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OrganiGram Holdings, Inc. (OGI.CA)

Q4 2022 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 Fourth Quarter and Full-Year Fiscal 2022 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

Thank you and good morning, everyone. Before we start, I would like to remind everyone 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 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 making certain statements leading to market share data, the company relies on reputable third-party providers unless otherwise indicated all references to market data are sourced from Hifyre data as of August 31, 2022 pulled on October 18, 2022.

I would now 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 financial results for the three months and year ended August 31, 2022, and I will provide a general business update. We will then open the call for questions.

Now I joined Organigram in September of 2021 and at the time I said what attracted me to the company was its high quality products, strong brand portfolio and proven ability to innovate to meet consumer needs. This was bolstered by a strong sales team to get products into distribution and efficient operations that would enable us to compete in the large value segment.

I'm happy to report that in fiscal 2022 those strengths proved to be significant and resulted in success on several fronts. In fiscal 2022 we generated net revenue of CAD 146 million, an 84% increase over fiscal 2021. In Q4, our net revenue was CAD 45.5 million, an 83% increase over Q4 2021 and our sixth consecutive quarter of record revenue growth.

We also became adjusted EBITDA positive in Q2 of this year and have delivered three consecutive quarters of positive earnings. Our share of the adult recreational market grew to 8.2% in Q4 fiscal 2022 from 7% in Q4 2021. For the month of October 2022, we held the number two position in terms of market share. According to Hifyre data, Organigram was the only top 5 LP to grow market share in our fiscal 2022. At the end of our fiscal year, we held the number one position in the flower category which represents the largest portion of the adult recreational market.

Also according to Provincial Board (sic) [Boards] (00:04:13) Data, since January, we held the number one position in Ontario in shipped sales with Q4 market share of 8.8%. And in the Maritimes with 14% share in Q4. In Québec, we moved in to the number three position in September as shown by data from Weedcrawler.

We have built SHRED into a recognized brand across multiple categories milled flower, gummies and vapes. It is one of the biggest brands in the country with over CAD 150 million in retail sale.

SHRED also has a solid Net Promoter Score of 77% according to Brightfield based on field surveys from August 4 to September 27. We continue to hold the number three position in the gummies category. This includes SHRED'ems and Monjour CBD-infused gummies and are the number two in terms of volumes sold. In Q4, we had 24.3% volume market share, which means that close to one out of every four gummies sold in Canada was an Organigram product.

In fiscal 2022, we introduced over 60 new SKUs to the market to refresh and optimize our product offering. These new SKUs represented about 30% of our sales in the year, which speaks to our ability to not only innovate but to create products that engage consumers. In Ontario, we have the highest average sales per SKU which is more than double the average of the top 10 LPs showing the efficiency of our lineup.

A great example of innovation is our indigestible extract Edison JOLTS. We introduced JOLTS in August 2021 using proprietary IP and it quickly took the second position in the capsules category. There are now three flavors in the JOLTS lineup and it holds 26% market share.

In fiscal 2022, we also launched our Monjour wellness-focused brand. It was the first large format and multi-flavor offering in this space and quickly gained share. It is now the number one selling pure CBD gummy with a 37% share. We continue to innovate with Monjour by adding new flavors and other minor cannabinoids into our formulation.

We have also been successful at innovating in the value segment. Big Bag O' Buds was introduced in May 2021, in the 28-gram format. It was unique in offering quality high potency strains not typically available on the value segment such as Ultra Sour and GMO Cookies. It was quickly embraced by consumers and received positive reviews on social media.

Now we did not have a presence serving the value segment in smaller pack sizes, which accounts for over CAD 300 million in retail sale. So to address this, subsequent to quarter-end, we introduced a new brand, HOLY MOUNTAIN. Currently we in market with a strains Runtz and MAC-1 in 3.5 grams format as well as PRESSED HASH. I'd also like to talk about our success with acquisition. Compared to the rest of the industry we've taken a very prudent approach to acquiring companies. We look for those that will complement our product lines and have the potential to be accretive to shareholder value.

First was The Edibles and Infusions Corporation based in Winnipeg which we acquired in April 2021, it was pre-revenue and pre-sales licensed, but had a manufacturing facility purpose-built for cannabis induced products with highly efficient state-of-the-art equipment. This provided us with a significant opportunity to disrupt the cannabis edible market in Canada.

We launched three gummy SKUs in Q4 of 2021 and grew that to 14 SKUs by the end of 2022. The three original SKUs continue to grow in sales from Q1 to Q4 by 19%, which we brought new ones from – while we brought new ones to market indicating that the new SKUs attracted new consumers and further built our market position.

We have invested in additional automation at Winnipeg including high-speed pouch packing lines and automated excise stamping. In September of 2021, we shipped 339,000 gummies. In October of 2022, we shipped 3 million, and have the capacity to increase further.

In December, we purchased Laurentian Organic, a licensed producer of craft cannabis and hash. As well as giving us an important presence in Québec, it was a successful operation with accretive revenue and EBITDA. We have committed CAD 13 million to expand the facility to increase its annual capacity to 2,400 kilograms of flower and over 2 million package units of hash.

Construction is expected to be complete by the end of this calendar year. Our new HOLY MOUNTAIN PRESSED HASH is produced at this facility. We added Laurentian's Tremblant Hash to our national distribution and it was available in 10 provinces and 5 months post-close. It has maintained its number one position in the Québec market and is now the number two hash SKU in Canada.

Also a very important contemplated synergy, our new foothold in Québec enabled significant growth of core Organigram SKUs in the province. In fiscal 2022, we achieved a 50% increase in revenue per SKU, and as of September 2022, we increased the number of SKUs in market from 21 to 35.

I'm also pleased with our production success in fiscal 2022. In Q4, we brought all the cultivation rooms in our 4C expansion at our Moncton cultivation center online. We have a 115 grow rooms available to us for the flowering period, which provides an annual growing capacity of 85,000 kilograms.

We have also completed environmental enhancements at the facility with LED lighting in every room. This has resulted in an 11% increase in yield per plant, decreased power consumption per room and a 21% reduction in the cost of cultivation.

We have also introduced fractional watering. It will be available in all the rooms by the end of this calendar year. It has already shown to create further improvements. The result of these efforts have been lower production costs, higher yields and higher potency. In Q4 of fiscal 2022, we had a record harvest of 16,000 kilos, 33% higher than Q4 of fiscal 2021. And yield per plant was 141 grams compared to 127 grams a year earlier.

In fiscal 2022, the Center of Excellence, formed as part of our product development collaboration with BAT, completed all key spaces including the R&D lab and the state-of-the-art biolab for advanced plant science research.

As part of the development the COE has undertaken initial stage developments and safety studies on first-generation edibles and novel beverages as part of its work. The COE has created and set numerous delivery systems and created over 60 unique formulations to develop differentiated products in the future.

Another key strategic advantage for us is a dedicated cultivation R&D space. This new space has accelerated rapid assessments and screenings by delivering 20 to 30 unique cultivars every two months while freeing up rooms for commercial growth.

The plant science team continues to move the garden towards unique, high terpene and high THC in-house grown cultivars while also leveraging the newly commissioned biolab for ongoing plant science innovation. Their focus is on quality, potency and disease resistance to enrich the future flower pipeline.

In fiscal 2022, Organigram established a significant position as an international supplier of cannabis. We shipped a total of CAD 15.4 million of flower to Canndoc in Israel and Medcan and Cannatrek in Australia. This compares to 351,000 of international sales in fiscal 2021. To-date, this fiscal year we have shipped approximately CAD 6 million of the dried flower internationally.

With our expanded capacity at Moncton, we expect to increase our revenue from international sales. On November 17, we entered into a new agreement with Canndoc in Israel. This new agreement over a three-year supply term, allows for of the shipments of 10,000 kilograms of dried flower with an option for Canndoc to order an additional 10,000 kilograms. This agreement speaks to the consistently high quality of our flower and our strong relationship with Canndoc, and allows us to collaborate in the future on other emerging medical cannabis markets in [indiscernible] (00:13:15).

I will now turn it over to Derrick to present the financial overview.

Derrick W. West

Chief Financial Officer, OrganiGram Holdings, Inc.

Thanks, Beena. As Beena mentioned, we achieved record revenue in both the fourth quarter and the full-year for fiscal 2022. Gross revenue grew 81% from Q4 2021 to CAD 66 million. Net revenue grew 83% from the same period in [ph] fiscal 2021 (00:13:41) to CAD 46 million. On an annual basis, gross revenue grew by 86% to CAD 209 million from CAD 110 million in fiscal 2021. Net revenue grew by 84% to CAD 146 million from CAD 79 million in the previous year.

These revenue increases were primarily due to higher recreational net revenue, which grew 64% from Q4 of fiscal 2021 and 78% over the prior fiscal year. The cost of sales in Q4 fiscal 2021 was CAD 37 million compared to CAD 26 million in Q4 of fiscal 2021, an increase of 42%.

Annually cost of sales were CAD 119 million, a 15% increase over CAD 104 million in fiscal 2021. The low increase of cost of sales relative to the large increase of revenues was due to the lower cost of production that was primarily achieved through improved efficiency from automation.

We harvested approximately 16,000 kilos of flower during Q4 fiscal 2022 compared to about 12,000 kilos in Q4 fiscal 2021, an increase of 33%. Annually for fiscal 2022, we harvested 51,000 kilograms, a 76% increase over the 29,000 kilos in fiscal 2021.

The annual capacity at the Moncton growing facility has increased to 85,000 kilos. This positions us well to meet our growing Canadian and international sales demand. On an adjusted basis, gross margin was CAD 10.4 million or 23% of revenue over the CAD 3 million or 12% for Q4 fiscal 2021.

On an annual basis adjusted gross margin was CAD 33.4 million or 23% of revenue as compared to CAD 3.6 million or 5% from the prior fiscal year. The significant improvement in adjusted gross margins 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 Q4 2022 from CAD 12.4 million in Q4 2021. Annually, SG&A was CAD 60 million compared to CAD 46 million for the prior fiscal year. The increased amounts over the periods are largely due to the increased employee head count related to the acquisitions of the Winnipeg and Lac-Supérieur facilities, increased professional fees, ERP implementation cost and non-cash amortization of the intangible assets acquired from the two acquisitions. While there was an increase in SG&A as a percent of net revenue it decreased from 56% to 39%.

In the quarter, we achieved a positive adjusted EBITDA of CAD 3.2 million compared to a negative CAD 4.8 million in Q4 2021. Annually, adjusted EBITDA was CAD 3.5 million compared to a negative CAD 27.6 million for the prior fiscal year. The primary drivers of the significant improvement to profitability were the higher volume of products sold, lower per unit cost of production which increased margins. Q4 2022 was our third consecutive quarter of positive adjusted EBITDA and based on our outlook for revenue including international sales and improved efficiencies, primarily achieved through scale we expect this trend to continue.

The net loss was CAD 6 million in Q4 fiscal 2022, compared to a net loss of CAD 26 million in Q4 fiscal 2021. For the fiscal year, the net loss was CAD 14 million compared to CAD 131 million for the prior fiscal year. The decrease in net loss was primarily due to the increased revenues and improved cost structure along with reductions to inventory provisions.

From the statement of cash flow's perspective, beginning with operating activities there was net cash used of CAD 36 million during the year and this was mainly driven by the increase to our working capital assets which grew as a result of higher sales and production levels.

From an investing perspective, Organigram dispersed CAD 49 million in capital expenditures across our three facilities. CAD 8.4 million in cash consideration towards the acquisition of Laurentian Organic and CAD 2.5 million investment into Hyasynth Biologicals.

From a financing perspective, the company had lease obligation payments of approximately CAD 1 million and raised CAD 6.4 million from the issuance of common shares, which was primarily through BAT exercising its top-up rights.

In terms of our balance sheet on August 31, 2022, we had CAD 125 million in cash and short-term investments compared to CAD 215 million at the end of the prior-year. During the year, the company undertook a significant expansion at its Moncton facility, which resulted in an expected decrease to our cash position.

As we complete our expansion at Laurentian and automation and enhancement investment at the Winnipeg and Moncton facilities, the company expects to spend approximately CAD 29 million for fiscal 2023. The company's CAD 125 million in cash and short-term investment includes CAD 26 million in restricted cash for the Center of Excellence thereby leaving CAD 99 million of unrestricted cash.

With the company now generating positive adjusted EBITDA, we believe that will generate positive cash flow from operating activities during fiscal 2023 and positive free cash flows in calendar 2023. We believe our capital position is healthy and there is sufficient liquidity available to support the growth of the business over the near to medium term.

This concludes my comments. I would like to turn the call back to Beena.

Beena G. Goldenberg

Chief Executive Officer & Director, OrganiGram Holdings, Inc.

Thanks, Derrick. We're pleased with our success for fiscal 2022, which reflects all our efforts in building a leading Canadian consumer packaged goods company focused on cannabis.

With the progress we have made the market penetration we have achieved, our highly efficient production and our innovation platform, we're positioned to deliver our long-term shareholder value. I want to express my gratitude to our Board for their valued support and guidance as well as to our employees for their dedication and ingenuity. We look forward to further success in 2023.

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

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] Your first 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, thanks for the question. First, I just wanted to ask in terms of your thinking on the flower portfolio. It does seem like especially with HOLY MOUNTAIN and Beena you talked a bit about the rationale of launching this, but things like your portfolio continues to be more in value, so I'm just wondering as you go forward, is that where you want to stay for the most part, things are working there or would you consider trying to up price the consumer with some more main stream more premium type products in the future to improve your margins?

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

A

Thanks for the question, Tamy. I think the answer is we're comfortable in participating in the value segment because it's the largest segment in the market and it's important to be able to compete there profitably.

But we do have our Edison brand which is now going through a revitalization to really establish a stronger position in a more premium space. And through the acquisition of Laurentian, we also have the craft opportunity to continue to push the craft flower set. So, we'll have products in all the different consumer segments, flower products, but we have brands to fulfill the value segment because that's where a lot of the volume is.

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

Q

Got it. Okay. And a follow-up for me is, so this quarter in your fiscal year ended in August and some of your competitors that had September end talked about how the disruptions in Ontario from the cyber attack as well as labor strike, I believe in BC and Québec give them a bit of a noisy period, had some disruption on the sales side. So, I was wondering if to the extent you can comment, did you see something similar post-quarter? Thank you.

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

A

Sure, no problem. So, listen, despite the challenges in the market during the month of August of both the cyber attack and the BC strike, we were able to deliver a record net revenue in our fourth quarter. In terms of the OCS, we were proactive with our sales team. They were able to work directly with retailers. So, let them know which SKUs were available in the OCS warehouse, so they were able to get around or be allowed or work within the allowed limits so that we kept up our position and our sales through that period until things got back to normal.

Now I will say we did see some minor impact in September, as we had such strong sell-through in September that it had run down to some minimum volume levels at our distribution centers on our high velocity SKUs. And we had a bit of a delay in replenishment of those. So there was a slight impact but overall, we're very pleased with the results of our quarter and we feel very good that everything is resolved and we're having a solid Q1 as well.

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

Q

Okay. Great. 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

Hi, thanks for taking my question and congrats on the quarter. I just wanted to start off, I am wondering if you could share your views Beena on the structure that Canopy Growth is using to roll out its US assets and whether that's a pathway you are considering for OGI to establish a presence in the US.

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

A

So, Ty thank you for your question and listen every single cannabis company is looking at what Canopy has done in the marketplace. I think it's important to start with that we have been laser focused first and foremost and making sure we have a sustainable and profitable position in Canada, right? And taking advantage of some international opportunities through exports. Now we've looked at the US and in particular in the past we have looked at CBD, but we have been found the transaction that makes sense to us. So, on the THC side, we will continue to develop our market entry strategy. We will pay close attention to the proposed legislation changes and the acceptance of certain transactions from some of our competitors.

So, I guess the answer to your question is, we will enter only when we've determined the risk/reward dynamic make sense for the company and all stakeholders, but we're watching it and we're going to see what works.

Ty Collin
Analyst, Eight Capital

Q

Okay. Great. Thanks for that. And then maybe one directed more towards Derrick, I'm wondering if you could unpack the gross margin rate a little bit for us. It looks like that came in lighter than expected particularly given the significant step up in international revenues this quarter. I'm just wondering how much of an influence maybe pricing and mix were for example. I would appreciate any color you could provide there.

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

A

Sure. Yeah, in Q4 we did have a significant increase over Q3 for the international sales. However, that was actually less than the increase that we had on flower sales in the Rec market which did allow us to achieve the highest Rec sales overall for the company in the quarter, so it was – so the mix was still somewhat heavier with the Rec flower and with the value brands.

But I will note that on an overall basis our gross margin was CAD 10.4 million. It was the highest quarterly amount in the past three years over the last 12 quarters and as well we had the larger harvest now that lowered our cost of production over Q4, but those harvests were just coming off at the end of Q4 and therefore were not part of our cost of sales in the quarter and will be more likely to impact our Q1 margins. But overall, the margin was essentially flat quarter-to-quarter even with the increase in international sales only because the larger regions – our sales went up in the quarter was the extra sales in flower that we have in the Rec market.

Ty Collin
Analyst, Eight Capital

Q

Thanks for that.

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 and thank you for the question. The first question from me is on international, nice to see CAD 6 million of sales you guys had in the quarter. It sounds like CAD 6 million year-to-date as well. I just want to talk about your expectations there more longer term specifically on the Israel market, I know you guys signed the agreement with InterCure earlier this month, CAD 20,000, CAD 10,000 now with an option another CAD 10,000 sounds like CAD 3,000 already delivered, just given some of your peers kind of backing the way from that market, I'd love to get your longer-term view there, I think it's more just the indoor quality that's why you're not seeing some of the pricing pressure as some of your competitions as called out. And just how you're seeing that overall marketplace because I know there have been different views regarding some of your competitors in the Israeli market. Thank you.

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

A

Sure. So thanks for the question. We have a great partnership with Canndoc. The product in the market is dual branded and it includes Organigram and it clearly says indoor grown Canadian flowers. So, we certainly are known for indoor grown and we don't have competitive [indiscernible] (00:28:42) market base. So the quality of the flower is there and well accepted by consumers and we see continued opportunity in the Israeli market.

I think the question on international opportunity you saw the new agreement we signed with Canndoc, but more importantly we've said in previous calls at the position where our demand was outstripping our supply now that we have our 4C expansion complete and we have more flower that we could explore other opportunities beyond our current customers to see where we can export our high-quality indoor grown flowers. So, we're very optimistic about international sales moving forward and looking at other customers and other markets as well.

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

Q

Okay. Great. Thanks for that. And just given lack of [indiscernible] (00:29:33) have international versus Canada. As you look to allocate that extra capacity is it fair to say that you might prioritize some new customers internationally versus what you might have domestically particularly as you are targeting now to deliver more of the value segment in the near-term of the Canadian sites? Thanks.

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

A

No, I think the answer is the reverse. As I said earlier, we really want to make sure we have a sustainable profitable leadership position in the Canadian marketplace. And so over the course of last year we prioritized our domestic market and continued to supply not only the value flower but we supplied our Edison brand that has close to 2% market share. So, we continue to have a brand playing in the premium segment. We're a building capacity at our Laurentian facility and Lac-Supérieur to really participate in the craft flower.

So, we'll have a complete portfolio of products for the Canadian market and we will explore excess opportunities with international markets because we have great quality of flower now we have the capacity to do it. So, I think the priority will still be to make sure we're strong at home and then build from there on opportunities internationally.

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

Q

Okay. Great. Thanks very much for the color. I'll be going back in the queue.

Operator: Your next question comes from the line of Andrew Partheniou from Stifel. Your line is open.

Andrew Partheniou
Analyst, Stifel Nicolaus Canada, Inc.

Q

Hi, good morning. Thanks for taking my questions. Maybe first just to expand on the previous question on gross margin. Correct me, if I'm wrong, but if I understand the better international sales, higher margin international sales were kind of offset by more Rec value flower sales. Just thinking going forward here understanding that expansion is going to benefit with operating leverage and lower production cost going forward. I just kind of want to understand what the uplift potential to gross margin is. As mentioned this quarter it seems value kind of offset international, but is that something that we're going to see less of starting in Q1 of fiscal 2023? And again how, what kind of pickup on gross margin could we see from the expansion here assuming that a lot of your future demand is going to be value focused?

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

A

So 75% of our revenues are in the flower categories. And yes there is a delta between the margins on the international versus domestic as a consequence of the excise tax, which is fairly high on the flower categories for all LPs. And we are selling a large portion of our products in the value brand, however we currently are profitable in that sector in Canada. And that this is really without the benefits of getting to scale, while we are leaving fiscal 2022 with this higher annual capacity from the Moncton facility at 85,000 kilos, at the beginning of the year we're at 45,000 kilos. And the construction was only completed at the beginning of Q4 and now we were planting in terms of a staggered basis, so while we had some benefits to our cost structure through efficiencies, and some automation we didn't really have the benefit to our income statement yet for just a lower cost of production.

But we did indicate that our cost on a year-over-year basis for cost of cultivation has decreased 33%, and that amount will ultimately lower our cost of flower, and – I'm sorry, 23% I apologize. And that will start to benefit our margins across all flower categories in fiscal 2023. And again we didn't see really much of that benefit lift on our income statement for fiscal 2022, so I won't give guidance on the exact margins that can come from this, but our main offering is on the flower categories and the main cost or the cost of cultivation, and we're seeing the significant decrease on the cost of cultivation as we leave fiscal 2022 just based on getting to scale.

Andrew Partheniou
Analyst, Stifel Nicolaus Canada, Inc.

Q

Thanks for that. And then thinking about cash and the guidance that you put out there positive cash flow in fiscal 2023 and positive free cash flow in calendar 2023. First, could you just confirm is this positive guidance more specifically to the entire fiscal 2023 as a whole and the entire calendar 2023 as a whole, or is this achieving positive in any one of those quarters through the fiscal and calendar year?

And secondly just to understand kind of the cadence of what we should expect especially given the working capital increase this quarter? Should we expect a big step change? Is this going to be a little bit more gradual to get to positive and just kind of managing expectations here would be helpful? Thank you.

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

A

Yeah. The guidance that's been given is not for the whole fiscal year. It is that we will achieve it during the fiscal year in one of our quarters. So starting with the operating cash flow, we finished the year with a fairly large increase in sales. We do expect sales to continue to grow. We've significantly increased the production level in Moncton, and if we plan in those realms that we increase our investment in our biological assets, and our inventories. So as we continue to have success in the marketplace with our products, and getting to a higher level of scale, there will be negative cash pressures on the operating activities for the first half of the year. However, we do expect that once we are fully operating at capacity at our facilities that will level off and we're confident that we will have a positive operating cash flow prior to the end of fiscal 2023.

And with regards to free cash flow our main CapEx spend program while significant in fiscal 2022, we are doing further enhancements in automation in Winnipeg and Moncton, and as well with completing the expansion at Laurentian. We expect that to be completed in fiscal 2023. And from there we have now identified large capital projects. It would be more sustaining capital and as a consequence as we get into the first part of fiscal 2024, we would expect a positive operating cash flow with nominal CapEx will lead us to a positive free cash flow, and that's why we indicated that the guidance by the end of calendar 2023, which covers our first quarter of next year – our fiscal 2024.

Andrew Partheniou
Analyst, Stifel Nicolaus Canada, Inc.

Q

Okay. I appreciate that. Thanks. I'll get back in the queue.

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. Congrats on a strong finish to the fiscal year. I just wanted to get kind of maybe more of a stated union on what we're seeing in what's a saturated landscape in just terms of the number of participants in this sector particularly on the cultivation production? So I appreciate all the commentary on how you're positioned and you're pretty much sort of top three in everywhere you're playing, but are you seeing in the shake outs right now. A lot of the commentary you've had from LPs as of late, is there is a bit of a what maybe a bottoming in market share declines that we've seen pretty much across the board and you guys have been making good progress. So are you seeing that as well or maybe there is less competition for wholesales with the provincial boards? Or is this just more specifically where you're choosing to allocate time and effort in terms of the SKUs that you looking that's resulting in these gains?

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

A

Well, an interesting question. So let me start by saying we do see over the course of this last past year that there has been those facilities – cultivation facilities that couldn't compete whether it was on quality or price that have shuttered that has taken some capacity out of the marketplace, but there are other players that are still in there trying to make a go of it. And so we're still going to see some level of price competitiveness in the marketplace. We're comfortable because of our cost base that we could complete in the value segment.

As I said earlier we had products that compete in other segments, but the value segment especially today in the high inflation market is the space where we expect to see the most growth, and we're comfortable participating in that. While some of our competitors have said they only want to participate in the premium segment, not a large enough segment and we'll get economies of scale. And at the end of the day while people are focused on margin percent, the dollars matter that's what you take to the bank, and we are continuing to grow our overall gross margin dollars. So I feel comfortable that the market.

We will have some further consolidations. We've seen some companies going into CCAA. We've seen some shuttered facilities over the last while. This is going to be an interesting next 12 months in the market. We're comfortable in our position in our improved – we're projecting improved gross margin as you've heard Derrick say. And we'll continue to complete in the segments that consumers are finding the right value, so the right quality at a fair price, right.

And so I'm comfortable with our position. In terms of other market share, I mean we're growing in the gummies category. We introduced product, SHRED X Vapes into a segment that we really haven't been participating in leveraging our SHRED brand, and saw some nice growth in that segment. We have more opportunities to build on the Tremblant Hash portfolio, because of the strength of that brand, and that product. So we do see opportunities in other segments.

As Derrick said we're predominantly a flower company right now, and we have great assets that give us great quality there, but we continue to build a portfolio on our two acquisitions that we completed in the last year really has helped us expand our portfolio to some higher margin offers.

Matt Bottomley
Analyst, Canaccord Genuity Corp.

Q

Got it. Thanks. I think I might have dropped, maybe not. I am still on the line, just one more follow-up from me and I know you touched on this a little bit but I just want to make sure I understand the cadence of what's in your guidance as well. So, given calling for a significant increase in adjusted EBITDA over the last fiscal year.

I'm just wondering if you think that the sort of a run rate that you are right now or at least the CAD 3.2 million that you did in this quarter, are you expecting to continue continually see gains sequentially or do you think there will be some volatility in terms of being breakeven and sort of up and above that sort of breakeven levels.

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

A

Yeah. With regards to the EBITDA that we do expect significant improvements in fiscal 2023 compared to fiscal 2022. And but I do note that for the first three quarters of fiscal 2022, we were normally positive and most of the current fiscal 2022 EBITDA was generated in Q4.

We do see EBITDA sequentially improving over the next year. There can be some swings that can depend on mix, but again, generally speaking with the lower cost of production that we will have for next year and with our sales being at the levels that they are, that we think that we can maintain and continue to increase that ultimately we will see that it would increase over the year.

But we can't guarantee one quarter over another at this time so we are not giving guidance specifically by quarter but we would certainly see the year fiscal 2023 being higher than fiscal 2022 in a significant way as a consequence of overall sales being higher and cost of production being much lower than it was for fiscal 2022.

Matt Bottomley
Analyst, Canaccord Genuity Corp.

Q

Got it. Okay. Thanks for all that.

Operator: 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, Derrick and Craig. Congratulations on a terrific quarter and a really impressive year. My first question is on capacity. You indicate you've completed build out of the 4C expansion in Moncton, you're continuing to expand cultivation capacity in the Laurentian facility. But with international agreements looking like they are on a trajectory of growth, there seems to be a continued on that demand in Canada. Can you see even with these capacity expansion projects you've been undertaking reaching, running out of capacity to meet demand both domestically and internationally and if so what routes you might take to address that?

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

A

Well, thank you for the question. I think to start with we continue to look at ways to enhance our yields further so even with the completion of our expansion build out at Moncton, the LED lights only roll through all of our facilities at the end of this past quarter and so the full impact of that benefit isn't yet in our numbers.

As I mentioned – and as I was talking fractional watering will only be complete through the end of the calendar year, so that benefit is still to come. And we work with our plant science group. The work that they are doing on cultivars, breeding, crossbreeding and collection, we're finding cultivars that have higher yields and higher potencies and we'll continue to update our garden with those products.

So, there is upside even to the 85,000 kilograms that we're talking about right now as we work through this fiscal year at our Moncton facility. With that being said and as you also mentioned, we have the capacity at Laurentian facility, there is always the opportunity to go out into the market and buy incremental flower as required to fulfill our sales needs.

We don't anticipate needing it for fiscal year 2023 based on sales but if opportunities come up, we can certainly look at that. There is excess capacity in the marketplace. And again that will be buying product that meets the specifications that we need to have to meet our consumer's demand and the quality of products they're looking for [audio gap] (00:45:19-00:45:26)

Michael Freeman
Analyst, Raymond James Ltd.

Q

Okay. Okay. And if I didn't just drop, I have another question. Thank you for that answer. Now talking about the categories in which you play, Organigram has been a dominant in flower very strong in edibles, the number two and three most important areas, the largest categories apart from these largest categories in the nation are pre-rolls and vapes after that in which by my calculations Organigram stands number 9 and number 12 position respectively among LPs. How is Organigram thinking about these categories, I recognize there is an attention towards vapes recently, we saw some positive movement there. How can Organigram cultivate a right to win in each of those categories if these are aims?

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

A

Right. So, I think a couple of answers here. Look, it's always important to look at all the different categories and where this new opportunities for growth. Certainly pre-rolls is one that we have been and we have held higher market positions where we're [indiscernible] (00:46:41) and at the end of the day no different than our flower demand in fiscal 2022.

We had demand that outstripped our supply. And so we weren't fully pushing on our pre-roll opportunities. Now that our flower is coming in, we have more opportunity to expand our pre-roll offerings and we will continue to do so.

So, we have a strong pre-roll offering under our SHRED brands called Jar of Joints and we have a really good product offering under our Edison brand, our pinners that are dual, we have dual flavored – dual strained offerings under Edison. So, we have good competing offerings. We just haven't been pushing pre-rolls to the extent as a result of our available capacity and that will change going into fiscal year 2023 as we have more flower available.

In terms of vapes as you said, we were not nearly a player in the vape market. We introduced vapes under our SHRED X brand, again leveraging our brand's strength and we saw very strong off-take at the beginning.

Now, we have to find to make sure that we're offering a product that meet both what consumers are looking for at the right price and it is a very crowded space in vapes right now and the market is very highly competitive. So, while we have something to offer that is unique and different. We're in there and we do believe but offering flavors that match our very successful flavors for SHRED milled flower that we had something unique to offer in the marketplace.

But we will continue to explore how we could provide a differentiated offering in those segments, that's part of the work we do both in our R&D group as well as through the Center of Excellence with BAT to look for how to have differentiated offerings.

So, we can come in and really disrupt the market and that's what we're working on behind the scenes while we continue to push on the segments that we have good penetration.

Michael Freeman
Analyst, Raymond James Ltd.

Q

Okay. That's really helpful. And if you could indulge just one more. You mentioned the COE with BAT, I wonder if you could remind us the fate of those products that you develop in tandem with BAT, you mentioned 60 formulations developed and a bunch of delivery systems work done this year, where might we see these products and under what company might these be commercialized?

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

A

Right. So, just let me start off as a reminder to everyone that we have the ability to commercialize all the products and all the IPs that comes out with the COE including through the sublicensing arrangements. So, it's not necessary for us to even have physical footprints in some international markets to monetize the products or the IP that we developed that gives. So, we have the right to do that. And look, we will look to leverage these formulas not only internationally, but also within the Canadian marketplace where the products have differentiated offering that really stands apart.

So, some of the work, some of the signs going on behind the scenes working on improved onset or improved bioavailability, those kind of things. We're working on those and if we come up with products that really will differentiate our products they will be introduced in our SHRED'ems or Monjour brands or into our SHRED X Vapes or whatever the portfolio where it makes sense to continue to build the strength of our brands with differentiated products and to give us a competitive advantage over those that aren't doing the kind of research we're doing in the background.

Michael Freeman
Analyst, Raymond James Ltd.

Q

Terrific. And congrats again. 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 Frederico Gomes from ATB. Your line is open.

Frederico Gomes
Analyst, ATB Capital Markets, Inc.

Q

Yes. Good morning, congrats on the quarter. Thanks for taking my question. My first question is on your guidance for CapEx for next fiscal year so if I got that right you're planning to spend about CAD 29 million, so it seems like you're continuing to materially invest in your automation and in your cultivation, your capability so that stands out compared to what many of your competitors are doing right now in the marketplace. So could you provide a bit more color on the return you expect from that invested capital and why does it make sense to from a capital allocation standpoint to continue to invest at that space in the great market conditions? Thank you.

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

A

Yeah, I could maybe start the answer on that one. I would say that a substantial portion of that capital that we are allocating for fiscal 2023 relates to the planned spend at the Laurentian facility in Lac-Supérieur. We acquired a company that had the capacity for hash over 1 million units a year, and we're looking to double that capacity to 2 million and quadruple the craft flower capacity there while it provide certain automation equipment that will make it more profitable.

So a large portion of that spend relates there and in Moncton and Winnipeg, we're continuing to look at automation that will drive margins everything that we're investing in based upon our outlook on margins has a very quick paybacks and are very attractive but we have not identified anything significant with our current three facilities that we now have going beyond fiscal 2024 this would be just the planned expansion at Lac-Supérieur and final touches to completely automate the Moncton facility and as well and in Winnipeg. I don't know Beena if you want to provide any color there?

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

Yeah. I just wanted to say that listen, we recognized that we have an opportunity to continue to invest to drive significant efficiencies in our operation where some of our competitors who don't have the cash balances that we have had to stop that kind of investment which again provides us with an opportunity of a competitive advantage as we continue to see our cost per gram go down through this investment of automation and other enhancements. So, this is again a long-term play, we're here for the long-term and we believe these are the right investments now to make us continued ongoing improvement in our profitability and really be a leader in the space.

Frederico Gomes
Analyst, ATB Capital Markets, Inc.
Q

Okay. Thanks for that. And then in terms of pricing in Canada, and your average selling prices. So I knows that in the past, Beena you have mentioned that you saw some signs of stabilization here in Canada in terms of pricing but at the same time in terms of net average selling prices that should be bought, we continue to view decline there so could you talk about that dynamic what you are seeing in the market right now and how you expect that to evolve going into 2023? Thank you.

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

Sure. So, thanks for that question. Listen, our average selling price per gram did go down this quarter and that really is attributed to our mix. So, a little bit more of our SHRED flower really as opposed to Edison flower that mix does drive the lower average selling price. But overall, we didn't take any price reductions in the market in Q4, this was simply the impact of mix. There is the drive to more value offerings in the marketplace, right. It's back to the comment earlier about we're in a high inflationary market right now.

Well consumers are not going to use less cannabis, they're going to look for the best value they could buy. And so we have to be aware that that's out there and there is going to be a push to do more larger formats so that 1 ounce or 28-gram format is growing, and it's going to be pricing compression there while companies are trying to attract that consumer. We're comfortable that we have the right cost structure that we can compete in that space and offer competitive 28-gram offerings. At the same time, as we talked about we launched the HOLY MOUNTAIN offering to provide value in some of the smaller formats as well.

So, the smaller formats are going to obviously be priced a little bit higher than the large flower format. So, we'll have that benefit to our pricing but we also have a strong program planned on Edison on the revitalization of that brand and that's important to us. It was delayed this past year because again we had our flower demand was outstripped for our supply. So, we had to delay some of the work we've [indiscernible] (00:56:35) on Edison but we expect that will improve as well. So, I guess for us average selling price is important but it really, it will depend on the mix of our brands. And then our portfolio obviously derivatives have higher prices. So, the more we could sell off our Tremblant Hash that our overall margins will go up and we'll continue to operate like that.

I think a more macro answer to your question in terms of what we see in the marketplace, we'll see some further challenges on especially the large format flower simply because there is still excess capacity in Canada, and so while there is excess capacity, companies might do different things but from our perspective we're comfortable with where we are.

Frederico Gomes
Analyst, ATB Capital Markets, Inc.

Q

Okay. Thanks for that color. And congrats on the quarter again. Thank you.

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

A

Thank you.

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

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

Perfect. Thank you, operator. And to everybody who congratulated us on the quarter, thank you for that. We did have a great quarter and a great year. So, thanks for joining the call today and I do look forward to providing an update on our fiscal 2023 progress in the New Year. Thank you.

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