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OrganiGram Holdings, Inc. (OGI.CA)

Q1 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 Holdings First Quarter Fiscal 2025 Earnings Conference Call. After the speakers' remarks, there will be a question-and-answer session. We ask you to please limit yourself to one question and one follow-up, and you may re-queue if you have further questions. Thank you.

Max Schwartz, you may begin your conference.

Max Schwartz

Director-Investor Relations, OrganiGram Holdings, 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 February 11, 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 when making certain statements relating to market share data. Unless otherwise indicated, all references to market data are sourced from Hifyre in combination with data from Weedcrawler, provincial boards, retailers, and our internal sales figures.

Today, we'll be hearing from key members of our senior leadership team, beginning with Beena Goldenberg, Chief Executive Officer, who will provide opening remarks and commentary; followed by Greg Guyatt, Chief Financial Officer, who will review our financial results for Q1 fiscal 2025.

With that, I will now introduce Beena Goldenberg, Chief Executive Officer of Organigram Holdings 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 Q1 fiscal 2025 earnings call. It's only been six weeks since our Q4 call, but we've been very busy. So let's dive into our Q1 results and discuss the key themes shaping our trajectory for the rest of the year.

We exited Q1 fiscal 2025 with strong momentum as Canada's largest cannabis company by market share. Operating through five strategically located and highly specialized facilities, we remain one of the world's most innovative, dynamic, and efficient indoor cannabis growers and specialized extractors, supported by our expansive R&D work with British American Tobacco.

On December 6, we completed the Motif acquisition and saw consistent performance across our core Organigram and newly acquired product lines. Our flagship brands, SHRED and BOXHOT continue to resonate with consumers. By the end of Q1, they approached CAD 100 million in combined retail sales for the quarter and over CAD 385 million over the last 12 months.

Meanwhile, our supporting brands, Big Bag O' Buds and DEBUNK saw impressive growth in excess of doubling their market share compared to Q1 last year. The Canadian cannabis industry grew 7.7% year-over-year in Q1, driven by strong demand in pre-rolls and vapes, two categories where we've made significant investments. Against this backdrop, Organigram expanded its national market share by 500 basis points year-over-year and 100 basis points sequentially, reflecting our strategic positioning in these high-growth segments.

In Q1 last year, we ranked 16th in vapes with 0.5% market share. Today we're number one, holding over 22% of the category. Similarly, in pre-rolls, we've climbed from the number three to the number one position nationally.

We see further opportunities for expansion in certain categories. In edibles category, we faced competitive headwinds with market share declines due to the influx of low-cost single-count gummies, as well as price compression throughout the category. We responded to these competitive threats not only by launching our own value single-count SKUs under our popular SHRED'ems brand, but we also launched a highly differentiated and premium Edison Sonics gummy, featuring FAST, our proprietary nanoemulsion developed in the PDC. With a higher price and strong margin profile, this gummy is clinically validated to deliver faster onset and up to two times higher cannabinoid concentrations at peak, something other traditional gummies are not able to do.

Edison Sonics has been – has seen strong demand, exceeding initial expectations as a top 10 gummy offering in markets like New Brunswick and BC, where we have maintained consistent product availability. It is great to read some of the social [ph] posts, such as Sonics by FAST or a Sonic High (00:10:05).

One consumer summed it up beautifully with the following review on Cannabis New Brunswick website. These gummies are noticeably different than my normal THC gummies. I had a noticeable effect at 25 to 30 minutes and you feel the effect climbing. The high is also more intense and predictable.

Now in pre-rolls, we introduced SHRED Heavy Slims, our first infused tube-style pre-rolls. Building on the continued success of our regular tube-style pre-rolls, we anticipate a familiar feel, convenient packaging, and high product quality to result in strong consumer adoption. We are also building distribution with Slims, now available in eight provinces.

Regionally, we saw market share growth across the country. We remain number one in all regions excluding Quebec, where we ranked number four. We see significant opportunities to grow further in Quebec by introducing our market-leading vapes to Quebec consumers, contingent on the timing of SQDC's vape rollout, as well as our recently launched grown in Quebec flower, hash, and pre-roll SKUs produced in our facility in the Laurentian.

While top-line growth and market share expansion remain priorities, we are equally focused on operational efficiencies and sales mix optimization, both on the product level and on a geographic basis. Our long-term investment in efficient seed-based cultivation continues to ramp up at our Moncton facility.

As we continue our efforts to advance cannabis cultivation to the level of other mature agricultural industries, we are at the forefront of an exciting shift. Seed-based cultivation is faster and cheaper than the dominant clone-based methodology seen across the sector. While cloning has the benefit of quickly trailing different genetics, seed-based cultivation lends itself to the stabilization of attractive genetics and more robust plants.

We plan to employ both methods for the foreseeable future and in Q1, 21% of our harvests were from seed-based roots. Shifting a portion of our garden seed-based cultivation has already driven increased capacity in Moncton.

We plan to further increase flower output from Moncton with the upgrade of 76 flower rooms with higher intensity LED lighting beginning in March this year. This is projected to increase plant yields by up to 15%, resulting in up to 6,100 kilograms of additional capacity annually. The increased power from this project will lower costs further through scale.

In Winnipeg this quarter, we completed an optimization of Western Canada distribution yielding CAD 400,000 in annual savings. In Ontario, we continue assessing our recently acquired London warehouse to improve service for Ontario customers, especially on flow-through products, while also reducing logistics costs.

Now, speaking of recently acquired facilities, one of our key focal points this quarter has been the integration of Motif and beginning to realize the significant operational synergies coming from this acquisition. The integration process is progressing as planned, and the first two months of our combined operations have confirmed that our initial estimate of CAD 10 million in annualized savings realized in 24 months is achievable and very likely to be surpassed.

Early wins have been in manufacturing where extraction volume is above original estimates and extracts are already flowing from our new Aylmer, Ontario facility to Moncton and biomass is flowing from our Moncton cultivation facility to Aylmer.

Now in THCA hydrocarbon production where Organigram's strong balance sheet has allowed us to begin unlocking a two times expansion of THCA output, a key ingredient in infused pre-rolls. In sales, where our combined teams are already winning new listings by starting to fill sales coverage gaps in Atlantic Canada and select retailers in Ontario. And in innovation, where our teams are hard at work to make each other's technology to fill innovation gaps, such as accelerating innovation into edible hash and certain pre-roll formats for the Motif brands.

Additionally, we are leveraging our London warehouse to free up storage space in Moncton for the construction of new pre-vegetation rooms. This shift will open up additional flower rooms, resulting in an annual capacity increase of up to 6,700 kilograms. This project is anticipated to be completed by the end of the first half of fiscal 2026.

Taken together with our [ph] LED (00:14:53) project, we will unlock almost 13,000 kilograms of additional capacity annually to meet the growing flower demand from international markets, while spreading more of our fixed costs over higher cultivation volume. As of Q1, three weeks of Motif's financials are consolidated with Organigram. Beginning in Q2, we expect to see synergies begin to flow through more significantly through our P&L and as well, we will have a full quarter of consolidated earnings.

Expanding our global footprint also remains a top priority. Over the past quarter, we've made significant progress in evaluating new markets and strengthening our partnerships. We currently serve a diverse international customer base across four countries, allowing us to have a more predictable demand.

Germany presents a [ph] particularly (00:15:43) exciting opportunity. Our CAD 21 million investment in Sanity Group positions us well within the German medical cannabis market. Sanity Group is actively applying for German recreational pilot projects in six jurisdictions. Given their expertise from Swiss pilot projects and Germany's medical market, we are optimistic about their leadership potential in the German recreational space as regulations evolve.

What's even more exciting is that it's possible that the pilot projects will not be subject to the same product restrictions as the medical market, meaning, we may have the opportunity of bringing our brands and IP to the German market. Our flower shipments to Germany continue to scale.

Once our Moncton facility secures EU-GMP certification, expected this spring, we anticipate an increased volume to Germany and other international markets, along with improved margins. Our international sales grew to CAD 3.3 million in Q1, and we expect to continue our year-over-year trend of increasing international sales throughout fiscal 2025.

Supported by our Jupiter investment pool, we are actively assessing global expansion opportunities and are in discussions regarding other strategic investment opportunities. Additionally, we expect to close the final CAD 41.5 million tranche of our BAT follow-on investment later this month, 100% of which will be allocated to international strategic growth.

With that, I'll turn it over to Greg to discuss our financial performance for the quarter.

Greg Guyatt

Chief Financial Officer, OrganiGram Holdings, Inc.

Thanks, Beena, and thank you, everyone, for joining us today. This quarter, we are pleased to begin reporting contributions from Motif [audio gap] (00:17:29-00:17:39) in second quarter. Seasonality is typically softest in Q1. We experienced strong year-over-year growth in the quarter.

Our recreational business grew 15%, while net revenue increased 17% to CAD 42.7 million compared to Q1 of last year. The increase in the quarter was driven by growth in our flagship SHRED and BOXHOT brands, as well as growth in our supporting brands such as Big Bag O' Buds and DEBUNK. Also contributing to net revenue growth was a 2.3x year-over-year increase in international sales to CAD 3.3 million during the quarter.

Adjusted gross margin in the quarter increased to CAD 14.3 million or 33% versus CAD 11.2 million or 31% in the prior-year period. The increase was primarily attributed to increased international sales, lower unit cost due to increased operational efficiencies, and a higher net average selling price per gram. Sequentially, we saw a reduction in adjusted gross margin from 37% to 33%. The reduction was primarily due to seasonally lower volume, competitive forces in the gummy category combined with the scale-up of our Edison Sonics launch and product mix, including lower international sales.

Based on the current supply and demand dynamics in the marketplace, we have recently taken price increases in certain flower categories, which will flow through in the second quarter, and will continue to – we will continue to make adjustments in line with market conditions.

As we stated in our Q4 call, we expect adjusted gross margin to stabilize around 35% in fiscal 2025, with fluctuations owing primarily to seasonality of our business. Regarding our operating expenses in the quarter, we saw an increase of 11% to CAD 25.1 million from CAD 22.6 million in the prior-year period, primarily due to acquisition and transaction costs of CAD 4.5 million related to Motif, but partially offset by lower R&D costs.

G&A in the quarter were essentially flat at CAD 11.2 million versus CAD 11.3 million in the prior-year period. Selling costs for the quarter, including marketing, were CAD 5.8 million versus CAD 4.6 million last year, an increase of 26%. The increase was attributable to higher trade investments in – with our retail partners to support the growth of the business.

Total SG&A costs for the quarter were CAD 17 million, an increase of 7% versus the prior-year period. As a percentage of net revenue, however, SG&A costs dropped from 44% to 40% since the prior-year period. We expect SG&A as a proportion of net revenue to decrease further as we realize operational synergies from the Motif transaction. We are confident in achieving the CAD 10 million in run rate synergies and we continue to be on track to achieve the CAD 5 million previously disclosed for fiscal 2025. We will provide additional updates on our progress on this throughout the year.

Adjusted EBITDA during the quarter was CAD 1.4 million compared to CAD 0.1 million in prior-year period. The year-over-year increase was primarily due to higher gross margin as a result of international sales, while – and increase in operational efficiency. We expect adjusted EBITDA in fiscal 2025 to outperform 2024 with larger growth anticipated in the back half of the year due to seasonality and the timing of international shipment.

Our net loss for the quarter was CAD 23 million, compared to a net loss of CAD 15.8 million in Q1 fiscal 2024. Adjusting for the impact of the fair value loss of CAD 18.9 million, primarily related to the top-up rights of BAT in association with the shares issued in the Motif transaction, the net loss for the quarter would have been CAD 4.1 million.

From a cash flow perspective, cash used by operating activities before working capital changes was CAD 6.3 million in the quarter, compared to cash used of CAD 8.1 million in the prior-year period. The change in cash used was primarily due to improvements in adjusted gross margin during the quarter versus the prior year.

On the topic of cash, we are pleased to reiterate that we continue to have a strong balance sheet. As of December 31, we had a total cash position of CAD [ph] 71.2 (00:22:06) million, including both restricted and unrestricted cash and negligible debt. We plan on investing CAD 8 million to CAD 10 million in sustaining capital expenditures during fiscal 2025. And in addition to this, we intend to invest up to CAD 16 million in the previously mentioned Moncton flower capacity enhancement project over the next 18 months. These capital expenditures will be funded out of operating cash flow, although we will continue to evaluate our long-term cash needs and optimize our capital structure accordingly.

Our pro forma cash position, including restricted cash, as of the final CAD 41.5 million BAT follow-on investment tranche is expected to be approximately CAD 113 million. Note that the restricted cash balance represents the remainder of our PDC funding from BAT, as well as cash earmarked for Jupiter Pool investment.

We are encouraged by our results for the quarter as we see our efforts to increase efficiency, scale, market position, and accelerate international expansion contribute to our year-over-year growth. Throughout fiscal 2025, we expect to reduce costs with a proportion of net revenue, while increasing higher margin international sales.

Further, industry supply and demand dynamics are tightening. Altogether, we expect these trends to continue throughout fiscal 2025 and we look forward to providing you updates on our next earnings call.

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

Beena G. Goldenberg

Chief Executive Officer & Director, OrganiGram Holdings, Inc.

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, our international expansion efforts, and the continued success of our innovation pipeline, all position us well for sustained growth. We appreciate the continued support of our shareholders, customers, and employees. We remain committed to driving innovation, operational excellence, and long-term value creation.

Thank you for joining us today. We look forward to providing further updates in the coming quarters. Now, let's open the floor for questions.

QUESTION AND ANSWER SECTION

Operator: Thank you. We will now begin the question-and-answer session. [Operator instructions] Your first question comes from the line of Aaron Grey from A.G.P. Please go ahead.

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

Q

Hi. Good morning, and thank you for the questions. First question for me, just on the international front. So I know the receipt of your GMP certificate isn't meaningful, and I believe you mentioned some discussions for some other international opportunities. So just curious if you could provide any color in terms of the types of investments or acquisitions you believe are best available to help capitalize on the growth of an international market. So maybe the geographies or different areas of the supply chain [ph] to help me (00:25:05) capitalize on that. Thank you.

Beena G. Goldenberg
Chief Executive Officer & Director, OrganiGram Holdings, Inc.

A

Sure. Thanks for the question, Aaron. I mean – so here's what we know right now. The German market – medical market has grown four times since the announcement last April of the decriminalization of cannabis. And there is a high demand in that market. We already have a strong strategic partner in Sanity Group, and we have a lot of opportunity to increase our exposure in that market. We also know that there are opportunities in other medical markets around the world that continue to grow.

Australia is a big medical market and we currently supply that market through exporting flower into that market. And what's interesting about Australia is they also have the opportunity of exporting some 2.0 products, such as vapes or gummies down the road. And certainly with our EU-GMP certification, we will also be certified on extracts. So this is an exciting opportunity. There's a lot of discussion right now about product flower moving all over internationally, but really the opportunity becomes even greater when the shipments start moving into the 2.0 categories. So we're excited about that opportunity.

In terms of Jupiter investments, we certainly have a fund and it will increase with the additional CAD 41.5 million that comes in later this month. And we will continue to look at investing internationally and that could mean in the US market as well as European or Australian markets or wherever we look at higher opportunity markets. We're looking at the right opportunities where, obviously, we'll see the benefit of that investment.

What I would say comfortably is moving money into the US where it's ring-fenced and you can't access it is probably not our top priority. Our priority will be looking at areas like the hemp delta-9 space in the US. So that's kind of the focus of our international expansion plan, opportunities to continue to drive growth and leverage our IP and leverage our brands as possible into those markets.

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

Q

Thanks for that color, Beena. That was really helpful there. Second question for me, just in terms of looking at the company on a pro forma basis. You disclosed within the financial statements, I believe the company would have had more like CAD 98 million in revenue if Motif had been there for the full quarter, but correct me if I'm wrong there. So just any color in terms of the pro forma company, particularly on a profitability basis for EBITDA, and how that also trended both sequentially or year-over-year. Just give us a better picture in terms of the trends on a pro forma basis. Thank you.

Beena G. Goldenberg
Chief Executive Officer & Director, OrganiGram Holdings, Inc.

A

Perhaps I'll start, and then I'll pass this one over to Greg to comment further. So first of all, very important to highlight again, there's seasonality in the cannabis business. The fourth quarter is always our strongest quarter, given the summer months where our consumption is highest. And so we like to really focus on year-over-year as opposed to sequential quarters as you would in normal seasonal type of industry. So that's the first point.

Motif, we only had, as we said, three weeks of their numbers in our consolidated financials, but we will see significant consolidated earnings next quarter. And we expect as typically in our business that our back half of the year will be a much stronger in terms of revenue than the front half of the year. That is the seasonality of our business.

And on that, maybe I'll pass it over to Greg to add some further comments.

Greg Guyatt
Chief Financial Officer, OrganiGram Holdings, Inc.

A

Sure. Thanks, Beena. Like I mentioned, we expect consolidated EBITDA, including both Organigram and Motif, to exceed our EBITDA from last year. And like Beena mentioned, the seasonality will play a role here.

We expect Q3 and Q4 to be the time period when that profitability really ramps up. And it's not just the increased volume that we're driving, but also in the back half of the year is when we really start to expect to see the synergies starting to take hold. As I mentioned, we expect to get – realize about CAD 5 million out of the CAD 10 million of annual run rate synergies in the back half of the year. So we'll see that in our profitability.

In terms of cash flow, we expect to have positive cash flow from operations for the end of the year and positive cash flow from operations for the full year by the time we get to the end of Q4. So really, I think [ph] this (00:29:55) quarter we'll start to see some of the benefits, but really the synergies that we'll get through the cost savings and the THCA [ph] diamond (00:30:03) input costs, really that's going to start flowing through in the third and fourth quarter and we'll see a significant benefit from that.

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

Q

Okay. Great. Thanks for the color there. I'll jump back in the queue.

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

Yewon Kang
Analyst, Canaccord Genuity Corp.

Q

Hi. Good morning. Thank you for the question. Just wanted to get your thoughts on the strength of international markets, specifically Germany and the timing of the EU-GMP certification completion in your Moncton facility. So obviously good to see that Germany has seen a 4x growth in its medical programs since April of last year. But lately we've also seen more LPs moving into that space. And given that the certification will be completed by spring of this year, how are you thinking about the growth profile by then versus how it's tracking today? Do you foresee any headwinds related to oversupply in that market, which was something that we've seen in Israel previously? Just wanted to get your guys' thoughts on that. Thank you.

Beena G. Goldenberg
Chief Executive Officer & Director, OrganiGram Holdings, Inc.

A

Yes, no problem. So here's the story. I mean right now there is limited barriers, I guess, to product moving into export markets when you go through converters. So you could get any GACP flower, could move through a converter in, let's say Portugal and get into the market.

But once we get our certification in our facility, not only does that eliminate the middleman, which increases, obviously, our margins and our end customers' margins as they get our product, not only will that happen. As you recall with the CAD 21 million investment in Sanity Group, one of the agreements was our actual demand would go up or Sanity's demand for our flower would go up once we receive our EU-GMP certification.

So really, yes, there's more players moving product in, but we have a strong partnership in Sanity Group. We have a demand that will go up. And certainly, we see the opportunity of taking advantage of that EU-GMP certification, not only in Germany but other markets.

The reality is our investment in our Moncton facility has allowed us to produce high-quality product at a lower cost. So while – right now the margins are really strong on international sales, obviously because they don't have the excise tax on them, there will be price compression in international markets. That's just going to happen as more players are moving product there.

But we have the advantage of a low cost space, a high-quality product that goes out and strategic partnerships with customers like Sanity Group where we know we're going to have increased demand, obviously by taking out the middleman of the converters as well. So we feel pretty good about short-term growth projections on international.

And as I said earlier, there is opportunity to start moving into some of those extract sales as well into markets like Australia that we believe we will have opportunity to expand that access and change the dynamics a bit from just flower exports to vapes or gummies and really expand that opportunity that probably doesn't have the same level of competition as flower does. So we're pretty confident about the growth in our international projections for the balance of this year.

Yewon Kang
Analyst, Canaccord Genuity Corp.

Q

Thanks for the color. If I could just shift gears back to the Canadian domestic market. Obviously, the new federal election is happening very soon. I guess just how are you guys thinking about the impacts of the government changing potentially and specifically its impacts on the excise tax reform that has been recommended by the current government's committee going forward?

Beena G. Goldenberg
Chief Executive Officer & Director, OrganiGram Holdings, Inc.

A

Great question. So look, we spend a lot of time thinking through what the change in government could mean. So if there is a new conservative government, we believe they will be supportive of the industry. Their stance has changed over the years. They will be supportive really to be able to show how they could fix what the Liberals messed up, I think.

Their focus will be on cracking down on crime, their [ph] acts of the tax (00:34:39) and reduction of red tape. And so as you apply that to the cannabis industry, we think there's obviously the crackdown on the illicit market and that conversion, which I think will take a bigger position on than what we've seen with the Liberal government. We expect that we will see a harmonized stamp, so a national stamp across the country, which would eliminate some of the provincial barriers that we're seeing between right now, that is a big news topic with the tariffs. And we do expect to see some other red tape reductions, which they would focus on.

In terms of excise reform that you asked about, I think given their focus on axing the tax, we think that excise tax will come under a part of the broader tax review. And the idea of strengthening the cannabis industry so that we could leverage our first-user advantage and export more products internationally would be sort of supporting our national stance with this whole challenge south of the border.

All that being said, if the Liberals do stay in power, we think the change in leadership in the Liberals will allow an open door for relooking at sort of some of the disappointing results we've seen of the current Liberal government on advancement. We think there will be a heavy emphasis on economic growth and innovation and to counter US economic measures. So for us, we think this could be an opportunity regardless of which government comes in. We think that changing the excise tax rates would help and strengthen our industry. It's an industry that contributes a lot to our GDP.

We need to find other industries that hire people and invest in capital expansion. There's an international demand for cannabis as more and more markets open up to medical markets. We produce great quality product. And I think both possible governments will see the opportunity of leveraging this industry in a bigger way than our current government.

Yewon Kang
Analyst, Canaccord Genuity Corp.

Q

Thanks for the color, Beena. I'll jump back into the queue.

Operator: [Operator instructions] And we have no further questions in our queue at this time. Beena, I will turn the call back to you for closing comments.

Beena G. Goldenberg
Chief Executive Officer & Director, OrganiGram Holdings, Inc.

Well, thank you, everybody, for joining our call today. We're very excited about the quality of our earnings over Q1 of last year and our projections for the balance of this year. We look forward to updating you further in the upcoming quarters. Thanks for joining.

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