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OrganiGram Holdings, Inc. (OGI.CA)

Q3 2020 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning. My name is Lisa and I'll be your conference operator today. At this time, I would like to welcome everyone to the Organigram Holdings, Inc.'s Third 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 that you 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, please go ahead.

Amy Schwalm

Vice President-Investor Relations, OrganiGram Holdings, Inc.

Thank you, Lisa. Joining me today are Organigram's Chief Executive Officer, Greg Engel; Chief Financial Officer, Derrick West; and our Chief Strategy Officer, Paolo de Luca. Before we begin, I'd 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 today's press release 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 these measures.

I will now hand the call over to Greg.

Gregory Engel

Chief Executive Officer & Director, OrganiGram Holdings, Inc.

Thanks Amy. Good morning and thank you for joining us today. This morning we reported results for our third quarter which ended May 31, 2020. I'll provide some overall remarks in the

quarter and discuss some recent product launches, and then Derrick will take you through our financials in more detail.

All three of us will be available to answer questions following our prepared remarks. Our Q3 fiscal 2020 results reflected some challenges that we have had and that the industry has faced as

well as those that were exacerbated by COVID-19. Some of these headwinds are temporary but we have taken several key actions as an organization which we believe will lead to improved results

moving forward.

As we have continued to see progress in the efforts to contain COVID-19 in Atlantic Canada, it is important to keep in mind that New Brunswick, where our facility is located, took early and decisive actions in the battle against COVID. Since the start of our Q3, aligned closely with the actions taken in the province as well as actions taken by our organization to protect the health and

safety of our employees and their families, our ability to launch new products according to our original plan and supply existing product lines was hindered.

For example, we need to pause pre-roll production, a product line which comprised 14% of our revenue in our Q2 2020. Recall that for most of Q3, the company was working with a

substantially reduced workforce. As a result of the global pandemic, we announced in early April that about 45% of our workforce were temporarily laid off in an effort to protect the health and safety of our employees and allow for physical distancing within the facility.

While we began recalling some of the temporarily laid off employees in mid May, ultimately laid off approximately 25% of our workforce in order to better align with prevailing market conditions. Not unlike many of our peers, we had overbuilt and we are overproducing for the current market

demand, which resulted in the asset impairment and some of the inventory write-offs we faced this quarter.

However, we have a strong track record, and proven history of managing our cost compared to our peers. Notwithstanding the write-offs, many of them noncash to the quarter, we were able to generate positive operating cash flow in Q3. We were able to do this even before we rightsized our labor force and despite softer revenue in the third quarter.

Now, we are moving forward with a leaner workforce and only modest capital investments remaining to complete the plans for our facility, and to drive the top-line, we have a very focused strategy, one that prioritizes competing successfully in the dried flower market in Canada which is the largest product segment in cannabis and a strategy that ensures a continued focus on Rec 2.0 products as that market evolves.

We are in the middle of the revitalization of our product portfolio and have launched a number of new products with more to come in the near-term, which we believe have the ability to compete with the market leaders in their respective categories. We estimate 18 additional SKUs will be launched in the next six to eight weeks alone.

Now, I'll provide a little more context on revenues and gross margin for this past quarter. As we disclosed in our press release earlier this month, net revenue declined sequentially from Q2 largely due significantly less wholesale revenue as order slowed.

To date in Q4, we have already seen reorders for wholesale revenue and recorded wholesale revenue. In Q4 fiscal 2020, we also expect to start shipping to Canndoc subject to the receipt of an export license. Canndoc is one of Israel's largest medical cannabis producers. Under the terms of the agreement with them, we will provide a guaranteed 3000 kilos by December 31, 2021 for processing and distribution into the Israeli medical market. We may provide an additional 3000 kilos during the same time period at their option. Q3 adult recreational revenue was up slightly from Q2. Excluding provisions, Q3 rec revenue increased 14% from Q2 2020. We have conducted consumer research and leveraged the detailed analysis of consumer purchasing behaviors in an effort to better align our products with evolving consumer preferences.

Although, we launched a number of new products in Q3 fiscal 2020, as previously noted, some product introductions were delayed from the original expectations due to the impact of COVID-19 on commissioning equipment and/or due to our reduced workforce. We have noted the significant growth in the dried flower value segment of the adult use recreational market, including the larger SKU format offerings.

Competition continues to intensify and new entries have caused substantial market share shifts within the segment as well as an overall shift from the mainstream to value segments within the dried flower category. Value price products in larger format sizes became increasingly popular during the pandemic as consumers look to pantry load in the early stage and later became more comfortable with ordering online.

We expect this trend to continue during the pandemic. Unfortunately, our increased offerings in the value segment and in the larger SKU formats were later to launch than we had expected. This was primarily attributable to our reduced workforce and delays on packaging equipment and some new packaging materials due to the COVID-19 disruptions impacting the global supply chain in the late winter to early spring.

Notwithstanding these comments, we have and continue to roll out value and large SKU offerings. During the last week of April, we launched Trailer Park Buds, our first value price product in the large format size of 28 grams. We believe we're offering a differentiated product which doesn't just compete solely on price. Trailer Park Buds is a strain specific, dried whole flower and is indoor-grown, unlike much of the greenhouse competition.

It's been very well received since its launch and sold out in many of the early entry provinces. After discussion with Health Canada following the launch, we decided to name changes to the brand and the logo. There was about a month of supply disruption while we changed the interim branding from Trailer Park Buds to simply Buds.

In Q3, we had listings in Alberta and five other small provinces and launched in Ontario last week where you will see the interim Buds brand until we have the new permanent brand name in market.

Buds should be available on the OCS website in Ontario retail stores later this week. For Quebec, our value line in the large format offering is expected to be under the Trailblazer brand and anticipate it to launch in Q1 of fiscal 2021. The Trailblazer brand was our only value priced offering until now in the 1 gram, 3.5 gram and pre-roll formats.

We recently launched Trailblazer dried flower in larger formats sizes of 7 gram and 15 grams. The brand offers higher THC potency from when we originally launched Trailblazer just after rec legalization at competitive price point.

Subsequent to quarter-end, we also began rolling out further line extensions on our Edison branded strains. Specifically, in June of 2020, we extended our most popular strains such as Edison Limelight and Edison Blue Velvet to offer new size formats and three pack pre-rolls. Lastly, we anticipate launching new core strains with higher potency THC in Q4 2020. These new strains will be sold under the Edison brand and will infuse novelty to the brand.

Turning to the Rec 2.0 market in Canada. During our fiscal Q3, we launched our premium vape product, Edison + PAX ERA cartridges, the last of our vape products to launch and rounding out our vape portfolio which addresses the value mainstream and premium segments of the market.

We're excited about the upcoming launch of our high-quality value chocobar under the Trailblazer brand. This will be our second product offering in the chocolate category after the introduction of our premium Edison Bytes earlier this year. We believe that Trailblazer chocobar is superior quality to the current leading value brand and will be available at a competitive price point. The bar will be available in two flavors, first mocha chocolate and soon thereafter mint chocolate and both expected to launch in Q4 fiscal 2020.

We now expect to launch our powder beverage product in Q1 fiscal 2021, after facing delays in part due to COVID-19. As we have said, there has been a lot of interest from provincial category buyers in this product. We acknowledge the beverage category is still relatively small, but it's been fast growing. This dissolvable powder can be added to a beverage of the consumers' choice, and is anticipate to provide an initial absorption of cannabinoids within as few as 10 to 15 minutes.

In summary, we have a lot of new entries into both the dried flower market and the Rec 2.0 market in Canada. We look forward to them gaining traction over the coming months. The consumer walking into a retail store or visiting online website [indiscernible] (00:10:13) this year should see an improved and expanded product offerings from Organigram compared to earlier in calendar 2020.

I'll now turn the call over to Derrick to go through more details on our financials.

Derrick W. West

Chief Financial Officer, OrganiGram Holdings, Inc.

Thanks, Greg. I will go a little deeper into our quarterly results and discuss our financial position. Third quarter, net revenue was CAD 18 million compared to CAD 24.8 million in Q3 2019, primarily due to lower flower sales volumes and a lower average net selling price as well as a net provision for sales returns and price adjustments of CAD 3 million.

Sequentially, Q3 net revenue decreased from Q2 largely due to less wholesale revenue as Greg mentioned. Q3 adult use recreational net revenue of CAD 15.3 million was up slightly from Q2 Rec net revenue of CAD 15 million.

Excluding provisions, Q3 net revenue increased 14% sequentially to CAD 18.3 million from CAD 16 million in Q2. Q3 2020 cost of sales was CAD 44.4 million compared to CAD 12.5 million in the same prior year quarter, primarily due to non-cash inventory provisions and COVID-19 related charges. We wrote-off CAD 19.3 million in excess and unsaleable inventories of which CAD 11.9 million consisted of a provision related to excess trim and concentrate.

While we haven't [ph] destroyed (00:11:43) the inventory provided for, we have determined that this inventory could not be sold within a reasonable amount of time. Another CAD 2.87 million related to inventory write-downs to an estimate an net realizable value on account of declining market prices. Lastly, CAD 7.9 million of charges related to a reduced workforce due to COVID-19.

This amount was comprised of CAD 5 million for plant culling, due to an insufficient workforce to manage plants in various stages of their growth cycle, CAD 2 million in unabsorbed fixed overhead as a result of lower production volumes, and CAD 0.9 million mostly for lump-sum payments to temporarily laid off workers to bridge them until they could receive their [ph] served (00:12:23) benefits.

Gross margin before fair value changes to biological assets and inventory sold was negative CAD 26.4 million compared to a positive CAD 12.3 million in Q3 2019. This was due to lower net revenue and higher cost of sales as I just described.

In Q4 2020, we do expect an improvement to gross margin before fair value changes to biological assets and inventory sold as we anticipate there will be fewer inventory provisions than as compared to Q3 2020.

As indicated in prior quarters, we do expect some production inefficiencies to persist and impact gross margins in the near-term while we continue to launch new Rec 2.0 products and optimize production. Our portfolio revamp is only partially complete and we expect to gain efficiencies when the product launch schedule normalizes.

A negative non-cash adjustment to cost of sales for unabsorbed fixed overhead cost is also anticipated to persist since we intend to cultivate less than the target capacity of our facility for the foreseeable future.

In Q3, we decided to indefinitely defer the completion of 4C as originally designed. Phase 4C has been partially completed but without any foreseeable near-term use for the space we recognized an impairment charge of CAD 37.7 million in the third quarter.

As we previewed in our July 3rd press release, Q3 2020's SG&A expenses of CAD 10.3 million decreased approximately 26% sequentially from the CAD 14 million in Q2 2020.

Our Q2 included marketing and other costs related to the initial launch of our Rec 2.0 products. SG&A in Q3 2020 increased from CAD 9.1 million in the prior year's quarter as we continued to scale operations for ongoing Rec 2.0 launches as well as due to some charges related to COVID-19.

Unique to this past quarter, we recognized government subsidy income of CAD 3.2 million which related to the Canada emergency wage subsidy paid to eligible employers whose business has been impacted by COVID-19.

For Q3 2020, we're reporting a negative adjusted EBITDA of CAD 24.7 million compared to Q3 2019's adjusted EBITDA of CAD 7.7 million. The current periods of negative gross margin before fair value changes was primarily due to the aforementioned inventory provisions and adjustments in the cumulative amount of CAD 22 million.

For Q3 2020 we were reporting a net loss of CAD 89.9 million compared to a net loss of CAD 10.2 million in Q3 2019. This was primarily due to the negative gross margin combined with the non-cash impairment charge for property, plant and equipment.

As Greg mentioned, we generated positive cash flow from operating activities of CAD 8.5 million in Q3 2020. This was accomplished through the amortization of receivables and inventories and a deliberate decision to calibrate our investment in cultivation and inventories to a level that better matches our near and medium term needs.

We ended the quarter with CAD 44.8 million in cash and short term investments and have continued to strengthen our balance sheet subsequent to quarter end. Also worth noting, we only had CAD 4 million of remaining CapEx at the quarter end needed to complete our existing plans for Phase 4 and 5 of our Moncton campus facility.

During Q3 we successfully amended our credit facility agreement such that we could access a CAD 30 million in available capacity on our term loan.

We raised money under our at-the-market or ATM equity program announced in April of 2020. In Q3 under the ATM program, we issued about 14 million common shares for gross proceeds of CAD 31.1 million at a weighted average price of CAD 221 per common share. The net proceeds were CAD 29.8 million after agent commissions and other fees.

Subsequent to quarter end the ATM was completed with the final raise of CAD 17.9 million in gross proceeds on the issuance of about 7 million common shares. We also drew down the remaining CAD 30 million available under the credit facilities term loan.

As at July 17, 2020, excluding the CAD 8 million GIC that is the restricted investment, the company had approximately CAD 78 million in cash and short term investments.

We feel very good about the strength of our balance sheet, which is critical in this volatile industry and during the uncertain times of this global pandemic.

That concludes my formal remarks, so I will turn the call back over to Greg for closing comments.

Gregory Engel

Chief Executive Officer & Director, OrganiGram Holdings, Inc.

Thanks Derrick. There is no question it's been a challenging time for the Canadian cannabis industry and the pandemic certainly exacerbated some of our own challenges in Q3. Again some of these headwinds should only be temporary in nature. For example, we did miss out on some opportunities to capture revenue in Q3 as I have discussed but we believe our new products have the potential to put our revenue growth back on track. We expect it takes some time as the new product launches are fairly recent and some are still to come.

We encourage interested observers to regularly visit the online websites or stores to see our progress in rolling out new products and extensions. We anticipate it will take until Q1 fiscal 2021 before there is the potential for Organigram to reflect any meaningful incremental sales from the adult use recreational market.

We're excited about the significant rate of [ph] vitalizations (00:18:16) to our product portfolio and we believe we've made necessary changes to right size the company as we continue to relentlessly focus on building a business that generates attractive return on investment for our shareholders.

That ends my prepared remarks. Operator, if you could go ahead and open up the line for questions.

QUESTION AND ANSWER SECTION

Operator: Thank you [Operator Instructions] And our first question comes from the line of Aaron Grey from Alliance Global Partners. Your line is open.

Aaron Grey
Analyst, Alliance Global Partners Corp.

Q

Hi, good morning and thanks for the question. First one from me is around gross margin. Thanks for the color that you offered there. Just wanted to dig a little bit deeper in terms of how to think about the gross margins in the near term. I know you said there was still going to be some inefficiencies kind of going forward, near term and then you kind of gain more over time as it normalizes, so just how best to think about gross margin profile because there was a lot of kind of one-off puts and takes during this quarter. Thank you.

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

A

Sure, Aaron. It's a good question. I will take that, and then if Derrick has any color you can add. So I mean, certainly as you [ph] are aware (00:19:32) we don't give guidance necessarily in gross margin but we do expect an improvement from Q3 due to fewer inventory provisions. For Q4 net revenue I think, as I mentioned it's going to take time for new products to really gain some traction as many of these launches are recent. And we did have supply disruptions during the quarter related to rebranding Buds for about a month. Any potential, meaningful incremental revenue will not occur until Q1 more than likely as I outlined earlier, and we will see continued pressure on ASP due to value offerings and increased competition in this space.

We do expect [indiscernible] (00:20:14) increased pre-rolls sales, with the return to production of that line because again in Q3 we had temporarily halted production and we have recorded wholesale revenue in Q4 to-date, but don't expect it to be at the same magnitude that we have had in Q2. And as noted, we expect to start shipping to Canndoc. So certainly in Q4 on the cost of sales we do expect some negative charges for unabsorbed fixed overhead costs to persist as we continue to produce below our target capacity. And there will be a higher cost of cultivation as we're no longer harvesting trim, so that higher cost of inventory flowing through into Q4.

We do expect some production efficiencies to persist as we continue to launch new products and we have given guidance on this before, as there is always a learning curve to optimize the production process. Although again as we have outlined previously, the larger format SKUs will lead to better cost efficiencies when it comes to packaging of things like 20 gram and three pack pre-rolls, so.

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

A

Yeah. I would add to what Greg said, and again we are not in a position where we are going to provide forward guidance. But when you look at Q3, there are approximately CAD 22 million in adjustments to inventory values from an obsolescence or a net realizable value that would be considered no normal and unique in this quarter due to a combination of events. And in addition to the CAD 22 million there is CAD 7.9 million in direct costs related to the COVID-19 which was made up of the plant culling and other associated costs. So cumulatively those two numbers are over CAD 29 million, and we adjust that against the margin that's otherwise reported. You can get a better indication of the quarter's, of the Q3 quarter's margin.

Aaron Grey
Analyst, Alliance Global Partners Corp.

Q

Okay, thanks for that. That's really helpful. And then just one follow up from me would be mostly around your vape line. It looks like it had a little bit of an uptick there, great color that you gave on the edible side, but just as we look at vape, which has certainly been the biggest category for 2.0 products in the Canadian market, any color you can offer in terms of the competitive landscape you're seeing there, how your offerings are faring in terms of sell-through and reorder rates. Thank you.

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

A

Yeah, no, certainly, I can give some general commentary, Aaron that, again as we'd expected, and we timed and staggered our launches accordingly. So our value line with our Trailblazer line is the first 510 cartridges that came to market and then we launched with follow on with our Edison Feather disposable and then more recently our Edison + PAX premium line. And we did that because of the size of the category, so the larger category is the 510, the disposables would be next and then that premium kind of ultra premium line would be the following.

Good response to-date. I think the only comment I would make overall is that without a fulsome offering for the PAX platform, and more recently some of the other companies that were making PAX ERAs have come to market, so now there is a more broader offering in the store. So I think that was hindering PAX in general a little bit, only having initially one company and then we were one of the first three to have a product in the market. And we're seeing PAX now really kind of key up their efforts on digital marketing, and now that reps can visit stores again and doing that, and that should help the PAX line kind of grow and evolve. So, overall we're happy with that where we are. I think we still continue to see that this is a market that is growing and evolving, and consumers – one thing that's interesting is consumers have come to the legal market because of the value SKUs, they are looking at the high quality hardware that's been provided in the legal marketplace and potentially choosing those options. We're hearing that anecdotally from many of the retailers that people are coming in for the large volume, value flower product but now they are looking at the vape pens that are available because the quality of the hardware in the legal market.

Aaron Grey
Analyst, Alliance Global Partners Corp.

Q

[indiscernible] (00:24:29) thanks for that color. Appreciate it.

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

Andrew Partheniou
Analyst, Stifel GMP

Q

Thanks for taking my questions. I was hoping we could, I could center my questions around your production and inventory. I know you have about a CAD 100 million in inventories and biological assets and I'm just wondering if you can give a breakdown of how much of that is your older strains versus the new strains that you've already launched like Limelight and those that you have yet to launch and also you mentioned that you guys are going to launch 18 new SKUs very shortly, how much of those 18 SKUs are new strains, just trying to get a sense of the magnitude of the new strains coming online, and if you guys are going to be capacity constrained at all to meet demand with those of new strains going forward?

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

A

Maybe I'll start off and answer the question related to the second part, and then turn it back to Derrick to comment on the kind of overall mix of our inventory.

So we have three new strains coming to market in the near term, so these have been strains that we have been working on for a while. So those strains in addition to, as I mentioned during the call kind of additional offerings of both Limelight and Blue Velvet kind of expanding and those have been top sellers for us expanding our strain offering.

In terms of the SKU mix, there is a combination of new products, and there are other value products coming to market as well as these core Edison strains. So it's across each of our kind of offerings as we look to bring new products out, and the Trailblazer bar, as I said is two of those coming in the not too distant future. Derrick, I don't know if you want to add any additional color on the relative inventory levels overall across what we have available. We may not be able to provide full details on that, but maybe Derrick [indiscernible] (00:26:33)

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

A

Yeah. I don't have all the exact breakdown by the different strains. I would say it is a mix. Any of the inventory values that would have related to strains relating to products that have either been delisted and/or became more stale dated, we have provided full allowances for, and so they have been reduced out of our inventory values, and so it would consist mainly of relatively current production levels which again would have a mix between the new strains and some of the old.

Andrew Partheniou
Analyst, Stifel GMP

Q

Sorry, I was on mute there. Thanks for that additional color, and maybe as my follow up to talk a little bit about your Phase 5. You guys don't have that much left for that and it could give you maybe some greater ability to create new types of products, maybe in the concentrates area, if I'm not mistaken. Wondering when that could come online, and if you guys need that Phase 5 in order to create products like hash, for example.

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

A

Yeah. It's a good question, Andrew. The Phase 5, as you have noted, we have only got a couple of million dollars left, and that really is just final equipments going in. So I mean we have already prepaid and already have on site expanded extraction for both hydrocarbon and CO2. And I think as you alluded to I think hydrocarbon extraction is the one area to allow us to bring many of these new products, right, I mean not hash in particular but some of the other types of products where you are looking to take fresh frozen material and produce potentially like resin, and things like that. So we're looking to build out capacity to have those future offerings and hydrocarbon extraction is necessary for that.

So, one of the challenges during COVID has really been, and Atlantic Canada's within a bubble and is allowing kind of movement between the four provinces. But to get final commissioning of equipment, and I'll give an example for our Trailblazer launch, we worked with a Danish company, [ph] Ousted (00:28:58) We had to do virtual commissioning of the kind of changeover to produce Trailblazer, choco bars in it. It was much more challenging because we weren't in a position to bring over kind of the people from the OEM. With the hydrocarbon extraction we have got internal experience and expertise but ideally we would love to be able to bring people into the facility. So it just, it drags us. So I don't want to give [indiscernible] (00:29:20) when it will be up and running because it does take longer having to do things through kind of videoconferencing with the OEM and just making sure, but I mean certainly that is our plan of the investment in expanded extraction methodology, especially with hydrocarbon to bring out some of these new products in the future.

Andrew Partheniou
Analyst, Stifel GMP

Q

Okay, thanks for that. And any color on the hash?

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

A

It's currently not in our plan at this point.

Andrew Partheniou
Analyst, Stifel GMP

Q

Okay, thanks.

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

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

Q

Hi, thanks for the question. Had a first housekeeping one. Just wondering Derrick, if you're able to provide at all figures for net selling price in the overall medical market as well as the net selling price for flower in the rec market, or, and also if you have any pricing for your 2.0 product as well?.

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

A

I don't have that. Paolo do you happen to have that average selling price on the medical versus – I mean there has been a decrease over the last quarter as it relates to the average selling price of the flower, but the breakdown between the two I don't have it in front of me but I can circle that back to you after.

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

Q

Okay, sure. So first question is I wanted to just ask specifically about the store roll out in Ontario. I know you talked about that in terms of the product launches because of that it will take a bit more time to see meaningful incremental revenues, but from a store roll out perspective that was one thing that I think you mentioned as a key bottleneck in rolling out more revenues for the industry as a whole and now we're seeing Ontario increase stores. I think there is just over 100 now in the province. So I'm just wondering from your vantage point, is this something that is starting to have an incremental benefit for revenue trajectory?

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

A

Yeah, Tamy, it's a great question. We're seeing for the industry as a whole, I mean Ontario for the last few months, as you know, and you see the reporting, I mean it has surpassed Alberta in terms of revenue. I mean that's a combination of online and stores. And as new stores come online and additional customers have access to purchase in the store, and with the restrictions lifted related to store visits on COVID, we certainly expect that to continue to kind of drive and increase market potential in the province of Ontario.

We have seen kind of mix communication in the media different times about what [ph] AJCO (00:32:11) was going to do and not going to do. I did see yesterday another notification that they're going to limit store, on report that they're going to limit the store openings to 5 per week, but certainly that still keeps them on 20 per month which puts us on a good run rate to be well over 200 before the end of the year. So, yeah, so we definitely are seeing kind of an increase across the board with new stores coming online.

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

Q

Okay. And my second question is, with this whole shift towards value, so I guess it's bit of a two part question as my follow up is, one, is this your view of where this industry is going, and that it's going to be predominantly, essentially a battle in the value segment, or do you see there is opportunity to create brands outside of the hard value segment in health? And the second part of that question is if we do continue to shift both flower and as well as some of the 2.0 categories into much more value, from your cost perspective, is it flexible enough to participate in even additional pricing competition, or is there certain level where from a cost structure perspective for you it would become incredibly uneconomical. Thank you.

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

A

No, it's a great question. So I mean, I think as I said earlier that part of the shift in value has been exacerbated by COVID, right. We had more people buying mail order. When you are going to purchase mail order you are typically buying more volume or even when you're – like we have seen in people buying groceries, they do less frequent trips that are more likely they go, when they do go to a store buying more product once, so kind of that value growth has I think been increased because of COVID in part.

But it's certainly our understanding from everything we are hearing, this is expanding the base of consumers and it's drawing consumers from the current illicit marketplace. And I think value is here to stay, there is no question, but we do continue to see a demand for high quality products in every category, right. There's a mix of kind of consumers as you would see, whether or not it's in craft beers versus value beer and mainstream or it's in different lines at different levels. This is a market while value has grown I think there is still an opportunity to build brands and kind of build brand resonance. I mean again we talked earlier about Limelight and Blue Velvet, two of our leading strains, those products when they go up and are available for sale, they move pretty quickly in general. And so there is a demand there for products in the higher end.

I think when you talk about cost structure, I think we have always been a company that's focused on operational efficiency. We are continuing to do that. I think one of the things that COVID has allowed us to do is because of reductions in staff with our 45% temporary layoffs, we were forced in to a position where we had to do more with less and really focus on automation and focus on areas we could get higher throughput with fewer people. It has led to some efficiencies that are sustainable in certain areas where the methodology and the way we do certain things does require less labor, fewer people.

We're also looking at continuing to look at how do we improve our packaging efficiency. And while we have no plans for significant CapEx, I think there is some add on equipment of 100,000 here or 200,000 there that could have a positive impact on just improving our current packaging and we're evaluating that as a company right now.

So, I think you have got always to be continue to focus on other ways to continue to improve cost as an organization. But back to your first part of your question, I think there is still very strong demand, and we have seen with the high end of it you still continue to see kind of more boutique kind of [indiscernible] (00:36:16) sustain a very, very high price, right. So there are consumer across each category, no question.

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

Q

Okay, that's helpful. Thank you.

Operator: And our next question comes from the line of Adam Buckham from Scotiabank. Your line is open.

Adam Buckham
Analyst, Scotiabank

Q

Good morning, and thanks for taking my question. So you just touched on it, but I wanted to maybe get some color on your higher THC SKUs within the flower segment. It seems as though high THC product is, seeing strong demand in the market with the OCS highlighting that products north of 20%, THC were some of the highest velocity SKUs. On the back of that, could you maybe provide some comments on the velocity of your SKUs within your current portfolios? How they may be trending, and what percent of volumes or sales they make up?

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

A

Yeah, maybe I'll turn over to Derrick, but I would just give caution that we don't necessarily give a breakdown by product type or give feedback. As you know, there is market data available from provinces, so we get sell in data, but not from every – we get sell in data for everybody but we only get kind of market data from five provinces in terms of sell through. So we don't have that necessarily and we haven't given color on it in the past. But I mean I would agree with your comment that we have seen in Limelight. One of the reasons it's, for example, been a strong seller for us is, in most cases it's averaging between 20% and 27% THC right, so it's been in high demand because of that. So, Derrick I don't know if you want to add anymore commentary.

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

A

Yeah, I would just echo Greg's comments and we don't provide that type of detailed disclosure, but clearly the market has pivoted more towards higher THC and larger formats, and we're aware of that, and so higher THC products will move faster, but in terms of a granular disclosure on these levels that's just not something we provide.

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

A

Yeah, and maybe I'd just add – sorry, just add some color to like, I mean the reason when I was saying earlier we're kind of optimistic on a go forward basis as we've looked at new products and kind of expanded strain offerings, I mean we do look at the portfolio that we have and kind of how do we supplement it and bring these new strains. This goes back to Tamy's question as well, where it is important to bring those higher THC products into market and certainly expanding the offering and availability of those. So this has not been done in isolation, it's been done both through looking at market data but also through doing market research with consumers to understand what the trend of the marketplace is. So anyway, sorry to interrupt, but.

Adam Buckham
Analyst, Scotiabank

Q

Yeah, no, I was just going to maybe ask it a different way, in terms of your production capabilities to meet that demand in that higher THC segment [ph] right (00:39:09) are you able to quantify on a quarterly basis given your restructuring, like how much you guys think you could produce that's above that?

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

A

The only, I guess the only guidance I could give is that we have shifted in the current production cycle right now roughly 35% to 40% of our production is of kind of these new strains because as they come to market and we expect them to do well, we definitely put a big focus on them, but I can't give anything beyond directionally on that.

Adam Buckham
Analyst, Scotiabank

Q

Okay, that's great. So just wanted to touch on 2.0 [ph] secondly (00:39:45) particularly within the vape segment. It seems as though the breadth of the category, particularly within the 510 segment has expanded rapidly over last past couple of months. I am just wondering how the team views the evolution of that category. Do you think [ph] vape is going to be so much about a flower (00:40:01) with the value segment eventually being the large driver of volumes, or do you think products are able to differentiate based on their internal qualities?

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

A

I think there is a combination and a differentiation. I mean we get data from the US and we work closely with The Green Solution in Colorado and understand kind of what's happening in that market very intermittently. And I mean part of what we're seeing right now, some of the pricing approaches that some companies have taken on their 510 cartridges is in part a dating issue is our understanding. When we speak to the provinces, they've got limited amount of time left on those cartridges, so they're trying to move them out quickly. So from that side it's been a bit more aggressive with few companies taking that approach, but I think we will see an evolution. This is the California market, for example, like so today the predominant product is distillate.

If we look into 2021 and beyond, we will start to see more whole resin, kind of live resin type products in the future which are more of a premium end. And I think there is always a place for distillate products and they continue to do well in the US states where we've had years of experience, but I think the market will evolve and that ultra premium platform will be also additive in the future.

Adam Buckham
Analyst, Scotiabank

Q

Great. Thanks.

Operator: And our 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 morning. The minimum EBITDA covenants in the amendment to the credit facilities seem to suggest that fiscal Q1 and even Q2 are more challenging than fiscal Q4. Is there any particular reason for that other than maybe seasonality of consumption, or is it that new product launch costs are expected to fall into Q1 rather than – or maybe Q1 and Q2 rather than Q4, just any commentary there would be helpful?

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

A

Yeah. I'll let Derrick answer that.

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

A

Yeah, I wouldn't read too much into the exact covenant by quarter, or any discussions with the lender. We discussed very robust review of various scenarios and it ended up settling on a certain amount per quarter, but there is based upon production timing and product launches and even overhead expenses a bit of fluctuations. And so I just wouldn't read too much into the quarter-over-quarter change to the covenant, and it was just what ended up after the discussions with the lender.

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

A

And maybe important to add too, John that in our credit facility EBITDA, it does allow for more addbacks into the calculation on things like non-cash areas like inventory provisions or certain returns provision. So it's not a straight up calculation. It does have more flexibility from that perspective.

John Zamparo
Analyst, CIBC World Markets, Inc.

Q

Okay, that's helpful. Thanks. And then on the Trailer Park Buds, [indiscernible] (00:43:18) communicate some elements of this brand with consumers given the truncated name. There was a comment in the press release about competing not just on price and emphasizing indoor-grown. How do you plan to market this brand given your recent discussions with Health Canada and how do you communicate on the overall brand to consumers?

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

A

Yeah. As noted, I mean we worked closely with Health Canada kind of on amending the brand to Buds, and we continue to see whether or not it's under the Trailer Park Buds name or Buds alone, strong demand for the product. I think what consumers are seeing and hearing is that it is an indoor-grown product that is strain-specific. And I mean now that, in Ontario in particularly, and even in Alberta, where a number of stores were closed and Canopy, for example, had some of their stores closed.

I think one of their key things is our reps and our sales team spending time with the budtenders of the staff in the store to make sure they understand that differentiation because ultimately they do help guide consumers in that decision-making. And so certainly the feedback, we're getting on it, the post fun areas like Reddit have been extremely positive about that differentiation. So, whatever brand we end up choosing kind of in the future, it's going to be the same product, that's going to be a single strain, indoor-grown. And I think that's resonating well with people. We're not promoting the brand itself, we are promoting the content of the product at the end of the day, so.

John Zamparo
Analyst, CIBC World Markets, Inc.

Q

Okay, that's helpful. Thank you.

Operator: And our next question comes from the line of Rupesh Parikh from Oppenheimer. Your line is open.

Rupesh Parikh
Analyst, Oppenheimer & Co., Inc.

Q

Good morning. Thanks for taking my questions. I guess to start off with an industry question. So as you look at the coronavirus pandemic in the retail footprint, are we back to normal? What do you guys I guess seeing on the ground right now in terms of stores reopening et cetera?

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

A

Yeah, as far as – I mean we're back to normal, really across the country. I mean there were still a small number of stores in Alberta that we are – and we're seeing some Alberta stores close permanently. I mean maybe they were in areas that was too high, too many stores for the area, and things like that. So we have seen a small number of stores close their doors. I mean the area I live in Toronto there is five stores within walking distance for me that are going to open within the next few weeks.

So, I mean definitely there is a lot happening, but yeah so, in general the stores are open. I think like any environment they are still limiting the number of people at any one time, but I think Canadians have done a very good job, whether it's a grocery, or liquor, or drugstores, I mean people are patient, they wait in line, and even if limited staff in the store they are – one of the things with cannabis store is that's how it's been the case, right. Limited number of people in the store, kind of having budtenders working with them, so people are used to that when they go into the store. So it's a positive thing.

Rupesh Parikh
Analyst, Oppenheimer & Co., Inc.

Q

Okay, that's helpful. And then as you look at your, I guess your evolving product mix, what portion of the mix today is value? And how do you see that trending over time?

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

A

I don't have a specific breakdown, Rupesh, in terms of like what portion is value, but I think we've always wanted to play and we always have played in value, mainstream and premium and looked to play in each category. I think where we are under indexed today is on value. We were late as I mentioned in launching Buds, and although we do have Trailblazer out there, we are amending that and bringing new products under both banners, and there will be a rebranding under Buds as well. So we're not, we don't have the same mix of value today that we expect to have going forward, and that we see in the market, but even in categories like chocolates, I mean our Trailblazer bar [ph] will, snacks (00:47:25) will compete in that value line, and as I mentioned earlier, we see it as very good quality chocolate at a very competitive price that has very strong potential in the marketplace relative to what's available today. So the market is shifting in part to value, but I think at the end of the day we want to play in every category and be diversified.

Rupesh Parikh
Analyst, Oppenheimer & Co., Inc.

Q

Great. Thank you.

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

Matt Bottomley
Analyst, Canaccord Genuity Corp.

Q

Good morning everyone. Thanks for taking all the questions. I just wanted to go back to one of the earlier questions, I am trying to normalize some of the noise that was in this quarter with a lot of the non-cash charges and other provisions. I am just wondering, Greg if you can comment on, one of the silver linings here is, in the quarter you were cash flow positive from operations, and I guess what I would like a little more color on is how much of that is – and I know you touched on [indiscernible] (00:48:27) timing differences of some of these positive working capital adjustments, given that for the nine-month period, obviously it's still not profitable enterprise just from operations alone. So much of this can we expect going forward without trying to tease guidance out of you, but just given the fact that you're expecting more of a flat contribution from your recreational penetration, or sales rather in the near term here, is this something that's sustainable going forward, or are there other timing differences in your working capital or other factors that we need to consider?

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

A

Maybe, I'll let Derrick answer that question.

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

A

Sure. I would say that we're not providing guidance as there is too many moving parts of uncertainty. However, we have right seized the business. We have as noted before we laid off 25% of the workforce, and we do have a strong track record of managing cost. Generally speaking we did a thorough review of the inventory as mentioned in the quarter whereby we did take these allowances. We have near term visibility and have matched production to sales demand at this time. And so given that, our expectation would be that we would not see significant movements in working capital in one way or another, but I'm still could not get granular and provide anything more than that in terms of future guidance.

Matt Bottomley
Analyst, Canaccord Genuity Corp.

Q

Okay, appreciate that. And just to followup on one of the sort of [ph] levers (00:49:58) increase revenue in the Israel exports. Can you give any color on the 6,000 kilograms commitment for orders here? What's the actual time period, so that I believe it's more than a year and if there is certain quantities within that, that we can expect given [ph] the likes of (00:50:19) things and everything else that comes with it that we can expect in the near term. And without giving pricing information if you're not able to, can you give a magnitude with respect to what you think maybe the margin profile is on those exports versus like [ph] you do (00:50:31) in Canada?

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

A

It's a good question, Matt. So I think we – and in the press release on this, we did outline that 3,000 kilos was really kind of a committed number and then an additional three to bring the total to six by the end of 2021 is the target timeline. So that being said, as I mentioned earlier, pending a receipt of an export certificate for Health Canada, we expect to be in a position to ship a pretty significant portion of that initial 3,000 kilos. So I can't necessarily give any guidance so on kind of pricing relative to, but again I mean the strong part relative to selling bulk wholesale product at the end of the day is – there is no packaging. There is very limited labor associated with it.

So again, I think it's a great deal for us to working with Canndoc. They've proven themselves to be a leader and they are also looking at, not only in the Israeli market, but how do they continue to expand into other parts of Europe and possibly that could be a use for some of the product going forward.

Matt Bottomley
Analyst, Canaccord Genuity Corp.

Q

Perfect, and is it fair to assume that those 3,000 kilograms if fully sold I mean shipped over, would that be accretive to existing margin profile or can you comment on that?

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

A

Again I wouldn't necessarily give – we don't disclose pricing on agreements. I think once – I mean certainly you can always when we've done wholesale sales or other sales, you can back out pricing, but that's proprietary to the agreement unfortunately.

Matt Bottomley
Analyst, Canaccord Genuity Corp.

Q

Okay. Thanks guys.

Operator: Our next question comes from the line of Pablo Zuanic from Cantor Fitzgerald. Your line is open.

Pablo Zuanic
Analyst, Cantor Fitzgerald Securities

Q

Yeah. Good morning, thank you. Look, just a first housekeeping question first. So you talked about 14% growth in the rec business in the third quarter, and you're guiding for a flat for the August quarter. So I'm just trying to understand based on my numbers that would mean that in the third quarter, you were pretty much in line with the market, you maintained share, if you can correct me on that if I am wrong. And then what are you looking at in the August quarter, is it that you are losing share more so in the third quarter or is that you're predicting [ph] slowdown (00:52:51) in demand, just some more color, if we can start with that. Thank you.

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

A

Yeah, Pablo, we just wanted to be cautious in terms of – I mean we historically do not give guidance right, in terms of as an organization, and I think one of the things we are signaling that we have launched and are continuing to launch a number of new products, but as we're already more than halfway through the current quarter. We did not want to set unrealistic expectations from people that those new launches would have really huge impact on revenue in the quarter. We expect them to have a significant impact in Q1 as uptake kind of optimistic based on consumer feedback so far from the products we launched, but we just wanted to be – again we don't give guidance, but we want to be cautious, so that people did not expect all of these new products to have a huge impact in the current quarter.

Pablo Zuanic
Analyst, Cantor Fitzgerald Securities

Q

Right, but from a market perspective, when we look at the March bump in retail sales, and then April stable, how you characterize sales in June, July compared with say the May quarter for the industry, and if you can give the

[ph] nuance (00:54:01) there in terms of any variance between the actual retail sales, and how the boards are ordering and shipments from LPs towards. I'm talking more broader market level, if you can give color there? Thanks.

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

A

Yeah, again we don't give guidance necessarily. I will say, we are seeing increasing demands in Ontario in particular, and certainly when you look month-over-month since January in particular, I mean there's been really strong growth in Ontario, and as these new stores come online, but again I can't comment specifically on different markets or kind of our position in the market, so we don't give guidance.

Pablo Zuanic
Analyst, Cantor Fitzgerald Securities

Q

And just a quick follow-up. I mean if we – for us, looking from outside right, we obviously – some companies are gaining share, some are losing share. Obviously there are many factors, but if you had to put your finger on one of them, why would it be, just having the right product availability. I mean from outside, it seems like [indiscernible] (00:55:01) scale, some people cannot get in the door. They have to sell wholesale, bulk, or sell finished product [indiscernible] (00:55:04) to rebrand, is it about the relationship with the boards. If you can just talk about that in general, having the right price segments, I mean what are the key factors because some are gaining and some are losing, and it seems that right now, you have lagged recently, but just if you can expand on that in terms of what is the key issue.

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

A

Yeah, I mean I will say there is no question part of why we have lagged recently to some degree, not in every province, and certainly not in all categories, but I mean we didn't have a fulsome offering. We didn't have enough of the value category, and we're looking – we've addressed it, and we're looking to further address that. So – I think that's part of having the right mix. I think we've always shown an ability to get product to market. We were impacted by COVID. I think one of the things I mentioned is early in the call, the province of New Brunswick, where our facility is, is more aggressive than most parts of the country BC and Alberta, and New Brunswick, all declared a state of emergency early. But the schools were already closed in New Brunswick, so kids were at home and people couldn't come to work. So we were already even before we announced our temporary layoffs, we were being impacted. And so the quarter lined up unfortunately for us perfectly with COVID, so that's kind of where they overall [indiscernible] (00:56:25)

Pablo Zuanic
Analyst, Cantor Fitzgerald Securities

Q

And if I can [ph] sneak (00:56:27) one last one here. When we hear about potential mergers within [ph] RLPs (00:56:31) I mean how you characterize your scale, I mean do you have a scale disadvantage or even in your size, you can still operate well, that's not an issue. How do you think of that especially the industry begins to consolidate?

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

A

Yeah, it's one of our key facets and Derrick alluded to it earlier. I mean we've always been one of the most efficient operators in this space, right, between how we produce, how we package, how we process, so it's been one of our core focuses. And I think one of the challenges sometimes with consolidation is, you're consolidating multiple facilities, right. So having one single facility for us, I mean not to say there [ph] aren't (00:57:05) values and consolidation, but for us, we've always been able to be very efficient from a scale perspective, and we're not producing, we've reduced part of our production [ph] current (00:57:17) and we have an ability to scale that up if necessary. So, yeah, I would just answer in that way, so.

Pablo Zuanic
Analyst, Cantor Fitzgerald Securities

Q

Thank you.

Operator: And our next question comes from the line of David Kideckel from ATB Capital Markets. Please limit to one question. Your line is open.

David M. Kideckel
Analyst, ATB Capital Markets

Q

Hi good morning everybody. Thanks for taking my question. So the inventory write-downs you announced, in particular with concentrates and the trim are quite significant there. And I'm just wondering with additional inventory or outdoor cultivation coming online in Canada in the fall, I think this in October approximately. How likely do you think it is, not only for you Organigram, but for others across the board to really see additional write-downs, because I think a lot of analysts thought, it might have been one, to maybe a couple to few quarters of write-downs, but I think we're seeing this consistently across the board. And I'm just wondering from your perspective, Greg, is this something we should expect moving forward into the [indiscernible] (00:58:23). Thank you.

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

A

It's a great question, David. I think we have made as we've outlined on the call and our MD&A, I mean we've made decisions to scale that production, so we don't get caught in that situation, right, in the future. And I think where – and as Derrick has mentioned in an answer to an earlier call, we have made inventory provisions against product that we don't believe we have a market for. I can't necessarily comment on other companies per se, but I think that has always been one of the challenges in the space has been, do you have the right product for sale in the marketplace. And I mean part of our shift in some of those write-downs was driven by a shift in marketplace to newer product, higher THC SKUs and kind of far more focused core strain.

So I think I don't expect necessarily that – you asked about outdoor production. For example, I mean we've seen – my understanding, for example, is the [ph] bulky (00:59:28) outdoor production that was produced last year has just predominantly gone for traction right, and that's what the total extractors have been using. It's driven down the total price for it, but that's why we've done through such an extensive review of our strain mix and doing market research and looking to understand the consumer, so that we are positioned for the right products for the right consumers, so.

David M. Kideckel
Analyst, ATB Capital Markets

Q

Thanks very much. That's it for me.

Operator: And our final question today – we'll have time for two more questions. Our next question will come from Graeme Kreindler from Eight Capital. Your line is open.

Graeme Kreindler
Analyst, Eight Capital

Q

Hi good morning and thank you for taking my question here. Just one question, I wanted to follow up regarding putting together some of the pieces from the forward-looking commentary which I appreciate and the minimum EBITDA on the revised credit agreement here. So, for fiscal Q4 looking at – no real incremental growth there, Greg, you mentioned till fiscal Q1 and still expecting some drag on gross margins as you introduced some new products there. And thinking about the fixed cost side of things that it did decline sequentially and there might be some further savings because of labor force there.

Now I know you mentioned that the calculation is a bit different from the credit agreement versus how – which show up on the financial statements. But what I'm wondering is based on everything that was laid out there and not expecting a lot of growth, is it possible that reaching that positive EBITDA might be at risk in the fiscal Q4 here depending on how the next month goes, appreciate some color on that. Thank you.

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

A

Yeah again – maybe I'll turn over to Derrick. But I mean we do have as I outlined and when we've got new products that have launched, we've got new products that are launching kind of in the – currently and in the next month and I think we're optimistic. But it just takes time for them to have a dramatic impact, right. But I'll give an example that when we did our first sell into our first province of Trailer Park Buds is a CAD 1.2 million order, so it was a major province and it was a big order. So it's dependent, so I don't want to give guidance directionally, but Derrick if you want to add some color to Graeme's question.

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

A

Yes. I would indicate that as we've stated we're not going to be provide specific forward-looking guidance, but what I will say is that we aim to be in compliance with any covenants related to our debt and we do understand some of the near-term challenges and we believe that's been factored in at the time we [ph] did (01:02:08) the negotiation. And so again we plan to be in compliance with the covenants, but it's based on a future event and that's all I can comment at this time.

Graeme Kreindler
Analyst, Eight Capital

Q

Okay, thank you very much for that. That's it for me.

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

Rahul Sarugaser
Analyst, Raymond James Ltd.

Q

Great, good morning Greg, Amy, Derrick, Paolo, thanks for letting me slide in with the last question here. So really I have sort of one macro question. Greg, in your comments you noted that the market has quickly shifted towards the value and [ph] de-value (01:02:45) segments and you also noted that Organigram has been a little bit slow in adjusting to be shifting in consumer preferences. So I'm sure that we agree that market will continue to be quite dynamic and you may have already answered this in pieces, but to summarize my question is, what strategic management and operational changes are you undertaking to make Organigram more nimble in the future and then how it gives shareholders confidence in your outlook for 2021 onward?

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

A

Yeah, it's a great question, Rahul. I think as outlined earlier, I mean we were slow in – predominantly because of COVID and some of the things that were impacted by COVID not only in staffing and kind of equipment and materials, so that unfortunately did have an impact in us getting kind of our plans out to marketplace. And I think – so we were planning and we started that planning process last year.

But I think we have gone and this was part of the move of having Paolo move into the Chief Strategy Officer, right, is having someone dedicated to strategy, having someone dedicated to product development and working with our marketing and sales teams and operations team to look at product trends and what – not only we've always been a company that has wanted to be out in front on certain products, an example when we on pre-rolls when the rec market opened, we were really a dominant player there because we saw the opportunity and I think as we look to future products we have to get in and do that.

So I think from a consumer perspective, our focus is looking to bring – continue to bring differentiated products. As I said, for example, we're bringing a value [ph] to chocolate product (01:04:26) in the marketplace, but it's a very high quality chocolate right, so we believe that while it's going to be priced in the [indiscernible] (01:04:33) category, it's going to be differentiated itself and taking approach like that and we are looking at future products, right, as I said they're having hydrocarbon extraction puts us in a position to in the future bring differentiated products beyond simply distillate vape pens to the marketplace and I think the companies have to be thinking that way for the future.

Rahul Sarugaser
Analyst, Raymond James Ltd.

Q

Okay. That's really helpful. And then of course you know me I [ph] always (01:04:57) ask for an update on the partnership with Hyasynth. So how do you plan towards manufacturing and formulation of cannabinoids by Hyasynth, particularly given the real shift towards kind of the 2.0?

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

A

Yeah, I mean you'd have to ask Kevin and the team at Hyasynth, I do know certainly they were – because of their facility in the space, they were temporarily shut down completely for a number of months. They have returned to partial activity in the facility so that has had an impact on them. But I think we – and again as I mentioned before I think one of the key things is the shift in the future towards minor cannabinoids as we see the price of isolate and distillate [ph] company (01:05:40) to be driven down, I think the real tremendous market opportunity is on minor cannabinoids through biosynthesis, so.

Rahul Sarugaser
Analyst, Raymond James Ltd.

Q

Great, thanks so much. That's all for me today.

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

A

Thanks, Rahul.

Operator: And our final question today will come from the line of Doug Miehm from RBC Capital Markets. Your line is open.

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

A

Hey Doug, you may be on mute if you're still there.

Operator: Okay, there are no further questions at this time. Ladies and gentlemen, this concludes today's call. We thank you for your participation. You may now disconnect.