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OrganiGram Holdings, Inc. (OGI.CA)

Q2 2024 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning. My name is Jill and I will be your conference operator today. At this time, I would like to welcome everyone to the Organigram Holdings Second Quarter Fiscal 2024 Earnings Conference Call. After the speakers' remarks, there will be a question-and-answer session. We ask you to please limit yourself to one question and one follow-up question. You may re-queue if you have any further questions.

Thank you. Max Schwartz, you may begin your conference.

Max Schwartz

Director-Investor Relations, OrganiGram Holdings, Inc.

Thank you. Good morning, everyone, and thanks for joining us today. As a reminder, this conference call is being recorded and a recording will be available on Organigram's website 24 hours after today's call. Listeners should be aware that today's call will include estimates and other forward-looking information from which the company's actual results could differ.

Please review the cautionary language in our press release dated May 14, 2024 on various factors, assumptions, and risks that could cause our actual results to differ. Further, reference will be made to certain non-IFRS measures during this call, including adjusted EBITDA, free cash flow, and adjusted gross margin, among others. These measures do not have any standardized meaning under IFRS and are intended to provide additional information and, as such, should not be considered in isolation or as a substitute for measures of performance prepared in accordance with IFRS.

Our approach to calculating these measures may differ from other issuers, so these measures may not be directly comparable. Please see today's earnings report for more information about these measures.

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In this call, references to fiscal 2023 are to the 13-month period from September 1, 2022 through September 30, 2023. Listeners should also be aware that the company relies on reputable third-party providers when making certain statements relating to market share data. Unless otherwise indicated, all references to market data are sourced from Hifyre, in combination with data from Weedcrawler, provincial boards, retailers, and our internal sales figures.

Today, we will be hearing from key members of our senior leadership team, beginning with Beena Goldenberg, Chief Executive Officer, who will provide opening remarks, and commentary. Followed by Greg Guyatt, Chief Financial Officer, who will review our quarterly financial results for Q2 fiscal 2024. Also joining us for the question-and-answer segment is Tim Emberg, Chief Commercial Officer.

Before I hand the call over to Beena, I would like to extend a thank you to those on the call today who made it out to our Investor Day and facility tour in April. We received a lot of positive feedback, but by far the most common thing we heard from attendees was how compelling it was to see the initiatives we've been talking about in our communications in-person. In the months to come, we will be developing a digital version of this experience for our current shareholders and industry stakeholders can gain a better understanding of where our business is headed.

With that, I will now introduce Beena Goldenberg, Chief Executive Officer of Organigram Holdings, Inc. Please go ahead, Ms. Goldenberg.

Beena G. Goldenberg

Chief Executive Officer & Director, OrganiGram Holdings, Inc.

Thank you, Max, and good morning everyone. We appreciate you all joining our call today and for your continued support of Organigram. It's hard to believe that we're already halfway through our fiscal year, and we're pleased to report that the events and changes that Organigram has undergone in the first half of the year, have truly set us up for success in Canada, and internationally for the balance of the year, and in years to come.

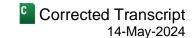
As we venture into the second half of 2024, we are confident and we will be in a position to truly accelerate our performance in Canada, and internationally, while putting the building blocks in place to allow us to deliver on our ambition to be a global leader in the cannabis industry.

During today's call, we'll be discussing our performance highlights for the quarter and some important themes that will illustrate why, despite some ongoing headwinds, we remain confident in our ability to continue to deliver on our growth plans. These are innovation as a continued focus area of ours and a growing competitive advantage for our company, international development as part of our ambitions to be a global leader in the cannabis space, and Canadian recreational business, and how we're poised to continue on our growth trajectory.

Before we dive into these exciting topics, I'd be remiss to not address one important factor enabling us to comfortably weather the headwinds, and support our growth plans and that's the increase in our cash position. This year, we significantly enhanced our already strong cash position by raising capital at a substantial premium to our share price. In Q2, shareholders approved a CAD 124.6 million follow-on investments from BAT, with the first CAD 41.5 million tranche successfully closed and the second CAD 41.5 million tranche expected to close by the end of August.

Additionally, towards the end of the quarter, we announced and subsequently closed an oversubscribed financing [ph] ground (04:38) generating an additional CAD 28.8 million in gross proceeds. By the close of the final tranche

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from BAT at the end of February 2025, Organigram will have nearly CAD 200 million in pro forma cash on hand, an enviable position in today's challenging environment.

Once again, I'd like to emphasize our disappointment with the Canadian government's reluctance to address critical issues impacting the cannabis industry in Canada. The biggest challenge for most Canadian cannabis LPs lies in the struggle to achieve sustainable profitability with excise duties representing up to 35% of sales.

Despite the federal government's collection of almost CAD 900 million in excise revenue from cannabis in 2023, surpassing revenues from beer and wine combined, no relief measures close to those extended to the beverage alcohol sector have been offered to the cannabis industry. To make matters worse, the recently announced federal budget did not address any form of improvement to the excise framework despite recommendations from the industry, the Standing Committee on Finance, the Competition Bureau, and the expert panel reviewing the Cannabis Act.

Given Organigram's leadership position in the Canadian market, we remain steadfast in advocating for a fair and equitable excise framework that serves both industry interests and federal government's objectives of safeguarding public health by diverting consumers from the illicit market.

Despite this ongoing challenge, Organigram is well-equipped to weather today's taxing regulatory environment and remain a leader in the sector. Not only have we demonstrated our ability to thrive in Canada, demonstrated by our 21% year-over-year growth in our recreational business this quarter, but we are also in an excellent position to invest in the growth of our international business with our robust balance sheet.

Organigram's ambition to be a global leader in the cannabis space will be achieved by exporting our high quality, high margin products to international markets, and through the expansion of our footprint in emerging markets like the US and Germany, enabled by the CAD 83 million Jupiter strategic investment pool, funded by two-thirds of BAT's follow-on investment.

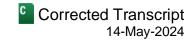
In Q2, the company made its inaugural Jupiter investment and second US-based investment in Open Book Extracts, a leading provider of hemp-derived extracts and products. Through this investment, Organigram stands to gain invaluable insights into the US landscape by leveraging OBX's extensive experience with key players in the US cannabis market.

Moving forward, we expect to collaborate with OBX on product launches in the US, capitalizing on the explosive growth of the hemp-derived THC market for edibles and beverages. With the DEA reportedly moving towards rescheduling cannabis, the opportunity in the US is compelling, and we are carefully monitoring the regulatory landscape while we expand our footprint.

Outside of the US, there are also a number of very compelling investment opportunities unfolding that were well-positioned to take advantage of, the decriminalization of cannabis in Germany, growth in Australia and the UK, pilot programs in Switzerland, and medical frameworks being introduced in a growing number of markets, to name a few.

We've also made considerable progress with our international export business and are yielding tangible results from our efforts. In January, we completed our first shipments of medical flower to Sanity Group in Germany, and shortly after, we successfully shipped cannabis to 4C Labs for distribution in the UK. Subsequent to quarter end, we completed our second shipment to Sanity. Further, we signed two new supply agreements with medical

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cannabis suppliers in Australia and the UK, all while exploring additional opportunities in entirely new markets for Organigram.

Our international revenue saw significant decline versus Q2 fiscal 2023, driven by a large reduction in sales to Israel as we await payment of an outstanding receivable. We are working with our Israeli customer on a payment plan and are optimistic that we will resume shipments to Israel in due course. That said, we are very encouraged by our return to international sales growth over the last three quarters, supported by our new international customers.

Furthermore, our growth in flower exports is poised to receive a significant boost from Organigram's EU-GMP licensing at our Moncton facility. Following a successful preliminary audit in February, we are optimistic that obtaining the certification, thereby enhancing our export margins and further expanding our international customer base.

Now, if Organigram is synonymous with one thing, I think, we could all agree that it's our relentless pursuit of consumer-centric innovation as a competitive advantage. Where other companies are cutting back, we're doubling down.

You've heard me speak about the nano-emulsion technology that is being worked on by the product development collaboration team. Excitingly, the PDC have received the preliminary results from a groundbreaking clinical study that was undertaken to validate this technology. The team is now analyzing the data and we're excited to share the results with you soon.

The patent pending nano-emulsion technology aims to unlock the full power of ingested cannabinoids that will enable consumers to navigate, and control their dosage experience more accurately, a key consumer pain point in the ingestible space.

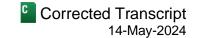
The nano-emulsion production equipment was recently transported to Organigram's Winnipeg facility in April and the company is preparing to scale up production and sales for these gummies in the fall. Another differentiated innovation play we remain bullish on, stems from our first US investment in Phylos Bioscience in May 2023.

As a result of this investment, we are the only company in Canada offering whole-flower derived THCV. Our introduction into THCV products has garnered significant attention with retail sales surpassing CAD 3.7 million since their launch in August of 2023 and the completion of our first international shipment of THCV flower subsequent to guarter end.

Consumer feedback for the super sativa powerhouse, has been very positive to-date and we plan to continue to expand our portfolio of THCV products. The Phylos investment also brought us seed-based production that many of you have seen, showcased during our Investor Day in April.

Phylos' seed-based technology presents a transformative growth opportunity for Organigram. We are now systematically transitioning a portion of our Moncton facility to seed-based production, which promises to increase plant yields, significantly reduce cultivation costs, shorten harvest cycles, and deliver more consistent, and robust plants. The anticipated cost savings of seed-based production program versus clone-based methods range between 30% to 40%.

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As of now, we have four seed-based production rooms online, which is a slower ramp up than we originally had planned due to the time involved in obtaining seed characteristics which satisfied changing consumer preferences. However, we are encouraged by the yield and potency results of our first harvest.

As we streamline our selection processes and further build out our pipeline of seed candidates, we anticipate that we will meet our goal of 30% seed-based production by the end of calendar 2024. Regarding vape, we previously highlighted our investment in Greentank as a means to bring innovation to our vape portfolio, and finally address our underperformance in this category.

In Q2, we conducted a test launch of Greentank's new atomizing technology in select markets. At the end of the test launch, we saw higher-than-expected consumer returns and given our firm commitment to quality, the consumer, and our provincial board partners, we are working to address the issue before our anticipated national rollout.

In parallel, extensive work within the PDC has taken place on several innovative vape solutions that we believe will begin to add to Organigram's portfolio of compelling and differentiated vape products.

On the research innovation front, Organigram's recent achievements include significant reductions in THC-to-CBN conversion time by 75%. We are now able to produce 100% of our CBN demand in-house and are on our way to doing the same with CBG.

We have also developed an isolation method to produce [ph] zero THC THCV (13:28) isolate with an 85% purity level. We are identifying more genetic markers for disease and powdery mildew resistance, terpene synthesis, and other markers, which will allow us to select cultivars with more of the properties we want and less of the ones we don't.

As we continue to identify new genetic markers, it's only a matter of time until we can selectively breed F1 seeds that result in the consistent expression of the desired genetics. Research like this is what sets Organigram apart from other producers and provides us with a long-term advantage. Now, on the domestic front, Organigram maintains a leadership position in every major product category except vapes.

As of Q2, Organigram held the number one position in milled flower, number one in hash, number one in ingestible extracts, number one in pure CBD gummies, number two in overall edibles, number two in infused prerolls, number three in all pre-rolls, and number three in dried flower, bringing us to the overall number three market position in Canada. Our continued success in almost every category is owed to our relentless dedication to quality, innovation, and focus.

As the top pure-play cannabis company in Canada, everything we do at Organigram is geared towards creating the most exciting cannabis brands and products on the market developed in Canada to delight consumers around the world. Regionally, we achieved remarkable growth in Atlantic Canada with retail sales surging by over 36% to achieve a 16.1% share.

Additionally, our market share in Quebec reached a record high 9.1% in March, signaling that we're building a stronghold in Canada's second most populous province, all while maintaining a top five position in every other province across Canada. It goes without saying that we're committed to innovation, but innovations are stronger when they're carried by great brands. The success of our SHRED brand underscores our commitment to innovation and market leadership. With retail sales now exceeding CAD 200 million annually, SHRED has

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introduced several industry-first innovations, including flavor-forward milled flower, Rip-Strip Hash, whole flowerderived THCV gummies, and milled THCV flower.

In Q2, we introduced our first carton-style box of joints, SHRED Rainbow Oz. Dartz, offering consumers seven packs of 10 dartz in four different flavors. Our newly-launched SHRED Rainbow Heavies, which consists of three flavored IPRs with over 40% THC, achieved over CAD 450,000 in retail sales within their first month in the market. Among our other successful brands are Monjour, which continues to dominate the pure CBD gummy segment with 51% market share, growing 65% year-over-year.

Tremblant, which leads in hash, resulting in our 23% share in the category. And Big Bag O' Buds, which is a leader in our large format flower category. We don't often speak about Big Bag O' Buds, but this quarter we launched Serial Jealousy, a new cultivar from Organigram. This was our fastest ever launch to reach CAD 1 million in sales and our highest sales achieved for a new launch within two months of hitting the market.

We are also particularly excited about the revitalization of our Trailblazer brand, aimed at meeting the needs of a very large and underserved consumer segment, the passionate female believer. The new Trailblazer flower line was unveiled, showcasing hang-dried, smart-cured, hand-packed, premium and potent flower pre-rolls in vibrant glass jars, with shipments that began in April.

So, to recap, the latter half of fiscal 2024 presents many opportunities for Organigram. Our growth in the domestic market continues due to our focus on innovation and understanding consumers. Our CAD 83 million Jupiter fund and excellent balance sheet allow us to explore more strategic investments like Phylos and Open Book Extracts, geared towards garnering competitive advantages and growing our international footprint. And we are growing our export customer base, which contributes to expanding our international revenue.

With that, I will turn the call over to Greg to discuss our financial performance for the quarter.

Greg Guyatt

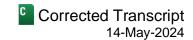
Chief Financial Officer, OrganiGram Holdings, Inc.

Thank you, Beena. As Beena mentioned in her comments, our recreational net revenue grew by 21% versus Q2 last year versus approximately 7% market growth over the same period. When taken together with the decrease in international sales compared to Q2 of last year, we saw a net increase in our gross revenue of 8.6% to CAD 57.4 million for the quarter compared to CAD 52.9 million in the same prior year period. Given the impact, a decrease in international sales of CAD 8.6 million between Q2 and the same prior year period, our net revenue saw modest contractions in the quarter of 5% resulting in CAD 37.6 million in net revenue, partially offset by an increase in wholesale revenue of CAD 1.3 million.

Organigram [ph] is current (18:42) with its excise duty obligations, remitting approximately 34% of its gross revenue to the CRA. Organigram's cost of sales in Q2 fiscal 2024 was CAD 26.4 million compared to CAD 29.6 million in Q2 fiscal 2023, representing a decrease of 12%. The decrease in the cost of sales over the same prior year period was primarily due to higher inventory provisions in Q2 fiscal 2023 of CAD 3.2 million related to net realizable value adjustments of inventories.

We harvested approximately [ph] 19,900 (19:21) kilograms of flower during Q2 fiscal 2024 compared to [ph] 20,600 (19:27) kilograms in Q2 fiscal 2023, which represents a decrease of approximately 3%. The decrease was primarily attributable to changes in our cultivar mix to address change in consumer preferences. While yields in THC content will fluctuate over time, the trend we have seen over the last two years has been larger yields and

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higher potency. In Q2, year-over-year Organigram experienced a 79% increase in flower produce containing more than 24% THC.

Now, about 25% of our harvest is clocking in between 24% and 26% THC, and 25% is testing above 26%. Compared to Q2 fiscal 2023, our yield per plant has increased. Higher yields should reduce the cost of cultivation in the long run and as this flower is sold and we expect to achieve higher gross margin rates. In Q3, we should begin to see some lower-cost flower harvested in Q2 flow through the P&L, with that trend expected to continue into Q4. In Q2 fiscal 2024, adjusted gross margin remains stable at 31% or CAD 11.7 million sequentially.

Compared to the same prior year period, we experienced a decline in our adjusted gross margin rate from 34%. The year-over-year decline was primarily due to lower international sales, which declined from CAD 10.8 million to CAD 2.2 million between Q2 fiscal 2023 and Q2 fiscal 2024. The delta here is related to reduction in shipments to Israel which have yet to recover. Sequentially, however, our international sales have increased to CAD 2.1 million and we expect this trend to continue throughout the latter half of fiscal 2024.

In Q2, Organigram realized approximately CAD 2.4 million of the CAD 10 million in annual savings that we outlined at the end of fiscal 2023 and year-to-date, we have realized CAD 4.7 million of these savings. Driving these continued savings [ph] is the use of (21:26) in-house remediation and rapid drying technology. There are several other efficiency driving initiatives underway that we expect will lower our operating costs further. We are reducing the bench time for our clones from 21 days to 14 days, which will reduce costs annually and increase capacity by approximately 1,300 kilograms by creating up two additional grow rooms. Also, we are focused on power reduction initiatives, which we project will result in CAD 2.3 million in annual savings.

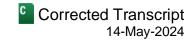
We are optimizing warehouse distribution between Moncton and Winnipeg to save on freight for customers in Western Canada. Included in our Q2 SG&A was a reserve of CAD 4.2 million related to our outstanding receivable from our Israeli customer, Canndoc. SG&A remained relatively flat adjusting for the Canndoc receivable provision at CAD 15.9 million compared to CAD 16.1 million in Q2 fiscal 2023, or a decrease of 1%. While G&A costs decreased by CAD 1.2 million, they were offset by an increase in sales and marketing costs of CAD 1.1 million related to higher compensation in the Canadian marketplace.

This quarter, we posted an adjusted EBITDA loss of CAD 1 million compared to adjusted EBITDA of CAD 5.6 million in the same prior year period. This loss was attributed to lower net flower revenue and lower international sales, which negatively impacted our adjusted gross margin rates compared to the prior year period. We're confirming our outlook that our positive adjusted EBITDA in fiscal 2024 will exceed that of fiscal 2023.

Supporting this outlook is the expected increase in international sales in the back half of fiscal 2024, as well as efficiency improvements and lower cost of flower, which is expected to start flowing through our P&L in the back half of fiscal 2024. Net loss for Q2 fiscal 2024 was CAD 27.1 million compared to a net loss of CAD 7.5 million in the same prior year period. The increase in net loss from the comparative period is primarily due to a lower gross margin resulting from a reduction in the gain on fair value of biological assets and an increase in a fair value loss of derivative liability of approximately CAD 11.9 million related to the future issuance of BAT preferred shares.

From a statement of cash flow perspective, net cash used in operating activities was CAD 9 million in Q2 fiscal 2024 compared to a use of CAD 19.7 million in the prior year period. The decrease in cash used in operating activities of 54% was primarily due to an increase in accounts payable resulting from a shift from monthly to quarterly payments of excise duties in accordance with excise duty regulation payment schedules and improvements in our regular payment terms.

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Cash used by investing activities in Q2 fiscal 2024 was CAD 1.9 million, compared to cash provided of CAD 11.7 million in Q2 fiscal 2023, which was driven by a redemption of short-term investments in Q2 2023 of CAD 15.2 million. On the topic of cash, we're very pleased to state that we have one of the healthiest balance sheets in the industry.

As of March 31, 2024, we had a total cash position of CAD 83.6 million, including both restricted and unrestricted cash, negligible debt, and as Beena mentioned, our pro-forma cash position after the closure of the second and third BAT tranches and our recent equity raise of gross proceeds of CAD 28.8 million is expected to start approaching [ph] CAD 200 million (25:03).

We focused our efforts this quarter on bolstering our cash, driving costs out of the business, expanding our international reach, and expanding market share while investing in the long-term efficiency of our business to set us up for success in the latter half of fiscal 2024 and beyond. We did incur the loss of margin due to lower international sales and our focus on rapidly growing 2.0 segments such as infused pre-rolls, which attracted higher excise duties. However, we head into Q3 confidence that the back half of the year will demonstrate our ability to generate improved financial results. We continued to expect positive cash flow from operations before working capital adjustments by the end of fiscal 2024. This concludes my comments.

I'll now turn the call back to Beena.

Beena G. Goldenberg

Chief Executive Officer & Director, OrganiGram Holdings, Inc.

Thank you, Greg. The cannabis industry is still in its infancy and after considerable growing pains, it looks like we're entering a period of renewed excitement around the sector, fueled by macro tailwinds that we believe will favor established leaders in the space, of which Organigram is clearly one of the very last few in Canada.

Today, Organigram stands as a leading LP with significant cash reserves and negligible debt. This represents a considerable competitive advantage, substantially mitigating liquidity risks, and facilitating the expansion of our presence in international cannabis markets. We have persisted through every challenge presented to us, ranging from irrational price compression, overstated THC levels, nanny state regulations and then logical excise framework, to achieve growth in our domestic business and to set us up for a long-term growth trajectory.

We also recognize the benefits of being challenged to bring excellence into every aspect of our business, and have used this environment to hone our competitive edge. While this quarter we reported negative adjusted EBITDA, we're confident that our domestic and international market growth, our innovation pipeline, and investments in long-term efficiencies will result in improved financial performance throughout the back half of fiscal 2024. We look forward to updating you on our progress next quarter. So once again, thank you for your continued interest and support of Organigram.

I will now open the call up for questions.

QUESTION AND ANSWER SECTION

Operator: Thank you. The floor is now open for questions. [Operator Instructions] Your first question comes from the line of Aaron Grey of Alliance Global Partners. Your line is open.

Aaron Grey

Analyst, A.G.P. / Alliance Global Partners Corp.

Hi, good morning and thank you for the questions. First one for me, Greg, I believe you mentioned still expecting adjusted EBITDA to exceed prior years. I think, that's in reference to the [ph] CAD 5.5 (28:14), right? So I just want to make sure I heard that correctly. And then, if you could just provide some more granularity in terms of those puts and takes. You talked about some of the gross margin improvement you're expecting in terms of shifting to the seed-based production. You talked about some OpEx improvements as well. You mentioned greater international, I believe, when you made reference to that as well. So just in terms of the puts and takes of getting to EBITDA exceeding 2023 for the back half of fiscal 2024, what we should expect in terms of the top-line gross margin and EBITDA [ph] to (28:48) help us get there? Thank you.

Greg Guyatt

Chief Financial Officer, OrganiGram Holdings, Inc.

Sure. Thanks, Aaron. Let me try to unpack all of that. So, first, your question on EBITDA. Yes, you heard that correctly. We'll exceed the EBITDA from fiscal 2023 in the back half of this year. As far as margins and the various puts and takes, first, I'll start with in the second quarter. And, we had, versus the prior year, we had less international, as you know. International is much higher margin than domestic and does not include any excise duty obligations. Also, during the quarter, our mix SKUs towards IPRs, which is good news and that we're driving leadership in that category. But at the same time, it's a new category for us. So, we're still working on some of the kinks in the production area and really working on improving our production efficiencies there, which we've made good progress on. And we expect to see some movement on that in the back half of this year.

Also, in the second quarter, we had lower Jolts sales, Q2 versus Q1, which also would have been a bit of a drag on margin during a period. So, as we go forward into the back half of the year, you mentioned the seed-based production that should start flowing through towards Q4 and as Beena mentioned, that's about a 30% to 40% cost reduction and that's not going to be 30% to 40% in totality, obviously, but as we've said before, our plan is by the end of calendar this year to have about 30% of the garden seed-based, which we'll see the benefit from.

Also moving forward, we're really working on making operational efficiency improvements in some production areas where we've seen higher waste than we would have liked in Q1 and Q2, and that's particularly around tube-style pre-roll, which again is a relatively new process for us and just in the last number of weeks, we started to see real improvement in that area. We expect to drive that going forward as well.

Also, just the cost savings initiative that we mentioned before about the CAD 10 million target for the year, we've made great progress on that, CAD 5.5 million more to go in the back half around freight, logistics, energy, and also some post-harvest efficiencies that we expect to see coming through. I hope that answers your question there, Aaron.

Aaron Grey

Analyst, A.G.P. / Alliance Global Partners Corp.



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No, it did. No. Really appreciate that comment there, Greg. Second question for me, right, so you guys have the OBX investment. Within the US, there's been a number of public operators, talking more about the hemp-derived beverage market specifically, but also, edibles, including some listed on the NASDAQ similar to you. So, can you speak, you know, towards your views specifically on the hemp-derived beverage and potentially edibles market too? You know, given your line of sight with OBX investment, are you seeing some opportunities there? Is there some ability for you to leverage BAT's distribution?

It's not a liquor channel there, but there's still some convenience and maybe [indiscernible] (31:58) that could be leveraged. So your view of the hemp-derived beverage market, how big the opportunity is, and if you think there's opportunities for OGI to come within it. Thanks.

Beena G. Goldenberg

Chief Executive Officer & Director, OrganiGram Holdings, Inc.

Sure. Thank you, Aaron. So, first of all, we're very excited about the hemp-derived THC market for ingestible, for both beverages and for edibles, and certainly our relationship with OBX gives us a first line-of-sight into the market and the opportunity. We do see there's a patchwork of states in the US that are, have regulated the Delta-9 THC hemp-derived, and there's some that are perhaps not regulated, but are not enforcing. And so, this market continues to grow and we continue to track how big the opportunity is.

What excites us about this is that direct-to-consumer opportunities that you could move products across state lines. So, there's a lot of very interesting opportunities around this space. We are reviewing what the opportunities are internally. We see the opportunity of using the nano-emulsion technology that we're developing in some of the products that we take to the market in the US at some point in the future, and the opportunity to leverage the clinical study that we did to make claims in that market. So, we do think we have a competitive differentiation that we could take so we could enter the market.

We are looking at whether it's beverages or edibles and we're looking at ways to get the product to market. So, nothing in the short-term in terms of using the BAT distribution network. We'd be looking at how OBX is getting products out. We'd be looking at other partners that we could leverage. So it's still a work in progress, something that we're evaluating as we look out. And obviously, needless to say, everything we do, we're going to make sure that we're compliant with our NASDAQ listing, with our TSX listing. So, this is an area that we're navigating carefully as we look to get some product into the US market.

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

Matt Bottomley

Analyst, Canaccord Genuity Corp.

Good morning, everyone, hope everyone's well. I just had a follow-up question on the reserve you took for that receivable. So, relative to your international contribution. It is sizable, obviously not really material to the company or quarter overall. But I'm just curious if we can get a little more detail on that. Is this biomass that wasn't accepted over in Israel? Is there a dispute there? Has that product been returned? I'm just trying to get an idea of where that relationship is and then if Israel is still a market that will be a focus in the near-term?

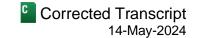
Beena G. Goldenberg

Chief Executive Officer & Director, OrganiGram Holdings, Inc.

No problem, Matt. Let me take that on and say to you that there is no issue with the products that were shipped over. This was a situation where the receivable was due at the end of October. We all know what happened in



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that country on October 7. So, there is a delay in payment. The customer says, they'll pay us, but at this point, it's 6 months past due and so we took the reserve on our books. We expect to continue to work with the customer to get a payment plan that we're comfortable with. And it is our intention to, in due course, get back to shipping to Israel. It's an important market for cannabis and it's a higher margin market than Canada, as Greg alluded to in terms of our international growth. And so, it's something that we want to do, but obviously with the size of the outstanding receivable, we have been on standby at this point and we have stopped shipping until we get this resolved.

Matt Bottomley

Analyst, Canaccord Genuity Corp.

Okay. Thanks for that. And just one other question for me, just on the cadence of sort of the adjusted EBITDA rebound for the back half of the year here, I'm just wondering if sort of cash flow from operations will be linear to that, or will we see an outperformance in sort of the CFO given the fact that international sales likely have a higher margin and we'll drive more to the bottom line?

Greg Guyatt

Chief Financial Officer, OrganiGram Holdings, Inc.

Hey, thanks for that question, Matt. Right now, we're expecting the cash flow from operations improvement to be roughly linear and that's really driven by the changes in working capital and we are continuing to invest in the business, and we're investing in working capital as well. So that's really going to be an important driver there beyond just the sales internationally. And for example, over the first quarter, we invested more in inventory than we had in the past in order to make sure that our customer service levels were much higher than they had been. So, this is an example, our on-time and in-full shipments to the provinces was up to over 95% in Q2 as a result of that investment. So that's the one caveat to the linear versus sort of exponential following the international.

Operator: [Operator Instructions] Your next question comes from the line of Frederico Gomes of ATB Capital Markets. Your line is open.

Frederico Gomes

Analyst, ATB Capital Markets, Inc.

Good morning. Thank you for taking my questions. My first question is on Germany. I think yesterday there was an article mentioning there was a change in regulations there that could potentially expedite the second pillar of their legalization plan. So, I'm just curious if you've seen that. Could you comment on it in terms of your expectations for that second pillar as well as just, in terms of your EU-GMP certification, do you have any sort of timeline for that? Thank you.

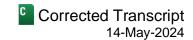
Beena G. Goldenberg

Chief Executive Officer & Director, OrganiGram Holdings, Inc.

No problem, Fred. So, let me start with the first point. Yes, we have seen the same news around the second pillar of the German legalization and progress. And we're excited about that. Really, what that was all about is enabling pilot programs similar to what we've seen in Switzerland, where they're going to allow, to certain, I guess, license producers or cannabis companies to have pilot facilities, so they could pilot programs so that they could test how the market runs and form some better understanding of the market.

We're excited about that. We're talking with some of our customers that we're dealing within Germany about the opportunities in that market. And this is just, again, another example of the legalization framework opening up in Germany, which we're excited about. It's another big market. So, any progress like this, no different than the DEA

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rescheduling that they're talking about in the US. These are all good macro tailwinds for the industry and we're excited about the opportunity it presents.

In terms of the EU-GMP, we had our preliminary audit back in February and we were successful with that audit. So, we're now just waiting for confirmation from the regulatory authorities, when they will be coming out to do the final audit. Our hope is that, it will happen this summer, but we're kind of not in control of their timeline, so we're just waiting for that to be scheduled.

Frederico Gomes

Analyst, ATB Capital Markets, Inc.

Thank you for that, Beena. My second question is just you mentioned that rescheduling in the US could potentially help your US-based strategy in terms of your investments. So just curious, how exactly could that play out? Is it about the sort of investments that you would be able to pursue while keeping, being compliant with your NASDAQ listing, or is it about helping, I guess, your investments that you have already made in the US to perform better? So just any color on how rescheduling could help you in the US? Thanks.

Beena G. Goldenberg

Chief Executive Officer & Director, OrganiGram Holdings, Inc.

Sure. So again, just to reiterate, look, we think that the whole DEA rescheduling is really a positive move forward that signals the evolution of the US movement towards federal legalization. So, we're excited about that. Now, it doesn't really help much for us from a compliance position, as you mentioned. With our NASDAQ and TSX listings, we still can't consolidate or control anything that's plant touching. However, we do think that the whole rescheduling is expected to take some time, but it will happen and we think that this will benefit our two US investee companies, and we're invested in them. So that's a benefit to us. It's still a small amount of benefit at this time, but we think that with the Jupiter fund, we have the opportunity to take advantage of other opportunities in the US market. And so, this is just a positive all around for us as we look to expand our global footprint.

Operator: Thank you and with no further questions, that concludes our Q&A session. I will now turn the conference back over to Beena for closing remarks.

Beena G. Goldenberg

Chief Executive Officer & Director, OrganiGram Holdings, Inc.

Well, again, thank you, everybody, for joining the call today. I know that we have some exciting plans ahead, and we do look forward to updating you on our progress next quarter. So, with that, I'll end the call.

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



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