14-Jan-2020

OrganiGram Holdings, Inc. (OGI.CA)

Q1 2020 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good afternoon. 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, Inc.'s First Quarter 2020 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. We ask to please limit yourself to one question and one follow-up question. You may re-queue if you have further questions. As a reminder, this conference call is being recorded and a replay will be available on Organigram's website.

At this time, I would like to introduce Amy Schwalm, Vice President, Investor Relations. Ms. Schwalm?

Amy Schwalm
Vice President-Investor Relations, OrganiGram Holdings, Inc.

Thank you, operator. Joining me today are Chief Executive Officer, Greg Engel; and Chief Financial Officer, Paolo de Luca. Before we begin, I would like to remind you that today's call will include estimates and other forward-looking information from which our actual results could differ. Please review the cautionary language in our Q1 MD&A and financials regarding various factors, assumptions and risks that could cause our actual results to differ.

Furthermore, during this call, we will refer to certain non-IFRS financial measures. These measures do not have any standardized meaning under IFRS and our approach in calculating these measures may differ from that of other issuers, and so may not be directly comparable. Please see today's earnings report for more information about them.

I will now hand the call over to Greg.

Gregory Engel

Chief Executive Officer & Director, OrganiGram Holdings, Inc.

Thanks, Amy. Good afternoon, and thank you for joining us today. This afternoon, we reported results for our first quarter fiscal 2020, which ended November 30, 2019. I'll provide some overall comments on the quarter, our progress on Rec 2.0 products as well as some views on the industry; and then Paolo will go over the quarterly results in more detail before we open up the call to your questions.

We're pleased with our results in the first quarter of our fiscal 2020 year. As we expected and guided with our last quarterly results, Q1 saw marked improvement from Q4 across a number of key metrics we track to assess our performance. Net revenue grew, our cost of cultivation per gram declined, gross margin substantially increased, and we returned to positive adjusted EBITDA.

Net revenue included wholesale revenue as well as exports to Australia. Despite pricing pressures seen by other Canadian licensed producers with lower quality product, our average selling price to the provinces fared well. It was largely consistent with prior quarters at over CAD 5 per gram when you back out wholesale revenue. This is a testament to our indoor facility, where we have the ability to better control consistency and quality when compared to greenhouses and outdoor grow operations.

We expect to see gradual pricing pressure in the market but are in the enviable position of having one of the lowest cost of cultivation as well as consistent indoor quality product, which better positions us against pricing headwinds. In fact, our Q1 all-in cost of cultivation decreased from Q4 to CAD 0.87 per gram, the cash component of that came in at CAD 0.61 per gram. Overall, we executed well in the first quarter, balancing our existing Rec 1.0 business and ensuring the readiness for Rec 2.0. And this was reflected in our operating and financial results.

We also made progress on a number of other key fronts. As of now, Phase 4A and 4B of our Moncton facility expansion are licensed for a total target production capacity of 89,000 kilos per year, which consist of both dried flower and sweet leaf. We received licensing approval for the remaining 16 rooms in Phase 4B in mid-December, which represents approximately 13,000 kilos per year in additional target cultivation capacity. We've decided to fill these rooms at a slower pace to better match more gradual growth in consumer demand.

As announced with our Q4 earnings results, we have also decided to delay completion of our final Phase 4C for a number of reasons. We believe consumer demand in Canada continues to be suppressed by the lack of retail stores, particularly in the most populous provinces of Ontario and Quebec. We can more effectively manage cash allocation and put some of the capital to better use elsewhere. And the decision to delay completion as originally designed allows us to preserve flexibility to use portions of the 4C space for other strategic purposes. We'll continue to monitor market conditions and believe we can finish 4C in a relatively short timeframe should consumer demand warrant.

Our Phase 5 refurbishment within our existing facility is progressing largely on schedule. We are transforming 56,000 square feet into a multi-functional space. Designed under EU GMP certification standards, Phase 5 plans include an edibles and derivatives facility as well as increased extraction capacities in both CO_2 and hydrocarbons as well as additional areas for formulation, including short path distillation for edibles and vape pen formulations. This past December, we also received licensing approval for the operations area in our Phase 5 refurbishment, which houses our chocolate production line as well as the entire perimeter of that facility.

Our chocolate production line has been installed, commissioned, and in the last few weeks, we completed successful bench trials and some homogeneity testing to ensure the amount of cannabinoid content is consistent in each product. The chocolate line is a state-of-the-art production line, with very high capacity and high throughput, such that we are exploring co-manufacturing and white label opportunities.

In the meantime, we expect to introduce premium quality cannabis-infused chocolate products into the Canadian market before the end of March. We've worked hard at differentiating our chocolate products, sourcing the highest-quality inputs and we plan to offer a variety of SKUs. Our team benefits from deep chocolate expertise and experience at one of the largest chocolatiers as well as research and development done with Canada's Smartest Kitchen. We've already seen great interest from all of the provinces planning to sell edibles. And as I said before, we've received very positive feedback on our chocolates in taste tests, right up there with the top-selling chocolates in the Canadian market today.

Moving onto our first 2.0 product that is now in market, our Trailblazer Torch 510-thread vape cartridges, which began shipping to provinces on the first day allowed by the regulations, December 17 of last year. The cartridges are designed to accommodate a standard 510-thread battery and we currently have three core offerings, Spark, Flicker and Glow inspired by our dried flower and pre-roll products under the existing Trailblazer brand. Trailblazer cartridges are currently available for sale in the following provinces: Ontario, Manitoba, Saskatchewan, New Brunswick and Nova Scotia. It is still early days, but we are seeing some excellent sales traction already and have even received reorders for the cartridges from at least one province.

The release is the first of three stage releases from our comprehensive vape pen portfolio. Organigram has forged partnerships with leading trusted vaporizer hardware companies that have been selected for the commitments to consumer experience and proven track records for producing quality products.

Next, we expect to launch Edison + Feather ready-to-go distillate pens before the end of this month. Feather is a well-known cannabis vape pen company currently selling products in Colorado and we have secured exclusivity with them in Canada. We now plan to launch Edison + PAX ERA distillate cartridges in Q2 calendar 2020, following some further work targeting the optimal customer experience.

Just like our efforts and strategy for Rec 1.0, we're focused on building further brand equity by striving to ensure consistent product availability while still offering a variety of SKUs such that we appeal to all segments in the market.

So, to sum up our Rec 2.0 rollout plans, we are in market with three SKUs of our Trailblazer vape cartridges and we're pleased with the response to-date. We expect to make our first shipment of our three SKUs of our Feather Edison pens as early as next week. And our PAX Edison cartridge, we expect to have out in calendar Q2. Our chocolate Edison truffle bites are expected to be in market soon as well followed by Trailblazer bars and Edison bars.

And rounding out our portfolio 2.0 products is our dissolvable powder product. Our R&D team has developed a proprietary nano-emulsification technology that is anticipated to provide an initial absorption of cannabinoids within 10 to 15 minutes. The technology is also anticipated to be stable to temperature variations, mechanical disturbance, salinity, pH and sweeteners.

The unflavored dissolvable powder formulation is expected to offer consumers a measured dose of cannabinoids, which they can add to a beverage of their choice, while also offering the discretion, portability and shelf-life expected of a dried powder formulation. Phase 5 plans include housing the production equipment for this product for a relatively small capital investment especially compared to a liquid beverage line. The product has generated high levels of excitement from our provincial partners and we expect to launch in Q2 calendar 2020. In short, we're encouraged by our progress on 2.0 and the further growth opportunity from this market. Not only do we have an exciting product line-up for 2.0, we are also introducing new core strains, including Limelight and El Dorado, which have shown good success as previous limited time offers.

I'll take this opportunity to make some overarching comments on the industry. There are certainly positive developments on this front with new retail stores continuing to open across Canada. We know recreational cannabis sales per capita are highly correlated to both the number of stores available to serve a population base as well as the proximity of stores to customers. In this regard, we see positive progress on the horizon in particular as it relates to Canada's largest market Ontario, which alone represents approximately 40% of the Canadian population. Last month, Ontario announced that its taking steps to move to an open market for retail cannabis stores beginning in January 2020. Store authorizations from this open allocation process are expected to be issued beginning in April 2020 at an initial rate of 20 per month. By then, Ontario should already have about 70 stores opened from the previous lottery process.

By way of comparison, Ontario currently only has 27 stores opened. And many industry analysts believe that Ontario can comfortably support over 500 stores. This open market approach will not only ensure more stores are available but market forces will help migrate stores to those operators that are ready to open and in areas that make the most sense from a business perspective.

Québec has also announced plans to double stores and plans to be at 50 soon from the current 33, adding roughly 2 stores a week until they get to 50. And BC has quickly expanded after a slow start to currently have 134 stores. Alberta has been a great example of our successful retail network, with some 375 stores opened to-date and further growth expected. For example, it was reported that Albertans spend three times more on cannabis products and accessories in the legal market than those in Ontario in the first 11 months of legalization. This can largely be attributed to its robust retail network.

The expansion of retail stores represents a significant growth opportunity for the industry and Organigram. It is estimated that Canadians currently spend only about 15% of what those in the US legal state spend per year on legal cannabis, which illustrates the potential of Canada's legal market. This variation in spending is likely not due to Canadians consuming less, but instead related to the different levels of legal spending on cannabis. Additionally, there was a recent article, which highlighted the decrease in beer consumption since adult rec use – rec legalization in Canada, as more Canadians choose to substitute cannabis for alcohol.

This same trend has played out in US legal states, and could even be more of a potential opportunity in Canada, with alcohol prices notably higher than in the US. Furthermore, our products in Canada are well positioned to compete for the consumer dollar in light of the stringent conditions in the Cannabis Act around product safety, additives and mandatory testing. The growth opportunity, however, may not be there for all of the current Canadian producers. Financial distress will be a continuing theme in 2020 as LPs struggle to secure sources of capital.

We believe we are well-capitalized and have a strong liquidity position. As I mentioned, we've returned to positive adjusted EBITDA in the first quarter and continue to be focused on cost control and prudent spending. Unlike some of our peers, our financial results are evidence that we have forged a clear path to profitability.

I'll let Paolo expand more now on our financial position before he takes you through the quarterly results in more detail. And I'll turn things over to Paolo.

Paolo de Luca

Chief Financial Officer, OrganiGram Holdings, Inc.

Thanks, Greg. Upfront I wanted to address our financial capacity, as it is certainly a key topic for all licensed producers in the industry right now. We have always been very careful of ensuring we have sufficient capital and capital sources available and take great pride in keeping our spending in check. We believe we have sufficient capital to execute on our operational expense and plans. As at quarter end, our remaining spend on Phase 5 was CAD 20 million of the estimated budget of about CAD 65 million. Our remaining estimate to spend on Phase 4 was about CAD 16 million, of which CAD 13 million relates to finishing Phase 4C as originally designed.

As Greg mentioned and as we have previously disclosed, we have strategically delayed completion of this final Phase 4C that even if and when we decide to spend the remaining CapEx, we will have the financial resources available.

As at quarter end, we reported about CAD 34 million in cash and short-term investments and still have CAD 30 million in available capacity on our term loan, which remains undrawn today. In addition, we also have a revolver of up to CAD 25 million available to be drawn against specified receivables. Lastly, included in our credit facility is an uncommitted option to increase the term loan and/or revolving debt by an additional CAD 35 million to a total of CAD 175 million, subject to agreement by the lenders and satisfaction of certain legal and business conditions.

As announced with our Q4 results, we made amendments to our credit facility to further improve balance sheet flexibility. We extended the final draw deadline on the term loan from November 30, 2019 to March 31, 2020 to avoid drawing committed portion of the term loan prematurely and postpone the start of the principal term loan repayments to May 31, 2020.

The financial covenants were realigned to be more consistent with industry norms which will provide us with greater flexibility around the timing the amount of drawdowns. Covenants will revert to the original structure on August 31, 2020. During Q1, we filed the base sales prospects for an amount up to CAD 175 million which gives us the flexibility to issue common shares, preferred shares, debt securities, subscription receipts, warrants or units. The purpose of this filing is to shorten the timeline to raise funds if needed and to maintain maximum flexibility.

Subsequent to quarter-end, we established an At-The-Market, or ATM for short, equity program to create further financial flexibility in the small town market. Under the program, we can issue up to CAD 55 million of common shares from Treasury, CAD 55 million of common shares from treasure. Subject to securities laws and stock exchange request, the volume and timing of distributions under the ATM program is determined at our sole discretion. To-date, we have issued approximately CAD 7.3 million common shares for net proceeds of about CAD 22.4 million. This leaves an additional CAD 32.1 million available that could be raised under the program.

Given our cash and short-term investments of CAD 34 million, our CAD 30 million of untapped committed credit facility up to CAD 25 million available under the revolver and a potential uncommitted CAD 35 million under the credit facility, plus the CAD 22 million raised under the ATM, we believe we have created the necessary capital and liquidity cushion to write-off any volatility in the capital markets. As always, we remain committed to disciplined capital allocation as well as a strong cost management culture throughout the organization which we believe we've demonstrated consistently.

Please look at our SG&A in compare to our peers if you need [ph] but (00:16:49) one example. Moving to our quarterly results, net revenue more than doubled from the prior-year quarter to CAD 25.2 million, of this amount about CAD 12.9 million of net revenue was sold to the adult-use recreational market, CAD 2.7 million to the medical market and CAD 9.5 million to the wholesale and international market, with a negligible balance of sales generated from other sources.

Net revenues for Q1 were offset by provision for product returns and price adjustments of CAD 1.1 million that [indiscernible] (00:17:21) are largely related to THC oils that have seen less than anticipated demand in the adult-use recreational market. Estimated Q1 cash and all-in cost of cultivation were CAD 0.61 and CAD 0.87 per gram of dried flower harvested, respectively, which decreased from CAD 0.66 and CAD 0.94 per gram in Q4 2019 as our yield per plant increased from CAD 148 grams in Q4 to 152 grams in Q1 2020 and we kept our cost at check.

Q1 cost of sales remained relatively stable with Q4 2019 cost of CAD 15.8 million but on much higher revenues. Q1 2020 cost of sales benefited from lower inventory write-offs than in previous quarter and lower postharvest costs in wholesale and international shipments.

Q1 gross margin before fair value changes to biological assets and inventory was CAD 9.3 million or 37% of net revenue. As Greg mentioned, we focus on gross margin before fair value changes to biological assets and inventories as one of the key measures to assets underlying performance and generally find business what the investment community tends to attract.

Q1 IFRS gross margin was CAD 11.2 million largely due to fair value changes in biological assets and inventories sold. Q1 SG&A of CAD 9.4 million decreased 32% from CAD 13.9 million in Q4 2019 as expected SG&A declined as a percentage of net revenues to 37% from Q4 2019 as we have previously indicated Q4 2019 was an anomaly. Notably this percentage compares to our efficiency ratio of Q1 in 2019. As Greg discussed, we returned to positive adjusted EBITDA in Q1 generating CAD 4.9 million or 19% of net revenue. Our Q1 net loss of CAD 0.9 million was largely due to our operating expenses nearly offsetting our gross margin as we continue to invest in development of business and launch of Rec 2.0 which should significantly expand the market potential going forward.

I will now turn the call back to Greg for closing remarks.

Gregory Engel

Chief Executive Officer & Director, OrganiGram Holdings, Inc.

Thanks, Paolo. I spoke about the upside potential coming from new products and new stores in 2020. At Organigram, we believe we're very well-positioned to take advantage of this growth opportunity. We have a track record of strong operational execution owed to our deep cultivation expertise and our indoor facility designed and operated to deliver quality product at one of the lowest costs of cultivation among our peers. Not only do we generate near industry-leading yields, we have also seen cannabinoids content in our flower and sweet leaf reach all-time highs to-date which in what we view is the optimal balance.

We also have a team with deep expertise in consumer packaged goods and a relentless focus on offering innovative quality products, both of which we believe are required for success in the 2.0 marketplace. Based on our best estimates, we continue to maintain a healthy market share year-to-date in the adult-use rec market. In part attributable to building brand equity as we strive to offer consistent availability of a variety of SKUs appealing to a number of consumer segments.

Financial prudence and cost management are deeply embedded in our company culture and we remain focused on delivering profitable growth to generate attractive returns for our shareholders. In closing, I would like to thank the team for delivering strong results in Q1 and for all they have done to pave the way for a successful 2020.

With that, concludes my formal remarks. Operator, if you could please go ahead and open up the line for questions.

QUESTION AND ANSWER SECTION

Operator: Certainly. [Operator Instructions] And your first question comes from the line of Rupesh Parikh from Oppenheimer, your line is open?

Erica Eiler
Analyst, Oppenheimer & Co., Inc.

Q

Good afternoon. This is actually Erica Eiler on for Rupesh, thanks a lot for taking our questions. So, yeah, I wanted to start off talking about Rec 2.0 here recognizing it is early, could you maybe talk about what you're seeing by category in the market, you know what product categories is early in the game are performing better than others, and you know what are you seeing, where are you seeing the strongest consumer demand or consumer uptake thus far, and then just also curious how you're vape products are performing in these early days versus other offerings out there in the market?

Gregory Engel
Chief Executive Officer & Director, OrganiGram Holdings, Inc.

A

Sure. No [indiscernible] (00:21:53) questions are good. So, a couple of key points I would make. One is, when we look at certainly the landscape in Canada, there is still a limited number of offerings available under 2.0 products, primarily vape products as well as edibles, and so the category currently we only have our vape products in the market and but as I alluded too earlier, we've seen good response, good online consumer, you know, reviews of the product and as noted, we have already had at least one province reorder very quickly.

So positive response to-date, so good response to vapes overall and for edibles with our chocolates, we have already seen, even though we have not shipped product yet, one of the key large provinces has already tripled the order that they had wanted to play based on the consumer demand that they are seeing in the marketplace. We know in Ontario, for example, that by the weekend, you know this past weekend that edibles were virtually sold out across all of their stores. So very strong demand both on vapes and edibles and that's the predominant 2.0 products that are available in the market, but we – certainly, we have not launched our edibles yet, but in anticipation of that launch, we've had very good response in terms of preorders.

I think certainly, so when we look at what that cycle looks like again, as I mentioned, it's going to be critical to add new stores in Ontario to take advantage of that market opportunity, and that's going to be one of the key aspects for the market growth going forward.

Erica Eiler
Analyst, Oppenheimer & Co., Inc.

Q

Okay, no, that's very helpful. And then just switching gears to the competitive environment, I mean, there is clearly a lot of distrust out there in the market with many [ph] book (00:23:43) players obviously becoming increasingly cash strapped. Do you expect the environment to become more competitive in the near-term as competitors may be forced to sell products at lower prices to generate [ph] new (00:23:56) cash or out of desperation. I mean, maybe you could just talk about kind of how you see some of these dynamics playing out in the near term?

Gregory Engel
Chief Executive Officer & Director, OrganiGram Holdings, Inc.

A

Yeah, we have seen that to some degree today where at least one competitor has really taken significant price drop on their dried flower products to attempt to get a better market position as well as garner some return on their products. I think one of the challenges for any company in that position and it's one of the things that I think differentiates us is when you're – we have very low cash, cost of cultivation and having that ability to produce at a low cost puts us in an enviable position, but we're also producing a quality product and our average selling price is very strong.

The second point I would make is when we look at the 2.0 products, the success of those products is primarily driven by your ability to produce consumer packaged goods, right. So other than vaporizer, vape pen, all of the edible products and any other products is going to be how efficient are you as a producer because certainly the cost of producing a chocolate bar, for example, is much higher than the cannabinoid input that goes into it.

So that's been our focus. And we're very much, and I have spoken about this quite a bit, we see this as a CPG market, we operate as a CPG company, and we want to make sure that we're doing things efficiently so that we can continue to retain as much market as possible. And that's going to separate companies and we're seeing that in the market. I mean, certainly, there has been some mixed reviews on some of the products that are out there and our focus is very much on quality. Maybe Paolo could comment a little bit on the overall financial landscape, if you wanted to.

Paolo de Luca
Chief Financial Officer, OrganiGram Holdings, Inc.

A

Yeah, sure. So thanks, Greg. So just to add to that, I think what's important to recognize here is that we certainly pay attention to the competitive landscape and the financial picture of some of the other companies. If you look at some of the overhead, some of the spending patterns that a lot of our peers have, it's unclear how they can never turn to profitability if they get into this kind of race to the bottom on pricing. So, I think that would certainly be a short-term approach if that's their only lever to pull, and I think what would make a lot more sense for the entire industry is for everybody to resolve to a bit more of a prudent approach to spending so that the business model is reflective of the fact that it's going to take a while for the black market to be displaced. But from our perspective, we think we have a business that is right-sized from spending perspective. I think we are one of the first, if not the first, to show EBITDA positive in the past and certainly we return to by this quarter.

And I would certainly hope that the industry just operates in a reasonable manner and they just think about being more disciplined on their spending because a price war doesn't leave anybody as a winner and I just don't think it's sustainable for the long run, so.

Erica Eiler
Analyst, Oppenheimer & Co., Inc.

Q

Great, thank you for all the color, I'll pass it on.

Operator: Your next question comes from the line of John Zamparo from CIBC. Your line is open.

John Zamparo
Analyst, CIBC World Markets, Inc.

Q

Thanks, good afternoon. I wanted to get some thoughts on the balance sheet and in particular the use of the ATM, just want to get a sense of why you'd rather use this as a vehicle for capitalization rather than the available debt, particular at these valuation levels. And just to confirm, the CAD 25 million revolver, is that entirely at the company's option or do you need to get approval from your bankers for that?

Paolo de Luca
Chief Financial Officer, OrganiGram Holdings, Inc.

A

No. It's not our option but it's dependent on the level of receivables that we have with the provinces. We haven't chosen to utilize that yet because we still have obviously room on our term loan. The at-the-market offering is, as you can see, we raised some money, we haven't raised a ton of money. But part of it is just us even just testing the market to see how it works, and we were certainly cognizant of – there was a lot of essentially a lot of downward pressure on the entire sector in the fall, so we wanted to raise a little bit of money in advance of our earnings just because I think there seems to be a perception out there that we certainly don't share that we have potentially more capital needs I think with the fact that our Moncton Campus construction is in its final stages.

We certainly are comfortable where we're at and the term loan, certainly, we intend to draw most of it, if not all of the remaining CAD 30 million at some point. We got an extension on that so that gives us flexibility, so our goal really here is to have as many levers as possible to pull if and when needed, but right now, we're doing this cautiously and drawing funds on kind of a reasonable basis, but not drawing unnecessary debt that will obviously cost us interest as well.

John Zamparo
Analyst, CIBC World Markets, Inc.

Q

Okay, that's useful. Thanks. Maybe then move to wholesale revenues, and apologies if I missed it in the call, but we had a pretty significant composition of your revenues from wholesale. How sustainable are these? Have you seen them in Q2 to-date and just what should we expect over the coming quarters in the wholesale market?

Gregory Engel
Chief Executive Officer & Director, OrganiGram Holdings, Inc.

A

Yeah, I think we are – John, we certainly as a quality producer and producing at a reasonable cost, I mean, there has been demand. We know that a number of companies have based a significant part of their future on wholesale purchasing, and I think we've heard comments from those companies publicly in the past or at least one of them that they were discouraged with the quality of the product that was available there, and so that's why we had a couple of companies turn to us as a potential source.

So we look to diversify our revenue base and I think we also see this as an opportunity to – we're very focused on 2.0 and certainly, even in the prep in the retail marketplace, not that we're not supporting dried flower, dried flower is always going to be a very strong part or our market, and we know based on the product we have and we talked about launching a couple of new strains and Limelight, the one strain that we're moving towards really national distribution on in the provinces where we have sold it, it's sold extremely well.

So part of the decision to move forward with it was, I would say, in part driven by inbound interest, based on the quality of our product and also for us to look to diversify our base. I mean, one of the challenges we faced in the past, as you know, was some of the inventory management that was happening with – there was a lot of lumpiness and having the ability to kind of diversify your demand rate is more consistent for us in our facility, so it's been a positive for us.

So we do see continued demand. Certainly, our expectation in the future is certain players, it is part of their business case, so it's how they are built out but I'm not sure what that demand will be but I mean certainly in Q2 we do have demand at this point. I can't comment any further on what that demand is, but certainly it's been successful for us and as I said, it helps us diversify our revenue stream.

John Zamparo
Analyst, CIBC World Markets, Inc.

Q

Yeah, okay, understood. And then last one from me, any commentary you can give on market share by region and how it's trended over the past quarter, the past year and in particular Alberta where we do see a more fulsome store built out?

Paolo de Luca
Chief Financial Officer, OrganiGram Holdings, Inc.

A

Yeah, it's probably – listen, our market share is growing in most provinces, we just entered Québec a few months ago, Alberta has been a very strong province for us historically and remains so to-date. We only really get detailed market information from three provinces, Ontario, Nova Scotia, PEI, but we kind of get ad hoc information or kind of anecdotal information on some of the other provinces.

But we're very happy with our national position certainly and I think with the addition of our new streams which have shown very high reception of this by consumers and, Greg alluded to them earlier, Limelight which is a high THC strain which is sold out and they are kind of limited offers that we have had in Nova Scotia and Alberta historically and we're just entering with that strain in Alberta now and Québec shortly and Ontario hopefully next month. So I think you'll see a little bit of bouncing around once new entrants come into our market, but I think what's important is to look at strains and brands that have consistent market share over a sustained period of time, so we're very happy and we look forward obviously to the addition of stores in Ontario where we've had a very good market position historically.

Gregory Engel
Chief Executive Officer & Director, OrganiGram Holdings, Inc.

A

Yeah the only comment I would add, John, I mean certainly in Atlantic Canada we had such a dominant position, we've certainly had declined market shares, new entries and new products have come to market, there was a period of time in the early days as you know in the Rec launch where we were the only product available in one of the provinces at a minimum, but still have a very strong market position, a leading market position but certainly not at the same level we were for the first six months of Rec launch. But again expect to get back to that point or in a strong, continue to have a strong position with our new product entries going forward.

John Zamparo
Analyst, CIBC World Markets, Inc.

Q

Great, okay, understood. That's it for me. Thank you very much.

Operator: Your next question comes from the line of Graeme Kreindler from Eight Capital. Your line is open.

Graeme Kreindler
Analyst, Eight Capital
Q

Yeah. Hi, good afternoon, and thanks for taking my questions here. I wanted to start off with the composition of revenue looking to the filings; it looks like there was a CAD 1 million sales provision recognized this quarter. So I just wanted to go through the particulars in terms of what types of products those were related to, how much of that provision subsequent to the quarter has been cleaned up and what does the outlook look like for any additional provisions moving forward, I guess with any of the products that have been identified in the past as being part of the returns there. Thanks.

Paolo de Luca
Chief Financial Officer, OrganiGram Holdings, Inc.
A

Yeah, Graeme, it's Paolo here. So it's mostly THC oil and we had a provision for it in Q4; we had a bit more this quarter. One of the things that I can tell you, so just answer the last part of your question we don't see any kind of icebergs on the horizon in terms of provisions or returns, there is obviously always going to be dribs and drabs here and there but one of the things that we have done that may be we weren't doing six months ago is much more proactively looking at inventory levels at each of the provinces.

And in particular Ontario which I think if you know, if you have conversations with other LPs have historically had some issues with inventory management, so right now we will be proactive about how much inventory we keep at each of the provinces and we're making sure that we de-risk kind of any large volumes that could bite us in the future.

So I don't see that as an issue right now at all, and but keep in mind we're just launching Rec 2.0 now so there's a whole new learning curve with some of those province, but right now in terms of dried flower and pre-rolls I don't see anything really on the horizon.

Gregory Engel
Chief Executive Officer & Director, OrganiGram Holdings, Inc.
A

Yeah, and maybe I just add, Graeme, a comment on that is we've seen a big shift in order patterns as Paolo was alluding to and particularly in Ontario and Alberta which are the biggest provinces like they are not holding as much inventory as they were historically and so it is much more demand-based and other provinces have gone to a more similar model, right? So you really are and even the approach, I mean I know there was a number of stories about those sort of [ph] less for a while, since OCS (00:36:11) launched with sort of Rec 2.0 products.

They've had to reorder a significant number of products because they started out with very lower inventory so it's a very different approach than historical, which means as an organization, A, we have to be flexible, but B, it also doesn't give you, you don't have the inventory that's going to go in and you know not move and that was part of the issue, right? We had certainly significant large orders for Ontario in particular that did have an impact on exposure and we're not the only company that went through having to take provisions or write-downs, but as Paolo said, we don't see anything else in the inventory levels at this point that provide any significant exposure

Graeme Kreindler
Analyst, Eight Capital
Q

Okay, thank you, I appreciate the color. And then, on a separate note, looking at the gross margin, obviously a very nice improvement in this quarter compared to the previous quarter. I was wondering if you could provide some color on how quickly you think that the gross margin might bounce back towards the historical levels of 50%

plus and with the launch of these derivative products, are you expecting any sort of shorter-term margin headwinds as you get your supply chain down for those products? Thank you.

Paolo de Luca
Chief Financial Officer, OrganiGram Holdings, Inc.

A

Yeah, it's Paulo here, so I would say that look, I mean making a prediction on anything in this industry is always challenging and our margin always is a function of two things, our selling price and obviously our cost of production. On the selling price, we're obviously in a competitive market, so we think that our brands have good stickiness in terms of pricing that we have up there now and we have obviously a sense of what prices we can get on our Rec 2.0 products. I do think it's a fair point on the costing for Rec 2.0 there is a learning, like there isn't at any product launch, so do I think that the margins out of the gate are going to be as good as they will be a year from now, probably not or at least in terms of costing, but certainly we target the margins kind of at that 50% range and that's something that we've hit in the past and given our culture in terms of cost management. Our history of keeping costs under control and just being prudent operators we don't spend a lot of unnecessary money, I think we're best positioned or one of the better positioned LPs to hit those targets.

Gregory Engel
Chief Executive Officer & Director, OrganiGram Holdings, Inc.

A

Yeah, I think just to add, Graeme – Graeme, I'm missing this earlier with Erica call and it was when you look at, again having that deep expertise in CPG with the manufacturing mindset as many of these 2.0 products, especially edibles and our dissolvable powder when we'll bring up to market. It really does come down to how efficient are you producing the food product or the beverage product, right? The cannabinoid cost is marginal and I think that's where we have that expertise, We've invested in the automation and the equipment that will allow us to produce that at a very good – at a low-cost, right, but I mean as Paolo said, there'll be some – there is some R&D process as you go through when you optimize a line and get it going it first and so, but certainly I would say the flipside of that was on B 39:22, so like I mean there was really no, we did some of, we initiated very small formulation batches and then we went right into production batches successfully, so in the chocolate we've had to do a bit more testing but we're already at the point where we're into production batches.

Graeme Kreindler
Analyst, Eight Capital

Q

Okay, thank you. And then, a final follow-up on that, I guess as it relates to Phase 5, I saw there is a disclosure of the remaining budget that needs to be spent at Phase 5, but I'm not sure if I missed it. Are you putting an exact timing of when you're expecting the facility to be fully commissioned for the all the various products or how you're expecting the remaining, I believe it's CAD 20 million to be spent over the next couple of quarters here?

Gregory Engel
Chief Executive Officer & Director, OrganiGram Holdings, Inc.

A

So, it's certainly always dependent upon Health Canada from the licensing perspective. The perimeter of Phase 5 is completely licensed and a portion of it is where our chocolate line is, where some of the [indiscernible] (00:40:18) and some of the packaging is currently licensed. We did make a submission at the end of last year for that expansion space, for the remaining – 100% of the remaining areas within Phase 5. So, that is ongoing investment. And I think certainly our expectation is currently within this quarter and into the early in the next quarter everything will be completed. Again, we are dependent upon Health Canada for licensing, but we've got a very strong historical track record with Health Canada on the licensing process. So, again, it's always helpful that the perimeter is approved. So...

Graeme Kreindler
Analyst, Eight Capital
Q

Understood, thank you very much.

Paolo de Luca
Chief Financial Officer, OrganiGram Holdings, Inc.
A

Thanks.

Gregory Engel
Chief Executive Officer & Director, OrganiGram Holdings, Inc.
A

Thanks, Graeme.

Operator: Your next question comes from the line of Doug Miehm from RBC Capital Markets. Your line is open.

Douglas Miehm
Analyst, RBC Dominion Securities, Inc.
Q

Great, thank you. Greg, when you think about the 89,000 kilograms that you're at right now in terms of production capability, are you going to be running the operation at those sorts of levels, let's say, starting maybe my calendar Q2 of 2020? Just curious about that.

Gregory Engel
Chief Executive Officer & Director, OrganiGram Holdings, Inc.
A

Yeah, I think we've already guided even in this – here that we even when Phase 4B was licensed, we started – we're filling 4B but historically what we would do is start to fill the first room on this first day and then within two days we're filling another room for three days , so we delayed that slightly, so to your point, Doug, so we did not move on the typical acceleration schedule for filling that we have done historically. We will get there eventually. And we have a couple rooms that we kind of have moved in and out of the storage space periodically as well, so we have the capacity to grow that much but we're not necessarily always growing up much, but I think – so, to your point, by the summer, are we going to be on that run rate? Yeah, reasonably yes, but we're not there right now in terms of what's actually and meaningfully available for sale.

Douglas Miehm
Analyst, RBC Dominion Securities, Inc.
Q

Okay. But it's your intention to get to that level by the summer, so that if you had excess supply, you'd have to be selling that into the marketplace on the wholesale basis?

Gregory Engel
Chief Executive Officer & Director, OrganiGram Holdings, Inc.
A

Well, so and also this is why and we alluded to this, right? Our Phase 5 facility is designed and built completely to EU GMP standards. And so, we are working through that process. Again, getting the EU GMP is always dependent upon the regulator, the authority in the jurisdiction you're working with, but certainly starting from scratch, designing the facility to that may provide an opportunity for us to expand more in the international markets. I mean, we have been selling to Australia for a number of years, we're seeing growth in that marketplace, but certainly we're looking at are there other opportunities outside of Canada, so.

Douglas Miehm
Analyst, RBC Dominion Securities, Inc.

Q

Okay. Yeah.

Gregory Engel
Chief Executive Officer & Director, OrganiGram Holdings, Inc.

A

And one of the comments, Doug, and we've talked about this before is we've gone through significant shift in terms of our product mix, so we know it was one of the key aspects of our early success and having significant products in the market. We were able to get feedback on which strains were successful and which strains were high demand and high throughput. So, we have shifted our production pretty significantly towards those as well as designating a certain portion to limited time offers, right? So, we are taking with a portion of our facility [indiscernible] (00:44:08) approach we'll be cycling different genetics through different, something new because there is a certain part of the market segment that's always looking for, hey, what's new and they're kind of more like a [indiscernible] (00:44:18) approach, so.

Douglas Miehm
Analyst, RBC Dominion Securities, Inc.

Q

Yeah, great. And then, Paolo, just a quick housekeeping item. As we look out to the next couple quarters, number one, how will data be presented given the Rec 2.0 products? I imagine you're not going to be talking about grams in that case. And then maybe you could just also speak to, it looks like a decrease in the carrying value per gram for flower and trim relative to August. And I'm just wondering what happened there as well. Thank you, and that's it.

Paolo de Luca
Chief Financial Officer, OrganiGram Holdings, Inc.

A

Yeah, Doug, on the first question, I am actually probably going to wait and see just what – how the industry peers report because they'll be reporting before Organigram given they have – many of the peers have December 31 either year-ends or quarters, but I don't anticipate reporting vapes and edibles in dried flower equivalents, so I have a bit of time to figure out exactly how we intend to report that. But I don't think, especially for edibles, that it's the appropriate measure to show kind of margin analysis just because the vast majority of the cost of an edible is not the cannabinoid, but rather the input ingredients and the packaging.

On your second question, yeah, that's – it's good that you called that, I think it's just where we are into the industry, there certainly is an abundance of trim and sweet leaf available in the marketplace. And from our perspective, we just think it's appropriate to carry that a little lower value given that the market dynamics have changed and there is – certainly, from everything that we are reading, between the Stats Canada reports and other industry analyst that that is not an in-demand products like maybe high-quality dried flower would be. So that's why we've decided to take that as a measure of conservatism.

Douglas Miehm
Analyst, RBC Dominion Securities, Inc.

Q

Okay. Thank you.

Operator: Your next question comes from the line of Neal Gilmer from Haywood Securities. Your line is open.

Neal Gilmer
Analyst, Haywood Securities, Inc.

Q

Yeah, good afternoon. Paolo, maybe just to follow up on some of your comments in your prepared remarks on the operating expenses, obviously, did come down from the prior quarter, which you had sort of an anomaly, any sort of color you can provide us on sort of how you expect that to trend going forward? Obviously, as your revenue grows, I get that it'll decline as a percentage of revenue, but are you expecting more – much growth on an absolute dollar basis as you proceed through fiscal 2020?

Paolo de Luca
Chief Financial Officer, OrganiGram Holdings, Inc.

A

Yeah, look, from our perspective, we're going to, obviously, pull any discretionary spending in check where there is an opportunity to do so, and in particular where we're in an environment where the growth isn't as accelerated as it maybe was a year ago. So, from Q4 to Q1, we were very careful with our spend. It will probably go up a little bit in Q2 just because we're – we launched some marketing campaign that started in December, but again, well on line with where we'd be comfortable having that expenditure, so there will be growth in expenses and we'll toggle it up and down depending on how we view the forecast on sales and how we view the market developing. I can't give you specific guidance, but I can promise you that it is always top of mind for us. And we will match our expenditure to make sure that it's consistent with where our sales are trending and that it's commensurate with the growth opportunities that may or may not exist.

Neal Gilmer
Analyst, Haywood Securities, Inc.

Q

Thanks. And then just a clarification question from when you ran through the CapEx numbers, CAD 20 million on Phase 5 remaining to be spent. And then on the 4C, did I hear correctly it was CAD 16 million, but CAD 13 million of that is what was earmarked for what you plan to do at some point so that you've got a net CapEx right now are expected of CAD 23 million?

Paolo de Luca
Chief Financial Officer, OrganiGram Holdings, Inc.

A

No, sorry, it was of the CAD 16 million, CAD 3 million related – was just at the final piece on 4B and CAD 13 million for 4C. I would say, of the 4C, about half of it we are kind of committed to spend or at least have deposits on equipment and material to spend and the other half, we can defer, but again...

Neal Gilmer
Analyst, Haywood Securities, Inc.

Q

Okay, so in and around CAD 30 million?

Paolo de Luca
Chief Financial Officer, OrganiGram Holdings, Inc.

A

Yeah, CAD 30 million and we're very comfortable with our cash position in terms of all that because we obviously have the CAD 34 million plus the undrawn term loan plus the ATM.

Neal Gilmer
Analyst, Haywood Securities, Inc.

Q

Yeah.

Paolo de Luca
Chief Financial Officer, OrganiGram Holdings, Inc.

A

So from – and we just don't spend a lot of money, so it's not like we'll have some unexpected expense coming through, so we're comfortable from our position and we want to always be in that position where we have sufficient capital resources.

Neal Gilmer
Analyst, Haywood Securities, Inc.

Q

Great, thank you.

Operator: Your next question comes from the line of Rahul Sarugaser from Raymond James. Your line is open.

Rahul Sarugaser
Analyst, Raymond James Ltd.

Q

Great. Thanks. Evening, Greg, Paolo and Amy. Thanks so much for taking my question and congratulations on the strong quarter. So, I just wanted to dig a little deeper on the CAD 9.5 million sold into the wholesale market. And so wanted to ask sort of what volume of biomass was sold in this channel? What was the average price? And given the higher quality nature of Organigram's product, how does your wholesale pricing compare to the spot prices you're seeing out there?

Paolo de Luca
Chief Financial Officer, OrganiGram Holdings, Inc.

A

Yeah, our volume in that market was approximately 2.6 million grams, and so the ASP would have been in the high CAD 3 range. I'm sorry. What was the second part of your question?

Rahul Sarugaser
Analyst, Raymond James Ltd.

Q

No, just the margin, but again, understanding that, again, you're not packaging it, you're not putting labor against it, you're selling in bulk.

Paolo de Luca
Chief Financial Officer, OrganiGram Holdings, Inc.

A

Yeah, so from our perspective, obviously, there is much less labor involved in wholesale and obviously less packaging because we're just shipping in large bags. So, from a margin perspective, it's pretty neutral. From our perspective for the quarter, it was more decision to make sure that we diversify our revenue base, and also, we have plenty of product coming off the harvest schedule. So we're – it was an opportunity to develop those markets, so we look forward to bringing on some other wholesale buyers in this quarter.

Rahul Sarugaser
Analyst, Raymond James Ltd.

Q

Great, that's really helpful, thanks. And then just as a quick follow-up, I wanted to ask for an update on the development of your biosynthesis activities with Hyasynth and, in particular, how you see this as a potential input for your chocolate line both private and white label?

Gregory Engel
Chief Executive Officer & Director, OrganiGram Holdings, Inc.

A

Yeah. So, certainly, we're seeing a lot of focus from Hyasynth right now in terms of optimization before going into commercial production as well as development of – continued development of minor cannabinoids. They've certainly disclosed publicly and we have to be cognizant of that that they've been certainly successful to-date and synthesizing both THCV and CBDV. And they are working on a number of other minor cannabinoids. And I think the combination of producing major cannabinoids at large scale as well as producing unique minor cannabinoids is the future of biosynthesis.

It's challenging to give a timeline because it is, in part, dependent upon the optimization process, but good progress certainly especially on optimization and then on minor cannabinoids as well. So, again, I mean, I know you know the CEO at Hyasynth well, so feel free to reach at him for further color, but we're an investor in the company, so, I guess, that's the most disclosure we could provide at this point.

Rahul Sarugaser
Analyst, Raymond James Ltd.

Q

Fair enough. Great, thanks a lot, thanks a lot. I'll hop back in the queue.

Gregory Engel
Chief Executive Officer & Director, OrganiGram Holdings, Inc.

A

Okay. Thanks, Rahul.

Operator: Your next question comes from the line of Greg McLeish from MRCC. Your line is open.

Greg McLeish
Analyst, Mackie Research Capital Corp.

Q

Hi, Greg, just a quick question. How does the deferral in Alberta change your outlook for your Cannabis 2.0 products, particularly on – well, it's on the vape side, so how does that change your outlook for this year?

Gregory Engel
Chief Executive Officer & Director, OrganiGram Holdings, Inc.

A

Yeah, so you know what's interesting is certainly that was a last-minute change. I mean, there were – certainly, it was unexpected. We knew early about Québec and then Newfoundland kind of, I guess, came out of [indiscernible] (00:52:59) notice as well. What I would say is that, when we look at US states, for example, like Massachusetts that put a hold on vaping products, and once they go through a wholesome review, they're in a position to say, okay, let's release it, Massachusetts did do that.

I think there is a coordination going on here both provincially and federally to understand, as we know, the vaping health-related illness cases out of the US as CDC has reported that they are linked to vitamin E acetate and they're linked to illicit vapes and counterfeits, e-cigarettes, vapes. And the same is true in Canada. There has been 15 cases reported to-date, illicit vape products or counterfeit tobacco products. And I think Health Canada is – there are prohibited substances, vitamin E acetate, propylene glycol, polyethylene glycol. Out of an abundance of caution, Health Canada has also – they haven't prohibited [ph] MCTE (00:53:59) but they have given direction to companies that they would not want to see [ph] MCTE (00:54:04). So I think part of the kind of review process that provinces are going through is just understanding in more detail what the risks are associated with.

So, we're optimistic that at least one of the – or two of the provinces will make a decision to move forward at some point later in the year. And, again, it does allow us because we see chocolates is such a big part to also look to say, can we pivot to that market now without vapes to provide more edible products, right, because we have seen very good response for the edibles in the marketplace.

Greg McLeish
Analyst, Mackie Research Capital Corp.

Q

Great. And just a question on the edibles, I was actually out at a couple stores last week, so I looked at it and for the edibles I was paying anywhere from CAD 0.90 per milligram to CAD 1.46 per milligram, so was at CAD 8 to CAD 12.95 edible. That compares to about upwards of CAD 0.10 per milligram in the black market. How fast do you think we're going to see price compression come down on the edibles to make it more competitive with the illicit market?

Gregory Engel
Chief Executive Officer & Director, OrganiGram Holdings, Inc.

A

I think one of the things – we've heard this now even though in different parts of the country, where edibles – since before Christmas, we've heard in Ontario as well, one of the things that I think we've always known was that a lot of what's stated on an edible in the illicit market may not be factual, right? So, people may think they're buying something, it has this, because we've heard commentary now that people – I know [indiscernible] (00:55:36), for example, on [ph] B&M (00:55:37) today was talking about some of the responses and the surveying work that they've been looking at to see what people's response is for the edibles. So, it's been a positive response. The fact that they're looking for, they've received. And I think that's always the disconnect in an uncontrolled market with the illicit space, they can make a lot of claims but does it actually factually have that product? And I think that's one of the key aspects is understanding that.

I think for people with – that are concerned about contaminants, concerned about quality of the product that they're receiving, I think that's going to be important. And I know a lot of times, we see the media focus on pricing as a differentiator but in the industry, we need to continue to separate ourselves in terms of quality and testing and vigorous controls. And that's not only on edibles but I think on vapes as well, right? Consumers can be confident that they know that all of the vapes from the regulated market do not contain any of these prohibited substances.

Greg McLeish
Analyst, Mackie Research Capital Corp.

Q

Yeah. I agree with you on the vapes because the vape I bought was CAD 0.26 per milligram versus CAD 0.075 for the black market ones. So – and just a housekeeping note, how much – what amount of depreciation was in your cost of goods sold?

Paolo de Luca
Chief Financial Officer, OrganiGram Holdings, Inc.

A

It's typically it's about – the non-cash, the depreciation and the share-based comp is about a quarter, 25%, I don't have the breakdown within that.

Greg McLeish
Analyst, Mackie Research Capital Corp.

Q

So, is it around – because your depreciation number for the quarter was CAD 3.7 million, you said it was CAD 240,000 in the G&A, so is the balance all in cost of goods or is there some spread out in different areas?

Paolo de Luca
Chief Financial Officer, OrganiGram Holdings, Inc.

A

Yeah, if it doesn't look [ph] straight through (00:57:26) the SG&A, it's going into our inventory, which then flows through the cost of goods sold.

Gregory Engel
Chief Executive Officer & Director, OrganiGram Holdings, Inc.

A

Right.

Greg McLeish
Analyst, Mackie Research Capital Corp.

Q

Okay. So, that means that your gross margin without it is up in the high 50s?

Paolo de Luca
Chief Financial Officer, OrganiGram Holdings, Inc.

A

It's – we [ph] had – but the cash gross (00:57:39) margin would certainly be higher than what's reported, yeah, because we have...

Greg McLeish
Analyst, Mackie Research Capital Corp.

Q

Yeah.

Paolo de Luca
Chief Financial Officer, OrganiGram Holdings, Inc.

A

... [ph] non-interest expenses in an absolute basis (00:57:43).

Greg McLeish
Analyst, Mackie Research Capital Corp.

Q

Yeah. All right. Great. I'll get back in the queue. Thanks, guys.

Operator: Your next question comes from the line of David Kideckel from AltaCorp Capital. Your line is open.

Frederico Gomes
Analyst, AltaCorp Capital, Inc.

Q

Hi. This is actually Frederico filling in for Dave. Congratulations on the results and thanks for taking my question. So, it's more of a big picture question. Given current industry conditions, what's your view on – do you expect to see possible increase in the consolidation activity in the Canadian market in 2020? Do you think that might be a key theme going forward?

Gregory Engel
Chief Executive Officer & Director, OrganiGram Holdings, Inc.

A

I think, we get asked this question a lot, so I think there's kind of two aspects to look at it, right, one is there are a lot of companies that are struggling today. We've seen two companies with Wayland and AgMedica file for bankruptcy, insolvency protection, they will not be the last company to do so. I think the capital markets are very tight. I think whenever we look at opportunities to acquire companies, you have to – our focus is very much in terms of do they have technology that differentiates them, what is their costs, what's the rationale for doing an acquisition. So, I think with consolidation, it's really dependent upon what is available, and what the assets are, right? I think, ideally, you want to look at, as you would in any industry, at accretive acquisitions. And if it's not accretive, [ph] does their – it's (00:59:25) their technology or efficiency aspects that come along with it. That's my perspective in terms of how we've approached them. There is well over 200 licenses right now. Many of those companies are not going to survive but it certainly doesn't mean that they'll be acquired or rolled up into other companies

Frederico Gomes
Analyst, AltaCorp Capital, Inc. Q

Okay. Great, thanks.

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

Matt Bottomley
Analyst, Canaccord Genuity Corp. Q

Yeah, thanks. Just wanted to follow up a little bit on your responses to some of Doug's questions about because you have Cannabis 2.0, it's going to be shown in the MD&As across the industry what your plans are for that, so hearing that it's still early stages for that, is there any other color you can give us with respect to maybe the proportion of the retail price that LPs or yourselves specifically is getting? We see typically for dried bud, it's anywhere between 50% or 60% whether you're looking at it net or gross, is that a fair way of looking at it when it comes to the vape pen or an edible in terms of that ratio or is it all over the map depending on availability of the product right now?

Paolo de Luca
Chief Financial Officer, OrganiGram Holdings, Inc. A

Yeah, I'm not sure, but to be – it's probably – if your question is, is the market the same on these products at the level or the margin that we [ph] experience (01:00:50)?

Matt Bottomley
Analyst, Canaccord Genuity Corp. Q

Yeah, I guess, we can see that the high end of vape pens goes for CAD 125 so is an LP getting CAD 50 of that on the wholesale if we use the same proportion for dried bud or is it completely different animal?

Paolo de Luca
Chief Financial Officer, OrganiGram Holdings, Inc. A

From what I understand, my – and I don't have a definitive answer on this, my understanding is the markup model is similar and we've certainly gone through a competitive bid process similar to what we did a year ago with flower, and there's some back-and-forth with the provinces but my understanding is that they're looking to get pretty much the same markup on their end and from our perspective, we're trying to, obviously, make sure that we have sufficient margin that we can live with as producers.

Gregory Engel
Chief Executive Officer & Director, OrganiGram Holdings, Inc. A

Yeah. I'd add, Matt, we've worked in concert with all the provinces and jurisdictions on Cannabis 2.0 products with the exception of Québec at this point, I mean, although we certainly see a tremendous opportunity for our dissolvable powder for beverages there. And I think what we've been cognizant of is, as Greg McLeish asked earlier, what ultimately is your price in the market. We certainly want to make sure that we – it's a partnership approach, so that when you're looking at pricing, you're looking at margin, is it going to come at a reasonable price but there is some slight variations, a couple of provinces and – have taken a little bit of a different approach by category. We have seen, for example, already some differences on taxation, right? We know BC has taken an additional tax on vapes as part of their e-cigarette tax. But I think in general the market margin approach should be [indiscernible] (01:02:33) very similar based on our pricing going in, but yeah, there may be exceptions to that. And I think one certainly – there is also going to be that period of time – we saw this on gel caps for example, right, the gel caps that company – we didn't have gel caps, but companies that had gel caps out in the market. At the end of the day, they were priced too high and they were in conjunction with companies, they pulled back pricing, right? Was there consumer pushback on it? And it was. So – but at this point, pricing has not seemed to be an issue. I think except for the – you mentioned kind of some of vape products that are well over the CAD 100 mark, that might be out of reach for a lot of people but it depends on what the product is, so...

Matt Bottomley
Analyst, Canaccord Genuity Corp.
Q

Got it. And then maybe just one quick follow-up, looking into the next quarter or two, obviously there's a dynamic process going on right now, where it seems like the – and this may not impact Organigram as much, but it seems like there is a huge influx of inventory coming in for dried bud at these wholesalers that might [indiscernible] (01:03:34) growth of provinces rebuying or buying more dried buds, and then you have Cannabis 2.0 that's sort of coming online at the same time. So, given the fact that you had significant wholesale this quarter that you could tell me if you can in terms of the magnitude that that might repeat. I imagine it to be lower, so is that going to be offset by what's happening in Cannabis 2.0 or can you just maybe tighten up some of those dynamics with respect to what's happening right now on those levels?

Gregory Engel
Chief Executive Officer & Director, OrganiGram Holdings, Inc.
A

Yeah, so I think I'll answer that in two ways, Matt. One is that we've had companies approaching us about purchasing wholesale product, right? Because they have had challenges, they purchase product from other companies, this is [indiscernible] (01:04:21) business model and we've chosen in past not to do so because of the quality of our product, right? So this has been very much driven by consistency, quality, opportunity. So, I believe – certainly we already know in Q2 that we continue to have wholesale sales. Will that continue at the same level? I think it's really dependent upon the other product because there is – we all know there are big differences in terms of product quality. The second point to Cannabis 2.0 is we are striving, we're given as much guidance as we can to when we are going to launch different products with the Feather product as well as our chocolates and our future sales of PAX but I mean always you are – it's timing issue but certainly the demand is there and when you get a product out. So, that's why we are not giving guidance for Q2 at this point because it can have a significant fluctuation based on an order day. We saw that happen in the past, right, where significant order went out – in one quarter went out two days before the end of the quarter landed, was counted in the quarter. And in another instance, we shipped to Québec a couple of days after the quarter, right? So, those can have big variations in revenue on a quarterly basis. And I think you have to look at trends and look at kind of what goes – things are going forward.

Matt Bottomley
Analyst, Canaccord Genuity Corp.
Q

Perfect. And, sorry, just within that answer, are you able to comment on if the provinces are decelerating the purchases of the dried flower given where inventory levels are at the provinces?

Gregory Engel
Chief Executive Officer & Director, OrganiGram Holdings, Inc.
A

So, I would say, they were – I think in general, overall, they're not – they haven't decelerated but they haven't – they're not holding as much inventory, right? So, there's still demand for flower. What's interesting with 2.0 is it's brought a lot of new consumers into the store as well as people from the black market now looking, so we – but we have seen their general inventory levels decline but their order frequency increasing.

Matt Bottomley
Analyst, Canaccord Genuity Corp.
Q

Got it. Thanks a lot, guys.

Operator: And we only have time for one more question. Your final question comes from the line of Justin Keywood from Stifel, GMP. Your line is open.

Justin Keywood
Analyst, GMP Securities LP
Q

Thanks for taking my questions and glad to get it in. Just with the Ontario market opening up with many more stores, I'm wondering how does the sales and marketing strategy evolve here. Will you be making more investments to maintain or gain market share or are there any new initiatives to implement?

Gregory Engel
Chief Executive Officer & Director, OrganiGram Holdings, Inc.
A

So, Justin, and thanks for the question. So, I think when we had anticipated certainly in advance of the Rec launch, we have a national sales team across the country, we also have training group that focuses on training budtenders and staffs, so it's a combination of sales and training. And we have been fully staffed up for Ontario since day one because they kept giving signals, they were going to expand, so we already have the footprint.

And our focus very much continues to be enhancing the retail experience, working with the retailers to make sure that they understand our products, we do do some marketing in-store depending on the province. In Ontario, that is allowable, so you do see some but it's limited in terms of the spend, it's really more about the sales team and the trainer spending time as well as providing tools, right? We were very early, we're the first company to have a [indiscernible] (01:07:58) guide out that's routinely used across all the stores and things like that. So, as the store footprint grows, yes, at a certain point, we will have to expand the sales force but we certainly have a pretty good footprint today versus the next six months in terms of the number of stores.

Operator: Ladies and gentlemen, this concludes today's call. We thank you for your participation. You may now disconnect.