Event Type: Q3 2022 Earnings Call *(Raw version)*

Date: 2022-07-14

Company: **OrganiGram Holdings, Inc.**

Ticker: OGI-CA

COMPANY PARTICIPANTS

Craig MacPhail Group Director

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

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

OTHER PARTICIPANTS

MANAGEMENT DISCUSSION SECTION

Operator

Good morning. My name is Rob and I'll be your conference operator today. At this time, I would like to welcome everyone to the Organigram Holdings Third Quarter Fiscal 2022 Earnings Conference Call. All lines have been placed on mute to prevent any background noise. After the speakers' remarks, there will be a question-and-answer session Thank you. Craig MacPhail, you may begin your conference.

Craig MacPhail

Good morning and welcome to OrganiGram Holding Inc.'s earnings conference call for the third quarter of fiscal year 2022. As a reminder this conference call is being recorded and a replay will be available an Organigram's website. Further, reference we make to certain non-IFRS measures during this call including adjusted EBITDA and adjusted gross margin. These measures do not have any standardized meaning under IFRS.

Our approach to calculating these measures may differ from other issuers. So, these measures may not be directly comparable. As such these non-IFRS measures are intended to provide additional information and should not be considered in isolation or as a substitute for measures of performance prepared in accordance with IFRS.

Please see today's earnings report for more information about these measures. Listeners should also be aware that in making certain statements relating to market share data, the company relies on reputable third-party data providers. I would now like to introduce Beena Goldenberg, Chief Executive Officer of OrganiGram Holdings, Inc. Please go ahead, Ms. Goldenberg.

Beena G. Goldenberg

Thank you and good morning, everyone. With me is Derrick West, our Chief Financial Officer. For today's call we'll discuss the financial results for the three months ended May 31, 2022 and I will provide a general business update. We will then open the call for questions.

In the third quarter of fiscal 2022 we achieved our fourth consecutive quarter of record year-over-year revenue growth. This progress speaks to our ability to build enduring, recognizable brands and innovate to create consumer demand in multiple segments of the cannabis market. As well as top-line growth, we continue to secure a growing share of the market.

According to HiFyre data as of July 5, in the third quarter we held the number three position in the Canadian recreational market with a 7.8% share, up from 7% in Q4 of fiscal 2021. We saw further momentum in June with an 8.5% share. With only 50 basis points separating the top three Canadian LPs in June we're confident that our consumer-focused strategy will enable us to continue to vie for market leadership.

Our SHRED milled flower product are the top sellers in Canada. With Funk Master, Tropic Thunder and Gnarberry holding the number 1, 2 and 3 positions, we also hold the number three position in the gummies category in terms of sales and are number two in terms of volume sold. This includes SHRED'ems gummies and Monjour, our large format CBD infused soft chews, both benefiting from new product introduction.

Edison Jolts, our unique high potency THC lozenge maintains its position as the top SKU in the capsules and mints category. In the third quarter we added two new flavors to the Jolt lineup Electric Lemon and Arctic Cherry and both quickly took top 10 positions in the category.

According to Brightfield research, a survey of over 3,000 cannabis users conducted in calendar Q1 of 2022, our three largest brands Edison, SHRED and Big Bag o' Buds all have net promoter scores of over 80 which shows that when Organigram builds brands, we build ones that resonate and win with consumers. The key to our growth strategy is to introduce new products to our lineup based on consumer insights and leveraging our brands.

In the last quarter we extended the SHRED brand with products in the flower, vapes and derivative segments. SHRED X kief-infused blends was launched in March. This product combined kief with SHRED milled flower and is now available in seven provinces. SHRED X vape our 510 cartridges that were also introduced early in the quarter and were well received. With this launch we've made gains in the vape segment moving to the number 12 position in the category from number 22 back in January.

SHRED Dankmeister XL Bong Blends, a unique grind of SHRED milled flower designed for bong and pipe users was launched very recently in Ontario. Initial consumer reaction has been positive and we plan to roll it out to all provinces. We also added two sour and three POP! flavor extensions to the SHRED'ems gummy line. Which has helped contribute to our overall third market position in that segment.

Now our Edison brands have had additions in flower and derivatives. Besides Edison Jolts mentioned previously, the Cherry Lime like strain was introduced through our in-house genetics program and made available in flower and in live resin packed cartridges.

In May we also added a novel product to our Monjour wellness brand. CBN Bedtime Blueberry Lemon soft chews, combines the cannabinoid CBN which is reported to have sedative properties with CBD and THC in a Lemon Blueberry flavor.

Moving on to our international business, in Q3 we made CAD 1.3 million worth of shipments to Cannatrek and Medcan in Australia. Subsequent to quarter end we made another shipment to Cannatrek worth CAD 1.8 million and this month we made a shipment to Canndoc in Israel worth CAD 3.3 million. We expect to make further international shipments in fiscal 2022 and are working on potential opportunities to expand supply arrangements into Europe leveraging our capacity from the expansion at Moncton.

Now let's look at operations. We are finalizing the 4C expansion at our Moncton cultivation center which is substantially complete and already 20 of 29 cultivation rooms are on line. With the remaining rooms expected to put in use next month. With harvest from the initial rooms filled back in May, the first harvest will occur this month. Once complete the total annual capacity at Moncton is estimated to be 82,000 kilograms.

Environmental enhancements are currently in place in about 66% of the facility and should be fully implemented by Q1 of fiscal 2023. These will further enhance yields and flower quality based on results obtained of from cultivation rooms already benefiting from these upgrades. As a result of our continuous improvement yields per plants was 132 grams in Q3 compared to 117 grams in Q3 of last year. And we are targeting 150 grams once the enhancements are complete.

In Winnipeg, during Q3 we installed and commissioned our packaging and excise stamp automation and are now averaging 4,000 packaging units per hour. This improved throughput, will drive improved margin and support our increasing gummy demand. We're also making progress with the Lac-Supérieur facility acquired in December, it currently has 6,800 square feet of cultivation area which is being expanded to 33,000 square feet.

This expansion expected to be completed by the end of the calendar year, will increase the annual capacity to 2400 kilograms of flower from the current 600 kilograms. And 2 million package units of hash from the current 1 million.

We've committed CAD 13 million towards the expansion in order to support increased cash and craft flower demand from the facility. In Q3 we expanded distribution of Tremblant hash to five provinces achieving full distribution across the country.

In addition to being the top hash SKU in Quebec, we have the number one SKU and PEI in New Brunswick in the latest 13 weeks, the number two SKU in Ontario while approaching top five in DC Alberta and Nova Scotia. We also launched Laurentian craft flower into Ontario.

The BioLab construction at the Center of Excellence was completed in the quarter and advanced plant science research and consumer focused research on CBD and other cannabinoid edibles have commenced.

This research, part of the product development collaboration agreement with BAT will enable us to continue to produce unique, exciting products for Canadian consumers and create proprietary IP that we can introduce globally. I will now turn it over to Derrick, to present the financial overview.

Derrick W. West

Thanks, Beena. Turning to our earnings results for Q3 fiscal 2022. Gross revenue grew 90% from Q3 2021 to CAD 55.2 million. And net revenue grew 88% from the same period in fiscal 2021 to CAD 38.1 million. These revenue increases were primarily due to higher recreational net revenue which grew 105% from Q3 of the prior year.

The cost of sales in Q3 fiscal 2022 was CAD 29 million compared to CAD 23 million in Q3 of fiscal 2021. The cost of sales increased as a consequence of the large increase in revenue in the period. We harvested approximately 13,000 kilos of flower during Q3 fiscal 2022 compared to about 8,400 kilograms in the prior year's comparison period, an increase of 57%. The key drivers for this increase from the prior year was yield per plant improvements and higher cultivation planning models.

On an adjusted basis, gross margin was CAD 9.3 million or 24% compared to a negative 4% in Q3 of fiscal 2021. The improvement was primarily due to the higher overall sales volume combined with a lower cost of production.

SG&A excluding non-cash share-based compensation increased to CAD 17.5 million in Q3 2022 from 12.3 million in the prior year's comparison quarter, this was largely due to the increased employee head count related to the acquisitions of EIC and Laurentian and increased technology fees including CAD 1.4 million in ERP installation cost.

In the quarter, we achieved a positive adjusted EBITDA of 583,000 compared to a negative CAD 9.2 million in Q3 2021. The large improvement in EBITDA was a consequence of the higher sales and margins somewhat offset by an increase in SG&A expenses.

Based on our outlook for revenues, including growth from the Canadian recreational market and international sales and reduced cost of production from efficiency gain, we expect to increase adjusted EBITDA in Q4 fiscal 2022.

Net loss which includes deductions for non-cash depreciation was CAD 2.8 million in Q3 of fiscal 2022, a reduction from the prior year comparison period to a loss of CAD 4 million. Net cash from operating activities was negative CAD 6.4 million compared to CAD 10.8 million in the prior year's comparison quarter, a reduction of CAD 4.4 million.

The current quarter saw an increase in both production and sales which together increased the level of receivables and inventory. And this resulted in a cash outflow, despite Organigram achieving their second consecutive quarter with a positive adjusted EBITDA.

Cash provided from investment activities for the three months ended May 31, 2022 was CAD 52 million. Compared to cash used of CAD 154 million in the previous year. The cash provided in Q3 was primarily due to a CAD 68 million redemption of short-term investments offset by CAD 17 million in expenditures.

In terms of our balance sheet at May 31, 2022 we had CAD 127 million in unrestricted cash and short-term investments compared to CAD 184 million at the end of fiscal 2021. The decrease during fiscal 2022 is due to the company's investment in its working capital assets to support the growth and capital expenditures for facility improvements. Which includes the purchase of Laurentian and the additional investment in Hyasynth. This concludes my comments. I would like to turn the call back to Beena.

Beena G. Goldenberg

Thanks Derrick. To summarize, fiscal 2022 has demonstrated our success as a consumer-focused innovator. We're seeing a positive impact from consumer engagement, expanded distribution and market share.

With our increased cultivation capacity, economies of scale from Phase 4C expansion and our investment in automation at all three manufacturing locations, we expect continual improvement in our bottom line. Thank you for joining us today. I look forward to updating you on our progress. And now operator, you may open the call for questions.

QUESTION AND ANSWER SECTION

Operator

Your first question comes from the line of Rupesh Parikh, from Oppenheimer and Company. Your line is open.

Unidentified speaker

Question – Unidentified speaker: Good morning. Thanks for taking my question. So, the only one to touch on international, so strong results this quarter's. Commentary very positive on quarter-to-date what you're seeing there. If you can just remind us of the bigger opportunities you see on the international front going forward. And then how do you think about the margin profile of your international revenue versus the rest of the business?

Answer – Unidentified speaker: Okay certainly and thanks for your question. So, to start with, you know that international business is going to just have higher margin because it doesn't have the excise tax that you have on your recreational – on the recreational business. So that – right away that extra impact that's what flows right through your business. So, it's strong margin, it is important piece of our business and we'll continue to explore further opportunities.

As we mentioned last quarter and probably in the last couple of quarters, we had been really tight on our supply, our demand was outstripping our supply and as a result obviously we built the expansion to the Moncton facility. With the expansion coming fully online we're able to turn our focus to expand our customer base outside of our current customers. And we obviously have a very strong partnership with Canndoc in Israel, Cannatrek in Australia.

We added one more customer this quarter with Medcan in Australia. And so, we'll continue to look at other opportunities. As everyone knows Europe is starting to look very promising with legalization comments coming from several countries and with our excess capacity, we'll be able to capitalize on some of those opportunities.

Answer – Unidentified speaker: Great, thank you. I'll pass it along.

Answer – Unidentified speaker: Thank you.

Operator

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

Unidentified speaker

Question – Unidentified speaker: Hi. Good morning. Thank you for taking my questions.

Answer – Unidentified speaker: Good morning.

Unidentified speaker

Question – Unidentified speaker: Good morning. I just wanted to touch on your gross margin profile in the quarter. You had a pretty impressive revenue growth here, strong rec sales, but it seems the gross margin declined quarter-over-quarter. I'm trying to unpack that and if you can give some more color on the puts, and takes there?

Answer – Unidentified speaker: Certainly, Derrick this one is yours.

Answer – Unidentified speaker: Thank you. Yes, there was a decline in the third quarter in terms of the adjusted gross margin at 24% that as compared to 26%, and I guess a couple of factors here. And also, as a reminder in Q1 of this year, we're at 18%, so the general trending has been positive. As we outlined because of the excise tax we look at the current quarter. The excise tax is 31%. That's the weighted average for the company, but it is heavier on the flower categories for us than it is for the next. We end up paying more than 31% on average on our recreational flower in Canada. When we do the flower shipments on the international, we don't have that cost, and so that is a new lethal improvement to our margin, and if we have had the shipment that we then expected to occur during the quarter, we would have seen sequential growth in both our adjusted gross margin, and our adjusted EBITDA. The shipment was made. It was just delayed and .

Unidentified speaker

Question – Unidentified speaker: Okay. Thank you.

Answer – Unidentified speaker: Yeah. There is one more factor as well. We have had a decline in cost of production on a broad basis, but during Q3 we were also continued mention in environmental. We got the facility and we're completed the path to construction activity with those environment. There has been a downtime and so there was perhaps a bit of a delay on utilizing all of the ultimate savings that we do think will be utilized on our overall cost of operating, our cost of production which we'll start to see once we get into the fiscal 2023 once all the rooms are up, and running at the new capacity. And we will see continuous improvement to our cost of production which will improve our margins in Canada on all our rec flower. But even with that said the international with the excise tax will likely always have higher margins in the Rec business.

Unidentified speaker

Question – Unidentified speaker: Okay. Thank you for that. And a Segway about the 4C expansion. You mentioned 20 out of 29 rooms are online right now. First harvest is coming very soon here. Could you talk a little bit about what you expect overseas to be incrementally accretive on margin? How high could we go with 4C? And you talked just now about this really being a big impact in fiscal 2023? Could we start to see those impacts in Q4, or is this really only going to start seeing on the income statement in Q1?

Answer – Unidentified speaker: Okay, Beena.

Answer – Unidentified speaker: Yes. So, we are going to start to realize on that during Q4. And as a consequence, we just have more flower output. There is -- we are spreading out some fixed cost including non-cash depreciation over a larger segment of business which we will lower basically our cost of production for the flower categories. And it is just that even if you had meaningful improvements in your cost reductions during Q4, much of those costs built into your inventory doesn't necessarily flow away to the sales here in . Why we point to Q1 of next year, because it's really the inventory that you're producing in late Q4 and that ends up being sold in Q1 of the next year.

But the cost saving realization will be occurring in Q4 on a partial level, because we are again completing, planting rooms as we go along, and opening rooms, so we ended up with a transitional quarter. In terms of capacity as we have outlined earlier, we are essentially moving from 25,000 at the start of the year both in annual capacity of flower. Coming into Q3 we are crossing around 55,000 in annualized capacity. We will be using fiscal 2022 with approximately 82,000 of flower capacity once all the rooms are planted. We do believe we have upside to the 82,000 number if we get the charted wheel that referenced in her remarks.

Unidentified speaker

Question – Unidentified speaker: Is it possible to perhaps quantify the drag that foresee has had on the gross margin. Thus far what kind of -- that could maybe allude to a kind of pickup once that expansion contributes?

Answer – Unidentified speaker: I've been saying that a large portion, 25% of our costs are essentially non-cash depreciation related. The rest are operating cash costs, and of that a portion of it is fixed, so just taking the operational capacity from say 55,000 kilos that we had on average in the quarter up to an 82,000, and not having to add a significantly at all to the fixed cost component it is going to have a meaningful positive impact to our cost of production once we are operating at that level on a sustained basis which will simply improve the margins in our flower categories, but our margins are positive in all our flower categories, and how we're just looking of course to improve and then we feel that we will, and that's why we've given the guidance that we expect to have improvements to the margins in the future quarters moving forward, and with along with the EBITDA as we continue to realize the savings just from the economies of scale, but in addition to that we think we can get more cost reductions from improvements to flower yield, and ultimately there is margin improvement that can come from mix, and brand, and the provincial allocations that's not part of the cost structure element.

Unidentified speaker

Question – Unidentified speaker: Okay. Thank you for that. I'll get back in the queue.

Operator

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

Unidentified speaker

Question – Unidentified speaker: Hi. Good morning and thanks for the question. So, first question from me. I had some really nice momentum on the top line especially regarding adult use sales. Definitely the outpace that we saw in terms of the Hifyre data, so just want to know in terms of whether or not there was some sell in, some potential buyers, and there might be some cost of shifting that. You go through the POS or maybe some light coming into the next quarter particularly in terms of the adult use flower. You can see the largest sequential increase, so just if you could talk about some of the sell-in to provincial buyers and if it goes any time one on there? Thank you.

Answer – Unidentified speaker: Certainly. At this point the provinces are pretty tight in terms of how much inventory they are going to take. They are not really interested in carrying heavy sell-in volumes like we've seen in the past. So, in most cases you're working off of two weeks of inventory. I don't believe we have the sell-in inventory. We actually are seeing the flow through and that's what you're getting with the Hifyre data. Really strong velocities in our business. I mean we have some of the strongest sales in the market. Really the offtake numbers that we're getting higher through Hifyre just shows this is. It's growing with our revenue, and so I really don't believe we have any of the sell-in.

As a matter of fact, we've had some of our strongest recorded weekly sales number in this quarter already. So, this is momentum behind our brands. I said in the previous calls we had because of limited available flower we had limited how many markets we were selling our SHRED products. Back in the last quarter we were predominantly selling SHRED into only Ontario, Alberta, and Quebec. We've had a chance to start expanding that distribution into some of its further provinces, and are now selling SHRED in all of our provinces. We know it has great performance because we've seen it in the markets we were already in, so we're very excited with the momentum we have.

This provincial mix will help us on our margins because we know Ontario is the most compressed margin province and it's just great for the brand to be able to be coast-to-coast. We have limited ability to view that in the past. So, this increased momentum is about new distribution. It's about distribution on some new innovation that we're focusing on, but we're seeing the offtick.

Unidentified speaker

Question – Unidentified speaker: Fantastic. Thanks for that color. Second question from me. Just on overall pricing environment. I know there is lot of operating talks about some stabilization in terms of pricing of flower and certainly we've seen less pricing pressure for flower versus other categories, but are you still seeing some of it. I want to get your feel in terms of continued pricing pressure for the flower category going forward, and obviously you guys are doing very well in terms of market share gains. Are these holding or gaining regardless, your overall take in terms of continued price pressure for the flower category? Thank you.

Answer – Unidentified speaker: Yes certainly. So, we are the number one flower provider in the country, so it's a very important segment of our business. We've looked at this specifically. Our average selling price over the course from Q3 of last year to the course of this year and there wasn't decline between last year and the start of this year. We mentioned that in Q1, sorry in Q3 of fiscal 2021, average selling price was CAD 2.12 and this quarter was CAD 1.88 per gram. But when we look back at Q1, Q2, and Q3 of fiscal year 2022, on average we've been sitting in that CAD 1.80 to CAD 1.90 average selling price.

Obviously, there is some mix based on which brands you're selling, which provinces you're selling, but from our perspective the cost compression in flower happened over the last couple of years and has stabilized. And that's not surprising, because we've said you have to get pricing in line with the illicit market to have that movement to consumers from illicit into legal, but we've have reached that point. So, this is kind of where I believe a pricing especially in the value segment needed to get and we're not seeing further pricing compression in that flower segment.

Unidentified speaker

Question – Unidentified speaker: Okay great. Thanks for the color and I will pass it along.

Answer – Unidentified speaker: Thank you.

Operator

Your next question comes from the line of Ty Collin from Eight Capital. Your line is open.

Unidentified speaker

Question – Unidentified speaker: Hi. Thanks for taking my question. Given the term well we're seeing in the cannabis retail landscape right now, I'm curious whether you're seeing any changes in how retailers are ordering, and whether there is any risks or opportunities to think about given the challenges downstream?

Answer – Unidentified speaker: Yes, so certainly I think you're pointing out to the fact that there is going to be some consolidation on the retail environment and we are seeing a certain amount of pricing deflation coming from the retail landscape as opposed to the LP landscape. You know my last comment was around the LP landscape in terms of average pricing sold in, but we're seeing in the actual data the impact of more value retailers out in the marketplace, some deflation, and it's going to lead to some obviously consolidation in the marketplace, especially in places where there is oversaturation, and many of us have seen that in key markets.

So, what do I think is going to happen? I mean, I think we're going to be in the situation where pricing. It's going to push some of these mom-and-pop shops to either exit or they're going to get gobbled up by retail chains. I think what we've seen in the last year is some of the regional chains becoming national, some of the national chains getting stronger, and that's just part of the maturation of this industry. I think at the end of the date the bigger LPs are going to be able to build programs with the regional chains, and national chains, and get stronger performance than the kind of work that has to happen where you're dealing with a significant independent retail market.

Now this is going to happen over time but still a lot of independent shops now and we have the greater sales team out in the marketplace they're out working with budtenders and working with the independents. But I think the benefit to the larger LPs is going to be establishing programs with the regional chains and with the national chains to really build out our business. They're going to want to deal with the vendors who could provide more than just one SKU or one segment. But the vendors who could provide a one-stop shop to them and the nice thing about the Organigram portfolio is that while we're a very strong in flower which is obviously the number one category, we're got strong presence in the gummies, we're building our presence in Vapes.

We have a really strong performance in concentrates coming from the acquisition of Laurentian back in December, and we're building out our extracts business. We have a great product in Jolt, so they're finding it easier to work with us because we could build programs around that POS in the stores that aren't just about one SKU and I think that is an advantage to the larger LPs.

Unidentified speaker

Question – Unidentified speaker: That's great color, thanks for that. Just for my follow-up following up on a comment you made earlier in the call, you talked about the incremental international opportunity that might open up as the additional capacity from 4C coming online, I mean are there any other new revenue opportunities to think about as that capacity opens out maybe white label and new product categories, I'd just appreciate any thoughts on that.

Answer – Unidentified speaker: Yeah certainly, so as our capacity opens up, our primarily goal will be to fill out some of the distribution gaps we currently have in Canada because we were really stealing from one pockets to the other as we're trying to balance the demand to what available capacity we had. So, we're excited about having that so we could meet the needs and the demand of the Canadian consumer across the country. So, that will be a priority of ours. But as we talked about and Derrick talked about earlier, international business is good margin business and needs to be part of our mix and we have a great relationship with some of our international partners and Canndoc and Cannatrek.

In terms of opportunities, look if you look at how legalization and talks are happening in Europe especially Germany as many of you are following, in the most cases there is less capacity build to supply that market in Europe. There are in some cultivation sites, but I think many of them shy off of building out heavy assets based on sort of learnings from the Canadian launch into legalization and so we look at it as big opportunity to provide supply to some of those players in that market and recognize that we have enough volume that it could be a meaningful supply agreement.

As opposed to companies looking at buying whatever 50 kgs once every three months like we'd be able to provide significant regular volumes and so we'll be having those conversations to supply agreements because the one thing about international business you want to have it is something that's a little bit more predictable that you guys could model. We certainly had less international volume this quarter than expected and that really was all about just the timing issue on our Israel shipment which has already been shipped out. But as a result of that, more business that is contracted and supply agreements that could be a regular cadence and is predictable is where we want to get to on our international business.

Unidentified speaker

Question – Unidentified speaker: Thanks for the questions and congrats on the quarter.

Answer – Unidentified speaker: Thank you.

Operator

Your next question comes from the line of Matt Bottomley from Canaccord Genuity. Your line is open.

Unidentified speaker

Question – Unidentified speaker: Good morning, everyone, thanks for all the color here. Beena, just curious on your assessment on where the industry is when we sort of look on the capacity side of things, you're one of the few LPs that is still adding incremental capacity on, it served you very well. I think that Organigram is a good example of a company that hasn't over-allocated through its CapEx spend, with respect to the number of facilities, but we have seen some of your peers shutter even their flagship facilities I'm just curious on where you think the industry is with the ability to continue to service sort of vertically integrated supply versus leveraging wholesale channels through eventually build brands where you price don't necessarily need 100% of our biomass ?

Answer – Unidentified speaker: Right. So, good questions, a couple of points to be made on that. So, the first thing is a lot of facilities were built that were perhaps not built in a way to drive to produce the high quality product that needs to come out. So, you've heard Aurora talk about their sky facility and it could only produce THC in the 16% to 18% range, that we're not going to cut it anymore. What we've been seeing with this market a couple of years ago heading THC of 20% was a target. A year ago, 22% was the target, now 24% or higher is the target, that sort of THC range continues to move. And if you build a facility like we have in Moncton which is indoor grow so you can control the environment, you could – so this is consistent all year around, you don't have differences between summer and winter. You could drive, control the environmental to drive a high yield, drive higher THC, I think that makes you more competitive in the long-run. You could meet the needs of the consumer changes and continue to operate efficiently. I think some of the facilities that were shuttered just were designed in a way that they could do that. We have --- if not the largest, certainly one of the largest indoor growth facilities in the world and we're very proud of what we have at Moncton, and we can do that. And as a result, as the market tips, we're optimizing our facilities, we talked about the environmental enhancements that continues to drive our higher THC that is expected.

So, what do we think about internal the grow versus using third party, I think, look, some of the third party guys are going to have challenges with meeting those increasing THC expectations as any grow or what. And some are going to be very good at doing it. And so, but look, as capacity gets shut down across the country and gets more in line with the needs of the market growth, controlling your own supply means you get the benefit of the cost savings whereas as capacity gets tighter, some of these third parties could increase the cost and they'll control your destiny. I think it's not a bad idea to have a portion of your business outsourced so that you always make sure you're benefiting from if there's a cheaper supply simply somewhere you get the benefit of that. And it certainly would be something as we look forward to more international business if we have to go out and certainly buy some product that continues to fulfill some of our value brands, we will. That's the luxury we have but having your own cultivation where you control your cost and you control your quality, I think is a competitive advantage and we get that from our tremendous facility, we have at Moncton and that's really what differentiates us.

Unidentified speaker

Question – Unidentified speaker: Understood, I appreciate that and then just one more from me, just pivoting now to maybe US optionality in your thoughts on how to strategically position yourself for I think in eventual opening of that market, I think a lot of consensus out there, it's getting a little messy here with respect to when that timing might actually be but given some other Canadian LPs that have either bought existing business that might be THC adjacent of some of the options we've seen or financial instruments purchased, do you feel the need to execute on something in addition to what you've already done with PAT in maybe in the next year or two or is Organigram waiting to get a little more color on exactly when and if something might actually change over the borders ?

Answer – Unidentified speaker: So, good question, I mean, we talk about this obviously often. Our key goal originally was establish a strong foundation in our Canadian marketplace. We feel we are there and we will continue to benefit from that strength. But it is time for us to look outside the Canadian borders, whether the US is going to be a primary goal or whether Europe is more interesting as perhaps legalization will happen sooner there than it happens in the states. I have said previously we want to be a pure play cannabis company, so we're not going to be looking at adjacencies, and I'm not sure I believe in the whole optionality because with legalization unpredictable you don't know what you're buying into right now. So, I would say that we would continue to look at the US at least to establish our presence there where we can, so obviously CBD has been something that is -- that several of our competitors have gone into and something that's open to us with our current listings.

But it has to be the right fit and I think, really, we will look at where it makes sense. What we have been known for at Organigram is prudence in terms of our approach, looking at the opportunities, making sure that the right ones for our business but expansion is outside of the Canadian borders is important for us in the long term.

Unidentified speaker

Question – Unidentified speaker: Okay, thanks again.

Answer – Unidentified speaker: Thank you.

Operator

Your next question comes from the line of Frederico Gomes from ATB Capital Markets, your line is open.

Unidentified speaker

Question – Unidentified speaker: Hi, good morning, and thanks for taking my questions. Maybe just start off, are you seeing any significant impact of inflation in our supply chain and if so, how do you view your capacity to pass on some of these potential inflationary costs to your customers, just given that the pricing pressure that we're still seeing across the industry? Thank you.

Answer – Unidentified speaker: Yes, thank you for the question. Look, there is no question, we're seeing inflationary cost. Obviously, freight is going up and we're obviously shipping products from Moncton across the country.

On that, on the freight side, one of the things we have done this year to offset that inflationary cost, is leverage our Winnipeg facility. We have a warehouse in Winnipeg and we're bringing product across from Moncton across docking to pick up our gummies as we ship to Alberta and BC and we're supplying the Manitoba, order straight out of Winnipeg. So, we have some productivity initiatives that are offsetting the inflation costs from freight, maybe not completely flowing to the bottom lines, but certainly more than offsetting them.

In the case of procurement on consumables, this is something that we have put a lot of focus on this past year. We have as we grow bigger, you're able to leverage your volumes. We have worked on RFPs with some of our key suppliers and have been able to offset those increasing inflationary costs with better negotiations working directly with suppliers rather than going through distributors.

Now, these initiatives that we have done in a lot of ways we had hoped would drive right to the bottom line and some of them are being offset in part due to inflationary pressures, but I think we have more opportunities, we have a lot more productivity initiatives on our plate, and so at this point I don't see that any kind of price increases going to come through in the cannabis space.

I would like to see pricing but the truth is right now the time for us to stay the course, we're making positive margin and I think it is going to be a bumpy ride for some of our competitors over the next couple of -- maybe the next year or so.

And we're going to stay the course, make sure that we are driving improved margins and hopefully there will be some consolidation in the space, some players exiting and the long-term prospects of the industry will get more profitable.

Unidentified speaker

Question – Unidentified speaker: All right, thanks for the color. And maybe just a comment on your market share in edibles right now, it seems like it's increasing pretty rapidly. So, where is that fast growth coming from and we just expect that to continue so that you could potentially take on a leadership position there? Thank you.

Answer – Unidentified speaker: Yes. So, look, we have a new product called every quarter with the OCS, obviously there is the largest Provincial Board and we have been very successful in getting our innovation in and so with each product call, we're able to look at our lineup make sure we have an optimized lineup in each province.

We have these relationships top to tops with other provinces as well with Alberta with BC in this last quarter, we had some conversations there and we equally with the acquisition of Laurentian have been able to build that relationship with STDC as well and have seen some planned increases in our planograms.

And so, some of this market share growth is simply increasing our distribution on some core items and the success of launching new products.

And I just want to bring your attention to the fact that a quarter ago we said we had 90 products in market and this quarter we said 85. So, the message here is while we're launching a lot of products, we're not just leaving products that aren't performing out in the marketplace. We continue to optimize our lineup. We have one of the largest sales per SKU in the different provinces and that makes the provinces want to work for us. There are efficient SKUs.

So, innovation is key in this category. We have put a lot of focus on innovation and continue to do that. And have a lot more plans as we go forward, but I believe it that the success rate we're having other LPs might present ten new SKUs and get two, we present ten and get nine or 10 of them in the market, because we have strong relationships with our customers. We're hearing what they're looking for in terms of innovation, what gaps they have in there offering and we have a great R&D team working on developing these products and our cycle time from ideation to market is quite spectacular.

Unidentified speaker

Question – Unidentified speaker: Thanks, Beena, congrats for the quarter again, I will hop back in the queue.

Answer – Unidentified speaker: Thank you.

Operator

Your next question comes from the line of Tamy Chen from BMO Capital Markets, your line is open.

Unidentified speaker

Question – Unidentified speaker: Hi, good morning, thanks. I just had a couple of quick follow-ups here. First is, Beena, I kind of saw recently that Israel might have halted imports because two of the distributors didn't have the right permits or something like that, do you know anything about that like could that be a bit of a disruptions for your Israel shipments for the next little bit?

Answer – Unidentified speaker: So, let me answer that by saying look. The IMC in Israel has got ongoing audit requirements. They keep changing and you have to be able to change with them I have to say part of the delay in our international shipment was us needing to make sure we met all those audit requirements before we got that shipments out.

So, it is an ongoing thing that we pay a lot of attention to.

We obviously have already shipped or another Israeli shipment this quarter. So, it's not an interruption but some of these regulatory changes do drive some delays that are a little bit unpredictable.

We're staying -- we have a great partner in Canndoc, we're seeing on top of these changes and continue to work with them to make sure that we meet everything that needs to be met.

Unidentified speaker

Question – Unidentified speaker: Got it, okay. And, I wanted to ask if you could elaborate a bit on this language you had in your for your fiscal Q4 outlook that one of the drivers for sequential growth, you highlighted stronger forecasted market growth and I'm just curious and if you could elaborate on that what you're seeing is it more just seasonality, and this is kind of more busy appeared at the year that's what you're talking about or are you seeing some more fundamental green shoots with respect to the growth trajectory of the market?

Answer – Unidentified speaker: Yes, so I think it is two things, there is certainly seasonality in the business as we get into the summer months typically anyway. I think the last two years with COVID has probably restricted some of that growth. So, there is going to be we predict rebound from some of the COVID restrictions and gatherings to see some incremental growth. So, we think that's what's really going to void the market in the next over this summer period.

And so, while there is increased growth from some additional retail stores. I think really the bulk of that comment was about seasonality and coming off what was the restricted period a year ago.

Unidentified speaker

Question – Unidentified speaker: Got it, okay, and if I could just squeeze in one last follow-up here. Your comment about the price competition that the retailers are now dealing with. It's not going back to the LPs, you said you feel and what you're seeing is not really further compression, especially on the flower side for the LPs. So, like can you just comment on that, so you're not worried that with these new value strategies that some of these retail chains are doing, you're not concerned that it might ultimately flow back to the pricing that you're going to get? Thanks.

Answer – Unidentified speaker: Yeah, I think that's a good question Tamy, and the reality is look, I would like to believe it's not going to pull back. I think we've already taken such a significant price compression on the LP side that this is -- it's going to be tough for any LP to be able to go any lower than what we've been supplying given the profitability in the industry.

I think the retailers are now, again they are going through a bit of hypercompetitive market and there is some rationalization that is going to come and it really isn't an LP issue. It's is their own decision on how they want to price their products. Will some of it flow back look we hopefully we will be able to provide them some opportunities from efficiency one-stop shop right kind of programs, education to their budtenders and the like that helps from our end without making a move on our selling price.

We have strong presence right now in the value segment and this is about where you're going to go, going to take, I said earlier we're not going to look at taking price increase but certainly we would not be very excited about pressure on price decreasing, this is a business that have to be sustainable, you have to be able to make margin on what you're selling. We have good, we have decent margin on our value brands which allows us to compete in that segment. Obviously better margins with some of the derivatives and in our Edison and more premium flower offerings but that's -- it's a wait and see you never I can't say what they're going to do, I do know that it is we're not looking to take pricing from inflation but we're certainly going to push back on further price compression given the marketplace.

Unidentified speaker

Question – Unidentified speaker: Got it. Thank you.

Operator

Your next question comes from the line of Andrew Bond from Jefferies. Your line is open.

Unidentified speaker

Question – Unidentified speaker: Hi, good morning, Andrew on the line for Owen Bennet. Thank you for taking our questions. So really detailed most of our questions have already been answered but maybe for you Beena on overall consumer strategy more generally with continued market share gains and achieving top share positions in a number of categories really mostly we have organic growth obviously it's a number of things coming together strategically that has helped lead to this but just wanted to hear from you what are one are two things specifically you think has been really key to OrganiGram's success in continuing to grow sales and market share well large competitors have failed to do so?

Answer – Unidentified speaker: Yes, certainly so back to my consumer days, consumer packing goods the key to driving the business is consistently delivering the quality of product that you put out in the marketplace for your meeting to consumer expectation. What we have shown with our SHRED brand in particular is that we and we've talked to consumers, they say that every time they pick up a SHRED Tropic Thunder, they get the same experience, it's great quality product, fresh product, so you know the challenge of being tend to most in our was as we were harvesting we were processing and shipping out immediately, our consumers were getting great quality, great fresh product and we heard comments like even though the THC on our SHRED only says 20%, it gives them a greater experience and some of the products that they are buying that have higher THC and that's just about being a consistent delivery and I think that has helped that brand considerably.

We spend a lot of money on research to understand our consumers to understand what they want from our brand. We built out a portfolio of brands to meet their needs. Our innovation platform is based on that consumer insight. And so again, this is not unfamiliar territory in consumer packaged goods, it's about understanding your consumer, it's building your brands, delivering consistent quality and you're going to continue to build that brand. A couple of years ago people said brands don't mean anything in cannabis and they did it, right, it was a new industry and brands take a long time to build and to build awareness and we're further challenged in this space because we could only talk to our consumers either online or in the retail stores. So, it's challenging but we're seeing our brands building and I talked about our net promoter scores on our three key brands.

We're watching awareness we're watching our net promotor scores because when consumers are going to try something and they believe in the brand and they had a good experience, they are going to come to that brand first so it's baby steps but brand building takes time and we are excited about what we're doing, we're excited about the results that we're seeing and when we talk to our consumers, they are reiterating that they are very impressed with the quality and consistency of our product.

Unidentified speaker

Question – Unidentified speaker: That's great insight. Thank you, Beena. I'll pass it on.

Operator

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

Unidentified speaker

Question – Unidentified speaker: Thank you and good morning. Yeah, I'll just keep this short. With respect to the international market that you've commented on a couple of times now, I'm just wondering before you go into other countries, are there any regulatory hurdles specific to your company that you need to address? And then as you look out into 2023 and 2024, how much of your new capacity but looking at it from an in aggregate perspective, would you hope to come from the international marketplace?

Answer – Unidentified speaker: Okay. So, on the first part of your question about regulatory, look, every country is going to have different regulations and requirements I mean that has become clear. We have to do different things for our Australia partners and our Israel partners and I don't expect anything different from any new partners. We will understand the regulations, we keep our breath of it, we have a great regulatory team that helps us understand what needs to be done.

Again, we have the GACP certification at our Moncton facility. We have the CUMCS certification for opportunities in Europe. If we need to be EU GMP out of our gummy facility, it's something that we're exploring. It was built to be converted to EU GMP and we'll if there is a business case, we'll do that. So great opportunities to continue to grow the business but there is no question, there will be further regulations that we have to look at and we feel we are nicely set up to deliver against those.

In terms of your second part of your question, what percentage of our business down the road should be are we expecting to be international? Derrick mentioned earlier that we expect to have an annual capacity of 82,000 kgs. Obviously, we will want to supply out of our facility and leverage all of our cultivation first and so what is the demand out of our rec market and then what is the opportunity we have to leverage into the international market. I would say that given the profitability of the international business if there are opportunities that we could buy from third-party, other third-party cultivators at a good price and we could redirect some of our higher quality flower to international markets, we will do that but this is going to be one of those that the first priority is use what we grow and then if we have more opportunities, find the opportunistic

A lot of our competitors that are talking about being asset light and not owning their own facilities, they're taking advantage of where they could buy flower at lower cost. We'll be in a great position to take advantage of that if the market is available and take advantage of that by shipping some of our great quality product to other markets but if the supply drives up, we know we have ability to supply out of our own site.

Unidentified speaker

Question – Unidentified speaker: Okay, thank you.

Operator

Your next question comes from the line of Michael Freeman from Raymond James. Your line is open.

Unidentified speaker

Question – Unidentified speaker: Good morning, Beena and good morning, Derrick and congratulations on a spectacular 2022 so far, and thanks for entertaining this marathon analyst question. I wanted to touch on Laurentian, I wonder if you could give us a picture of its contributions to overall revenue and also how the capacity build out just going there?

Answer – Unidentified speaker: Right so let me start with the capacity build out. As I am sure many people have experienced probably the build out is a little bit slower than we anticipated given the challenges with supply chain over the course of the last couple of months. We still believe we will have our expansion complete and online by the end of the calendar year but I will say it has been a little bit more extracted in terms of the timeline because of those challenges.

Laurentian has been strong for us in some ways. We obviously as I mentioned them earlier, increased the distribution of our Tremblant hash across the country and are seeing great performance of that SKU in all the different markets that we enter into. We had a significant innovation platform developed for Laurentian to build off of our core Tremblant hash SKU.

There have been some delays in getting that innovation out to market because in particular the SGDC has delayed their planogram changes, so we are sort of delayed a little bit in taking advantage of that innovation.

But we expect Laurentian will deliver long term based on our acquisition goals to deliver the revenues that we expected as well as the margins down the road. So, it is little bit of a delay from where we had hoped we would be in terms of the innovation, but were accelerated the distribution so we got into the new provinces faster.

So, a little bit – so one offset, the other to a certain degree but long-term, innovation on top of this greater distribution should be a big benefit for us from that acquisition.

Unidentified speaker

Question – Unidentified speaker: Okay, that's very helpful Beena, thank you. Next for Derrick, we saw quarter-over-quarter SG&A escalate. Part of the reason you talked about increased head count and the installation of the ERP system I wonder if you could give us an idea what we should expect for SG&A in the future, the next few quarters?

Answer – Unidentified speaker: I would say obviously the SGA did increase as a consequence of in Winnipeg and the acquisition of Laurentian. So, it's not just the head count of the overall operation of those facilities has the SG&A element to it which impacted the quarter.

As well we have the commencement of ERP costs and they will run for the next six quarters at a minimum. And so, but I would indicate that there was nothing abnormal in the quarter on our SG&A, it just reflects mostly where we are as a business today to support the growth that we've already seen in our sales. At some point you – some other costs come early as you bring in the necessary staff infrastructure in order to deliver at all levels organizationally and the sales and margins generally follow.

So, I would almost say it's a leading indicator as much as anything, so I would not say that there's anything abnormal, positive or negative in the quarter that would result in meaningful immediate change, and having said that I'm going back to Beena's comments on inflation.

There is of course an inflationary element that will come into play for us and our companies frankly that would have to also be considered. But nothing abnormal in the current quarter, so if you're just looking at the near-term run rate, but overall of course, we will be impacted like others with inflation.

Unidentified speaker

Question – Unidentified speaker: Thank you very much. And if you'd entertain just one more. I wonder if you are satisfied with the innovation coming from within Organigram and your ability to address consumer demand sort of in all segments, in cannabis -- sorry in Canada, or if you would be looking to add some capabilities inorganically within Canada in the next year or two?

Answer – Unidentified speaker: So, I would say to answer that question we're very happy with the innovation work that's happening within our facility. We have the Center of Excellence built out, we have our own Organigram R&D team as well as the product development collaboration with BAT. And the teams are working together. We're taking advantage of some of the learnings and applying it to some of the innovation.

We have a full pipeline of new products based on – and customers are telling us to look in for. So, feel pretty confident that we could deliver against that innovation platform with our current operation and R&D teams.

So, I think -- so, thank you for your question, but I think we are now over time.

Operator, I think it's time that we close down the call and I want to just again thank everybody for joining us today. It's been a pleasure we're very excited about the performance of our business. We're looking forward to updating you on our progress moving forward. Have a good day.

Operator

This concludes today's conference call. You may now disconnect.