in scale. With CAD 6.3 million in adjusted EBITDA for the first six months and seasonally stronger quarters to come, we are on track to outperform fiscal 2024 adjusted EBITDA this fiscal year.

Net income for the quarter was CAD 42.5 million, compared to a net loss of CAD 27.1 million in Q2 fiscal 2024. The largest contributing factor here was the change in fair value — in the fair value of derivative liabilities of which just over CAD 35 million was associated with BAT's top-up rights and the issuance of preferred shares associated with the final CAD 41.5 million tranche from BAT. On a smaller scale, we saw some additional non-cash benefit from the appreciation of our investments in Phylos, OBX and Sanity Group.

From a cash flow perspective, cash used by operating activities before working capital changes was CAD 1.6 million in the quarter, compared to cash used of CAD 8.3 million in the prior year period. The change in cash use is primarily due to improvements in adjusted gross margin versus the prior year. On the topic of cash, we maintain a strong balance sheet and remain confident in our liquidity position, which we believe is sufficient to fund operations and strategic growth initiatives following recent acquisitions, while supporting our near to mid-term goal of consistent profitability. As of March 31, we had total cash position of CAD 83.4 million, including both restricted and unrestricted cash and negligible debt. We plan on investing CAD 8 million to CAD 10 million of sustaining capital expenditures during fiscal 2025. As Beena mentioned, we've started to invest in the previously mentioned Moncton flower capacity enhancement project. These capital expenditures will be funded out of operating cash flow and we will continue to evaluate our long-term cash needs and optimize our capital structure accordingly.

We are encouraged by our performance this quarter as our continued focus on efficiency, scale and market leadership, alongside the acceleration of our international strategy translates into meaningful year-over-year growth. As we move through fiscal 2025, we expect to reduce costs as a percentage of net revenue while increasing the mix of higher margin international sales. At the same time, we're seeing tightening supply in the Canadian market, which presents an opportunity to expand flower capacity and take price on our category leading brands. We look forward to updating you on our progress in the quarters ahead.

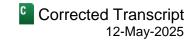
With that, I'll turn the call back to Beena.

Beena G. Goldenberg

Chief Executive Officer & Director, OrganiGram Holdings, Inc.



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Thank you, Greg. As we progress through fiscal 2025, we are confident in our ability to execute on our strategic priorities. The integration of Motif, revenue expansion on collective project, our international expansion efforts, and the continued success of our innovation pipeline all position us well for sustained growth and improved profitability. We appreciate the continued support of our shareholders, customers and employees. We remain committed to driving innovation, operational excellence and long-term value creation.

Now let's open up the floor for questions.

QUESTION AND ANSWER SECTION

Operator: Thank you. We will now begin the question-and-answer session. [Operator Instructions] And as a reminder, please limit yourself to one question and one follow up. Your first question comes from Aaron Grey with Alliance Global Partners. Please go ahead.

Aaron Grey

Analyst, A.G.P. / Alliance Global Partners LLC

Good morning. Thank you very much for the questions. So first question for me, you guys talked a lot about international, some of your growth aspirations. So if we could just dive a little bit deeper into your outlook for 2025 and fiscal [indiscernible] (00:30:14) I know EU-GMP certificate doesn't change capacity and you're already selling into markets, but given the greater margin capture you have with the EU-GMP change, how do you think about allocating capacity internationally given the greater margins you'll get there versus balancing the Canadian market share aspirations that you have? So any color on any capacity constraints you might have, how you're looking to balance between your goals domestically and internationally? Thank you.

Beena G. Goldenberg

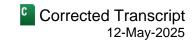
Chief Executive Officer & Director, OrganiGram Holdings, Inc.

Yes, sure Aaron. Thanks for the question. So, first of all, we will continue to work on balancing the demands between both domestic and international sales. While certainly international sales have higher margins today because they don't have excise taxes, we want to make sure we don't walk away from our leading position in some of our domestic flower brands, such as our Big Bag O' Buds, which are still experiencing very good growth. And the reason why this is very important and some of our competitors have chosen to walk away from the domestic market is because we do see that there will be more price compression in international markets. We're already seeing value flower showing up in Germany and you're going to see supply from all over the world, not just from Canada in these markets.

So, in order to make sure that we have a long term plan, we want to make sure we're balancing both. Now, we have higher demand coming out of some of our international markets. And that's part of the reason why we're working on increased capacity -- flower capacity. We've done some work on improving some of our efficiencies in our facility, the 7,000 kilograms coming from the LED upgrade. We're already starting to see some benefits on that as the project is coming to completion and rooms that returned a couple of months ago are starting to now generate extra flower. So we -- the two projects together will give us an extra 14,000 kilos of capacity and we keep driving better efficiencies in our flower. So, we'll continue to look at growing our international sales.

Your question on how much of the upside potential we expect to sell more in the back half internationally than we did in the front half? And, with international sales, you need to start generating a following through medical doctors prescribing those specific cultivars. So the cultivars are gaining momentum in Germany and they will have

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higher demand. And as we ship to those markets with those cultivars. So we're pretty excited about the following opportunity. But it's going to be a balancing act for sure. Obviously, we like the margins with international, but the truth is the margins in the domestic market are getting better as there's less competition. And we've been able to actually take some pricing in the domestic market.

Aaron Grey

Analyst, A.G.P. / Alliance Global Partners LLC

Q little bit

Really appreciate that color there Beena. That was helpful. Second question for me, I just want to talk a little bit about the margin evolution, gave some great color there on the gross margin. So, as we think about EBITDA profitability, where do you believe EBITDA margins have the potential to get to in the medium term? And what are some of the most meaningful levers? You gave some color in terms of incremental synergies that you found going from CAD 10 million to CAD 15 million. Was that more so on the gross margin side or on the SG&A side? And then how much of those synergies have been realized today? So any color in terms of the margins, how we should think about the evolution would be helpful? Thanks.

Greg Guyatt

Chief Financial Officer, OrganiGram Holdings, Inc.



Sure. Thanks for that question. So, first of all, I'll touch on the synergies. So we realized I'd say about CAD 1.5 million worth of the CAD 5 million that we're targeting for this year and the majority of that is in COGS. But there is certainly some overhead expenses from cost avoidance and the general integration of the two businesses. So, I'd say in terms of what's going to drive EBITDA growth in the future, it's going to be a combination of margin growth. As I mentioned earlier, we're targeting about 40% gross margin in the back half of fiscal 2026. And then also, just general cost management is something we're always looking at and making sure that we're spending our capital prudently. But by and large, we're not -- as revenue grows, we're not expecting our SG&A to grow materially. And that's going to be an important driver as we start seeing the scaling of our top line and we'll get the leverage on the P&L, so drop straight down to EBITDA. So, in our longer term target for EBITDA, we expect that to continue to grow as a percentage of sales. So, certainly, as we look forward to the back half of the year when the key seasonality and stronger parts of our business kick in, we are expecting to see the EBITDA margin improve as well.

Aaron Grey

Analyst, A.G.P. / Alliance Global Partners LLC



Okay, great. Really appreciate that color. I'll go ahead and jump back into the queue.

Operator: Your next question comes from the line of Frederico Gomes with ATB Capital Markets. Please go ahead.

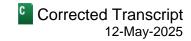
Frederico Gomes

Analyst, ATB Capital Markets, Inc.



Hi. Good morning. Thanks for taking my questions. First question is on the cash flow. We saw negative cash flow this quarter. I think a good portion of that was related to working capital. So first, could you maybe talk about the drivers behind those working capital changes this quarter? Maybe the key items here that drove that. And second, could you talk about your cash flow expectations for the remainder of the year? Things like movements in working capital, CapEx, as well as the potential margin expansion and the seasonality that you mentioned as well? Thanks.

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Greg Guyatt

Chief Financial Officer, OrganiGram Holdings, Inc.

Sure. Maybe I'll start with the cash question. Thanks, Frederico. So, the last -- in Q2, we actually spent CAD 6 million at the end of the quarter on the Collective Project acquisitions. That had a negative impact on cash flow just from a timing perspective. But, primarily, the biggest driver, as we mentioned, was our investment in working capital, which was very intentional. Now, Q3, Q4 is really our strongest time of the year. So, in Q2, our plan was to invest into working capital to ensure that we're prepared for the strong growth that's to come. You know, with working capital, there's a number of puts and takes, but the most significant increase was an increase in inventory, which is required to be prepared for the growth that's coming for the next two quarters. Did I cover everything with that, Fred?

Frederico Gomes

Analyst, ATB Capital Markets, Inc.

Yeah. Maybe just the second part of the question related for your expectations for the remainder of the year, I guess, you answered sort of the question about the working capital for the second half, but also CapEx and the impact of the potential margin expansion? Yeah.

Greg Guyatt

Chief Financial Officer, OrganiGram Holdings, Inc.

From a CapEx perspective, we're expecting to spend on a regular sustaining capital, CAD 8 million to CAD 10 million for the full year, as well as the CAD 9 million that was mentioned for the month in LED program expansion. The timing of that, we expect most of that to happen this year. And so you'll see that being funded through operations, which, as we mentioned, Q3, Q4 is going to be our strongest period for the year of cash flow. So, we actually expect to be cash flow positive for the full year. And you will see that starting to come through in the third quarter.

Frederico Gomes

Analyst, ATB Capital Markets, Inc.

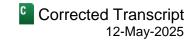
Perfect. I appreciate that, Greg. And then maybe just a second question for me. If you could comment on your strategy for the US hemp-derived THC markets. I know that you talked a little bit about that. That's a lot of brands in the marketplace today, a lot of other companies investing in that market as well. So how do you plan to differentiate in regards to margins in that segment, when do you think they could be accretive, they could be meaningful to your overall margins? Thank you.

Beena G. Goldenberg

Chief Executive Officer & Director, OrganiGram Holdings, Inc.

Sure. So let's start off by saying, listen, we're early days in expanding the Collective Project brand in the US market. And we're very excited about the results so far in the markets where it's, on the store shelves we're talking to retailers and the offtake is strong. It is our intention to continue to build out the distribution. Right now, we're selling into 10 provinces. We expect to see stronger distribution probably in another 6 provinces before the end of the fiscal year. And we expect our direct-to-consumer website to start to launch this month. So continuing to build that way, the priority right now in the US is to drive trial and awareness. We have a very strong summer support program kicked off to drive velocity at retail. So, offtake, really get to consumers. What we think is the benefit of Collective Project? And you're right, there are many brands in the US, but some of them are not very good. They don't taste very good. We have great tasting products with Collective Project. As I mentioned, the awards we just received and we're excited about getting people to try. So we have a lot of sampling programs

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during the summer in places where you can't have infused samples, we'll have non-infused samples. We'll have a lot of POS and programs.

So back to your question about margins in the short term, we're investing to drive the growth of this product. So we expect to do roughly \$1 million in retail sales. So it's still small, but we're investing that margin back to drive the offtake and to increase awareness. This is key part of our strategy in the US. Obviously, in Canada, we expect to see growth in our business and that will grow and appreciate the gross margin that comes with that business. So, not a strong investment programs in Canada, although, we will leverage our sales relationships and gain distribution. And the product talks for itself. And Ontario really a strong performance in that market. And we just need to get other provinces to take on the top selling SKUs because we know they perform. So, it's a strategy of investment right now, more focused on investment in the US to gain that consumer adoption and really breakthrough. As you mentioned, lots of players in the US, but not a lot of them have the money to invest behind the growth and -- or the product that delivers to the consumer expectation.

Frederico Gomes

Analyst, ATB Capital Markets, Inc.

Thank you very much, Beena.

Operator: Your next question comes from the line of Yewon Kang with Canaccord Genuity. Please go ahead.

Yewon Kang

Analyst, Canaccord Genuity Corp.

Hi. Good morning. Thank you for taking my question. Apologies if I missed some of the remarks in the opening statements, but the international sales saw significant sequential increase. So just wondering if you could provide some color on what drove that growth. Was that primarily due to the expanded orders from existing partners like the Sanity Group, or did you onboard new customers during the period? Thank you so much.

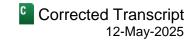
Beena G. Goldenberg

Chief Executive Officer & Director, OrganiGram Holdings, Inc.

Sure. No, it wasn't new customers. It was meeting incremental demand for our existing customers and not just Sanity Group. We have some strong customers in Australia as well that continue to see higher demand in their markets. There's a demand for high quality product. And while there's a lot of discussion of international flower coming from Colombia or South Africa, Canadian cannabis, we've been growing it for a while. The quality is recognized worldwide. So there is increased demand.

And one of the things that I mentioned earlier was the thing about medical markets is once a cultivar is established, that a doctor is prescribing it and they see the benefits, consumers come back to that cultivar. So you start -- you might start small, but it continues to build off of the repeat purchases of those cultivars in those markets. You have to make sure that when you go into international markets, you have stability data for cultivars. So it takes a while to build that demand. But once it's there, it continues to drive incremental orders. And we're really starting to see that. We expect to see our EU-GMP certification in the upcoming months. That won't increase demand, that will just speed up our fulfillment because you take out the middleman, you take out the converter, product will get to the market faster, repeat purchases will come in faster. So we're excited to leverage that. And sorry, I also forgot to mention that once we had EU-GMP, the pricing will go up because you take out the converter in the middle.

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So, we're excited about what this international business will continue to grow, but it is not from increased customers. We have significant demand from our existing customers and we continue to prioritize fulfilling those customer requests.

Yewon Kang

Analyst, Canaccord Genuity Corp.

Q

Thanks for that color. Just a second one for me here is on the Collective Project acquisition. It's been a few weeks and obviously very early days since integrating that brand into your platform. But I was wondering if you guys could provide any color into any insight that you might have gained from having exposure into the US [indiscernible] (00:44:28) space, any differences between how the recreational market functions even on the consumer level and any insights there would be helpful? Thank you.

Beena G. Goldenberg

Chief Executive Officer & Director, OrganiGram Holdings, Inc.



Certainly. So, we closed the Collective Project on March 31. So the last day of the quarter. And so, it's still early days, but I can tell you a couple of things on Collective Project. So, first of all, in Canada, we have some great relationships with our co-mans. They currently -- we're the licensed producer as well, because the Collective Arts team weren't a licensed producer. We're working on converting those relationships where we're the licensed producer. There are some efficiencies we gained through excising and distributing the product and obviously leveraging our sales team to gain more distribution. And we obviously have relationships with the boards and could drive some of that. So we're pretty excited about the revenue growth opportunity in Canada. I also mentioned that we have invested CAD 1.2 million in our Winnipeg facility, and this is where we're looking to look at new formulations, looking at where we bring in our fast nano technology to really differentiate our products further. So there's lots of upside potential and clearly taking some of the product in-house will better leverage our infrastructure and improve our margins.

In the US, it's a little bit different, US, obviously, we're dependent on co-mans relationships. We've actually just changed their co-manufacturer for Collective Project because we got better costs and better quality of ultimate product that's important for us. We have a great relationships with some key distributors to get the products out into more of the markets and build that distribution and establish relationships with some of the key retailers. Really the focus on Collective Project in the US is distribution and driving awareness trial. So we get some offtake really seeing that momentum behind the brand.

There are only four big players in the US that have hemp-derived THC beverages. That have the dollars behind it that could help drive that trial. And we're excited to be one of those. And that is our intention to continue to drive and grow in that market in the US.

Yewon Kang

Analyst, Canaccord Genuity Corp.



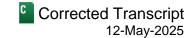
Thank you for the color. I'll hop back into the queue. Thank you.

Operator: And we have no further questions in our queue at this time. I will now turn the conference back over to management for closing comments.

Beena G. Goldenberg

Chief Executive Officer & Director, OrganiGram Holdings, Inc.

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Well, thank you, everybody, for joining our call today and thanks for your insightful questions. We are really looking forward to our key seasonality coming up in Q3 and Q4, looking forward to seeing the expansion of our Collective Project acquisition, the realization of the Motif synergies, the growth in our international sales. And we look forward to updating you further next quarter. Thanks and have a good day.

Operator: Ladies and gentlemen, this does conclude today's conference call. Thank you for your participation and you may now disconnect.

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