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OrganiGram Holdings, Inc. (OGI.CA)

Q4 2020 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning. My name is Michelle and I'll be your conference operator today. At this time, I would like to welcome everyone to Organigram Holdings, Inc.'s Fourth Quarter Full Year 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 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 replay will be available on Organigram's website.

At this time, I would like to introduce Amy Schwalm, Vice President-Investor Relations. Please go ahead.

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

Thank you, Michelle. 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 measures, including adjusted EBITDA and adjusted gross margin. 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 our fourth quarter and full year fiscal 2020 results for the period ended August 31.

For the full year, gross revenue was CAD 103.4 million and we grew net revenue, which excludes excise taxes, to approximately CAD 87 million. We're also very pleased to report positive adjusted EBITDA for the second year in a row. Most of our discussion today will be centered on our Q4 results as the first three quarters of the year have been addressed in past calls.

Since we last spoke with you in July, our product portfolio has changed quite dramatically, as we said it would. We have launched 40 new SKUs, including some novel products across a number of categories and segments and there is still more to come. At the same time, this is all being against a backdrop of meaningful growth for the Canadian adult rec market. It's been exciting to do this as we continue to plant seeds for the long-term growth and challenges presented by the global pandemic.

Our Q4 2020 net revenue grew 25% from the prior year period and 13% from Q3 2020. We had higher flower sales in Q4 2020 as the large format value segment continued to grow and our expanded offerings in this segment resonated well with consumers. And of course, Rec 2.0 sales contributed to our growth as year ago the products were not yet legal.

Lastly, we're extremely pleased to make our first shipment to Israel under our supply agreement with Canndoc, a leading Israeli medical cannabis producer. To-date, this is Organigram's largest international deal and we're Canndoc's exclusive supplier of indoor grown cannabis. As you may know, the Israeli Ministry of Health recently amended its quality standards for imported medical cannabis. Very encouragingly, we recently identified a plan to comply with these updated standards and believe that we can continue to supply the product into the Israeli market once it is successfully implemented.

Q4 2020 gross revenue increased 32% versus the net revenue increase of 25% from the same period last year. Gross revenue better reflects the magnitude of sales volume shipments, especially since dried flower represent the largest category in cannabis by far. As average selling prices per gram had decreased in the industry, the percentage of excise tax of the gross sale price has increased significantly. Therefore, to achieve the same level of net revenue, more dried flower has to be sold as compared to last year.

As we guided with last quarter's results, we did not expect significant growth in our adult-use rec sales in Q4 due to the timing of our launches as part of our broad portfolio revitalization. Introducing 40 new SKUs since July has been extremely busy, particularly as the industry began growing at an accelerated pace. Coupling this with the fact that we had a leaner workforce, which not only reduced cultivation levels but also processing and packaging capacity, these factors contributed to certain launch delays and missed purchase order fulfillments in late Q4 and to some degree in Q1 too.

In some ways, the number of our products were victim of their own success with better-than-expected initial sales such that we had [indiscernible] (00:04:54). SHRED was one example. We're evaluating our processes and supply chain, including the benefit of gradually scaling up staffing to improve order fulfillment rates and realize more sales opportunities. We're progressing well through our portfolio revitalization with up to 18 new SKUs expected in Q2 fiscal 2021 and remain committed to offering innovative products.

We conduct proprietary consumer research to help us identify the attributes that cannabis consumers want most and we're very encouraged by the initial reaction we're getting and early signs of success for many of our new products. I will take a moment to recap some of the more notable ones.

Across Rec 1.0 and Rec 2.0, dried flower remains the largest category in the Canadian adult-use rec market and we believe it will continue to dominate based on what we have seen in more mature markets in the US. There has been significant growth in the dried flower large format value segment and competition has intensified. With the onset of the pandemic, value products and large format were increasingly the focus of consumers as many of them either were forced to or preferred to order online or take advantage of curbside pickup or delivery.

Our first value offering in large format, originally entitled Trailer Park Buds, which is now simply known as Buds, launched in fiscal Q3, and we believe it doesn't just compete on price alone, it offers product that is indoor grown, whole dried flower and strain specific.

Our value segment strategy also includes dried flower offerings that were launched in larger format sizes of 7 gram and 15 gram under the Trailblazer brand. In mid-September, we expanded our value portfolio with the launch of SHRED. This product continues to perform well for us and we are seeing retail store sell-out where it is carried. It really resonates with consumers as it is high quality, high potency dried flower that is pre shredded for convenience at Organigram's most affordable price currently offered on a per gram basis and it is made for whole flower.

High potency THC continues to be a key attribute for consumers as well as cultivar diversity. In early August, we launched three new THC strains under the Edison Cannabis Company brand: The General or under its street name Grapefruit GG4, Chemdog and a limited time offering, Samurai Spy, or its cultivar name Ninja Fruit. Going forward, we will consider using street generic names for many dried flower products to the extent we believe they will resonate even better with consumers. We're making investments in new genetics and improve cultivation process to increase THC potency and will introduce new strains in the highly important dried flower [indiscernible] (00:07:30) category.

In addition to Rec 1.0, we plan to expand our Rec 2.0 offerings, which we think will become a larger relative category, more in line with mature US legal markets. At the end of July, we launched Trailblazer Snax, our cannabis-infused chocolate bar in mint and mocha flavors. With 10 milligrams of THC in every bar, each of the five sections of the bar are filled separately, which allows for a higher accuracy of an infusion and micro-dosing. Trailblazer Snax is our value segment chocolate offering and our second product type in the chocolate category after launching Edison Bytes in the four SKUs earlier this year.

In time for the holidays, we also announced the launch of a fifth Edison Bytes chocolate in the seasonal gingerbread flavor for a limited time. These only came to market recently, but initial sales have been amongst the top sellers in their subcategories. In addition to the Gingerbread Bytes, we have also offered another limited time only seasonal product Trailblazer Kushmas Stix, an affordable 0.5 gram pre-roll in a festive green box that is a perfect basket add-on or stocking stuffer just in time for the holiday season.

Turning to our vape portfolio, we offer products to the value mainstream and premium segments of the market already with the Trailblazer Torch cartridges, Edison + Feather disposable pens and PAX ERA cartridges. Before the end of fiscal Q2, we expect to launch Trailblazer 510 Torch vape cartridges in a 1 gram format. This will extend our lineup to a suite of trial size at 0.5 gram and full size 1 gram cartridges for the 510 vaporizer.

Lastly, rounding out our Rec 2.0 portfolio is our Edison RE:MIX dissolvable powder. This product just landed in some provincial retail stores so we don't have an initial sales read yet, but recent data in Colorado, for example, show cannabinoid-infused powders have quickly risen in popularity, comprising 55% of the state's beverage market. In fact, 46% of cannabis consumers reported and joined cannabinoid-infused beverages multiple times a day according Headset data.

In Canada, estimates suggest that the cannabis adult-use beverage market is a CAD 467 million opportunity as it is expected to increase by 15-fold its current market size over the next five years as per the Brightfield Group.

We also conducted a survey recently, which indicated large majority of consumers would prefer to add cannabis to their drink rather than consume a premixed cannabinoid-infused beverage. For traditional edibles, beverages and ingestible oil-based extracts, the body spends significant time breaking down fat soluble cannabinoid particles before they can be absorbed and before effects are felt. Our R&D team developed a proprietary nano-emulsification technology that generates nano-droplets, which are very small and uniform for Edison RE:MIX. We believe RE:MIX provides enhanced bioavailability. Both improves speed of absorption and improves total absorption compared to traditional edibles and beverages, potentially allowing for a more reliable and controlled experienced.

The nanoemulsion technology is also anticipated to have increased stability to temperature variations, mechanical disturbance, salinity, pH and sweeteners. The powdered formulation also offers the discretion, portability and shelf life expected of a dried powder formulation.

Before I pass the call over to Derrick, I do want to highlight a couple of recent achievements that occurred subsequent to quarter-end.

First, as announced in October, we invested an additional CAD 2.5 million in Hyasynth Biologicals, Inc., a cannabinoid biosynthesis company. Additional investment was tied to a successful completion of a milestone linked to the first commercial sale of CBDa. CBDa is a natural precursor to the naturally occurring form of CBD, which is converted to CBD in processing. The product was manufactured through the [ph] enzymatic (00:11:23) conversion of a protein produced from genetically modified yeast, which is the process of biosynthesis. The additional investment brings our total investment in the biotech company to CAD 7.5 million, representing a potential ownership interest of up to 46.5% on a fully diluted basis.

We believe the biosynthesis process has some definite advantage over traditional cultivation, particularly as it relates to the feasible production of minor and rare cannabinoids and as an alternative path to producing pure major cannabinoids so we are very excited to watch the space evolve and Hyasynth's progress in it.

Also post quarter-end, we raised approximately CAD 69 million in gross proceeds from an underwritten public offering, including the exercise of the over-allotment option. We opportunistically took advantage of financing with strong institutional support that became available. We believe that deleveraging our balance sheet puts us in a more agile position as the sector continues to see both growth as well as capital markets volatility. This raise substantially strengthened our balance sheet, which Derrick will describe further.

So I'll pass the call over to him now and then come back to wrap before we take your questions.

Derrick W. West

Chief Financial Officer, OrganiGram Holdings, Inc.

Thank you, Greg. I will start with our financial position. As Greg just mentioned, we recently closed an underwritten public offering of approximately 37.4 million units, including exercising the over-allotment option at a price of CAD 1.85 per unit. We expect to use the net proceeds for working capital and other general corporate purposes with the majority of it being used to pay down our term loan balance. The latter was agreed as part of an amendment and restatement of our credit facility, which we just completed on Friday and is now available on SEDAR.

On December 1, tomorrow, we will use the proceeds from the offering to repay CAD 55 million on our term loan to reduce the balance to CAD 60 million from its current CAD 115 million. After this term loan repayment is completed on December 1 and excluding the CAD 8 million restricted investment on a pro forma basis, we would have CAD 80 million in cash and short-term investments and CAD 60 million in long-term debt.

Turning to our results for Q4. Gross revenue increased 32% to CAD 25.4 million from CAD 19.2 million in the same prior year period. Net revenue grew 25% to CAD 20.4 million from CAD 16.3 million in the same prior year period. As Greg mentioned, higher flower sales, international sales and Rec 2.0 revenue were among the largest contributors to this increase. We also recorded a lower sales provision for returns and price adjustments of CAD 2.2 million than as compared to CAD 3.7 million in Q4 2019's comparison period.

Q4 2020 cost of sales was CAD 29 million, which increased from CAD 15.5 million in the same prior year quarter primarily due to higher sales volumes and a noncash inventory provision of CAD 11.1 million for excess and unsalable inventory. Of the CAD 11.1 million, CAD 8.3 million related to excess trim and concentrate and CAD 2.8 million consisted of adjustments to net realizable value.

As we indicated with last quarter's results, we expect a negative noncash adjustment to cost of sales for unabsorbed fixed overhead cost to persist as we plan to produce below full capacity for the foreseeable future. In Q4, these negative noncash adjustments amount to CAD 3.5 million.

Q4 2020's adjusted gross margin increased to CAD 16.2 million from CAD 1.5 million in Q4 2019 on higher sales and a lower sales provision for returns and pricing adjustments. The IFRS gross margin for Q4 2020 was negative CAD 28.8 million compared to a negative gross margin of CAD 11.1 million in the prior year period. The variance was largely related to higher noncash provision and negative fair value changes to bio assets and inventories during Q4 2020.

We continue to expect some production inefficiencies to persist, which will impact gross margins while we launch new products and optimize production. Our portfolio revamp is ongoing and we expect to gain efficiencies when the product launch schedule normalizes.

Q4 2020 SG&A of CAD 10.8 million decreased 22% from Q4 2019's amount of CAD 13.9 million and the current quarter's SG&A as a percentage of net revenue is 53% compared to 85% for Q4 2019. The Q4 2020 SG&A reflected our reduced spending during the ongoing COVID-19 pandemic and was largely in line with the current year's Q3 SG&A of CAD 10.3 million. As a percent of net revenues, the Q4 SG&A of 53% was a decline from Q3's 57% of net revenues. As in the past, management continues to closely monitor discretionary and below the gross margin expenditures.

Q4 2020's adjusted EBITDA was a negative CAD 2.7 million. This improved versus the negative adjusted EBITDA of CAD 7.2 million for Q4 2019. This improvement was largely due to the current reporting period's improved adjusted gross margin.

We recorded a net loss of CAD 38.6 million or CAD 0.199 per share on a diluted basis during Q4 2020 as compared to a net loss of CAD 22.5 million or CAD 0.144 per share in the same prior year period primarily due to greater negative gross margin in Q4 2020.

Q4 2020's net cash used in operating activities of CAD 10.1 million was a decrease from the CAD 15.7 million used during Q4 2019. This reduced cash outflow was largely due to the prior period's increased working capital assets as we had scaled operations ahead of Rec 2.0 legalization.

That concludes my formal remarks. I will now turn the call back over to Greg.

Gregory Engel

Chief Executive Officer & Director, OrganiGram Holdings, Inc.

Thanks, Derrick. And I just want to clarify one comment Derrick had made. So, the adjusted gross margin was CAD 6.2 million. So just want to clarify that.

So, looking ahead, we remain positive on the prospects for the industry and Organigram. The annualized run rate of the Canadian adult-use rec market was estimated to be a record CAD 3.1 billion based on the most recent data available from Stats Canada for September 2020. This is an increase of approximately 109% from September 2019.

There are a number of factors creating tailwinds to industry growth. A large factor is the much anticipated increase in the number of retail stores in Canada. Since July, the store count in the provinces grew by 33%, driven by Ontario's cannabis retail stores growing 140%. And Ontario is now on pace to add up to 40 stores per month and sits close to 250 stores right now. So, you can see that there is material growth still expected.

The legalization of Rec 2.0 is another big tailwind. Product forms in these categories are still being rolled out with new SKUs, bringing enthusiasm to the legal market. Consumers are very much still in exploratory stage and willing to experiment as the broader selection and new product forms such as our RE:MIX powder beverage are made available. Outside of Canada, we continue to serve international markets, including Israel and Australia, via export permits and look to expand sales channels internationally over time.

I don't think I could end my remarks without acknowledging the recent significant political changes in the US and the ballot initiatives for both medical and adult rec cannabis use. They suggest the potential move to federally legalized THC may have stronger momentum, yet the outcome and timing remain difficult to predict. As we continue to monitor and develop a potential US THC strategy, we look to evaluate CBD entry opportunities in the US, which we have been doing for quite some time. Our view is that it is better to measure twice and cut once and to continue to be selective on our opportunities we actively consider. We're focused on disciplined capital allocation.

Fiscal 2020 was nothing short of an eventful year for us and the industry. We entered the vapes and edibles market with a broad and innovative suite of products and continue to launch new products. We signed our largest international deal to-date with Canndoc in Israel. We invested additional funds into our biotech partner, Hyasynth, as they made notable progress in cannabinoid biosynthesis work. Significant expansion CapEx related to our facility is behind us. We strengthened our balance sheet recently for greater financial flexibility and an ability to act on potential opportunities, always with a view to enhancing shareholder value.

Our strong culture of cost management and prudent discretionary spending helped us report positive adjusted EBITDA for the second year in a row on the back of strong revenue growth and we have a backdrop of accelerated industry growth as retail stores expand in Canada's largest rec market.

In closing, we're excited about our products, our partnerships and the year ahead. We are working tirelessly at enhancing our agility and execution to capture more market share and top line growth. And as always, we're working to pursue profitable growth in an effort to generate attractive return on investment for shareholders.

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

QUESTION AND ANSWER SECTION

Operator: Okay. [Operator Instructions] Your first question comes from Aaron Grey from Alliance Global. Your line is open.

Aaron Grey
Analyst, Alliance Global Partners Corp.

Q

Hi. Good morning and thanks for the questions. So, first one for me. Firstly, on the vape segment, it looks like quarter-over-quarter, revenues did come down a little bit. So, just wanted to know if you can kind of talk about the trends you're seeing there. Obviously, it has been a pretty competitive category. So, is there any further color in terms of the drivers and what may be impacting you guys, maybe some pricing pressure and the competition there and [indiscernible] (00:22:00) kind of how you see that evolving for you guys? Thanks.

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

A

Yeah. Thanks, Aaron, for the question. Yeah. So, I mean, certainly, we're one of the companies that offered a fulsome vape portfolio. So, having a premium mainstream and a value offering, we have seen more competition come into the marketplace. And with that, we have had to take some pricing adjustments as well. I think, again, as we have seen with dried flower, consumers are looking at times to try new products, so that has put. But, I mean, certainly, we're very excited about certainly our 510 cartridges continue to perform very, very well and we're excited about upcoming launch of our 1 gram in this next quarter, which we believe has an ability to really have an impact on the market because of the success we've seen in 1 grams in the US state markets.

Aaron Grey
Analyst, Alliance Global Partners Corp.

Q

Okay. Great. Thanks for that color. And then just second one for me before I pass it on. You spoke about the increased brick-and-mortar [indiscernible] (00:23:00) see in Canada up 30% since July. So, would just like some commentary in terms of how you think that comes into your plan to more fully utilize your cultivation space, especially as we start to see 40 stores per month in Ontario, like you just mentioned. And then just like any color we might be able to get in terms of first quarter, now that we're pretty well through it, in terms of how that might have come through the top line in terms of seeing the benefit of the increased brick-and-mortar there. Thank you.

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

A

Yeah. I think so we're – first of all, on the kind of expansion of the rec space, I mean, one of the things for us and I alluded to this in the call is that we are looking at starting to increase our cultivation and production. We've got space that's not been fully utilized at this point. And certainly, as the market demand is growing and increasing, we're right in the midst right now looking at plants to start to scale back up, so that would involve potentially bringing in some additional staff back in for both cultivation and downstream processing. And one of the impacts certainly that impacted us in Q4 was we were juggling between one area and another area in terms of packaging. So, you hit the nail on the head in terms of we've got the capacity so now it's the time to start to bring that on.

As far as Q1, I guess, the comments I would make is we are still in the midst of the portfolio revitalization and we've got new SKUs coming to market. As I said in the call, we've had still some stock-outs and certainly some lost sales opportunities in the near term. But again, we are excited to bring those new products into market, not only the ones we brought in Q1, but also into Q2. So, beyond that, I wouldn't give any kind of guidance on Q1 at this point.

Aaron Grey
Analyst, Alliance Global Partners Corp.

Q

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

Operator: And your next question comes from David Kideckel from ATB Capital Markets. Your line is open.

David M. Kideckel
Analyst, ATB Capital Markets, Inc.

Q

Hi. Good morning. Thanks for taking my question and congrats on the quarter. I just wanted to go into your international component of revenue for a second and tie that back to flowers, well, in Canada. So, in reading through some of your financial statements, we are looking at revenues in Israel just north of CAD 3 million. So, the remainder would be mostly 1.0 products in Canada and mostly flower, we think, as you've indicated in your prepared remarks and press release. So, I'm just wondering, moving forward, how important and significant internationally is Israel in particular going to be for you. I guess that you have the exclusive supply agreements with Canndoc. That said, Israel is a relatively, as you know, Greg, kind of and others, a small market, lots of competition et cetera. So, just trying to understand how should we be thinking about Israel moving forward as an overall line item from a revenue perspective. Thanks.

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

A

Yeah. Thanks, David, for your question. Yeah. So, I think a couple things I would say on Israel. So, again, just to clarify, we're the exclusive supplier of indoor flowers. So, that's the product line that we provide to them. There has been some recent changes in Israel in terms of their medical cannabis system, so we're working to ensure that we're in a position to continue to supply and we've identified an appropriate path for that.

We had great success with the product and that we have sold in there and certainly one of the strains is already sold out. And so, we see Israel as a market that will continue to grow. While there is a lot of competition, we also struck this deal with Canndoc as a possible path for them to work to process product in the future because of their certification and to be able to sell into other European markets. So, the agreement is twofold. It's to focus on the

Israeli market, but it's also for potential access to the European market via Canndoc as a partner. So, I think there is two ways to look at it from that perspective.

And then the other point just to your – first part of your question. Yeah, I mean, flower continues to be a very important part of our market, which is why we've invested in new genetics and we've been spending a lot of time on bringing new genetics and new offerings to the market – higher THC products, a broader variety, as we've seen consistently where consumers, more like a craft beer type market, where cannabis consumers are looking to try different and new products on an ongoing basis. So, we continue to invest in that area.

David M. Kideckel
Analyst, ATB Capital Markets, Inc.

Q

Thanks for that color. Very helpful. And my second question. I want to go back to Hyasynth for a second. And if I heard you correctly, Greg, you had mentioned CBDa as one of the precursor cannabinoids there. I'm just wondering, does this mean you're going to start leveraging that cannabinoid first in some of your 2.0 products or is CBD and whichever cannabinoid it is, I guess, my overall question on the issue of biosynthesis is, which 2.0 products you think are most amenable right off the get-go for biosynthetically derived cannabinoids. Thanks.

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

A

Yeah. It's a great question, David. I mean, so, really excited. Again, it's important to note that Hyasynth that this was the first, as far as we're aware of and they are aware of, the first successful commercial sale – production and sale of any cannabinoid produced through biosynthesis. And they had a potential purchaser or buyer that was interested in CBDa, so that was the product they ended up producing. Right now, their focus and discussions with Hyasynth is they have 23 cannabinoids in their portfolio, 19 of those are minor cannabinoids. I think each you can equally position.

And I think I've mentioned this on previous calls, where we're really excited about in the future I think there is two paths for biosynthesis – one is producing a pure major cannabinoid for potential use in products and not only products that we would essentially produce, but possible partners that Hyasynth could partner with in other industries. But I think more importantly is the minor cannabinoids and certainly there is a number of them that we are looking at that when – and I'll give an example of THCV, for example, where THCV has similar effects to THC, but does not necessarily induce an appetite in the same manner, at least from anecdotal reports. So, I think there's a lot of opportunities for some of these minor cannabinoids in the adult rec market.

David M. Kideckel
Analyst, ATB Capital Markets, Inc.

Q

Okay. Thanks for that and congrats on the quarter. I'll hop back in the queue.

Operator: And your next question will come from Andrew Partheniou from Stifel GMP. Your line is open.

Andrew Partheniou
Analyst, Stifel GMP

Q

Thanks for taking my questions. Maybe if we could discuss the new SKUs that you guys have rolled out and the ones that are expected to come. Could you provide any kind of metrics on how well those SKUs have performed? I know you mentioned that some of them sold extremely well and has had stock-outs, but wondering if you could give a little bit more color. And how should we think about that going forward? Should we kind of be expecting that this has maybe started off with relatively lower volumes and this will continue to ramp up or was this more of a step-change for you?

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

A

Yeah. And then thanks for the question, Andrew. I think the way to look at it in the same way in the past where we brought a few new SKUs in, right. So, we bring the offerings to markets, so in this place we had three very specific dried flower SKUs, for example. We looked to see what market response is, we're planning for increased production around the SKUs. But certainly when we see a great response like in the past with our Limelight, we double down or quadruple down on production of that strain, right. Really good response. And there is no question that that's been the case here.

And one of the challenges when you're bringing new flower products in particular and even new SKUs to market is there is a time lag to get listings in different provinces, as you know, so what impact you're seeing from the market, so getting that feedback is variable. But certainly that is our plan, right, to bring those new SKUs in. The ones that have performed well, we'll continue to increase production on them. And the ones that didn't perform as well, we'll reduce cultivation on them and pivot to other items.

So, in addition to the three recent launches of new strains, we've got additional strains coming up in Q2 and into Q3. But yeah, I think it's important to continue to supply that basic products like our Limelight, for example, is our top-selling flower product and continues to be, which has been great. But again, I think there is opportunities for some of these new strains, particularly the ones that are unique and that are high THC to really position themselves well in the marketplace.

Andrew Partheniou
Analyst, Stifel GMP

Q

Thanks for that additional color. And maybe going on a similar topic is just your Phase 5 Expansion. Wondering if you could give any updates on that and kind of what needs to happen in order to get some of your hydrocarbon extraction up and running and products on the shelves?

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

A

Yeah. The area is fully licensed and certainly our expanded CO2 extraction is up and running in that space now. We are still working through the commissioning process on the hydrocarbon extraction, so I can't give a definitive target, but our team is working hard to look to bring those products to market. But again, it is dependent upon commissioning which, as you can imagine, there have been some challenges throughout the last nine months with COVID to getting through commission. We've been successful in the past with commissioning new equipment, for example, on RE:MIX and bringing in new offerings in chocolate. It just takes sometimes longer than originally anticipated because you're dealing with some of the challenges related to COVID and travel and to try and do things remotely.

Andrew Partheniou
Analyst, Stifel GMP

Q

Thanks for the additional color. I'll get back in the queue.

Operator: And your next question will come from Adam Buckham from Scotia Bank. Your line is open.

Adam Buckham
Analyst, Scotia Capital, Inc.

Q

Good morning. Thanks for taking my questions. So, I just wanted to start with maybe talking about production output versus demand. So, there is some commentary around missed opportunities when it came to POs in the Q and also how you might be looking to increase staff to help resolve these issues. As we think about the bottleneck, is it on the packaging side or was fiscal Q3's decreasing output a partial driver of this? And then maybe more broadly, when we think about the current output of roughly 44,000 kgs per year, is that aligned to where you think near-term demand is or do you see the need to increase output further?

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

A

Yeah. It's a great question, Adam. So, I would say it certainly has been – it's a combination of both in terms of cultivation and the level of cultivation. And the one thing to keep in mind as well is that when you're planning cultivation, you're planning 20 to 18 weeks out from when the product actually is available. So, some of those near-term PO misses were just the alignment on the strains and which product was available, as we can see a continually dynamically shifting market. So, again, it's important for us to get consumer feedback and be able to quickly make sure that we are bringing the right product to market. And so, the bottleneck has been a combination of cultivation, but also staffing certainly on a packaging and processing side.

One of the positives we have seen, if you can say there are any positives related to COVID-19 is that we have gotten more efficient, we are able to do more with fewer people, we've improved processes quite dramatically because we've had to focus on how do we operate in a leaner environment and in a safe environment for our employees, which is really important. So, I think ramping back to some degree is important. And at the same time, you're always going to have some overage of product in terms of production. I mean, one advantage we did have and do have is that we have some sufficient working capital to go through in the quarter, but at the same time, it's not always the – in terms of inventory, it's not always the strains that are in high demand and I mean that's always the challenge to balance. So we think when we talk about we're ramping back up, we're talking about slowly over time looking to kind of bring some of the facility back online.

Adam Buckham
Analyst, Scotia Capital, Inc.

Q

Okay. That's great color. And secondly, I just wanted to touch some commentary on Israel. Are you able to give any color on expected timing of the remediation plans and were you able to get some shipments in fiscal Q1 or did that change your [ph] evaluation and push it out (00:36:38) into fiscal Q2?

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

A

Yeah. So, I mean, [ph] I can (00:36:41) confirm we did not have a shipment in Q1 into Israel and I can't necessarily give a timing target here. I mean, certainly, we're confident and so is Canndoc and working with the Israeli government that we have an appropriate path and a solution going forward. So, we expect and hope to be able to do that within Q2. But again, it is contingent upon the Israeli government as well as working with some inspectors as well to do things remotely so that's going to take some time, but certainly hopefully we can work through that.

Adam Buckham
Analyst, Scotia Capital, Inc.

Q

Okay. Great. Thanks.

Operator: And your 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 questions. Maybe as a follow-up to what was just being discussed there with respect to the international market and taking the previous comments with respect to some of the staffing levels and other efficiencies that you're looking to increase throughout fiscal 2021. To me, that sounds like – it looks like Q2 might be the real inflection point that we should be looking at in terms of the new SKUs launching, whether it's the 40 that have been launched the other 18 you are looking to launch in Q1 and then a potential restart, the international shipments starting in Q2. Is my thinking correct there? I'd appreciate some further commentary with respect to the cadence of potential revenue growth. Thank you very much.

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

A

Yeah. Graeme, thanks for the question. I mean, what I would comment on, so first of all, just to clarify, the 40 SKU launches since July were Q4 and Q1 and then Q2 will have an additional 18. So, yes, there is additional growth that we are expecting, for example, the Trailblazer 1 gram vape cart that I mentioned to come in Q2. So I think, again, we are optimistic about the growth coming in the near term. Again, we historically don't give guidance in terms of revenue, but I think as we're seeing the impact of the new SKU launches and continue to see new product launches, even our RE:MIX, for example, in market we're only in a few provinces right now. So, we expect in Q2 to get an offering in the provinces where they will accept it and they have accepted it. So, it's not full distribution as of yet because, as I said earlier, there are lead times.

So, yeah, I mean, I guess, the key comment I would make is we're on the right path and we continue to bring new products to market and it's just a matter of market acceptance and getting those products into market in a timely fashion, which again we've done and I believe our team has done a great job in challenging times in doing so.

Graeme Kreindler
Analyst, Eight Capital

Q

Okay. Understood. I appreciate the color there. Then just as a follow-up with respect to the gross margin was CAD 11 million of inventory that was a written off or impaired this quarter impacting that gross margin. I was just wondering if you could provide some more details on what sorts of products were included within that CAD 11 million charge. And at this point, does the company feel comfortable in terms of where its inventory position is sitting in terms of how things are [ph] costed (00:39:58) within there that it's through the bulk of these charges? Thank you.

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

A

Yeah. It's a great question, Graeme. Maybe I'll turn it over to Derrick to answer that question.

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

A

Yeah. Thank you, Greg. For the fourth quarter, there was CAD 11.1 million in overall provisions around inventory, including adjustments from that realizable value. Of that CAD 11.1 million, CAD 8.3 million is pretty much contained to extract materials in terms of the concentrates and the trim, so that was the bulk of it. And historically, the company had built up a certain [indiscernible] (00:40:36) of these categories. But I can say, at this time, we stopped harvesting the trim and the product adjustments and the carrying value of the trim was a significant contributor. As I look at the balance sheet, our inventory in bio assets now have declined 37% than as compared to a year ago and 28% kind of compared to our Q3 2020 and this has reduced our exposure to future valuation adjustments that would negatively impact our future gross margins.

In the interim, it's unreasonable to expect that there is not going to be some ongoing noncash adjustments for excess aged inventory and net realizable value adjustments due to the combination of price compression in the market combined with the ongoing changes to consumer preferences. Having said that, we do feel that over the last few quarters we've had a heightened review of these matters and with the provisions now taken, we're comfortable with the carrying values that are on the balance sheet at this time.

Graeme Kreindler
Analyst, Eight Capital

Q

Okay. Understood. I appreciate the color. Thank you very much.

Operator: And your next question will come from Rupesh Parikh from Oppenheimer. Your line is open.

Rupesh Parikh
Analyst, Oppenheimer & Co., Inc.

Q

Good morning. Thanks for taking my question. I also wanted to follow up on gross margins. For near term, is it fair to think about the 30% level as maybe a base to build off of and then longer term just thinking about how you guys are thinking about the longer-term scaling of gross margins from here?

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

A

Yeah. Rupesh, thanks for the question. And I'll maybe let Derrick answer that one as well.

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

A

Yeah. For fiscal year 2020, our adjusted gross margin was 33%, but as you correctly note, the Q4 period that we've just filed was having adjusted gross margin of 30%, which has had the impact of significant price reductions in the market that has occurred over the current fiscal year and also includes a certain level of production inefficiencies. But to some extent, we do believe that it should somewhat persist, as we continue to launch 2.0 products and continue on the learning curve to optimize production. But the Q4 30% margin does reflect them where it was with regards to the pricing in the market and our production levels. And so, at this time, it's a fair indicator.

Rupesh Parikh
Analyst, Oppenheimer & Co., Inc.

Q

Okay. Great. Any comment during this longer-term scaling of gross margins from here, as you look forward?

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

A

Yeah. I would say that we've stayed away from providing any guidance on long-term target for gross margins just as a consequence that it's too dynamic of an industry with increasing competition, uncertainty especially related to the duration and impact of the pandemic. And again, we do believe we do have the potential to optimize our production inefficiencies as we work through the learning curve, particularly related to 2.0 products and improving the packaging cost that Greg was talking about earlier, and as we move to larger format offerings on the 28 gram with a three-pack pre-rolls. But it's difficult, it's a very – it's ever-changing dynamic market, and so that's the most we could provide for guidance at this point.

Rupesh Parikh
Analyst, Oppenheimer & Co., Inc.

Q

Okay. Great. Thank you.

Operator: And your next question will come from John Zamparo from CIBC. Your line is now open.

John Zamparo
Analyst, CIBC World Markets, Inc.

Q

Hey thanks. Good morning. I just want to stick with that same topic of gross margin over the next few quarters and maybe if we can simplify it a bit. But particularly as it relates to new SKUs and SHRED in particular, it does seem that that's quite popular. I'm trying to get a sense of the impact of those. And maybe the way we can frame it, if there is no further pricing compression in the market, is it fair to say that the cost optimization efforts you've put in so far and the higher volumes you're expecting and the new SKUs you're launching that that gives in a similar environment in terms of pricing that you see margin growth?

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

A

Maybe Derrick will answer that question.

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

A

Well, I guess, as the question is framed, surely, if there is no changes in the pricing in the market, as we increase our volumes, just inherently increase our volumes, we do absorb the fixed overhead amounts and have less of the unabsorbed fixed overheads from not operating at capacity along with improving the efficiency at the facility. So, under that parameter, yes, our margins would move up under that scenario.

John Zamparo
Analyst, CIBC World Markets, Inc.

Q

Okay. Thanks. And then my follow-up is on Ontario. Greg, you mentioned your optimism about this province is because of the store growth, which I think is fair. Can you talk about your performance in Ontario relative to other provinces, whether it was in Q4 or in Q1, and even without giving specific numbers. Just trying to get a sense if you think you're adequately participating in the industry growth in the province. Thanks.

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

A

Yeah. It's a great question, John. I think, Ontario, we see as probably the most competitive market across the country, and we certainly see more SKUs listed in Ontario than any other province. And so, I think because of the size of the market, it is the one where we've seen the most significant stock-outs which, on one hand, you can look and say is good news in terms of there is product and demand. But it has impacted us in terms of market share and revenue because of the size of the market growth. And we knew the market was going to grow, but certainly the rate, again, is if you think about the timelines in the cannabis space, the rate of growth if moving up at a faster rate than anticipated then with kind of a 16 week – 20 to 16 week planning cycle for certain product types being able to adjust. On the other hand, it's good news and, again, that market growth I think is strong and would continue and even with COVID and some of the restrictions put in place in the Toronto and Peel regions, I think we'll continue to see good growth.

I know on the construction side and the licensing side, they expect that to continue at the same pace. But we were impacted, I would say, in Ontario a little more than other provinces with stock-outs and because of success, as you said, SHRED, for example, which was alluded to earlier I mean was one of the highest demand products through the OCS website and through many stores that carried it in the first few weeks of launch. And so, certainly for us to continue to supply that as we were bringing it into other provinces, that was higher than expected demand for us. So, again, you get strong growth and then you're in a position where you're not able to resupply the market quickly. But again, we're adjusting accordingly and hope to be in a position to continue to supply that on an ongoing basis and have it available, which I think is critical.

John Zamparo
Analyst, CIBC World Markets, Inc.

Q

Okay. That's helpful. Thank you very much.

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

Matt Bottomley
Analyst, Canaccord Genuity Corp.

Q

Yeah. Thank you very much. Good morning, everyone. Just wanted to expand a bit further on John's prior question there, which sort of framed around Ontario. But when you look at the overall market growth certainly at the retail level, and you've mentioned this in your outlook [indiscernible] (00:48:16) the one month of September, it looks like you put a CAD 3 billion market. Do you have any color on dynamics of how much LPs as a whole are sort of losing their market share to the provincial buyers. If pricing at the retail level are coming down at the same degree, I imagine more of the economics might be going to the provinces at some of the wholly owned retailers. Is there is a dynamic there to explore? And then if you can give any color on the product SKUs and formats that you're focused on, maybe the edible side and the beverage side and the powder beverage side. I know it's very nascent right now, but where you think you rank in the overall Canadian landscape as those obviously have longer-term growth profile than what we're seeing in dried flower?

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

A

Yeah. I mean, thanks for the question, Matt. I think when you look at the market, I mean, certainly – and I'll look back over the last 6 months or 12 months even, for example, when pricing reductions come into place and those predominantly are shared with the province, so it's not just the company taking a pricing reduction. It's shared. So, in many aspects, some of these strategies are done jointly with provinces to move products or to react to competition. So, I think there is some sharing that happens even on that side of things. I think we're seeing an evolving landscape. We keep hearing discussions about how some of the systems may change in the foreseeable future. I mean, we know, for example, New Brunswick is looking at going to a private tender for their program. There is some discussions about Alberta shifting some of their models. So I think it's an evolving landscape and one that you've got to be flexible to work with.

I think, for us, one of the things that's been really positive is we've seen some consolidation on the retail side and so certainly the partnerships and the companies where there has been consolidation or partners that we have strong ongoing relationships historically with. So, that's a positive, and those are national presences in both cases with the consolidation that's happened. So, that's a positive for us.

I think to get to the second part of your question, when you look at the expanded offerings, I think in the near term, again, in the vape portfolio, getting out 1 gram is important. We've have seen a competitor just launch last week and we need to get that product in the market in this quarter. We had plans to do so. But again sometimes those are impacted by COVID and some of the equipment supplies and things like that, and RE:MIX we're focused on getting national distribution. We're looking at how do we increase the productions level on it.

And I think when you go to the future and if you look ahead to calendar year 2021, it is going to be important to have an ability to produce at some point live resin whole-plant extract vape pens. We know they have a very strong position in a market like California, which is why we've invested in hydrocarbon extraction equipment ourselves. Again, I can't give a timeline on when we plan to launch those, but you always have to be looking ahead with these new forms as to kind of where the market is going. And in some cases, the US state data can give you a good indication and in others you have to do your own market research, which we do quite a bit of as well. So, we are excited to even in the near term. I mean, we've put out a couple seasonal offerings that's been in partnership with a couple of provinces, our Kushmas Stix and Gingerbread Bytes. I think again those are just seasonal, but so far good response on those as well.

Matt Bottomley
Analyst, Canaccord Genuity Corp.

Q

Appreciate that. And then just a quick follow-up. Maybe overall just from a management [indiscernible] (00:52:05) or maybe higher level view on as this market continues to expand, so that CAD 3.1 billion number I think is very encouraging. But when you look at the LP landscape overall, it's not really dominated by profitability at this point. Where do you see the opportunity to really lock in, whether it's margin or things that are more specific to Organigram strategies and core competency plan? We see a lot of price [ph] monetization (00:52:34) in dried flowers [indiscernible] (00:52:36) that the vape pen category, given the high competition, could see a similar dynamic in the next year here. And as the market gets closer and closer to where I think the overall headline number in terms of market size might be close to CAD 10 billion and we will see where that falls. Where do you assess the risk of subsequent product categories potentially being commoditized as the overall macros of the industry continues to grow pretty healthy.

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

A

Yeah. I think – look, it's a great question. And I think to some degree we've already seen the pricing changes happen in the vape market, right. Early on, there was limited competition. And as more products came in the market, we saw our pricing – and again, as I mentioned, we did share some of that pricing reductions that we took with the provincial partners and/or private retailer, but I mean – really with the provincial partners on the distribution side.

I think what's important, though, is for companies like Organigram is you are improving your efficiency, right. So, as the pricing compression has happened in flower and you go to larger volume SKUs, certainly your packaging costs go down pretty dramatically. And I think on 2.0 products, it's the same. As you are producing more of the product, you're producing it more frequently, you're doing it more efficiently, more effectively. So, while you're getting some price pressure, but I think it's – we've talked about this along. I mean, when we spoke about as a company, part of our focus is to bring quality, differentiated products and even, for example, our Trailblazer Snax chocolate bar, which participates in the value category arguably is one of the best tasting and differentiated chocolates in the market. I mean, it's a five-piece bar and 42 grams. Each piece is filled kind of independently. So, it does allow consumer some flexibility in terms of dosing. It's not just one big bar where you may not have a homogeneous kind of distribution of cannabinoids in it. But again, I think it's important to continue to focus on the new products and not just new flower offerings for that consumer that's always looking for something new and unique and also the differentiated products you can bring to market like RE:MIX and the quality of our chocolates.

Matt Bottomley
Analyst, Canaccord Genuity Corp.

Q

Great. Appreciate all of that. Thanks all.

Operator: And your next question will come from Rahul Sarugaser from Raymond James. Your line is open.

Rahul Sarugaser

Q

Hey, Greg and Derrick and Amy. This is [ph] Mike Freeman (00:55:12) on for Rahul today. Just a couple of questions for me. So I know we've talked a lot about production and how we can enhance efficiencies going forward. Wondering and I'm looking at your yield per plant [indiscernible] (00:55:28) year-over-year and they seem to have gone down from 150 grams per plant to around 100 grams at the end of this year. Is this a problem that you can resolve with staffing and how important do you see the sort of the yield per plant issue as it flows into the rest of your business?

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

A

Yeah. May I'll start off and answer that, [ph] Michael (00:55:50), and then if Derrick has anything to add. So, certainly, two things to keep in mind. On a per plant basis, we stopped keeping trim byproduct a couple of quarters ago, right. We had sufficient extract inventory and sufficient extractable material so that's the roughly 30% production drop in kind of yield per plant, right, so if you look at from that factor. And then we've been focused on increasing THC with some experimentation on different techniques, different styles, also different strains. Some of the strains, as you know certainly and you've been through our facility, some strains have a higher yield per plant, others have a lower yield per plant and it's finding that balance on a THC and yield basis what you're still cultivating.

I think, again, the focus for us has to be – I mean, when we speak about increasing staffing at all, I mean, we're talking modest increase in staffing, right. Just bringing a limited number of people back into the facility and increasing our staffing. But I think I wouldn't say that's going to have an impact on yield and plant care per se. It's more about the genetics who we choose to grow and I think that's most important one. So, hopefully, that answers your question.

Rahul Sarugaser

Q

Yeah. That's really helpful. And just staying on the topic of staffing. I mean, in New Brunswick recently that you've seen some enhanced COVID-related restrictions [indiscernible] (00:57:23) the Atlantic bubble recently. Are you seeing sort of the recent uptick in cases in New Brunswick specifically affecting your operations or maybe your capacity to re-staff even modestly?

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

A

No. It's a great question. I mean, so certainly we've worked closely with the government and we actually had a spot inspection last week where [ph] Public Health Work Safe (00:57:46) and RCMP came in and they've been visiting sites across the province to ensure kind of safety and protocols are in place and a safe workplace for employees and they were satisfied with everything they saw onsite. So I think what, yes, we have seen an increase in the province, but I think for us we've been focused since the early days of COVID to make sure that we could and do have a safe workplace for employees. And I think our employees appreciate that and it's been a big part of what we do. So, to-date, it has not had an impact on our facility and our operations. Again, I think the greater impact of COVID sometimes is more equipment and/or getting third-party contractors in to do work on equipment and things like that, which has been a challenge.

Rahul Sarugaser

Q

Got you. Thanks, Greg. And if I could just one more in there. If we could refocus closely on biosynthesis and Hyasynth specifically and your recent investments and their recent announcement of [indiscernible] (00:58:51) is big deal in the space. How do you see partnering with Hyasynth as a potential revs into the United States given that bio manufacturing through contract manufacturers can happen almost anywhere?

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

A

Yeah. It's interesting and [ph] Michael (00:59:10) I'm not sure if you've spoken to Kevin or not, but actually this first production and sale was actually completed in the US. So, they're working with the contract site there, they transferred over their yeast strains and enzymes to do an optimization process. So, yeah, I think the big difference with biosynthesis versus cannabis plant production is, it doesn't have to be country specific and certainly there's lots of opportunities for Hyasynth to operate either in any jurisdiction where it's legal and/or to operate in jurisdictions and do product transfers, right, of pure cannabinoids and certainly ones that don't have the same control mechanisms on them as others at this point or in the future ones that there has been changes. So I think that is a big part of their strategy right now.

Rahul Sarugaser

Q

That's really helpful. Thank you very much.

Operator: And your next question comes from Douglas Miehm from RBC Capital Markets. Your line is open.

Douglas Miehm
Analyst, RBC Dominion Securities, Inc.

Q

Yes. Hi. Good morning. Just a couple of quick questions. Number one, Greg, you're really close to the industry and I'm just wondering what your thoughts are on M&A right now and what you see unfolding in Canada, but also north and south of the border with respect to the Canadian market.

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

A

Yeah. I mean, we have seen some consolidation now in the retail space and I think we expect that to [ph] continue (01:00:47) potentially, Doug. But I think when we look at the space, and I've said this publicly before, I mean, we are continuously approached by banks and/or companies directly where companies are looking to be acquired or have a strategic investment into them. And I think one of the challenges, as always, when you evaluate those companies is looking at what's their differentiator, what's their innovation, what's their kind of brand. I mean, if you have all three of those and/or a couple of those that could be quite unique then certainly something to evaluate. So, I think that's the challenge, to be frank, in the space is there are many companies that don't really have that differentiation.

So, I think it's one of the things we focus on when we assess people is what is the differentiation, how do you supplement. I mean, certainly, there is public companies synergies that could happen in any M&A activity. But I think the more important things along with that are how did the two companies combined and what are the synergies in terms of the market opportunities. So, north and south of the border, I think they're still very much dependent upon what happens in the US. And I think if the Republicans control the Senate, with these two upcoming runoff elections in Georgia, that sets one tone. If the Democrats are able to garner both those seats, that might send another direction. So, we'll see what happens.

Douglas Miehm
Analyst, RBC Dominion Securities, Inc.

Q

Okay. And then just I did want to continue on with the US market and you said you are doing some work about how that could unfold and how you're going to move as a result of that. Can you elaborate on what the company might be thinking? We've seen other companies move into the market and I'm just wondering given your relationship with the company in Colorado, how you're thinking about it.

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

A

Yeah. I mean, look, we continue to monitor the US and certainly one of our key staff is on our board out in the US in the industry and I think we've certainly been a big part of our focus, even on the GR side as to kind of keep our finger on the pulse of what's happening there. I think when you look at the market as a Canadian company that's still listed, but in the near term our focus is, are there CBD opportunities. And I think that would potentially be a way to enter the marketplace in a legal fashion, but we do follow THC as well.

I think part of our focus as well has been very much about creating innovative products. So, for example, our RE:MIX, we've had a number of inbound licensing contacts from companies on both the CBD and the THC side for that technology and innovation and certainly at this point we haven't concluded or gone final with anyone. If we were to do so, we would only do it with a CBD company at this point due to the legal implications related to THC revenue. But I think as a company, we are continuing to follow and focus and we have looked at CBD opportunities, we're just not at the point that we found something that made sense to us.

Douglas Miehm
Analyst, RBC Dominion Securities, Inc.

Q

Perfect. Thanks very much.

Operator: Thank you, everyone. This will bring us to the end of our Q&A session today. I would like to thank everyone for joining our conference call today. This will conclude our conference call. You may now disconnect.