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#### COMPANY PARTICIPANTS

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Frederico Gomes - Analyst

Rahul Sarugaser - Analyst

Rupesh Parikh - Analyst

Aaron Grey - Analyst

Tamy Chen - Analyst

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#### MANAGEMENT DISCUSSION SECTION

##### Operator

Good morning and welcome to OrganiGram Holding Inc.'s Fourth Quarter Earnings Conference Call for the fiscal year 2021. After the speakers' remarks there will be a question-and-answer session with analysts. We ask you to please limit yourself to one question and one follow-up question. You may re-queue, if you have further questions. As a reminder, this conference call is being recorded and a transcript will be available on OrganiGram's website.

Listeners should be aware that today's call will include estimates and other forward looking information. Please review the cautionary language in today's press release on various factors, assumptions and risks that could cause the company's actual results to differ. Furthermore, during this call, reference will be made 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 these measures may not be directly comparable. Please see today's earnings report for more information about these measures. I would now like to introduce Ms. Beena Goldenberg, Chief Executive Officer of OrganiGram Holdings, Inc. Please go ahead, Ms. Goldenberg.

##### Beena G. Goldenberg

Thank you, operator, (00:01:44) thank you for joining us today. With me is Derrick West, our Chief Financial Officer. For today's call, we'll discuss the financial results for the 3 and 12 months ended August 31, 2021, and I will provide a general business update. We will then open the call for questions. To begin I'd like to say how pleased I am to be part of the OrganiGram team and host this call with investors.

With OrganiGram's reputation for high quality products, our strong brand portfolio and our proven ability to innovate in ways that meet consumer needs. I believe we are positioned for success. What's more we have the strategic partner, the team and the resources in place to ensure we will execute on our growth strategy.

Our fourth quarter 2021 results demonstrate progress against all of our strategic objectives. We achieved double-digit growth in recreational revenue. We introduced innovative products that were quickly embraced by consumers.

We continue to improve our adjusted gross margin. We enhanced operations through adding key team members and advanced our product development collaboration with BAT, also and importantly according to HiFyre data, we grew our recreational cannabis market share to 7% in Q4 from 5.4% in Q3, positioning OrganiGram as the number four LP in Canada and the momentum continues. Our latest data shows a market share of 7.9% at the end of October.

Starting with our brand, in the quarter we continued the revitalization of our portfolio with the introduction of 16 new SKUs into the recreational market, bringing the total to over 100 new SKUs in fiscal 2021. In addition, we recently introduced two new brands SHRED'ems gummies in Q4 and our CBD-forward wellness brand Monjour subsequent to quarter end. We have been refreshing our portfolio based on our ongoing consumer research to ensure it is aligned

with current and expected evolutions and consumer preferences. The launch of SHRED and Big Bag o' Buds is a great example of our strategy to capital migration to large format, low price and high THC offerings.

While Big Bag o' Buds offers 28 grams of high-quality flower at a consumer-friendly price, SHRED is a potent value segment product that has built leading brand equity to its unique and bold flavor profile. It has captured the imagination of the cannabis consumer with sales growing 67% from Q3. SHRED has remained the number one searched brand on the OCS website for 11 of the past 12 months.

When it comes to addressing the evolving needs of the premium cannabis consumer, we continue to invest in our Edison brand. In fiscal 2021, we introduced seven new high potency strains that were well received by consumers. Moving forward through our in-house genetic breeding program, backed by our R&D investments and our advanced cultivation facility, we plan to bring new cultivars to market with unique terpene profiles and the high THC content that consumers are looking for.

We also devoted significantly marketing budget to Edison to elevate new product introductions and solidify its brand position. And we're seeing the results of our marketing efforts. According to Brightfield survey, as 3,350 panelists over the August to September period, Edison experienced a 4% growth in brand awareness and achieved a significant increase in its numbers of social mentions and positive consumer sentiment scores.

In fact, over 80% of consumers indicated they would likely recommend Edison to a friend. We will continue to invest in building our flagship brands with consumers both in marketing and product development to ensure this momentum continues over time.

While we are committed to improving our mix in favor of premium products, we do recognize the importance of the value segment and its pivotal role in converting illicit market users to the legal market, that's why we continue to focus on offering brands such as SHRED and Big Bag o' Buds to consumer seeking a high-quality legal product at a fair price. That said, we're committed to ensuring we can do so profitably.

While Big Bag o' Buds has always had reasonable margins for the segment, we were able to leverage the strong consumer demand and loyalty on SHRED to take price, which improves the margin on this popular brand.

On the premium side, we expect that in time consumers will become more discerning and will start making choices based on genetics, bud structure, flavor and aroma profile as well as other quality attributes. Our product development strategy anticipates this evolution and we will be ready as this shift in consumer behavior happens.

Moving on from flower, in the fourth quarter we launched SHRED'ems gummies to leverage the success and brand recognition of SHRED. SHRED'ems are available in indica, sativa and hybrid versions with exciting flavors like Sour Cherry Punch, Sour Megamelon and Wild berry Blaze. And it quickly gained momentum, capturing 5.8% national market share in the gummies category as of last week.

This is the first product launched from our recently acquired Edibles and Infusions Corporation and demonstrates the synergies achieved from combining EIC's confectionery expertise with the strength of our SHRED brand and our keen focus on consumer insights. The efficiencies that are in place at EIC also allow SHRED'ems to be one of the most competitively priced gummies on the market.

Launched in August, Edison JOLTS was another first to market offering in the quarter that demonstrated our R&D capabilities, our creativity and our commitment to consumer driven innovation. JOLTS are Canada's first flavored, high potency THC lozenges. They are available in a package of 10 mint flavored lozenges, with 10 milligrams per lozenge for a total of 100 milligrams per package. For the eight-week period ending November 6, JOLTS reached the number one position within the ingestible extract category.

And finally last week, we announced a major addition to our cannabis derivative line up, with the introduction of a CBD-infused soft chews under our new wellness brand, Monjour. They are offered in Berry Medley and Citrus Medley flavors, as well as in both vegan-friendly and sugar-free formats. Monjour offers 20 milligrams per piece and is attractively priced at 30 pieces per pack. Monjour is also produced at our EIC facility in Winnipeg. Again, EIC's highly efficient production technology means we can produce high-quality, low-cost edible products at scale. In fiscal 2022, we expect to add even more edible products to our line-up in both THC and CBD formulations.

Moving on to our growing facility in Moncton, in the past quarter, we launched several initiatives to increase the average THC content per plant, as well as the average yield. These initiatives are aligned with consumers' demand for high THC and are expected to continue the improvements in our margin. In Q4, our yield per plant was 127 grams, compared to 117 grams in Q3 and 101 grams in Q4 of fiscal 2020. We harvested about 12,000 kilograms of dry products in Q4, compared to about 8,400 in Q3 of fiscal 2021. The increased harvest helped to meet the growing demand for our products and for the growing store build-out in Ontario.

However, we are reaching capacity at our Moncton campus. The higher consumer demand for our product has meant that we are not able to take advantage of all the sales opportunities presented to us. In order to better capture these

opportunities, we have decided to complete the Phase 4C expansion of our growing facility at Moncton, which will significantly increase our capacity and ability to meet and monetize further demand.

This is a rare situation in the Canadian cannabis industry. While other Canadian LPs are closing facilities, we are expanding. I think this speaks to both the prudent initial build-out of our growing infrastructure and our compelling product offering. Our current annual capacity at the facility is approximately 40,000 kilograms. When the Phase 4C expansion is complete, the facility will have an annual capacity of approximately 70,000 kilograms of flower. We are all also making design improvements and environmental enhancements to the facility to improve yields and flower quality.

In the fourth quarter, we significantly advanced the build-out of our Center of Excellence, or CoE, in Moncton that we are building as part of our product development collaboration with BAT. As has been discussed in prior quarters, the CoE will develop the next generation of breakthrough cannabis product, IP and technologies. Both OrganiGram and BAT are contributing scientists, researchers, and product developers. Currently, we have reached the first 100-day milestone in the project with staffing, construction, and project planning underway.

In the next 8 to 10 weeks, we expect to have the remaining core construction projects completed, with the bio-lab to be completed in Q2 of fiscal 2022. Research collaboration has begun, with the initial focus on CBD cannabis, vapor, and oral products. This is an exciting opportunity. This strategy should enable us to grow our market presence in Canada. What's more, having access to new IP from the collaboration and the ability to sublicense the technology opens up significant opportunities in the US and other markets.

Finally, before Derrick provides the financial overview, I'd like to comment on our international sales to Israel. We recently resumed shipment to Canndoc, and we expect to make further shipments in fiscal 2022. This is a high-margin revenue source for us and one that provides our leading cultivars to markets outside of Canada. Over to you, Derrick.

#### **Derrick W. West**

Thanks. I will start with our strong financial position. In terms of liquidity, we ended fiscal 2021 with CAD 184 million in unrestricted cash and short-term investments, compared to CAD 75 million at the end of fiscal 2020. This CAD 109 million increase was primarily due to the CAD 65 million unit offering done during November of 2021, the CAD 221 million private placement as part of the strategic investment from BAT, net of the allocation of CAD 31 million to restricted funds for the CoE, along with CAD 115 million used towards debt repayment. Our strong cash position and debt of CAD 300,000 ensures we are well resourced to execute on our growth strategies.

As Beena mentioned, earlier this year, we made a decision to complete the Phase 4C expansion at our Moncton campus. The budget amount for Phase 4C is estimated to be CAD 38 million and began in fiscal Q4 2021, with completion targeted during fiscal 2022. We have sufficient resources to support these expenditures and the corresponding growth through our working capital assets, while still maintaining sufficient liquidity and financial flexibility.

In addition, on August 31, we filed a preliminary base shelf prospectus, which allows us to move quickly to access even more financial flexibility, if necessary, to pursue attractive growth opportunities should they arise. To date, we have not offered any securities under this base shelf prospectus.

Net cash used in operating activities was CAD 7.7 million during Q4 fiscal 2021, which was flat compared to the same prior-year period. For the fiscal 2021 year, cash used was CAD 28.6 million, down from CAD 45.1 million in fiscal 2020, mainly as a result of improved inventory management. Net cash provided by financing activities was CAD 55,000 during Q4 fiscal 2021, down from CAD 46 million for the same prior-year period, which had been driven by draws from the credit facility.

For the fiscal 2021 year, cash provided by financing activities was CAD 174 million, up from CAD 160 million in fiscal 2020, with the current year's net amount driven by the net proceeds from the equity investments, net of debt repayments.

Turning to our earnings results for Q4 fiscal 2021, gross revenue grew 24% from Q3 2021, and 43% from the same period in fiscal 2020 to CAD 36.2 million. And net revenue grew 22% from both Q3 2021 and from the same period in fiscal 2020, respectively, to CAD 24.9 million. These increases to revenue was primarily due to a higher recreational net revenue, which grew 36% from Q3 and 52% from the same period in 2020 due to increasing sales from the flower categories.

Cost of sales decreased 11% year-over-year to CAD 26 million primarily due to the current period's lower cost of cultivation and due to the nearly CAD 11 million in inventory write-offs in provisions recorded in Q4 of last year.

As expected the charge related to unabsorbed fixed overhead and included in cost of sales continues to decline again sequentially. It is anticipated that we will no longer have unabsorbed fixed overhead and we expect this to help our

margin going forward.

We harvested approximately 12,000 kilos of flower during Q4 fiscal 2021 compared to approximately 8800 kilos of flower in Q4 of fiscal 2020, an increase of 38%. This increase was directly related to increased cultivation planting and staffing during Q3 and Q4 of fiscal 2021, which was done to meet the growing demand for many of our new products as part of the product portfolio revitalization as well as the increase in industry demand.

Largely, due to higher net revenue and lower cost of sales, gross margin in Q4 improved to negative CAD 1 million from a negative CAD 8.6 million in Q4 of 2020. On an adjusted basis, gross margin was CAD 3 million compared to negative CAD 700,000 in Q3 of 2021. We expect that the price increase to SHRED as well as lower production cost will further improve margins.

SG&A, excluding non-cash share-based compensation, increased to CAD 13.6 million in Q4 2021 from CAD 10.8 million in Q4 2020, largely due to the establishment of the OrganiGram BAT Center of Excellence. Increased data licensing fees with the continued roll out stores in Ontario, combined with marketing initiatives behind Edison and the launch of our new gummy products as well. As well as higher audit and related professional fees in connection with the company's regulatory requirement to obtain an integrated audit opinion for the first time for fiscal 2021 financial statement.

Also, as a result of improved revenues and margins, adjusted EBITDA was negative CAD 4.8 million in Q4 2021, compared to negative CAD 9.2 million for Q3 2021, the most recent quarter. We also reduced our net loss year-over-year from CAD 39 million to CAD 26 million.

Overall, we are pleased with our improving financial and the momentum we're seeing. Based on this, we currently believe that we will achieve positive adjusted EBITDA by Q4 of fiscal 2022.

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

### **Beena G. Goldenberg**

Thanks, Derrick. As you've heard today, we have generated significant momentum in Q4 of fiscal 2021 against all of our strategic objectives, which include achieving strong sequential revenue and volume growth in addition to doubling market share, innovating to bring new and exciting products to market and improving our ability to match our supply with increased demand for our product portfolio.

We also expect to see further improvements in our adjusted gross margin as we continue to realize economies of scale from cultivation and as our price increase on SHRED comes into effect. We're excited for what fiscal 2022 holds for OrganiGram. Looking ahead, we expect to continue our strong growth momentum as we maintain our focus on increased points of distribution, growing market share, exceeding consumer needs by bringing more insights-driven and innovative products to market and improving our ability to fulfil growing demand. I look forward to updating you on our progress.

And now operator, you may open the call for questions.

### **QUESTION AND ANSWER SECTION**

#### **Operator**

Thank you, ma'am. And we ask you to please limit yourself to one question on the follow-up question. You may re-queue if you have further questions. Your first question is from the line of Frederico Gomes. Your line is now open.

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**Analyst:** Frederico Gomes

**Question – Frederico Gomes:** Hi, good morning, guys. Congrats on the quarter. Thanks for taking my questions. So, first question is just on market share. You guys are obviously now gaining share, really rapidly in Canada now, number 4 LP here, so that's positive but just wondering how do you plan to keep those market share gains or just how sustainable do you believe they are, just considering the fragmentation, the market, the heavy competition of price and we have seen some other LPs gaining market share and then losing some of that, so what are your thoughts there?

**Answer – Beena G. Goldenberg:** Thank you, Frederico for your question. Look, we believe we have a very strong position with our SHRED brand. We see heightened consumer interest through the search on the OCS website for the brand, we see strong consumer pull in demand to the extent that at this point we can't supply the demand that that brand is generating with consumers. And we think it's a unique offering because it has, it's not simply a milled flower, we're providing bold sort of flavor profile that are resonating with our consumer.

At this point, we believe there is opportunities to extend our momentum and our market share because we see that there's opportunities to extend trends to other regions across the country. We currently sell most of our products in Ontario and Alberta, with a little bit of SHRED being sold in Québec. The demand is out there, we have plans to continue to build out our capacity so we could fulfil that demand. So, that's on our SHRED business, we believe there's further opportunities. And with respect to Edison, which is premium brand, we need to continue to bring news to that brands and keep making sure it resonates with the cannabis enthusiast.

And we will do that with continuing to bring new flowers, unique strains out to the marketplace and bringing some other products such as vape that we have with live resin. Other products that will continue to advance that brand as a more premium brands within our portfolio.

So, we're confident that we have the plans in place to continue the momentum and that we have the consumers interested in our brands and will be coming back for more.

**Question – Frederico Gomes:** Okay, thank you, Beena. That's helpful. And then just on your international markets, you mentioned your shipments to Israel but are you looking at any other markets out there in Europe, in addition to Israel and to that point would you consider an acquisition to enter some of those markets, we've seen some LPs there making acquisitions in Germany, Netherlands so, any color there would be helpful. Thank you.

**Answer – Beena G. Goldenberg:** Yeah, sure. So, in terms of resuming our shipments with Israel, so we have a great partner in Canndoc and have an opportunity to continue to supply that market. We currently supply the Australian market and are working with our partner Cannatrek in Australia to continue to build out our portfolio there. So, those are markets that we're currently in and certainly the news on Germany that's been coming out makes it a market that we will continue to explore. But in terms of interest in acquisitions in other European market at this point, we'll continue to evaluate the opportunities. We'll continue to look at how regulations change because sometimes the news happens quite faster than the actual changes happen in the regulation. So, we'll monitor it and continue to evaluate opportunities in the international market.

**Question – Frederico Gomes:** Thank you. I'll hop back in the queue. Thanks.

**Answer – Beena G. Goldenberg:** Thanks.

**Operator**

Your next question is from the line of Rahul Sarugaser from Raymond James. Your line is now open. Rahul, your line is now open.

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**Analyst:**Rahul Sarugaser

**Question – Rahul Sarugaser:** Good morning, Beena and Derrick. Sorry, I was talking to myself on mute. I apologize for that. Thank so much for taking my questions. So, congratulations on driving terrific top-line, quarter-over-quarter growth as well as market share. My question however is really on margins, we saw the gross margin profile relatively flat between last quarter and this quarter. Given the capacity expansion that you talked about, Beena as well as the changes in the unabsorbed fixed overhead that you talked about, Derrick. Can you give us a little bit more color in terms of how you expect margins to improve over the next few quarters?

**Answer – Beena G. Goldenberg:** Thank you, Rahul. Let's start, then I'll pass it to Derrick after my comments. So, first of all as you can -- as we increase production we get economies of scale in our facility, we saw that benefit as the numbers improve between Q3, Q4 of 2021 and we expect to continue to see that opportunity as we build out more capacity within our facility. We have (00:25:27) enhancements that are driving those deals, and we expect that to continue to drive improved gross margin as well as driving higher THC and we all know that we can get higher average selling price as we sell higher THC products.

As I talked about in my opening remarks, we did have the ability (00:25:49) from SHRED and that is a nice (00:25:55) thing to happen in this market where most of the prices are coming down but we have such high consumer demand that we're able to be -- recognizing our -- inability to fulfil all of the sales opportunity, we were able to take a price increase which again will help our margin.

And finally, as we look for (00:26:19), there's an opportunity to improve our margins through improving our provincial mix. Right now, we're heavily sold in Ontario market, (00:26:32) most compressed margins (00:26:34), and as we expand to further provinces, we expect to see again improvements in our margins. So, those are a couple of comments but Derrick I'll let you add.

**Answer – Derrick W. West:** Yeah, I'll just add, I guess, in addition, we're reviewing our sourcing with suppliers and considering more strategic sourcing. There is opportunity for further automation with regards to our blend for the

SHRED pre-milled flower along with we've had in Q1 the automation of our second pre-roll machine and have labor savings with that.

So, we do see some near-term improvements with our margin as well, we were leaving Q4 near capacity but during Q4 in the early parts, we were not at capacity and there is a heavy fixed cost component to our operations and as we achieved these economies of scales from operating in Q1 at the current capacity and then with the build out, we do think that we can drive down fairly significantly our cost of cultivation that will allow us to have sustained quarter-over-quarter improvements to our cost and therefore to our adjusted gross margin. And just by example, going from Q3 to Q4, our adjusted gross margin went from negative 4% to plus 12%. So, in one quarter, just from some of the initiatives we've already implemented, we improved our adjusted gross margin by 16%.

**Question – Rahul Sarugaser:** Great, thanks so much for that color. And then just pivoting towards the British American Tobacco partnership, specifically given the investment that you have, Hyasynth, and the recognition that this was potentially a key motivator for that partnership, we're starting to see biosynthesis or fermentation-derived products start to hit market by a few of your competitors. Can you maybe give us an update in terms of that partnership, how you see products rolling out, and maybe potentially a broader update on the British American Tobacco partnership?

**Answer – Beena G. Goldenberg:** Okay, perfect. So, let me start with Hyasynth, as you said, (00:28:48) this is something that we believe there is a long-term opportunity to build out from this partnership. We actually did a strategic review of the investment back in the summer and found we are very happy with progress being made, very happy with the IP that has been developed, and we continue to look forward to have opportunity to further our relationship with Hyasynth because we do believe down the road there's an opportunity around biosynthesis of some of those rare cannabinoids, and I look forward to updating you further on that relationship as we continue to invest and build that one.

As for the BAT partnership, that is prominent every day, and what we do, we have great relationships with our (00:29:48) investor, we have the Center of Excellence as I mentioned earlier that is well on its way and being (00:29:55). We hired scientists and product developers and researchers both from BAT as well as from OrganiGram that are working together. We have the build-out of the Center of Excellence almost complete.

As we've said, we expect all the construction to be completed by Q2 of fiscal 2022. That includes not only the R&D labs (00:30:24) and this is the – having (00:30:30) facilities to work with our collaboration projects to continue to build out (00:30:40) product and CBD products, so lots of opportunity here to continue to build out the IP and the technologies that we think have some opportunity for both our companies, but we would have that (00:30:59) to take it to other markets around the world.

**Question – Rahul Sarugaser:** Great. Thanks again for taking our questions and congratulations again on the quarter.

**Answer – Beena G. Goldenberg:** Thank you.

**Operator**

Your next question is from the line of Rupesh Parikh from Oppenheimer. Your line is now open.

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**Analyst:**Rupesh Parikh

**Question – Rupesh Parikh:** Many thanks for taking my question. So I guess just going back to that target for positive EBITDA margins later in your fiscal year, is there any way to frame, I guess, what type of gross margin you expect to get to, to be able to achieve that target? And I guess, second question is just, I guess as you look at the capacity right now that you have, I guess what type of revenue (00:31:42) like what type of revenue do you think you can get out to with your existing facilities?

**Answer – Beena G. Goldenberg:** Derrick, why don't I pass that one over to you?

**Answer – Derrick W. West:** Okay. As it relates to the margin that we would need to get (00:31:58) that's not really the type of guidance we would normally provide. I know we are providing the positive guidance just based upon where we are today and the trends and the products that we have and the cost analysis that's been done and our control over our SG&A cost. We are confident that we can get to the Q4 adjusted EBITDA positive and that will happen over time again benefiting as well from the economies of scale from operating at the higher output and more towards the 70,000.

In terms of what type of revenue that results in, I mean, you're not going to, of course, sell everything that you're producing at 70,000 kilos a year in capacity because of our packaging processing losses, but what the ultimate top-line revenue and sales number extrapolates to is really dependent strongly on the mix of the flower that's being

offered and whether it's in mainstream and/or value and whether it's with pre-rolls. So there can be large fluctuations with that.

I think that you could look at some of the data points on the net average volume price on our disclosures and come up with a range for it, but it's not the type of extrapolated guidance that we would be comfortable going on record with at this time, but we are providing the guidance that we will be at least at 70,000 kilos of flower by the end of the year after completing the constructions, so that is the guidance we can provide.

**Question – Rupesh Parikh:** Okay, great. Maybe just one follow-up question, so clearly your liquidity position seems to be better than peers. Where does M&A fit in your strategy going forward at this point for the company?

**Answer – Beena G. Goldenberg:** So, thank you for the question. Look, we're continuing to look at opportunities as they make sense for our business. Right now, there is a lot of talk about what is the opportunity in the US (00:33:59) keep moving forward and (00:34:03) as we evaluate those regulations when or if it's right for us to move into the US market and how to do it. So we'll continue to look at opportunities. We (00:34:15) OrganiGram, not because other competitors are there. And look, we're watching what our other competitors are doing.

So, it's something that we'll continue to evaluate. And I'd say beyond the US, there are opportunities in Europe that we could look at, but there are certainly opportunities in Canada as well, as we strengthen our position in the Canadian marketplace. So, right now, we're focused on getting our foundations right, getting our business, our product portfolio revitalized, growing our market share. And as we see acquisitions (00:34:52) in our portfolio, so gaps in whether it's segments, gaps in certain regions, we'll look to fill those gaps with accretive acquisitions that make sense for us.

**Question – Rupesh Parikh:** Great. Thank you for all the color.

**Operator**

Your next question is from the line of Aaron Grey from Alliance Global Partners. Your line is now open.

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**Analyst:**Aaron Grey

**Question – Aaron Grey:** Hi, good morning. Thanks for the questions and congrats on the market share gain and improvement on the gross margin. So, just want to double that my question in terms from the gross margin commentary specifically as it relates to what you said Derrick in terms of targeting EBITDA profitability in 4Q 2022, could you just maybe give some targets you have within that to help to get that breakeven more maybe in terms of metrics per gross margin or top lines to help us kind of model out how we might get to there? Thanks.

**Answer – Derrick W. West:** Yeah, I understand the desire to run the model half off of that but there's just so many variables that can come into play where it's you're when the flower comes off in terms of what market lands in what brand. There is a large range in the selling price depending on their product formats and the brand that can lead to a range. And so I tend to look at it in terms of the average of averages that's based upon getting to the higher level on capacity which we want to get to at the end of the year.

And I think construction is complete that it's very weak but we were expecting to be in the dock at a breakeven or positive and but to get granular in terms of what that exact math is, I'll let everyone, the analysts do the modelling on that. But we do believe that we can significantly reduce our cost of cultivation as we produce at a higher level going from 47 kilos of flower to 70,000. And it's of course with improves yields from the innovation work that we're doing, there is extra opportunity there that would go on top of that but it's just too many variables at play to for me to put it on one or two, but we're confident that based on the cost structure of the facility and our overhead expenses and the fact that we have the capacity to sell the product is coming everything is being harvested and things for the foreseeable future that we're confident that we will be able to be EBITDA positive for Q4.

**Question – Aaron Grey:** That's helpful commentary and thank you for that. And then second question from me, you guys have done really long terms of market share as of recent, so just a lot of your peers talked about shifts to more consumers shopping in brick-and-mortar and I think you kind of regained some share gains during that time. So, just wanted to hear about you guys your strategy as consumers potentially go to more shopping at brick-and-mortar versus online, how you're looking to maintain the market share towards you guys have particularly maybe let's focus on price and they guys also talk about value proposition you have within that price range but love to hear your commentary now with in terms of potential shift and (00:38:16) positioning? Thank you.

**Answer – Beena G. Goldenberg:** Yes, sure, no problem. So, I would like to just remind everybody that one of the unique differences for OrganiGram is that we have our own dedicated salesforce. And while many of our competitors use third-party we're focus day in day out in this space and our team is out in retail stores meeting with bud tenders. And so we think that that's a competitive advantage for us. We'll continue to build out our presence in the stores. And we were able to get our SHRED'ems gummies significantly into distribution within 12 weeks of launch.

We were out in mass distribution across the country, except Québec, but we were able to get that product out quickly. And that is so as you talk about what happens as people start going back into stores, the reality is I think that's going to be a benefit for us. We know that it will help our Edison brand, where bud tender recommendations are important. We'll do some more in-store activations, which we weren't able to do last year during COVID.

And so, getting the name out, getting that contact it will help us maintain our presence and continue to drive our momentum but we have bud tender education programs. We kicked off program called Plant Lab last year. And it's a dedicated program for bud tenders learning about the quality of our products and available to consumers. And on top of that, we'll continue to improve our consumer communication strategy. Look, this is -- it's a difficult category because you can't market unlike traditional CPG companies can to consumers but there are two places, we could reach our consumers and that's in-store and it's online.

And in-store was hampered last year with all the retail restrictions during COVID. So, we're excited about the opportunity to ramp that backup and continue to improve our online programs to really reach the consumers, both for Edison brand and for our other new products like our gummies and our JOLTS that we think have great potential to continue to drive further improvements in our product mix.

**Question – Aaron Grey:** All right, Beena. Thank you very much for that color and commentary and I'll jump back into the queue.

**Operator**

Your next question is from the line of Tamy Chen from BMO Capital Markets. Your line is now open.

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**Analyst:**Tamy Chen

**Question – Tamy Chen:** Thanks, good morning. Sorry to hound on the gross margin again. But I just want to make sure I understand. The going from the negative 4% gross margin last quarter to 12% so quite a significant recovery. So, was that more due to changes in your product mix or was that largely because you're producing more and so you had those economies of scale? Was it more due to the latter?

**Answer – Derrick W. West:** I would say that was more, yes, I would say that the improvement of the 16% was more to do with cost improvement that we achieved at the facility over Q3 and early Q4 that did allow for the improved margin, and that was prior to operating at full capacity at the 40,000 kilos and that was why we were gaining confidence as to the improving cost structure and the improvement to the margin.

We're always looking to sell our products in the brands and the formats to allow for the higher selling price and that will of course be a big improvement to the margin as well. But we have seen the improvement in over the last quarter significantly come from improvements in the cost structure.

**Question – Tamy Chen:** Oh, so it was improvement to the cost structure, so this was even prior to getting to more production efficient economies of scale?

**Answer – Derrick W. West:** Correct, which was one of the drivers along with the sales demand for our products that gave us the ability to give the guidance on the adjusted EBITDA for the end the year.

**Question – Tamy Chen:** Interesting. Okay, so it sounds like the -- now that you're producing more and as you continue to produce more through fiscal 2022, there's -- that's where that upside to more margin improvement will come from okay. And, my next question is can you give us a sense like your Big Bag o' Buds and your SHRED, I know you just took that price increase on SHRED, with those two product line like are they in the positive margin, gross margin territory at this point now or is like SHRED, after the price increase still kind of like just that breakeven? Like you just give us a sense of the margin you get off of those two products, that's it? Thank you.

**Answer – Derrick W. West:** Yeah. At this time all our flower product categories are and brands have a positive margin, product margin but to get into the details of one over the other and format sizes and provincial jurisdiction is not something that we would normally get into but I would indicate that our -- because of the lower cost of production already achieved over the last couple of quarters, that our flower categories are -- have positive profit margins.

**Question – Tamy Chen:** Okay. Thank you.

**Operator**

Your next question is from the line of Adam Buckham from Scotiabank. Your line is now open.

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**Analyst:**Adam Buckham

**Question – Adam Buckham:** Good morning. Thanks for taking my questions. So maybe just following to the Tamy's question there, Derrick are you able to provide some more color on particularly in the flower segment, what the mix between value and premium was for you guys this quarter and where that compares to maybe the last few quarters?

**Answer – Derrick W. West:** Yeah. I would say that, that SHRED has been very popular and that's been great for OrganiGram in the sense that we've been able to have demand and exceeded our production capacity at the time and then perhaps less sales on the table in that situation. So, it was over the last couple of quarters with the successive plans with the SHRED has increased a percent of total with regards to value -- the value formats and value brands. However, with our current spend and future spend on innovation, and we know that is the focus of ours to have more product available in the mainstream to premium brands. And as well, I would refer to some of the comments made by Beena in terms M&A opportunities that would always be considered to complete the portfolio. But we don't historically give volume breakout by brands, but your question, the success of blends through SHRED has created a bigger percent of the total in terms of sales of the facility, but that's helped cover our overhead costs and has allowed for us to show these improved margins.

**Question – Adam Buckham:** Okay, great. That's good color. Thanks, Derrick. So, just my second question, so obviously if you look over the last four or five months, many of our peers have kind of tried to jump into premiumizing their overall portfolio. So, if you look at your market share gains for the summer, it sounds like a lot of them have come through the SHRED brand and the associated products through that. So, if you look more specifically at Edison, are you able to provide some more color on how market share has trended in the premium category for you guys? Like with the launch of the new strains are you starting to see greater uptick? Some color there would certainly be helpful?

**Answer – Beena G. Goldenberg:** Okay Adam, thanks for that question. So, our focus on Edison and as I mentioned in my comments earlier, is really going to be around building that consumer connections. We're investing (00:46:49) to continue to build on that brand awareness and the loyalty factors attached to Edison. Certainly, during COVID the ability to talk to consumers, store, get bud tender recommendations was limited. We see over the next year the opportunity to strengthen the messaging and that connection with our consumers on Edison. We also have the plans in place to introduce some new products, that brings some new news to Edison.

So, not only new strains but also (00:47:30) product under Edison just to continue to build out that portfolio beyond just flower on a more mainstream consumer as opposed to it all being about price. I think Edison is more than just high THC, we're talking about adding terpene to our labels, we're adding about, we're talking about adding more visibility to our strains, and these are things that I think over time the cannabis enthusiasts will be interested in.

So, it's a slower build on Edison, but I think we have a really good platform of which to build and continue to build that brand. While we leverage, as I said it earlier, leverage SHRED to get those new, those consumers from the illicit market coming over with a lower price offering, higher THC offering. That one is any easier message, we don't put a lot of marketing funds towards SHRED. I think the positioning in the market works on its own, but our investment is being made into our Edison brand.

**Question – Adam Buckham:** Okay, that's great color. Thanks, and congrats on the quarter.

**Answer – Beena G. Goldenberg:** Thank you.

**Operator**

Your next question is from the line of Douglas Miehm from RBC Capital Markets. Your line is now open.

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**Analyst:**Douglas Miehm

**Question – Douglas Miehm:** I guess as part of this gross margin question, I am curious if you could comment on, if you're getting close to capacity today at 40,000, and as you move to the 70,000, can you tell us what's going to be required to get there in terms of are there any new approvals required as you bring on capacity, is there a chance that margins could decline over the next few quarters before we get to Q4?

**Answer – Derrick W. West:** Obviously, I don't really see where the margins – in terms of being impacted for the extra capacity, just there is this fixed cost component in terms of running the facility, whether we're talking about labor or other overhead-type costs. And as we add new rows and add new capacity, we are spreading those costs over. And so, I'm not really seeing where margins are going to be interfered with. I mean, obviously, (50:05) and things as we make these various environmental and other enhancements and design enhancements to the facility, but on overall basis in moving from 40,000 to 70,000 by the end of the year in terms of kilos of flower, I do not really see that we would have a disruption to the monthly or quarterly cost structure that would hurt the margin.

But beyond the cost of the flower, there are other factors beyond the quality of flowers being sold, as well with our derivative products we recently launched in Q4, with Edison JOLTS along with the SHRED'ems gummies and the

derivative products, and we think they're capturing a larger part of the market share and becoming a larger part of our revenue. And so that will also assist the overall margins for OrganiGram as we look forward.

**Question – Douglas Mieh:** Okay, perfect. And then maybe you could comment on one of the things that you've obviously been very good at is your ability to identify changes within the consumer, how they're thinking. And Beena, maybe you could describe some of the new consumer research that you're seeing right now and how that's changed over the last, let's say, 6 or 12 months, and how you intend to take advantage of that. And that's it for me. Thanks.

**Answer – Beena G. Goldenberg:** Sure, thank you for the question. So, in terms of where we see the consumer going over the course of the next little while, we do see the evolution where consumers will start to look at not only the highest THC for the lowest price, but will start to really care about aromas and flavors and will also look at the genetics, and making sure that there is something unique and interesting about it. So there's a certain kind of foodie approach to the cannabis enthusiast, that they want new and unique different cultivars. So, we think that will happen, and we'll be ready with our in-house breeding programs that continue to provide that under our Edison brands.

We also see that the wellness segment will continue to be a trend. We just launched our Monjour, it's providing CBD in that sort of daily regimen. We believe that more wellness will continue to build over time, and we have to have offerings to consumers that perhaps aren't looking for the high, but are looking for the wellness benefits of both CBD and balanced CBD/THC offerings.

I think these are things the consumer will continue to look at edibles instead of oils. Over time, I think the oil segment has declined, as edibles have become a nice way to get discrete but specific milligram intake over time sort of dosing, and we're really excited about our Edibles and Infusions Corporation, because that acquisition has helped us get into that gummies category very quickly.

So, we have said that we have – last quarter, we talked about our cannabis innovations panel. We have 2,500 consumers that we speak to, to get better insight into trends. We use that panel to understand flavors to launch in our gummies. We used it to look at what we want to do on pre-rolls or on chocolates. So we have opportunity to continue to dip into that consumer research and continue to adjust our portfolio accordingly.

**Question – Douglas Mieh:** Great, thank you.

**Operator**

Your next question is from the line of Andrew Partheniou from Stifel. Your line is now open.

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**Analyst:** Andrew Partheniou

**Question – Andrew Partheniou:** Hi, good morning, thank you for taking my questions and congrats on the profitability improvement in this quarter. Maybe just talking about your rec performance, you mentioned that you took price increases on SHRED. Wondering what that did to the average net selling price in the quarter, and if you continue to take price increases on SHRED, where that can go in tandem with your premium offerings.

**Answer – Beena G. Goldenberg:** Thank you, Andrew. And so let's just talk first about the increase on SHRED. So, here's a brand that we're having – we're struggling to supply the demand. And when that happens, taking prices is a natural response. We have had our Alberta price increase in market in August, as of August, and the Ontario increase took effect at the end of October. So, the benefit of the price increase, we'll see in our next quarter's results as we continue to grow those brands. But I think that should help the margin on that brand, and there are other opportunities as we have supply to take the brand to other markets. Ontario is the most price-compressed market, so just expanding that brand in other regions will also help on our average selling price for that brand.

You asked about Edison, we feel strongly that our Edison brand maintains a good position in the marketplace for a mainstream brand in terms of pricing. And, we just need to continue to provide news and excitement behind that brand and that's our strategy as we move into fiscal year 2022, talk to consumers, talk to bud tenders, add innovation, it's a great opportunity to continue to build our mix towards premium. And then as I mentioned earlier, the gummies that we're launching, so our derivatives both Monjour and our SHRED'ems add an interesting mix obviously higher ASP's as we move out of the flower segment. So, we're excited about the opportunities as we look at our product portfolio moving forward.

**Question – Andrew Partheniou:** Thanks for that and maybe just continuing on that you talk about the continuing revitalization of the Edison brand. Maybe just providing a little bit more color on the mechanics behind that, do you need to win any SKU listings for that? I'm not sure that you're required to do that in the past you may have just switched them out with your existing legacy strains, just some color on the path forward given the provincial markets are -- the provincial buyers are being a little bit more stringent with SKU listings here.

**Answer – Beena G. Goldenberg:** Yes, sure, look, part of our interest is to have the best-selling products in the marketplace at all times, right, and so I think we're working with the provincial board to make sure we have our best offerings in their portfolio. So, we will work with them and look at if we have any slower movers and switching them to add new SKUs.

There is a need for new in this category to continue to refresh the portfolio. And so that is an ongoing process that we currently deal with our provincial boards. And so we're not worried about trying to get too many more incremental SKUs. We're looking at optimizing our offerings in each board to make sure we have the best-selling SKUs in the marketplace. Certainly, when we bring in something that's unique like our Edison JOLTS, we find a way to get in incremental listings across the board, but there is a need to ongoing rationalization and optimization of your portfolio. And so as we bring new cultivars in, we retire some and continue to refresh our portfolio.

**Question – Andrew Partheniou:** Thanks for that. I'll get back in the queue.

**Answer – Beena G. Goldenberg:** Thank you.

**Operator**

Your next question is from the line of Graeme Kreindler from Eight Capital. Your line is now open.

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**Analyst:** Graeme Kreindler

**Question – Graeme Kreindler:** Hi, good morning, and thank you for taking my question. With respect to the expansion of capacity at Phase 4C, the company is still incurring charges for unabsorbed fixed overhead and the cost of sales. So, I wanted to know what those charges are related to given the fact that it's currently expending capacity. And what types of level of output are needed to be achieved to fully absorb that overhead? Thank you very much.

**Answer – Derrick W. West:** Yeah, thanks. I can take that question. The unabsorbed overhead which was more significant in the earlier quarters was as a consequence of the underutilized portion of the depreciation on our chocolate business, our chocolate machines. And secondly, to the unused grow rooms that -- and that those mostly occurring in earlier quarters. We had a much smaller amount impact our Q4 financials. But looking forward, we do not expect to have any of these absorbed overhead amounts as a consequence of reducing the rooms as they are available for growing et cetera. So that was more of a historical context, and as that cost comes out of a cost of sales and we're using all the rooms, we're absorbing rest of the cost naturally through our margins and so that will have an overall positive impact to the gross margin. And those costs mainly relate to the depreciation, property taxes and insurance on the unused rooms or unused rooms at the time but again as we got to capacity at the end of Q4, it was more of a nominal charge. For Q4, it's not expected to reoccur even with the expansion because as new rooms come on, we'll only depreciating them as they're put in to use and will be uniquely put in to use. And so hopefully that provides the color you're looking for?

**Question – Graeme Kreindler:** Okay, understood. Thank you for that. Then with respect to incremental capacity coming online with Phase 4C, can you comment on the company's position in downstream packaging and processing, what the spare capacity looks like to handle the increase in production there as that had been a bottleneck in the past. Thank you?

**Answer – Beena G. Goldenberg:** So, thank you for that question. We continue to invest in automating our production, our downstream processing. We had one automated pre-roll line last year. We brought on a second automated pre-roll line just in August or September of this year. We're looking at more automation in our packaging and in our blending. And this is, so as we build out our capacity, we're also looking at downstream processing to make sure that we're able to not only grow the flower, but get it out the door and meet our consumer demand. So, that's all part of plans and efficiencies that we hope to gain in this fiscal year.

**Question – Graeme Kreindler:** Okay, thank you very much for that.

Thank you. And thank you everybody for joining this call today. Thank you, operator, and I look forward to updating you on the progress moving forward. Have a good day.

**Operator**

And with that, this concludes today's conference call. Thank you for attending. You may now disconnect.