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OrganiGram Holdings, Inc. (OGI.CA)

Q2 2021 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning. My name is Jack, and I will be your operator today. At this time I would like to welcome everyone to the Organigram Holdings Inc. Second Quarter Fiscal 2021 Earnings Conference Call. All lines have been placed on mute to prevent any background noise. After the speakers' remarks there will be a question-and-answer session. We ask that you please limit yourself to one question and one follow-up question. You may re-queue if you have further questions. As a reminder, this conference call is being recorded and a replay will be available on Organigram's website.

At this time, I would like to introduce Amy Schwalm, Vice President of Investor Relations.

Amy Schwalm

Vice President-Investor Relations, OrganiGram Holdings, Inc.

Thank you, Jack. Joining me today are Organigram's Chief Executive Officer, Greg Engel; Chief Financial Officer, Derrick West; and our Chief Strategy Officer, Paolo De Luca.

Before we begin, I'd like to remind you that today's call will include estimates and other forward-looking information from which our actual results could differ. Please review the cautionary language in today's press release regarding various factors, assumptions and risks that could cause those actual results to differ.

Furthermore, during this call, we will refer to certain non-IFRS financial measures, including adjusted EBITDA and adjusted gross margin. These measures do not have any standardized meaning under IFRS and our approach in calculating these measures may differ from that of other issuers and so these measures may not be directly comparable. Please see today's earnings report for more information about these measures. I will now hand the call over to Greg.

Gregory Engel

Chief Executive Officer & Director, OrganiGram Holdings, Inc.

Thanks, Amy. Good morning, and thank you for joining us today. Here we are over a year into this pandemic and despite challenging times currently, there is a light at the end of this tunnel as vaccines start to be administered across the country and worldwide. And we couldn't be more excited about the prospects for the cannabis industry and Organigram.

Before going into more detail I want to take a moment to thank our employees for their commitment and dedication to the company over the last 12 months, which have been challenging for all of us. This morning we reported our second quarter fiscal 2021 results for the period ended February 28, 2021. As we expected and indicated in our last quarter's disclosure Q2 continue to be a transition period, while we were ramping up operations in hiring the requisite staff, such that operations are anticipated to be better supported in Q3.

Our Q2 results were also further impacted by production disruptions on two occasions related to COVID-19, as well as market dynamics due to COVID-19 restrictions. As we continue to be laser-focused on execution in a very competitive Canadian market, our team has been busy with some significant recent developments, which we believe have meaningfully strengthened Organigram's near and long-term competitive profile and potential.

We've positioned the company for more near-term revenue growth with the acquisition of The Edibles and Infusions Corporation and believe our collaboration with BAT will be transformational over time. I will spend a moment on these two transactions before I comment more on the quarter.

A hallmark of Organigram has been our focus on R&D and innovation. Our efforts and intentions have been and continue to be about delivering innovative differentiated products with the most consumer appeal. We were one of the first two cannabis companies to invest in biosynthesis and we believe this technology has the potential to change the cannabis landscape. Another example is our in-house R&D team's development of a proprietary nanoemulsification technology to allow for faster absorption of cannabinoids when compared to traditional edibles.

It is our view that the cannabis industry is still in the nascent stages of product development and the continued investment in innovation and R&D is necessary to secure a long-term competitive advantage. BAT, a leading consumer goods business with innovative product platforms, an impressive dedication to R&D and deep consumer insight, chose to collaborate with us after extensive discussions, workshops and in-depth due diligence.

A Center of Excellence, or CoE, has been established at our Moncton facility. At this CoE, we will work on developing the next generation of cannabis products, IP and technologies and also – can now also draw upon our R&D capabilities and licensed facility in Winnipeg to augment and diversify our product development efforts. Both Organigram and BAT are contributing scientists, researchers and product developers to the CoE. Initially, the focus will be on CBD products. Both companies have access to certain of each other's intellectual property, and subject to certain limitations, have the right to independently, globally commercialize the products, technologies and IP created by the Center of Excellence.

Through this CoE and BAT's representation on our board of directors, we intend to leverage BAT's expertise for our wider operations. There's a steering committee to supervise and govern the CoE activities, with an equal number of senior members from both companies.

And we also anticipate benefiting from two BAT nominees to Organigram's board of directors. At closing, we welcome Mr. Jeyan Heper to our board and the other nominee is expected to be appointed in the near term. Mr. Heper who is a Group Category Director at BAT, has over 23 years of diverse management, strategic leadership and M&A experience at global companies including Procter & Gamble, Danone and most recently LifeStyles Healthcare.

Not only is this collaboration with BAT going to accelerate and strengthen our research and product development activities, it is also expected to be instrumental in establishing the foundation for our US and international strategy. As part of the transaction, BAT invested approximately CAD 221 million for 19.9% equity interest. With the significant capital injection, Organigram is well positioned to expand into the US and other international markets at the right time and subject to applicable law.

Under the product development collaboration agreement, we will be granted a worldwide royalty-free sub-licensable, perpetual license to exploit IP developed under the collaboration. This license which is non-exclusive outside of Canada and sole in Canada will also enhance Organigram's ability to enter markets outside of Canada, including through sublicensing arrangements with established operators.

Approximately CAD 30 million of BAT's investment has been reserved for our portion of funding obligations under a mutually agreed initial budget for the CoE. And costs will be funded equally by Organigram and BAT.

Now turning to our most recent transaction announced last week. We acquired The Edibles and Infusions Corporation, or EIC for shot, a soft chew manufacturer with other specialized confectionary capabilities and backed by leadership from a company with 100 years of confectionery operations.

The EIC management team also has experience in supplying confectionery products to over 20,000 locations throughout North America. James Fletcher, CEO of Cavalier Candies, joins Organigram as President of EIC. James has deep CPG and confectionery expertise and experience and a proven track record of delivering to some of the world's biggest retailers such as Costco and Walmart. The acquisition positions us for more near term revenue growth from the largest edible category, soft chews or gummies, and diversifies our R&D and manufacturing capabilities with an operational footprint in Western Canada.

EIC currently holds a standard processing license, is in the process of obtaining its sales license. Until it receives its sales license, it can manufacture products in bulk for further processing, review, and sale by us or other third-party licensed producers for white-label opportunities. Importantly, the acquisition also strengthens our R&D capabilities with its research laboratory and research license. EIC constructed and leases a purpose-built highly automated 51,000 square-foot manufacturing facility in Winnipeg, Manitoba, with state-of-the-art equipment designed to produce highly customizable, precise, and scalable cannabis-infused products, including edibles.

We now have two facilities dedicated to Rec 2.0 products, both designed under EU-GMP standards. We believe that a strong presence of both Cannabis 1.0 and 2.0 markets is crucial to sustain a significant share of the Canadian market. While Cannabis 1.0, dried flower, pre-rolls and oils still accounts for more than 70% of the overall Canadian market, 2.0 sales growth is outpacing the overall market as new product formats are launched and consumer preferences evolve. For example, edibles currently represent about 4% of the Canadian rec market compared to 12% to 15% in US markets. In fact, we note, that in Colorado which is the most mature US market, edibles account for about 17% of the total cannabis sales. To-date in Canada, edibles are one of the fastest growing segments of Rec 2.0 products.

We now have specialized capabilities in the two largest edible subcategories, gummies and chocolates. The largest sub-category is gummies or soft chews. With our acquisition of EIC we can enter this market quickly, backed by proven confectionery experience. EIC equipment is designed to produce craft and large-scale nutraceutical-grade cannabis edibles including pectin, gelatin and sugar-free gummies, toffee and caramel with novel capabilities such as infusions, triping and the possibility of using fruit purees.

Chocolates are the second most popular edible category and the Moncton facility houses our world-class chocolate production and packaging line. Concentrates are another sub-category of Rec 2.0 that have seen meaningful growth and appear to have a lot of upside when you look at the popularity of these products in the US.

We have plans for in-house hydrocarbon extraction for the production of concentrates and other unique products. Currently we expect to begin commissioning of this equipment in Q4 fiscal 2021. In the interim, we've continued to revitalize our product portfolio with 63 new SKUs launched since July 2020 and up to 31 more SKUs still to come in Q3 fiscal 2021.

Ontario SKU rationalization mandate has not negatively impacted us to date. As a result of us revamping our portfolio, we were able to trade up some of our slower moving older products and were ready to replace them with new listings.

I'll take a moment now to highlight some of our new key listings and launches. As we discussed during last quarter's earnings call, we are very focused on revamping our higher-margin Edison portfolio. After launching three new Edison Indica strains in late December 2020, we introduced these strains Black Cherry Punch, I.C.C. and Slurricane in three packs of 0.5 gram pre-rolls. We expect to launch more high THC strains under the Edison brand in Q3 2021. Edison was among the most searched brands on the Ontario Cannabis Store website in November 2020, as well as January and February of this year.

Also, in late March, we introduced a new brand called Indi, one of Canada's only cannabis brands dedicated exclusively to Indica cultivars. Skyway Kush is the first strain in the company's Indi portfolio and currently offers THC in the range of 20% to 23%.

In the popular value segment, we leveraged our successful SHRED brand by launching Jar of Joints, a convenient jar of 14.5 gram pre-rolls of SHRED's Tropic Thunder. SHRED has been the number one most searched brand on the OCS website for the last five consecutive months.

In terms of Rec 2.0 products, we introduced milk chocolate Trailblazer SNAX bars, the third flavor to be added to the initial launches of mint and mocha flavors. We also plan to launch further Edison Bytes truffles products in the next few quarters after the success of our seasonal Gingerbread offering last fall.

We look forward to improving revenue from our vape portfolio with the launch of two new products with higher THC concentrations. These include an Edison + Feather disposable vape pen at a very competitive price point, as well as a new 1 gram Edison cartridge for the 510 vaporizer, both products will be based on our popular Limelight strain.

These two additions will add to our portfolio, which already includes the value segment offering of Trailblazer Spark's, Flicker and Glow 510-thread Torch cartridges in 0.5 gram and 1 gram formats and the premium Edison + PAX ERA distillate cartridges.

With last quarter's results we indicate that we were scaling operations. We've made good progress hiring more staff and ramping cultivation, which we expect will improve demand fulfillment and drive higher net revenue in Q3 as compared to Q2. We do caution that net revenue could be negatively impacted should we identify any positive COVID-19 cases in the future and need to take similar measures to Q2.

We essentially shut down the Moncton facility on two occasions in Q2 sending employees home to isolate. As well, Ontario announced its third state of emergency last week shuttering cannabis retail stores to foot traffic and limiting purchases to online shopping – online shopping, click and collect, and local delivery, which could also impact Q3 revenue.

Beyond Q3, we're targeting further sales of soft chews in fiscal Q4 2021, subject to certain progress including, but not limited to the receipt and commissioning of certain equipment, the completion of QA documentation, the hiring of requisite staff, and obtaining listings from the provincial boards.

Also we expect to resume shipments to Canndoc and Israel in the near term. We're seeking good agricultural practice certification from the Control Union Medical Cannabis standard to comply with Israel's updated standards for imported cannabis.

Subject to successful completion of required inspection likely to be conducted remotely, we anticipate being certified as early as the end of our fiscal third quarter. Shipments to Canndoc are expected to resume in fiscal Q4 2021 contingent upon regulatory approval from Health Canada, including obtaining an export permit, and availability of the desired product mix.

In terms of gross margins we see the potential for significant upside here. We have identified a number of opportunities to improve levels over time. We expect to gain economies of scale and efficiencies as we continue to scale up cultivation. There is potential for greater contribution from higher-margin products and formats including new strains under the Edison and Indi brands.

International sales to Canndoc, as well as for multi-pack pre-rolls and 1 gram vapes, which attract higher margins in singles and 0.5 gram vapes. We also continue to invest in automation to drive cost efficiencies and reduce our reliance on manual labor, for example, our new pre-roll machine has been up and running since March consistently churning out 25 to 30 pre-rolls per minute over time with the potential for further improvement. Over the last week alone we've seen it consistently churning out 40 pre-rolls per minute. And finally, we are looking up more cost efficient packaging as part of our packaging task force mandate.

I will now pass the call over to Derrick to go through the financials in more detail before I wrap it up.

Derrick W. West

Chief Financial Officer, OrganiGram Holdings, Inc.

Thanks, Greg. As I usually do, I will start with our financial position. Last week we repaid our entire term loan balance of CAD 58.5 million such that no amounts are owing under our Credit Agreement and at the present time we intend to terminate Credit Agreement and discharge the related security.

The term loan repayment amounts to CAD 2.7 million in annual interest savings. In terms of balance sheet liquidity, the company currently has CAD 232 million in cash and short term investments. Q2 2021 net cash used in operating activities of CAD 10.4 million was similar to the CAD 10.9 million used in Q2 2020.

The current quarter had a lower gross margin, but this was offset by nominal changes to working capital as compared to the cash outlay in the comparative period, which was largely due to scaling operations just ahead of Rec 2.0 launches.

Turning to our results for Q2, net revenue declined to CAD 14.6 million from CAD 23.2 million in the prior year quarter. This change was primarily due to a decrease in wholesale revenue and a lower average net selling price impacting all product lines. It should also be noted that the higher wholesale revenues in the prior year's quarter were opportunistic in nature and largely consisted of sales to a single licensed producer.

Net revenue from the Rec market decreased from Q2 2020 due to lower volumes as a result of the prior year quarters being the first quarter for Rec 2.0 sales and a lower average selling price, as well as higher proportion of value products being sold in the current quarter.

As Greg mentioned, Q2 2021 net revenue was also impacted by temporary shutdowns of the facility and isolation of certain staff after the identification of positive COVID-19 cases. In total, we were unable to fulfill approximately CAD 7 million of demand for our products in Q2 2021 due to various production and processing constraints. As we have heard from other LPs recently many of the provinces have been reducing their inventory levels to free up working capital, Alberta is one such example. This also had an impact on net revenue during the quarter.

Q2 2021 cost of sales increased to CAD 31.1 million from CAD 15.8 million in Q2 2020, primarily due to the current quarter's higher inventory provisions, a higher cost of production and a charge related to unabsorbed fixed overhead as a result of lower production volumes in Q2 of 2021. As we expected and indicated in our Q1 2021 disclosure, discharge declined sequentially from last quarter and is expected to decline further in Q3 2021 as we continue to ramp operations. We harvested 5,028 kilos of cannabis during the quarter compared to 5,023 kilos in Q1 2021.

During Q1, we were using 40% of our growing rooms on average, and during Q2, this was increased to and on average of 54%. As of the day of our MD&A, we're currently using 69% of our grow rooms. Also encouragingly during the quarter we achieved higher client yields, any meaningful sequential decrease in cultivation cost per gram.

As a result of optimizing the density of plans per room and decreasing the time spent in vegetation, the average yield per plant increased. This lower cultivation cost during the quarter lowers the cost of inventory compared to earlier quarters such that when this inventory is sold this will positively impact gross margins. Note that the overall level of Q3 adjusted gross margins compared to Q2 will also depend on other factors including but not limited to product category and brand sales mix.

Adjusted gross margin decreased to a negative CAD 0.7 million compared to a positive Q2 2020 gross margin of CAD 8.4 million, largely due to lower net revenue as described above and value segment offerings comprising a larger proportion of total revenue in Q2 2021.

Negative IFRS gross margin of CAD 17.2 million declined from a positive gross margin of CAD 11.3 million, largely due to lower net revenue and higher cost of sales as just described, as well as the net non-cash fair value changes to biological assets and inventories sold and other charges in Q2 2021 versus positive changes in the prior year's quarter.

Q2 2021 SG&A excluding non-cash share based compensation decreased to CAD 11.1 million from CAD 14 million in Q2 2020, largely due to higher professional and consulting fees in the prior year's quarter related to project specific work including the launch of Rec 2.0 products.

Q3 2021 SG&A is expected to be higher than Q2 2021 largely due to an increasing staffing related to the EIC and BAT transactions. The net loss of CAD 66.4 million or negative CAD 0.29 per share on a diluted basis during the quarter compared to a net loss of CAD 6.8 million or negative CAD 0.04 per share in the prior year quarter was primarily due to the current period's negative change of CAD 37.7 million in the fair value of the derivative warrant liabilities and the negative gross margin.

That concludes my remarks, so I'll pass the call back to Greg.

Gregory Engel

Chief Executive Officer & Director, OrganiGram Holdings, Inc.

Thanks, Derrick. After a 13% decline from 2020 to February 2021, Rec retail sales rebounded in March. According to Hifyre data, a widely used digital retail platform that tracks and estimates national retail sales. March recreational sales reached an all-time high of CAD 305 million, implying an annualized run rate of CAD 3.7 billion. Retail stores continue to open with Ontario driving the growth and targeting the 1,000 stores opened in the province by the end of the summer. Since July, the store count in the provinces grew by 87% to just over 1,790 stores currently driven by Ontario growing 468% to nearly 580 stores.

In the mid-February, Ontario announced it is authorizing 20 to 30 stores per week or up to 120 per month. Longer term, the Brightfield Group estimates Canadian adult Rec sales closer to CAD 8 billion by 2026; other analyst have estimated as high as CAD 10 billion by that timeframe. This is expected to be driven by retail store footprint expansion and the introduction of new product formats and there is room for more upside depending on regulatory amendments starting with the mandatory review of the Cannabis Act, which starts in October of this year.

In closing, we are laser focused on operational execution to drive top line growth and greater economies of scale and cost efficiencies. Our team is benefiting from increased staffing and expects to leverage the experienced leadership, technical capabilities and resources obtained via the recent BAT and EIC transactions. And of course, we are investing in the future of innovative cannabis products for the long term competitive advantage in the industry. We are doing all this against the backdrop of solid industry growth and one of the strongest balance sheets in the company's history.

So, that concludes my prepared remarks. Operator, if you would like to go ahead and open up the line for questions.

QUESTION AND ANSWER SECTION

Operator: Thank you [Operator Instructions] Our first question comes from the line of Andrew Partheniou with Stifel. Your line is open.

Andrew Partheniou
Analyst, Stifel GMP

Q

Hi, thanks for taking my question. Maybe just to start off with, you have a strong balance sheet you guys recently announced the acquisition of EIC and strengthening your edibles offering. Do you see any more white space in Canada, and if not, could you also provide a little bit of color on your international expansion strategy, just trying to get a sense of what are your focus and priorities on deploying this cash?

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

A

Yeah, Andrew. Thanks. It's Greg here, I'll take the question. So, certainly, as you saw and mentioned our EIC acquisition was really about entering the category with kind of – an entry point with a proven operator that has potential to really scale up and prove the proven ability to produce very high quality products and get those to market in the near term.

I think when we look at other white space for us as an organization I mentioned earlier in the call, we're not playing in and participating in some of the concentrates areas or some of the more advanced products. So, certainly our hydrocarbon extraction equipment, which has been delayed in terms of getting it fully operational due to some of the certification processes, but we do expect in Q4 to have the hydrocarbon extraction equipment up and running and being able to begin production of those products. So, again, that's a category we're not playing in today.

I think we as a company are very focused on continue to drive and improve the quality of our flower in the facility, and as you can see from the recent launches and if you look at the reviews online there is improvements there. We still are contemplating how do we play in the ultra-premium area, which is an area that we're not participating in, but we certainly are seeing the strength of our flower production and the new cultivars we're bringing to market continuing to improve and drive kind of responses there. So, that may be one area we would continue to look at as how do we continue to expand into that area.

I think on the international front, we've been vocal before and open about the fact that we continue to look at primarily the CBD market in the near term because that is a more larger, more addressable market even with our collaboration and product development collaboration with BAT, the initial focus on products is on CBD based products because it's a larger global addressable market, whether or not that's in the US or in Europe or elsewhere.

With THC markets, we have been exporting to Australia for a few years now and we are working towards recertification to be able to export into Australia, which also has the potential to serve as an entry point through Canndoc in Australia into other markets. So, I think as we kind of work through that process it will give us an opportunity for continued growth in the international sales market potentially without certification.

Andrew Partheniou
Analyst, Stifel GMP

Q

Thanks for that additional color. And maybe just switching gears and talking about your outlook, you guys already mentioned next quarter revenue should be up versus this quarter. Absent any kind of COVID risks, further shutdowns of your facility and things like that, is it possible to give any kind of indication as of magnitude of what you could expect, maybe tying into the recent SKU launches and more SKU launches that you guys are planning to do in the quarter? Should we be thinking about Q3 returning to Q1 levels or potentially Q4 levels? Any kind of further color would be very useful.

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

A

Thank you. I guess, I'll answer it by saying, I mean as you said Andrew, we do expect revenue to be higher in Q3 over Q2 and there are a number of risk factors, which you outlined, some of them certainly COVID related and/or even the state of emergency we have seen in Ontario and the impact that could have and we could see that roll into other provinces. I think it's – we're not in a position to give guidance on what that quarter is going to look like fulsomely, but I think the key things for us is as you said, great response to our new genetics that we've seen. We've got 31 new SKUs launching before the end of this quarter. We have seen the market growth kind of bouncing back up in March based on the Hifyre data and I think we've ramped up operations. I think our biggest challenge in Q2 was a combination of not enough supply or not enough processing capacity to respond to the response from the market. So, we did leave significant revenue on the table as Derrick outlined.

So, ramping up production and ramping up processing staff and our packaging ability is one of the key aspects for us, and I think I mentioned this slightly we are focused on operational efficiency. So, some of the key things that are really improving for us is our packaging costs on a per unit basis for many of the products have gone down. I've mentioned on our previous earnings call, for example, that with the automation and pre-roll equipment that we have, we went down from 20, 22 operators to 5 staff kind of running that line, with a consistent constant output. And things like that will help margin overall, but it also improves the top line because you're able to significantly increase the product availability for that market segment, which allowed us again to launch the 14 Jar of Joints under the SHRED brand, which has been extremely well received.

Andrew Partheniou
Analyst, Stifel GMP

Q

Thanks for taking my questions. I'll get back in the queue.

Operator: Your next question comes from the line of David Kideckel with ATB Capital Markets. Your line is open.

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

Q

Hi. Good morning. Thanks for taking my questions. I just want to go back Greg, and team for a second with the CAD 7 million in unfulfilled demand just due to the COVID closures. I'm just wondering if you good provide us any color with respect to what that demand was for, for example, was it 1.0 products, 2.0 products. And if 2.0 what product segment was that in? And also what measures do you think you can take so as to prevent something like this again, especially given we're already month and a half into Q3? Thanks.

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

A

Yeah. I mean I can answer – I mean it was predominantly 1.0 products in terms of – so again, it was a combination of reduced staffing and/or the shutdowns, because it wasn't just the shutdown at the facility for a couple of days. In both instances there were significant staff that had to self-isolate for up to 14 days right, but it was predominantly 1.0 products. There were some 2.0 products, in the demand there.

I think, for us I would say we have put very strong and stringent measures in place. And I think one of the key aspects of, one of the cases for example was identified by us in our screening, right, and we're – that individual to be tested, and went and got tested, and was pretty asymptomatic. And I think, again, we're working closely with the provincial government in New Brunswick and our facility, and collaborate, and we immediately took it upon ourselves to do a thorough deep clean of the facility, and a testament to our staff to, it wasn't just cleaning sanitation staff that were part of that. We had levels of management and a lot of volunteers helping out with that, that people said, let's get this done as quickly as possible, so then get reopened. So preventing – going forward, we are very confident in our own activities. We certainly have no reason to believe nor does the province have any reason to believe these cases were linked to the facility. They just happened to be individuals that work there, and more than likely contracted COVID out in the marketplace.

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

Q

Okay. Thanks that's very helpful. Thanks again for the color. Moving along as well, I think Greg you mentioned in your prepared remarks with your early investments into the biosynthesis play here. I'm just wondering especially with the investment now from BAT, are you able to provide any sort of general color with respect to what products, or category of products you expect biosynthesis to play in for Organigram? And any indication of timing when that can occur especially just given to Derrick's remarks with net selling price going down even further this quarter? Thank you.

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

A

Yeah. David, it's a good question. I know you spend a lot of time on biosynthesis. So, I think when we look at that market potential and the segmentation, I mean you have to look at it two ways. As we've outlined before there is major cannabinoid production, and doing that at a large scale for CBD, or THC, or different versions of those two major cannabinoids. I think that as well as the potential for minor cannabinoids as a key driver in our investment, certainly was one of the reasons that BAT, one of the many reasons that BAT was excited and interested in this collaboration agreement, was that, we're one of only two cannabis companies to really be at the forefront of investing there.

And I think when we look at the novel minor cannabinoids, I think that is the one where future products where you can bring those novel cannabinoids into product mixes for both medical, and recreational use, I think it's going to be the exciting part. So – and again, when we talked about the collaboration, and under the CoE, a big part of that collaboration is product development, and making sure that those products are tested at a very high level or went to a very high standard, and I think that's going to be important. So, you'd have to speak to highest interaction directly to get an indication of kind of their timing, and plan, but we're certainly optimistic in the future that we'll see both potential for major cannabinoids, but more importantly minor cannabinoids that could be utilized in some of these products.

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

Q

Okay. That's very helpful. Congrats again on the quarter. I'll hop back in the queue. Thanks.

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

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

Q

Good morning. Thanks for the question. First is, I wanted to go back to on the production side. So, Greg, you talked about this number of quarters ago where the company has been doing a pivot to change what you've been growing, so it's more in line with consumer demand. So, I'm just wondering first where the company is at with respect to climbing up those learning curve of these new strains strength because we're sort of continuing to see inventory provisions, I think that was last quarter, and now there is additional this quarter. So, I was just trying to understand is that a result of you're still going up the learning curve of these new strains, and will these right downs continue?

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

A

Thanks, Tamy for the question. I'll start off and then maybe turn to Derrick to answer part of the question. So, the majority of inventory provisions were related to – when you think on the product side were related to extract, and/or extractable material, right. We've got sufficient inventory of extract that carries us out for a significant amount of time going forward based on that demand on 2.0 products at this point, although again, with hydrocarbon will produce uniquely new products in the future, and there was certainly packaging, and even some vape hardware that was part of those provisions.

So, certainly, always including provisions it's – discounts that are taken with the provincial boards if something is a slow moving SKU, and one of the things I outlined in our prepared remarks was that we've been very active in working with the provincial boards to ensure we don't get into return situation looking to A, reduce the SKU, average selling price if it's not moving, and then more importantly for us transition and put that SKU to a newer product. So – and the last element of it is the – there is some R&D work that happens, so certainly as part of the growing process you're going – to get to three star strains or five star strains, you're producing 15 or 20, so you do have some losses, that's not a significant number, but I think very optimistic with what we're seeing, and very good numbers in terms of A, what we're seeing from a production capacity perspective. As Derrick indicated, when we look at where we were two quarters ago, we were only producing kind of on average in about 40% of our rooms. We're now at 67%, so we've increased production capacity significantly. And we are seeing no question, better yields, better THC numbers coming out. So, we expect to see good progress. Derrick, I don't know if you want to add any color to that?

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

A

I guess the only thing I would add to what Derrick has outlined would be that when we look at our overall carrying value of inventory, we have to take a look at each [indiscernible] (00:37:40) and utilize the latest pricing in the market price, as well, and that considers the markets pivot more towards value from mainstream pricing, and apply some of that lowered pricing against the existing carrying value of the inventory that are valued at fair value. It does end up with a non-cash carrying value adjustment that's required, and that's also embedded into the number that negatively impacted the quarter, which would be the only item in addition to what Greg has already outlined.

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

Q

Okay, thanks. Any my follow up is I'm wondering if you could talk a bit about the – your different brands in flower, primarily between Edison and SHRED. Are you seeing over the last [indiscernible] (00:38:40) and now are you seeing more velocity, more demand on the value side for your SHRED products, or are you seeing some more relative velocity, and more traction on – the more mass premium products like your Edison brands? Thank you.

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

A

Yeah, Tamy. It's a good question. So, certainly one of our challenges, SHRED has been an extremely successful launch for us as I indicated. Number one searched product or brand on the OCS website for five months in a row, so the demand is there. We have not been able to fulfill the demand for it, because of the demand being so much higher than we had expected, although, again, we did launch the SHRED Jar of Joints as a way to kind of supplement that as well. So, certainly, demand is very high there. I don't know what the capital on the demand is, because we're not. We've have not been able to consistently supply that historically.

On Edison that is where we're continuing to improve, and increase our product mix with the new, the three new indicators I mentioned earlier in getting new products to market. We've got another three new products coming up in the quarter in terms of new strains. And I think we are seeing. Again, it's when you get the product out in the market, there is good demand. So, for example, one of our strains in that mix is Black Cherry Punch. There is a few other companies that have Black Cherry Punches, but our Edison Black Cherry Punch outsells them from the data that I have seen. So, there is strong demand there.

And I think by launching recently Indi, which is an Indica focused brand. It diversifies our brand portfolio a little bit in terms of specifically saying, going forward this is going to be kind of an Indica brand. And I think, again, our challenge has been, it's been an inability to fulfill in part because of the production levels and – what we are growing because as you know it takes 12 to 16 weeks of the growth cycle, and then another month to get product processed, and off the door, so when you make a decision to pivot, it doesn't have an immediate impact. So, again, we are seeing continued demand, and as outlined, a big part of those missed POs was simply not having either the product, or the ability to process it, but we've made big changes in our facility, on operational efficiency to really improve our packaging throughput. We are continuing add in automation on some of the areas with minimal investments to improving lives.

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

Q

Got it. Thank you.

Operator: Your next question comes from the line of John Zamparo with CIBC. Your line is open.

John Zamparo
Analyst, CIBC World Markets, Inc.

Q

Thanks. Good morning. I wanted to ask about the recent EIC deal, and just would like to get a sense of what you think the reason is that edibles in the category is larger than it is currently? And assuming that part of the reason is regulatory restrictions on potency or quantity, however you want to describe it. Is there any reason you would expect Health Canada to liberalize regulations on edibles as part of the upcoming mandatory review?

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

A

Yeah. John, it's a good question. I think initially or for certainly a part of the – since 2.0 has been launched, it feels like part of the lower revenue versus a comparative state data. But certainly, and so – but that's caught up. Certainly there is a good supply and a good brand, mix of products. So, I think, again, still like any other category there is a different quality of products there and consumers make choice over time. And it's one of the reasons we're very excited about the EIC is we're confident in the quality of the product they're going to produce, and be able to produce it at a very low cost based on the equipment they have, and the proven history of manufacturing.

But to your point, how do we. If US state data is 12% to 15%, and Canadian data is just over 4%, how do we improve that? I think one of the key drivers has to be this change to get away from the 10 milligram maximum per package. I think in the marketplace one of the important things is going to be as well is better differentiation between the products, right. Many of the products that we've seen to date are very similar in terms of the quality, and the experience for consumers have to continue to evolve and if you go into a Canadian retail store versus a US dispensary, the diversity of products is extremely different there. So, I think it's a combination of the packaging limitation. I think it's a combination of this kind of limited scope of some of the products. Many of them are kind of me-too type products. And again, our investment in EIC is one where we believe it has potential to produce some very differentiated products based on the type of proven confectionary products. We've already seen test runs with the equipment to understand what the equipment can do, and produce, and it's a pretty diverse range of products, so we're excited about it.

John Zamparo
Analyst, CIBC World Markets, Inc.

Q

Okay. That's helpful. Thanks. And then, my second question is on the margin side. And I'd just like to better understand the expectations for margin expansion, and certainly increased utilization seems like a positive driver, but if we think about SHRED being a bigger proportion of your flower revenues and you're leaning more into 2.0. That category hasn't been the margin driver, some in the industry thought it would be, probably needs more startup costs in the near term. So, should we interpret the commentary on improved margins to be more likely as a longer term development rather than something we'll see over the next 12 months?

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

A

Yeah. John, maybe I'll get Derrick to answer that question.

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

A

Yeah. I would say generally that margins is a – we expect to see gradual improvements over time with the long term look. One of the things that did occur during the quarter is that we have lowered our production cost in terms of the dollar per gram to create the flower, and flower is still the largest product category, and most of those costs would then be into our inventory, and so as we sell it during Q3 that would – it relates to that component by decreasing our current run rate production costs, we would achieve a level of savings. But I would note that the amount of our margin will be dependent on product categories and brands and sales mix. And we are focused on continuing to ensure that we can place as much product as we can into higher margin areas and while we're also focused on improving our cost inefficiencies at the facilities, so that we can continue to achieve lower cost per unit metrics that we achieved in Q2.

John Zamparo
Analyst, CIBC World Markets, Inc.

Q

Excellent. Thank you very much.

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

Madeleine Stone
Analyst, Oppenheimer & Co., Inc.

Q

Hi, good morning. This is actually Madeleine Stone on for Rupesh. Thanks for taking our question. So, just first in terms of industry headwinds out there, so how long do you currently see some of these COVID-19 related industry headwinds lasting?

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

A

Yeah, Madeleine, it's a tough question to answer. I mean certainly Canada is in the midst of a third wave right now and certainly we're seeing Ontario, Québec, Alberta, BC, Manitoba in particular being hit hard and then we're seeing the kind of stay-at-home orders and restrictions. So, on one hand though we did see during the previous shutdown, I mean cannabis is – cannabis stores have been allowed to remain open for curbside pickup and local delivery, click-and-collect type and certainly it did blunt, we believe, some of the sales and maybe shifted more sales to the online purchases as well. But without that in-store experience some consumers may have reduced their purchasing habits at this point as far as we know, for example, in Ontario there are still more than three weeks to go on that existing stay at home order. I think this is more of a larger question. I mean Canada is accelerating its vaccination programs and was far behind many other parts of the world, but so – and more recently is in a catch up. So as that starts to improve, we would expect at some point this summer to – things to start to return to some level of normalcy, but I mean the focus right now is just on blunting or reducing the current third wave that is hitting many parts of Canada so.

Madeleine Stone
Analyst, Oppenheimer & Co., Inc.

Q

Okay. Great, that's helpful. And then just shifting gears to the EIC acquisition. So, how should we think about the near term revenue opportunity for the business? And then just anything else you can share for longer term margin dynamics of the acquisition such as accretion or anything like that, that would be great.

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

A

Yeah. I mean certainly we look at EIC, it has two levels of manufacturing equipment, one is more craft focus and another is large scale production capacity. And again, part of our rationale for this acquisition is that we see that versus what we have seen in the market to-date with soft chews in particular, but other categories in confection that – the amount of throughput and the automation that's there, is very high. So that definitely the ability to produce product at low cost, so I think certainly you're going to see some unique and interesting products come out of EIC hopefully in our Q4 this year. Again, that is dependent upon licensing and commissioning of equipment and everything. But certainly we do expect them to be strong in terms of what their cost of goods is going to be relative to the competition, the thing you can't control is the market dynamic in terms of where pricing is.

So, we're excited about EIC, it's why we made the investment, we certainly think that they're going to be able to do things that the majority of other companies cannot do from a costing basis and a consistency basis. So, that should definitely be a big contributor to how that product contribution looks like.

Madeleine Stone
Analyst, Oppenheimer & Co., Inc.

Q

Okay, great. That's helpful. Thanks so much. I'll pass it on.

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

Aaron Grey
Analyst, Alliance Global Partners Corp.

Q

Hi, good morning, and thanks for the question. So, quickly, just given the drop in the average price per gram and a higher mix from SHRED that that's attributable to, I was just wondering if you had any kind of goal in terms of the mix value of your portfolio and what you expect it to be kind of going forward whether or not you look for that to be more in line with the industry, below the industry, because you did speak to demand for SHRED still remaining very high, so just curious as to how that plays into your own cultivation plans and thinking about flower that's coming out in the next two months because you've also mentioned kind of the desire for more high-THC Edison products to be coming out too. Thanks.

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

A

Yeah, our goal, Aaron, and thanks for the question, is very much to continue to drive more higher-THC product, higher differentiated product in terms of new and interesting strains or are kind of the star strains that have had good response in the marketplace, and SHRED was really created as a way, there was a white space there and certainly in terms of the marketplace where we had seen some blends in the past, but they weren't curated and we look at SHRED being kind of curated where unique mix of two strains to get up with a premium flavor profile, and again the demand is very, very high and strong.

Ultimately we are – our production is shifting more and more to the higher-THC and higher margin products with Edison, as Derrick alluded to earlier, and I think it's important for us because there is strong market demand there, there is strong demand not only in Canada, but internationally and even B2B in Canada because we've seen it recently for example, with the announced acquisition of Supreme by Canopy where Canopy in the past has shuttered numerous facilities, so they're not – my assumption certainly is that the purchase wasn't based on cultivation capacity, it was based on improved higher-quality product in terms of how product has perceived. And I think we have the advantage with our Edmonton facility and the way it's designed to continue to kind of drive and improve the quality of what we're producing whereas as we've seen, I guess, at least in this one case where a company has had to go out and do an acquisition to backfill some of their own production capacity.

Aaron Grey
Analyst, Alliance Global Partners Corp.

Q

Okay, great, thanks. That's helpful. And then, second one from me is just on the expected return of shipments to Canndoc. I think you expect in the fourth quarter of the fiscal year, just wanted to get your take on kind of how to expect sales rev, do you still expect to be lumpy on a quarter to quarter basis, or how should we kind of look at the growth of those sales internationally for Israel? Thanks.

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

A

Yeah, Aaron, it's still tough to predict, I mean certainly of the initial shipment that we made to Israel, two of the three strains sold out within a matter of weeks, very quickly, so very good response and they were ready to purchase, certainly make additional repurchases pretty quickly after those first shipments went out. So – but understanding there is a process with import permits from Israel and export permits being issued by Health Canada, but the demand is there, and certainly, it's first of all getting through with CUMCS, the GAP certification process, so that we're able to begin importing to Israel again, and then again getting through the process for every shipment because you do have to kind of go through it each shipment.

But we certainly expect to return, at this point, by the end of Q4, to shipping again based on product availability to shipping there and it's going to depend – the market response has been very strong to our products in Israel and I think Canndoc is very excited to get our products back in inventory. We're not the only supplier, but we are the only indoor supplier for them and they've certainly noted that that's a big differential in quality in the market in terms of the consumer response.

Aaron Grey
Analyst, Alliance Global Partners Corp.

Q

Okay, great. Thanks.

Operator: Your next question comes from the line of Graeme Kreindler with Eight Capital. Your line is open.

Graeme Kreindler
Analyst, Eight Capital

Q

Hi, good morning, and thank you for taking my question. Greg, I wanted to follow up on your comments earlier about M&A and there has been a number of your competitors turning to M&A to drive growth and consolidate market share, I'm wondering if that's been a strategic consideration for Organigram, clearly as it's a very difficult landscape to drive incremental share in adult use impacted by both the competitor and provincial level. But there is a lot of initiatives going on to rebalance the product portfolio and cater to consumer needs, but I'm wondering just the general consolidation of that market share is something where you see an opportunity to consolidate some share in the adult use market there? Thank you very much guys.

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

A

Yeah, Graeme, I think when we look at the marketplace, again it's been key for us is – again, as I've talked about on the call and previously as – continue to improve our quality and hitting the product specs and getting the product out the door, that the market demand is there. I think one of the things we've done and to look to expand with the recent launch of Indi is to expand our own brands in-house, so that we can target a different consumer with that.

I think that certainly we are always open to looking at M&A and when we look at targets for ourselves, I mean as you saw with EIC, we focus on two things one is, is there kind of innovation and technology or something unique that comes with it or secondly, as in any consumer packaged goods area if – co-acquiring brands, which we've have seen Canopy do with what both their acquisitions recently has been more of a brand play. And I think that's something you need to be open to. Are there strong brands out there? I think – 7ACRES is a relatively strong brand, so that was an acquisition that made sense, but there is not a lot of them out there, which is the challenge right when you look at consolidation targets, I mean there is a couple that could be of interest, but at this time they are not necessarily interested in discussion. So, I think it's something you need to always be evaluating because if you can expand through innovation, technology or acquire brands it really resonate with consumers, so those are the two key things that we focus on.

Graeme Kreindler
Analyst, Eight Capital

Q

Okay, understood. Appreciate the color there. Then as a follow-up based on your comments on brand and creating the products that consumer wants, when we think about the CBD market, which is going to be the focus of initial product launches with the BAT deal, now that's a highly competitive market where there is thousands of brands and regulations can make it difficult to get Tier 1 shelf space, when looking at the market on a global scale. So, I'm wondering if the strategic plan to launch products in that market has any expectation of some sort of regulatory reform or is there something that you think present a bit of a challenge in the near-term and it's more of a longer-term opportunity there? Thank you.

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

A

Yeah. Graeme, it's a great question. I think both ourselves and BAT, I mean our perspective and the reason and I stated it repeatedly, the reason we're investing heavily in the Center of Excellence on product development is that we believe there are going to be new standards right, for example, if you look at the US market today, very limited regulations on the CBD right, there are limitations on what you can source the product from, so it has to be hemp with THC less than 0.03 and there are limitations on health claims that you can't make and the FDA is going after people for making health claims, but beyond that there is very little or no restrictions or oversight.

We do expect there to be a regulatory regime on CBD products in the future. And I think it's important that when you're developing CBD products, that you develop them to rigor that the current products are not developed to, right. And I think that's one of the key aspects from an investment in our marketplaces. CBD is metabolized in the liver. So, it's not without potential effects. And so, yeah, I think it's important that through this collaboration and the way we operate that we – our goal is to set new standards, right and be at a level above, and I think that's where there's a competitive advantage that we will have with the products that are developed through this collaboration is that they're going to go through more rigor and at a higher standard that competitors can meet.

And then, it's not if, but when stricter regulations come into place, these products are, meet the standards that are required, and it could put other companies and this very wide range of products are on market today into a difficult situation. And that carries over to Canada when we expect new regulations are going to happen here. In Europe, there is movement towards some changes as well. So, I think it's important when you think globally in terms of CBD market about setting the standard and being a leader there.

Graeme Kreindler
Analyst, Eight Capital

Q

Understood. Appreciate the color. Thank you very much.

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

Rahul Sarugaser
Analyst, Raymond James Ltd.

Q

Morning, Greg, Derrick, Amy. Thanks so much for taking our questions. So, I'd like to focus on the BAT partnership, given Organigram's strength in the edible segment of the markets and accompanying that doubling down on the segment with the acquisition of EIC, I guess there's a bit of asymmetry with BAT, which is probably fair to assume it's more innovation focused, so I wanted to ask whether the IP sharing deal would potentially benefit both sides, the edible and the in-house inhalable format?

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

A

Yeah. So, again, we did disclose in our announcement that the focus of the product types is both on vapor and oral, and oral is a pretty broad category. It doesn't – it's not just, you know it could be, again, I'm not, I can't – I'm not in a position to disclose all the products specifically. But you think of oral consumption, whether that's edible or a tincture or it's an oral mucosal, oral buccal form. So, there is a pretty comprehensive list of potential products there. So, both parties, including – we did contribute intellectual property into this as well. So, it's kind of a pretty broad product development agreement.

Rahul Sarugaser
Analyst, Raymond James Ltd.

Q

Terrific, thanks very much. And so, further to the BAT and their channels, will there be any opportunity for Organigram to leverage BAT's distribution? Particularly with massive international channels, as you begin to broaden your footprint outside of Canada. Also, given the other partnerships that we see in the space do leverage the distribution networks of their partners.

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

A

Yeah, so at this point, the collaboration does not contemplate that necessarily. Each party is both ourselves and BAT are – have an ability to commercialize and launch all of or any of the products that are developed through the collaboration under our own brands in any markets. They can be even sublicensed to some degree with some restrictions in those markets. So, that – at this point that's not what the collaboration is focused on, it's really focused on the product development side of things.

Rahul Sarugaser
Analyst, Raymond James Ltd.

Q

Terrific. Thanks very much. I will get back in the queue.

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

A

Thanks, Rahul.

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

Douglas Miehm
Analyst, RBC Dominion Securities, Inc.

Q

Yes. Morning, Greg. Just a quick question with respect to the strategy going more up-markets better strains and those sorts of things. We're hearing the same thing from almost every single company out there, can you tell us how you're going to be able to differentiate yourself? And if you think there is going to be any pricing pressure as people, all start to move in that direction. It's not so much that this market is going to change overnight, but it seems that within the next quarter or two people are going to have multiple strains available in this marketplace.

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

A

Yeah. It's a good question. And again, I would point to the Canopy acquisition of Supreme right where companies are focusing on it. They are looking to do it, but they may not with their in-house capabilities be able to do it. I mean, if we look at, some of our peers who've closed facilities, the reason they've closed those facilities is they were not either cost efficient or more importantly they weren't capable of producing other products in that range, right.

So, I think that's an advantage of our facility and again, a key part of – it's not just the facility, it's the staff and the people we have overseeing things, but it's also been the genetic acquisition, right. I mean getting access with once the nursery programs were open, these licenses has allowed us to really obtain a very deep bank of genetics and also bring back some of the genetics we have in our own reserve to market and work on the conditions for them.

So, while a lot of companies might be indicating they're moving in that direction, we have not seen that from some companies as of yet. And I think, again, we're certainly optimistic based on the data we're seeing right now in the products we're growing and what's coming off harvest that we have new products up into those categories. So, people are talking about it, but I'm not sure everyone is able to execute on it, Doug.

Douglas Miehm
Analyst, RBC Dominion Securities, Inc.

Q

Okay. That's fine. And then with respect to that CAD 7 billion, maybe you answered this already, but what was the breakdown? Was it the primarily SHRED or what did you miss out specifically on?

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

A

We wouldn't give a full breakdown on it. But I mean, certainly, you could imagine that value products because they have made up a significant portion of our revenue was a significant part of it, but it was also demand for Edison strains and new products and some of our 2.0 products as well. So, it was a mix and certainly, again, as I said it was a combination of what product was available, but also the processing and packaging capacity with some of the impacts we had from COVID staffing reductions.

Douglas Miehm
Analyst, RBC Dominion Securities, Inc.

Q

All right, thanks.

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

A

Great. Thanks, Doug.

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

Matt Bottomley
Analyst, Canaccord Genuity Corp.

Q

Good morning all. I just wanted to go back to that CAD 7 million that Doug was just talking about. With the respect to, I guess relationships with the provinces and the ability to carve out additional market share in these various SKUs. Are there any near term implications for not being able to fill certain orders, as I know there is a very strict fulfillment policy that many of the provinces particularly Ontario have. So, just any color on how that may or may not impact relationships with these buyers?

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

A

Yeah. So, I think first of all, I will start off and answer the question, Matt that, we and our sales team have very strong relationships with the provincial boards. And I think, when we talk about missed opportunities here, certainly and what you're alluding to is Ontario and Alberta in particular that have – and Ontario is implementing very strict kind of guidelines in terms of listings. You've got to manage that relationship and manage against future. So, the way that works in a couple of provinces, is you kind of getting a rolling PO within a window and you have to fulfill within the timeline. So, when you talk about missing it, part of that miss happened in the quarter, part of it would've rolled into the next quarter, right. So, it's not necessarily – but again, it was issued in and was, we couldn't fulfill it in the quarter if we had the product available at that time.

So, I think we're not concerned at this point. I think we've done an excellent job. Our sales team transitioning out, slower selling SKUs for new listings and new SKUs, and I think that's critical. But again, as you say it's going to be even more important going forward with the fulfillment demands that you focus on what your core listings are and make sure that you're hitting those numbers, right. So, it is a shift for the industry, it's a shift for the company. And to be honest, it may have a detrimental effect on – across the industry on some of the other provinces, as people are rushing to fulfill Ontario because of penalties that are there, not that other provinces don't also have kind of commitment levels, but just one thing in general trend in the industry to be cognizant of.

Matt Bottomley
Analyst, Canaccord Genuity Corp.

Q

Great, that's helpful. And then, just one more question for me on sort of market share. And just tying back to some of your comments, you mentioned that the, I guess pool of brands to be purchased, like a Supreme or like something else that you've seen isn't as deep where there'd be sort of mass M&A expected in the near term just for brands. So, if you kind of look at where your market share is today, and how much growth is left in the sector, which is still quite a bit, but we are, like you said, I think CAD 3 billion plus on a run rate. What's the best way to, in your view to gain that incremental share, if not through M&A? Obviously, you guys are focused a lot on the edibles and chews, and maybe that's an undersized proportion of the market today versus where it is at maturity. But just any color that ex-M&A, how market share can be gained in your view in the coming months and quarters?

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

A

Yeah. I think it stems down to three key things, Matt. One is, continuing to focus on improving the quality and the product offerings that you have, right, just in terms of what the consumer demand is. I mean you can spend five minutes on Reddit and see what the comments people are making on product reviews and they are consistently regardless if it's flower or a pre-roll or an edible. It's about quality. So, companies – and we're very much focused on improving that quality.

I think, the second is diversifying your own in-house brands. As I said recently we launched Indi and we have a select target group of consumers that, that product is targeted for. SHRED was a new launch for us. And I think, as you continue to look at how do you diversify and really do more targeted segmentation for consumers. And, so far, again, with those product launches we've seen good response, and so that's another way to grow organically.

And I think, the third is still, and I mentioned this a few times is just innovation, right. Bringing new innovative products. We're very excited about EIC acquisition in terms of some of the products and the product quality we can bring to the market because as I said what you see today in the soft chews for example is, majority of the products are quite similar and we're excited about bringing some unique and innovative products to market through EIC and in the more mid-term products through the collaboration with BAT and that's going to be important as the market evolves, so.

Matt Bottomley
Analyst, Canaccord Genuity Corp. Q

Great. Thank you, Greg.

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