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OrganiGram Holdings, Inc. (OGI.CA)

Q1 2023 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning. My name is Rob and I will be your conference operator today. At this time, I would like to welcome everyone to the Organigram Holdings First Quarter 2023 Earnings Conference Call. All lines have been placed on mute to prevent any background noise. After the speakers' remarks, there will be a question-and-answer session [Operator Instructions] Thank you.

Craig MacPhail, you may begin your conference.

Craig MacPhail

Group Director, NATIONAL Capital Markets

Good morning, and thank you for joining us today. As a reminder, this conference call is being recorded and a replay will be available on Organigram's website. 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 today's press release on various factors, assumptions and risks that could cause our actual results to differ.

Further, reference we'll make to certain non-IFRS measures during this call, including adjusted EBITDA and adjusted gross margin. These measures do not have any standardized meaning under 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 also 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 data as of November 30, 2022, pulled on December 21, 2022.

I would like to 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.

Thank you and good morning, everyone. With me is Derrick West, our Chief Financial Officer. For today's call, we'll discuss the results for the three months ended November 30, 2022 and a general business update. We will then open the call for questions.

The first quarter of fiscal 2023 reflected the results of our efforts in fiscal 2022 to enhance scale and efficiencies through facility expansion and productivity improvements. These initiatives will have a positive direct impact on our bottom line. In the quarter as well as a 43% year-over-year increase in net revenue, we delivered our fourth consecutive quarter of positive adjusted EBITDA, positive net income and record adjusted gross margin.

In Q1, we maintained our number three position among Canadian LPs. We were number two in the flower segment, number three in gummies and hash, and again held the number one market position in capsules. SHRED remains a solid and well-recognized brand embraced by cannabis consumers. And we continue to hold the number one position in milled flower by a wide margin. We expect our focus on product innovation, brand revitalization, strong sales execution and advanced plant science will enable us to continue to gain share.

Looking at Provincial Boards Data, we have leading market share in the Maritimes and we're number one in flower, gummies and hash. In Ontario, we had the top three selling SKUs. We were number three in gummies, number two in hash and whole flower, and number one in milled flower and capsule.

In Québec, our sales have nearly tripled compared to Q1 in fiscal 2022. This is partly from the addition of products from the Laurentian acquisition, but also due to significant increased sales of our overall portfolio. Based on data from Weedcrawler, we had the number one hash SKU, we're number one in milled flower, and SHRED was the third largest brand in the province. This national market strength comes from our focus on creating products that excite consumers. In Q1, we introduced 17 new SKUs, including infused pre-rolls such as Edison Grape Crescendo and Tremblant Sweet Cherry.

In November we launched HOLY MOUNTAIN, a new brand in English Canada and Wô Lá in Québec. These brands offer unique strains such as R*NTZ and MAC-1 in 3.5-gram format and pressed hash. They provide us a position in the small pack size value segment that isn't covered by our successful Big Bag O' Buds.

In terms of production, with the 4C expansion complete at Moncton in Q4 of fiscal 2022, we achieved scale benefits from our record harvest in Q1. After the expansion, Moncton has an annual capacity of 85,000 kilograms, but this will increase as we continue to refine our cultivation technology. This includes LED lighting implemented in fiscal 2022 and fractional watering, which is now in place in all grow rooms.

In the quarter, we achieved a yield of 168 grams per plant, a 30% increase over 129 grams in Q1 of fiscal 2022. As a consequence of the larger capacity and improved yields, the company has significantly reduced the cost of cultivation, the lowest cost in our history.

In Winnipeg, we have increased our output for gummies in kilograms by 35% from Q4 2022 to Q1 of 2023. This was driven by the increase of Monjour units in response to high consumer demand. We continue to have great productivity on our packaging line with 35,000 to 40,000 pouches per day production.

At Lac-Supérieur, construction is substantially complete. We expect to begin to move into the new building in February, which will help support the launch of several new exciting hash SKUs. The greenhouse expansion is expected to come online in May. This will take us towards expanding the facility's annual capacity to 2,400 kilograms of craft flower and over 2 million packaged units of hash. As well as expanding and increasing automation at Lac-Supérieur, we are adding staff to the packaging shift to increase production.

Another initiative completed in Q1 was transitioning our medical cannabis business from direct patient fulfillment to having orders completed through Medical Cannabis by Shoppers Drug Mart. This provides a proven and trusted platform for our patients. We remain committed to our medical cannabis business and in Q1, have added 26 SKUs to the Shoppers' channel.

Our Center of Excellence is now active and focused across various cannabinoids to develop and launch new product technologies. One area of activity is supporting discovery and development efforts on novel vapor ingredients and substrates. This research also creates an industry-leading vapor dataset that will serve as a foundation for future development activities, including consumer safety, product quality and performance.

The state-of-the-art BioLab facility has been operational since June. The focus is on developing genetic toolboxes to aid the research of key cannabis traits and accelerate R&D activities. This has already supported several plant science discoveries that will benefit our current plant portfolio and long-term growth strategies. So, overall, this foundation of increased capacity, high quality, efficient production and innovation serves us well in addressing markets in Canada and internationally.

In Q1, we delivered CAD 5.9 million of dried flowers to Israel and Australia. This is a 71% increase over CAD 3.4 million in Q1 of fiscal 2022. On November 17, we signed a new agreement with Canndoc in Israel. This agreement over a three-year term supply allows for the shipments of 10,000 kilograms of dried flower with an option for Canndoc to order an additional 10,000 kilograms. This is a great long-term partnership with Canndoc. The products sold in Israel is dual-branded with Organigram and is identified as indoor-grown Canadian flower, which is recognized as premium product by Israeli consumers.

We also expect to make further shipments to Australia in fiscal 2023 and are looking at other international opportunities.

I will now turn it over to Derrick to present the financial review. And then I will return for some closing comments.

Derrick W. West

Chief Financial Officer, OrganiGram Holdings, Inc.

Thanks, Beena.

As Beena mentioned, in the first quarter of fiscal 2023, we benefited from the increased efficiency and scale we created in fiscal 2022. Gross revenue grew 37% from Q1 2023 to CAD 60.9 million and net revenue grew 43% from the same period in fiscal 2022 to CAD 43.3 million. These revenue increases were primarily due to a higher recreational net revenue, which grew 43% from Q1 of fiscal 2022.

The cost of sales in Q1 fiscal 2023 were CAD 32 million compared to CAD 28 million in Q1 2022, an increase of 13%. The low increase in cost of sales relative to the increase in revenues was due to the lower cost of production that was achieved through higher output from expansion and improved yields.

We harvested approximately 22,000 kilos of flower during Q1 2023 compared to about 12,000 kilos in the same prior year period, an increase of 92%. In Q1, the harvest benefited from the increased annual capacity at the Moncton growing facility to 85,000 kilos. We expect to see similar harvest levels in 2023, which positions us well to meet our Canadian and international sales demand.

On an adjusted basis, gross margin was CAD 12.8 million or 30% of net revenue over the CAD 5.5 million or 18% in Q1 of 2022. The significant improvement in adjusted gross margin was primarily due to the higher overall sales volumes combined with a lower cost of production.

SG&A, excluding non-cash share-based compensation, increased to CAD 15.7 million in Q1 2023 from CAD 12.6 million in Q1 2022. While the total spend increased as a percentage of net revenue, SG&A expenses decreased to 36% from 42% in the previous year's quarter. The increase over the prior period was primarily due to the increased employee head count related to the acquisitions of the Winnipeg and Lac-Supérieur facilities, increased professional fees, ERP implementation costs and non-cash amortization of the intangible assets acquired from the acquisitions.

In the quarter, we achieved positive adjusted EBITDA of CAD 5.6 million compared to negative CAD 1.9 million in Q1 2022. The primary drivers of this significant improvement in profitability were the higher volume of products sold and the lower per unit cost of production which resulted in a large increase to gross margins. Q1 2023 was our fourth consecutive quarter of positive adjusted EBITDA. Based on our outlook for revenue, including international sales and improved efficiencies primarily achieved through scale, we expect this trend to continue.

In the quarter, we had net income of CAD 5.3 million compared to a net loss of CAD 1.3 million in Q1 fiscal 2022. The transition to positive net income is primarily due to higher gross margins along with the fair value gain in biological assets that occurred as a result of the large number of plants now growing in the Moncton facility as a consequence of the 4C expansion.

From statement of cash flow's perspective, there was cash provided from operations of CAD 3.5 million compared to cash used of CAD 9.3 million in Q1 2022. This improvement was primarily driven by the quarter's positive adjusted EBITDA and a decrease to accounts receivable.

Cash used in investment activities in Q1 2023 was CAD 1.7 million compared to cash generated of CAD 54 million in the prior year's comparison period. In Q1 2023, the cash used reflects a net redemption of short-term investments of CAD 5 million, offset by the purchase of property, plant and equipment of CAD 8.4 million. Note the cash generated in Q1 2022 includes proceeds of CAD 60 million from the redemption of short-term investments.

In terms of our balance sheet, on November 30, 2022, we had CAD 95 million in cash and short-term investments compared to CAD 99 million at the end of fiscal 2022. The small decrease is primarily a result of capital expenditures of CAD 8.4 million, partially offset by the cash provided from operating activities.

With Organigram generating positive adjusted EBITDA and the expected completion of the planned CapEx spend during fiscal 2023, we expect to generate positive free cash flow by the end of calendar 2023.

This concludes my comments. I will now turn the call back to Beena.

Beena G. Goldenberg

Chief Executive Officer & Director, OrganiGram Holdings, Inc.

Thanks, Derrick. Before we open the call to questions, I would like to reiterate that our success in the first quarter of fiscal 2023 resulted from the strategic investments we made in our business in fiscal 2022 that helped improve our margin and enabled us to compete profitably in today's competitive industry. This disciplined approach will continue and will help drive solid progress throughout the rest of the year.

Thank you for joining us today. Operator, you may open the call for questions.

QUESTION AND ANSWER SECTION

Operator [Operator Instructions] As a reminder, we ask you to please limit yourself to one question and one follow-up. Your first question comes from the line of Andrew Partheniou from Stifel. Your line is open.

Andrew Partheniou
Analyst, Stifel Financial Corp.
Q

Hi. Good morning. Thanks for taking my questions and congrats on the great quarter here.

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

Thank you.

Andrew Partheniou
Analyst, Stifel Financial Corp.
Q

I wanted to talk a little bit about gross margin, please. I think Q1 was the first quarter where you benefited from the expanded production in Moncton, as you mentioned, saw some great gross margin expansion. And then in the outlook section, you mentioned that it could potentially stabilize from these levels in the rest of fiscal 2023. Please correct me if I'm wrong in interpreting that. But assuming that's what your press release indicates, could you talk about what kind of expectations you have for price compression that could offset your yield improvement and scale benefits that you expect to see in the rest of fiscal 2023? Maybe you could, to the extent that you can, dive down into your assumptions of price compression on the types of products and is this primarily on your domestic business here in Canada or do you see the potential for price compression on your international sales?

Derrick W. West
Chief Financial Officer, OrganiGram Holdings, Inc.
A

Yeah. Thanks, Andrew. I think that we're seeing price compression now in the Canadian rec market particularly around flower. And when we factor that in, notwithstanding we do believe that we can continue to decrease our cost of production as a consequence of just the continued flow-through of the higher yields and in terms of our cost of cultivation that will help our flower margins and as well with the other CapEx spends around automation, et cetera, and the extra margin we should be able to get from Lac-Supérieur based on having improved cost structure there post expansion.

I think that while we – we have room for, all things being equal, we have room to improve the gross margin rate in the Canadian rec business if everything remains equal. But as you know, we do see price compression that could be such that it is equal and offsetting. We're hopeful that it will not be a fully equal and offsetting. But in light of that, we do believe that we can achieve the current gross margin rate that we have now, being the 30%, as we move forward. And if the current price compression is not meaningful as we look at this, then we have room to increase the rate. And, of course, as we continue to grow, which we would expect, knowing the innovation that we continue to do, as sales move up, there'll be more gross margin dollars. But the guidance we've given is specific to the rate of 30%, which we haven't historically provided, but we are comfortable that this is the new normal for us in the climate of the current market and, again, with an offset for some price compression.

Andrew Partheniou
Analyst, Stifel Financial Corp.

Q

Appreciate that fulsome answer. And if I could switch gears a little bit and talk a little bit about the balance sheet inventory biological assets, seeing that you did increase it this quarter, which I think you previously guided to and in line with the production expansion. Could you talk a little bit about your internal planning and what you're comfortable with in terms of the level of biological assets and inventory in any way that you're comfortable with talking about a turnover, absolute dollars or anything like that? And when do you think that inventory biological asset could be a source of cash going forward?

Derrick W. West
Chief Financial Officer, OrganiGram Holdings, Inc.

A

Yeah. I think on the bio assets, the increase that we had from the last quarter and also the gain, it was on the income statement as we measured the fair value growth of those assets, it was a fairly significant percent increase in the quarter to take it up to approximately CAD 21 million now. We are planting in all our available grow rooms now in the Moncton facility. There will be small fluctuations by quarter. But without another expansion or an acquisition of other facility, this is roughly where the bio assets should reach, give or take a few million dollars. So, I think that's a fairly stabilized number.

For inventories, we did see an increase as well. But I think in prior calls and Beena has mentioned a few times that we had demand that essentially outstripped our current production. And so, as soon as we have the available flower ready, it was shipped out, so we were probably running fairly lean – too lean on our inventory levels. So, we are trying to build in a small reserve there – a flower to ensure that we can meet all sales orders as they come in and to maximize sales and profitability. So, I think that inventories are more apt to move slightly north from their current number. But again, I think that some of the increases in inventories are now baked into our balance sheet, but I would expect the inventories to move slightly more than what bio assets would as we look forward.

Andrew Partheniou
Analyst, Stifel Financial Corp.

Q

Thanks for that. I'll get back in queue.

Operator: Your next question comes from the line of Aaron Grey from Alliance Global Partners. Your line is open.

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

Q

Hi. Good morning. Thanks for the questions and nice to see the EBITDA improvement there. So, quick question from me that I have just around the price compression and market share specifically more so for Canada. Can you just give us a reminder in terms of how you think going forward in terms of how you look to balance profitability of the SKUs you're putting out against share? Obviously, it's been a big momentum in terms of the gross margin that you guys have seen, shares were – you guys were not performer, it seems like they might have softened a bit in the past two months, but would love to get a reminder in terms of your outlook on how you're looking at profit versus share. I know it's a little bit of both, but during sometimes you might have to lean more on one versus the other. Thank you.

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

A

Right. No problem, Aaron. So, let me start by saying that it is important for us to continue to see revenue growth, but it's profitable growth, right, and that's important to us. So, we are cautious, and I've said many times on these calls that we don't have a problem competing in the value segment because that's where most of the [indiscernible] (21:20) that's where the consumers are. However, it is not our desire to lead the race to the bottom. We had a little bit of softness at the end of this quarter on our large format 28-gram flower as a result of some competitive activity coming in to the Ontario market at the price floor. We did not match that, but we have made adjustments to our pricing in order to ensure we remain competitive and then the latest four weeks have seen already a rebound into some of that softness that resulted as a result of that price compression.

So, further to what Derrick said earlier, we do anticipate price compression. There is a lot of flower out in the marketplace today, more supply across all the other competitors and us than there is demand. We have heard from other competitors, they're looking at moving production capacity to grow [indiscernible] (22:24). This is the reality of the market, which is what are projecting some price compression, especially in the large format products. And as a result, we adjusted our pricing. That being said, we adjusted it to the point where we are comfortable with the profit that we generate from that business. So, back to your question of market share over profitability, we will be managing that tightly. It's certainly our interest to continue to drive our revenue, but again there will be a continued focus on profitable sales growth.

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

Q

Okay. Great. Thanks for those really helpful answer there. Second question for me just want to switch over to international, another really nice quarter there that we saw the last quarter. So, just on the go-forward, are you guys feel confident being able to maintain or build off that base of about CAD 6 million or so in the go-forward or anything that we should think about? I know some competitors have kind of stalled on Israel, you guys remaining pretty heavy there, talking about your indoor premium flower, which I know is in high demand. So, just your outlook on international would be very helpful. Thank you.

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

A

Yeah. Certainly. Listen, I think we've seen some good growth actually in our shipments to Australia. We increased the number of customers. We have a longstanding relationship with Cannatrek but last year we added Medcan to our customer base and continues to add new cultivars, and interest remains strong from both of our Australian customers. And so, besides the Canndoc agreement that we have in Israel, we have a growing business in Australia. And at the same time, we're looking at other markets. We are in conversations with some customers in Germany. The reality is this is an area of the business that we could not take advantage of last year when we just didn't have the flower capacity and we were operating hand-to-mouth just to supply the Canadian market and our existing international customers. So, by having this excess flower, we have engaged in several conversations and we do have confidence that we will grow our international business and we'll have more to share on that in the upcoming quarters.

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

Fantastic. Thanks very much and I'll jump back in the queue.

Operator: Your next question comes from the line of Tamy Chen from BMO Capital Markets. Your line is open.

Tamy Chen
Analyst, BMO Capital Markets Corp. (Canada)
Q

Hi. Good morning. Thanks for the questions. I've got two here. One is a, Beena, follow-up to the comment you made that you saw some softness. Was it at the end of the quarter or just after the quarter on your large format? And that you made some adjustment to pricing, is that a meaningful adjustment? I wasn't sure how to take that or was it just some modest tweaking on your 28-gram flower?

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

So, in answer to that, the competitive activity came into the market in October. We're watching our off-take and seeing the impact. We did make adjustments that announced the market that didn't take effect in the quarter, but after the quarter ended. So, we have some adjustments to pricing. In terms of whether it's a full scale, listen, it's an adjustment on our 28-gram large format flower, but not to all of our SKUs, so it depended on the kind of turns we had on our SKUs.

So, we're being selective to make sure we remain competitive. We're excited about the fact that we will be introducing our HOLY MOUNTAIN large format offering in this quarter and we will come in with what is – a brand that has been grounded in consumer insights. We're very excited about the opportunity. But we also know that we've come in with the kind of pricing that is the right price for that brand relative to the competitive set. So, I'm not sure I've given you a lot more clarity only to say that I wouldn't say it's a tweak, but it wasn't a whole scale adjustment either.

Tamy Chen
Analyst, BMO Capital Markets Corp. (Canada)
Q

Okay. Well, that's still helpful incremental commentary on that. And last follow-up on this whole pricing discussion. You're being a bit cautious in your guidance, which I understand, with respect to your calling out potential for continued price compression. I was wondering are you able to – like, do you have any sense in your guidance or expectation to sort of magnitude of price compression you are sort of expecting over fiscal 2023.

And within that, I guess, higher level is I think a couple quarters ago you had thought that maybe we were starting to see some stabilization in price, but it sounds like both from your comments today and your competitor that reportedly earlier that this price compression across the industry is still continuing. Do you see at some point it will stabilize? Like, how long do you think it might take to get there? Like, what continues to drive this and when do you think we will be kind of out of this tunnel here? Thank you.

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

Right. I would love to know the answer to that, but let me perhaps address your question in this way. If you look at the overall supply of cannabis in the Canadian marketplace and you look at the size of the market and the demand, there is still a significant surplus of production coming out into the market. And while there is a lot of extra capacity with some of our competitors, they have extra flower, people will do what I might call silly things to get product out and to try to generate some cash from that inventory.

And so, you're right, a couple of quarters ago I thought we had stabilized some flower. We kind of had a few quarters of it that has stabilized. But we really see the – especially the large format flower prices are being compressed now. And I think until the supply and demand gets aligned, this could always be a problem, there will always be somebody out there who might make a move that isn't what I would say the best move for the overall industry, but might be the right thing for them.

From our perspective, we did add capacity, but we were adding capacity because our demand was greater than what we could supply. And so, we have confidence that we have customers for that extra flower capacity, but we have some competitors who are producing a lot more flower than they have demand and that's what's causing the volatility in pricing. Again, when will it stop, when some of that capacity is taken out of the Canadian industry?

Tamy Chen
Analyst, BMO Capital Markets Corp. (Canada)

Q

Got it. Thank you.

Operator: Your next question comes from the line of Ty Collin from Eight Capital. Your line is open.

Ty Collin
Analyst, Eight Capital

Q

Hey thanks for taking my questions and congrats on a great quarter here. I want to circle back to the balance sheet. Beena, could you talk about how you're thinking about your cash position today? You've got CAD 95 million on hand, around CAD 20 million of CapEx commitments remaining this year, and you're expecting to get to positive free cash flow by the end of the year. That does leave quite a big cushion. Should we think about as mostly dry powder for M&A or is there a chance you consider returning some of that to shareholders when cash flow and maybe pricing stabilizes a little bit?

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

A

Yes. I think the answer is, listen, we have still quite a bit of CapEx to spend this year. We've talked about it. As you mentioned, there is CAD 20 million more. As we look at opportunities, we have the cash, so we're able to look at a longer timeframe and look at return on investment capital expense that will help our ongoing margin improvements. So, this is around automation and efficiency driving. So, while we have identified projects currently, we'll continue to evaluate where we could continue to optimize our business, improve our margins, improve our profit in Canada. But certainly, we do have enough cash on our balance sheet to explore other opportunities.

This is going to be an interesting year in 2023. We all know that there – with the tight capital markets right now, a lot of companies are low on cash and there might be great opportunities for us to explore. So we have that optionality in our balance sheet that we will look for the right opportunities and hopefully continue to build what is a great business for us.

Ty Collin
Analyst, Eight Capital

Q

Okay. Great. Appreciate the color. And maybe riffing off your comments on the opportunity set out there, could you maybe update us on how you're thinking about US opportunities might have changed following some of the recent disappointments in Congress, and maybe whether this elevates some overseas investments in the packing order or maybe even turns attention back to Canada in the near term in terms of potential M&A opportunities?

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

A

Right. So, listen, I think we have mentioned many times on these calls that we wanted to establish a solid foundation in Canada. I think we're there. There is the right Canadian opportunity that is what I would say complementary in terms of addressing some under-invest segments in the marketplace we might look at it. But really we recognize that Canada is now in a good position and it's time to look outside the Canadian borders. We are watching Germany closely as most people are. While we saw draft regulations in the fourth quarter, we're expecting to see their final regulation report out by the end of March. And so, Germany is a market that we're looking at, for sure.

As for the US, it is disappointing with all the high hopes for SAFE to pass before the end of the year, and it didn't. But you can't help but look at the US market. It is right next door. And so, we continue to look at the US. And while in the past, we looked at CBD opportunities, as many of our competitors did, because they were available to us with our current TSX and Nasdaq listings. What we've evaluated is most companies who invested in CBD have not seen the benefit of that investment, mostly because it is a highly fragmented market in the US. And until FDA regulates CBD, we don't really see it as a great opportunity.

So, that leaves THC opportunities, which we know we can't do with our listings, but there are some creative ways that people are looking at that market, and we continue to explore opportunities that would be compliant to our listing, and we'll – if we find one, you'll hear about it, obviously, but it's something we're looking at, for sure, because it is an important next evolution for our business.

Ty Collin
Analyst, Eight Capital

Q

Great. Thanks for the questions.

Operator: [Operator Instructions] Your next question comes from the line of Michael Freeman from Raymond James. Your line is open.

Michael Freeman
Analyst, Raymond James Ltd.

Q

Good morning, Beena. Good morning, Derrick. Congratulations on a terrific quarter. I wonder if you could comment on the result of the capacity expansions that you've completed and are in progress, respectively. How that is filtered into your ability to supply some of your most popular brands domestically? You've mentioned having limited supply relative to demand of the SHRED brand products. I'm wondering if you have been able to satisfy demand in some jurisdictions where you previously weren't able to. And also, how this capacity – these capacity expansions filter into your ability to supply international markets?

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

A

Sure. So, [indiscernible] (35:41) yes, absolutely, we talked a lot last year about being hand-to-mouth on our supply and not having the capacity to introduce SHRED to all jurisdictions across Canada. We were able in fourth quarter to finally get shipments to every province. And so, we have now the flower supply to be able to continue to supply those markets.

We were last into BC. SHRED takes – as we've gone into other provinces, it takes a little ramp-up time as people try it, understand it, come back to it. So, we are seeing a ramp in BC and we hope to see even greater demand in that market. So, we do have enough flower now for supplying our current business across the country. And we also have excess capacity to capitalize on some of the international [indiscernible] (36:42) that we've had inbound requests for, but couldn't supply. So, our priority last year was supplying our existing Canadian business and our existing international customers, and now we have a great opportunity to capitalize on some of those opportunities we didn't have the flower for before.

Michael Freeman
Analyst, Raymond James Ltd.

Q

All right. Great. That's very helpful. Now shifting gears to your product and brand mix. I wonder if you could touch on how the launch of the HOLY MOUNTAIN brand has been going, where you see gaps in your current portfolio, and I'd appreciate if you could touch on your pre-roll offerings in this answer.

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

A

So, certainly. So, first of all, on HOLY MOUNTAIN, we're very excited about this launch. We did start shipping the 3.5 gram format and pressed hash format into the market and saw some good response to that. We're very excited about introducing also a larger format flower offering in HOLY MOUNTAIN. And we have some new SKUs that we'll add to that portfolio as the year goes on. In terms of distribution, HOLY MOUNTAIN has just started shipping. We expect that we will be in all of English Canada with Wô Lá in Québec in the next couple of months. So, we'll keep pushing that distribution growth.

In terms of our overall plan, we do have a stronger innovation pipeline for the back half of our year than we had for the front half. I did talk about some of the infused pre-rolls that we have started to ship, but we have some very exciting new disruptive innovation that we plan to introduce in the back half this year, and we're excited about it. So, again, I don't want to tip my hat yet on what they are. But as they come out, I'm sure we will issue a press release. Excited to see the response from consumers, but it really was grounded in significant consumer insights as we built our plan. And I mention this with respect to HOLY MOUNTAIN and with respect to infused pre-rolls as well.

The other thing you asked about was where we might see underdevelopments in some of the segments. In the vape segment, it's no surprise to anybody that we have an under-index on our vapes. We introduced SHRED-X vapes last year and we introduced three to four SKUs. And when you look at our actual sales per SKU, our actual sales are pretty much in line with some of the key other LPs' vapes SKUs out there. Our actual overall share is lower because we just don't have the same number of SKUs out in the marketplace.

So, you could expect to see more vape offerings from us in the balance of the year really to address our underdevelopment, and we're confident we have the quality and the insight on what consumers are looking for. And we've always been probably tighter on our SKU mix than some of our competitors and we recognize that in vape category, more is more, so we will add some items to our lineup.

Michael Freeman
Analyst, Raymond James Ltd.

Q

Okay. Great. That's very helpful. And if you would entertain one more. I wonder if you could touch on your relationship with British American Tobacco and any interactions you might have with them beyond the Center of Excellence, perhaps talks on new jurisdictions, et cetera.

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

A

We have a very strong partnership with British American Tobacco. They are very engaged strategic investors is probably the right way of saying it. We have conversations with them regularly. We have meetings as we talk about not only the developments in the Center of Excellence, which is really sort of that long range research, and we need to talk about what those product – what the work is that we're going to do in the PDC in order to generate both benefits to today's business as well as long-term business.

So, very strong relationship. Obviously, they are a large shareholder, we update them on how our business is going. And in the past, they have been very supportive in terms of helping us in terms of getting some equipment that they have a stronger relationship with suppliers. It's the kind of – it's not day to day by any means, but it's an ongoing discussion that we have with them, and we continue to look at ways to work together in the future.

Michael Freeman
Analyst, Raymond James Ltd.

Q

Fantastic. Thank you very much. I'll pass it on.

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

A

Thank you.

Operator: Your next question comes from the line of Matt Bottomley from Canaccord Genuity. Your line is open.

Matt Bottomley
Analyst, Canaccord Genuity Corp.

Q

Good morning, everyone. Just two questions from me. The first is one of your peers that reported earlier this week was calling for potentially an increase in market share just on the back of less competition as there's a bit of a shakeout for some of the lower-end LPs that aren't as capitalized. I'm just wondering if you think that's something that's reasonable in sort of a 12-month timeframe if you think there'll be some potential tailwinds with respect to the ability to compete for provincial purchase orders. And the second is just your view on the overall total addressable market in Canada, maybe just at the retail level. Do you think that there is any chance of meaningful upside from where we are today without changes from the federal government at this point?

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

A

Great question. So, let me start with the first one. Everybody has sort of heard there are an increasing number of LPs going into CCAA. There is a need for the shakeout. This industry is highly fragmented. And as people run out of runway, run out of the cash, I suspect we'll have more of those that have to exit the market and as a result, a company like ours that has now the flower, the capacity, the ability to supply the market, I do think there is opportunity to grow our revenue and our market share. I think it might be closer to the end of the 12-month period and I think there might be more silly stuff happening in the short term until people really have to throw in the towel. And so, as a result, we're being cautious, but certainly we believe similar to what you've heard that there will be a consolidation in this industry and there is opportunity for those who have scale and who have lower cost to be able to capitalize on the opportunity in the short term.

Longer term, what do I think in terms of the size of the market opportunity, I mean, the market is still growing, right. We're still seeing month over month annualized – I think the latest BDSA forecast is what 13% growth year-over-year. There's lots of market, other commodities or other industries that would love to see a 13% year-over-year growth in the market. So I do think that there is some buoyancy. We had a really strong fourth quarter and everybody knows summer is the largest demand period for cannabis. And we still had some restrictions around COVID and I think we're going to continue to see some opportunities of growth in the marketplace.

But I think long term this is – I'm happy to be in this space. It's really exciting. I think the consumers are going to continue to come. And will the government regulations change to make it easier to compete, I'd love to see the removal of 10 milligram cap on edibles because we have a very strong and thriving edibles business that would benefit from that. We know we're not offering consumers ideally what they're looking for with a cap on 10 milligrams. We look at Colorado market that has edibles at 15% of the market and on average people are buying 100 milligrams at a time. So, there is opportunity certainly if regulations change to address that.

I'd love to see CBD decoupled from THC and the opportunity to sell CBD through pharmacies and natural grocery stores. We have a great brand in Monjour that has pure CBD gummies that could end – with other minor cannabinoids that would be a great opportunity. But again, we all know that regulations take a long time to change. So, we are involved with our industry association, we're at the table at ISED talking about what the industry needs to continue to grow. And I am confident that it will change over time. I just don't believe it will change fast enough for some of the LPs that are struggling today.

Matt Bottomley
Analyst, Canaccord Genuity Corp.

Q

Very great. Thanks, Beena.

Operator: And there are no further questions at this time. Ms. Beena Goldenberg, I'll turn the call back over to you for some final closing remarks.

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

Well, great. Thank you, everybody, for joining us today. We're excited about the quality of the results we've reported, and we look forward to providing further updates throughout the year. So, for everyone, have a great day, and we'll speak soon.

Operator: This concludes today's conference call. Thank you for your participation. You may now disconnect.