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OrganiGram Holdings, Inc. (OGI.CA)

Business Update Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning. My name is Tabitha and I will be your operator today. At this time, I would like to welcome everyone to the Organigram Holdings Inc.'s Product Development Collaboration and Strategic Investment 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 any 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, Investor Relations. Please go ahead.

Amy Schwalm

Vice President-Investor Relations, OrganiGram Holdings, Inc.

Thanks, Tabitha. Organigram and BAT both issued press releases this morning. The OGI press release, along with the slide deck, are available on the Investor Relations section of our website. Joining me on the call are Organigram's Chief Executive Officer, Greg Engel; and our Chief Strategy Officer, Paolo De Luca.

Per slide 2, I'd like to remind you that our discussion during the call today will include forward-looking statements that are based on assumptions, subject to risks and uncertainties that could cause actual results to differ materially from those projected in the forward-looking statements. Management can give no assurance that any

forward-looking statement will prove to be correct. We refer you to the cautionary statement and risk factors included in our disclosures, including today's press release.

I will now hand the call over to Greg.

Gregory Engel

Chief Executive Officer & Director, OrganiGram Holdings, Inc.

Thanks, Amy, and good morning, everyone. We're thrilled to announce this collaboration with BAT, which validates the strength of our cannabis platform and which we expect to significantly accelerate and strengthen our research and product development activities, and ultimately, bring some of the most innovative and differentiated products to market.

Starting on slide 3 with a brief snapshot of Organigram for those participants on the call that are less familiar with us, we're a leading Canadian licensed producer of high quality cannabis from our state-of-the-art indoor facility in Moncton, New Brunswick. We sell to all 10 Canadian provinces and serve the Australian and Israeli medical cannabis markets via export under their medical systems, and are looking to expand our international footprint. Our company has been focused on automation, technology and innovation, and this collaboration with BAT takes our commitment into a new level.

Turning to slide 4, we'll highlight some of our more recent accomplishments. We have a comprehensive portfolio of products and brands and are in the midst of revitalizing our offerings and with some good success. For example, our newer SHRED value brand has been the number one most searched brand for the last four months on the Ontario Cannabis Store website, Canada's largest sales channel. We grew gross adult rec revenue 42% year-on-year and 14% sequentially in Q1 fiscal 2021, our most recent reported quarter.

We also generated positive cash flow from operations in Q1 fiscal 2021, the second quarter of the last three with positive operating cash flow. We are currently ramping staffing and production capacity to capture more sales opportunities and economies of scale as the market continues to grow with new retail stores opening across Canada.

Turning to slide 5, I briefly want to touch on some key examples of our commitment to innovation and R&D before getting into discussions about today's announcement. Organigram's internal R&D team developed a proprietary nano-emulsification technology which resulted in the commercialization and launch of our Edison RE:MIX dissolvable powdered beverage. This technology offers improved absorption compared to traditional edibles and beverages.

Another reflection of our dedication to innovation and the development of future cannabis products is our investment in biosynthesis. We are one of only two cannabis producers invested in biosynthesis through our investment in Hyasynth, a biotech company in Montreal and leader in cannabinoid science. Hyasynth has submitted patent applications on the production of minor/rare cannabinoids, which traditional cultivation can be too cost prohibitive [ph] if it exists (04:22) in very lower levels in the plants. Minor cannabinoids are believed to be the next frontier of cannabis research and novel cannabis product development.

So, moving to slide 6 and onto our announcement for today, so there are two principal elements to our announcement, a strategic investment of approximately CAD 221 million or \$175 million by a subsidiary of BAT for 19.9% equity interest in OGI; and two, a Product Development Collaboration Agreement or PDC Agreement, which includes the formation of a Center of Excellence to develop the next generation of cannabis products, IP and technologies. The strategic rationale for the transaction is threefold. It accelerates and strengthens our

research and product development activities, raises significant capital for growth opportunities, and gives us access to BAT's expertise.

Let me discuss each matter in a little more detail. First, in terms of strengthening our R&D activities, the Center of Excellence means we will closely collaborate with BAT, a leading global consumer business on the development of innovative and differentiated cannabis products, IP and technologies. The significant injection of capital from them also enables us to further invest in our own R&D and product development activities. Second, the transaction provides us with significant capital to invest in growth opportunities, including entering the United States and other international markets at the right time and in accordance with applicable laws.

Upon closing, we will have pro forma cash and short-term investments of approximately CAD 296 million or \$235 million. About CAD 30 million or \$24 million of this amount will be reserved for OGI's obligations under the PDC Agreement, and the balance can be invested in growth, including advancing our international strategy.

We will be granted a worldwide royalty-free sub-licensable, perpetual license to exploit IP developed under the PDC in any field. This license, which is a non-exclusive outside of Canada and sole in Canada, will also enhance our ability to enter international markets, including through sublicensing arrangements with established operators.

Third, the transaction allows us to leverage BAT's expertise for our wider operations through the Center of Excellence and BAT's representation on our board of directors. We will have direct access to BAT's expertise through the Center of Excellence, including scientists, researchers and product developers, as well as the members of the steering committee which will oversee the Center of Excellence.

BAT is also entitled to add two board members to our board of directors. Today, we announced the addition of one BAT nominee, Mr. Jeyan Heper, and another nominee is expected to be added in the near term. Mr. Heper, who is a Group Category Director at BAT, has over 23 years of diverse management, strategic leadership, M&A experience at global companies, including BAT, Procter & Gamble, Danone, and LifeStyles Healthcare.

His expertise includes growing value and volume share through global brand and equity building and consumer marketing. Both BAT nominees are expected to contribute deep expertise and further complement our board's capabilities as well as extend our international presence. Further particulars regarding BAT's second nominee and their credentials will be provided upon appointment.

Moving on to slide 7, we're tremendously excited to bring the exceptional capabilities and resources of BAT together with our strengths and expertise. We believe that this collaboration will be transformative for OGI shareholders, not only because of our complementary capabilities and dedication to R&D, but also because of the alignment and mutual commitment we have to responsible stewardship, consumer safety, and the highest regulatory and ethical standards.

Moving to slide 8, slide 8 highlights some of the key elements at the Center of Excellence or COE. It will be located at our Moncton facility where we hold all the requisite licenses to do R&D. The COE will be focused on developing the next generation of cannabis products with an initial focus on CBD. Both companies will contribute scientists, researchers, and product developers, and the COE will be governed and supervised by a steering committee consisting of an equal number of senior members from each company.

Both parties will have access to certain of each other's IP and subject to certain limitations have the right to independently globally commercialize the products, technologies, and IP created by the COE under the PDC Agreement.

Moving on to slide 9 which summarizes the key transaction details, many of which I've covered already. A subsidiary of BAT has subscribed for 58.3 million common shares of OGI, which represents a 19.9% equity interest on a non-diluted basis at the price per share of CAD 3.79. The price per share is based on a five-day VWAP price on the TSX ending March 9, 2021. This results in total proceeds to OGI of approximately CAD 221 million or \$175 million. And as I mentioned earlier, about CAD 30 million or \$24 million, so the total will be reserved to satisfy obligations under the PDC Agreement.

The balance of the proceeds can be used at our discretion subject to certain restrictions. Costs relating to the Center of Excellence will be funded equally by both parties. COE will focus on the development of cannabis vapor products, cannabis oral products and any other products IP and technologies the parties mutually agreed upon.

BAT is entitled to appoint 20% of OGI's board for as long as BAT holds at least 15% of OGI's common shares. BAT will be entitled the customary pre-emptive rights as well as top-up rights for equity issuances, customary piggyback registration rates and BAT is also subject to certain share transfer restrictions.

Lastly, slide 10 shows the pro forma capitalization and ownership for cash and short-term investments of CAD 296 million or \$235 million as a result of this transaction.

Moving to slide 11, in closing, I want to thank you for joining us today. It's our view that the cannabis industry is still in the nascent stages of product development and a commitment to R&D is critical to establish a long-term, competitive advantage. We truly believe our collaboration with BAT has the potential to be game-changing for OGI including for our employers, partners – employees, partners, customers, patients, shareholders, all of our key stakeholders.

That concludes our formal remarks. Paolo and I would now be happy to answer your questions.

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] Your first question comes from the line of David Kideckel with ATB Capital Markets.

David M. Kideckel

Analyst, ATB Capital Markets, Inc.

Q

Thank you. Good morning. Congratulations on this deal, the Organigram team. And thanks for taking my question here. My first one relates to, I think, Greg, in your prepared remarks and in the press release itself through your partnership here with BAT, you're going to be targeting vapor and oral products predominantly CBD I believe.

So, my question is given your other groundbreaking partnership with Hyasynth Biologicals that you also mentioned in your prepared remarks, do you see any opportunities for this deal now with BAT to coincide with [indiscernible] (11:58) additional product offerings and also some of the other minor cannabinoids? Thanks.

Gregory Engel

Chief Executive Officer & Director, OrganiGram Holdings, Inc.

A

Yeah. It's a great question, David, and thanks for asking. So, yeah, again, the initial focus of the PDC and the COE will be on oral and vapor products and, again, initially, on CBD but also moving towards THC going forward. And I think, again, we use the general commentary the CBD and THC. But I mean, again, minor cannabinoids do play a key point. And I think when we look at and part of our investment thesis on Hyasynth has always been that yes, they've already shown an ability to produce and be the first company that we're aware of to sell commercial major cannabinoid. But minor cannabinoids is going to be key.

And I think when you look to develop truly innovative, unique products going forward, having the ability to add or make very specific minor cannabinoid-based products is a huge and tremendous opportunity if those can be produced through biosynthesis because they're at such low levels in the plant. So, it does lend itself. And I think, again, there is a tremendous potential to kind of integrate the work between the two and bring those new, innovative products to market. So, it's a great question and, yeah, that was part of the consideration here.

David M. Kideckel

Analyst, ATB Capital Markets, Inc.

Q

Great. Thanks. And just as a follow-up, just wondering, what is your priority with that? The opportunities here include in your prepared remarks Canada and the US and international. Do you have any market in particular? And is there a timeline for when you expect any given product into the shelves? Thanks.

Gregory Engel

Chief Executive Officer & Director, OrganiGram Holdings, Inc.

A

Yeah. It's a great question. So, certainly, we don't have timeline specifically. I think we're just in these kickoff stages. We have developed a very specific plan as to what products we'll be working on and when over the next three years and have some thoughts on kind of timing to market, but [indiscernible] (13:57) ourselves or BAT's in a position to kind of publicly disclose what that is.

I think when you look at the near-term opportunity for us, the immediate opportunity is certainly Canada. But certainly, we are going to spend a significant amount of time looking at the US, looking at international markets

and how do we leverage either our existing IP portfolio or new products that are jointly developed and new forms that are jointly developed and bring those into other markets.

And again, that's why, I think, we've made the commentary about CBD as a focus because there's a larger currently addressable market on CBD globally. So I think that's an important distinction as to why the initial focus is CBD. But we will be moving into other areas including THC going forward.

David M. Kideckel

Analyst, ATB Capital Markets, Inc.

Q

Thanks for taking my questions. I'm going to hop back in the queue. Congrats.

Gregory Engel

Chief Executive Officer & Director, OrganiGram Holdings, Inc.

A

Thanks.

Operator: Your next question comes from the line of Andrew Partheniou with Stifel GMP.

Andrew Partheniou

Analyst, Stifel Nicolaus Canada, Inc.

Q

Hi. Congrats on this announcement. And thanks again for taking my questions. Maybe just a little bit more high level, could you give a little bit more color on how the talks progressed, how they started? And given the significant amount of time between now and when legalization happens, that has probably picked up the litter in terms of who to partner with. Could you give a little bit more color on why they chose Organigram in particular?

Gregory Engel

Chief Executive Officer & Director, OrganiGram Holdings, Inc.

A

Yeah. I mean, maybe I'll answer the second part of your question first, Andrew. I think based on the feedback we've heard from BAT that they've been very impressed with our – we have a state-of-the-art facility. I mentioned earlier we're committed to R&D and innovation and product development. So, there's definitely a cultural fit that aligns between the two companies in terms of how we see cannabinoid science and cannabinoid products developing and going forward.

Certainly, again, they made comments about the strength of our management team, our commitment to compliance and through the process we've developed a very strong relationship with the BAT team. And we believe, as I said earlier, there's a very strong cultural fit in alignment to make this collaboration successful. And I think anytime you look at collaboratively working with someone, that's one of the most critical things [indiscernible] (16:26) again in the Center of Excellence.

We will be having seconded employees from the UK and US from BAT working out our Organigram facility. We'll be contributing employees but we'll also be hiring new people to fill out the team. And having that mix of kind of innovation and science and research culture is important. I can't necessarily speak to kind of the timing of kind of this process.

The only thing I would say is, as you can imagine, it's been extensive due diligence. It has been more challenging to do with COVID certainly. But certainly, we've been able to do things virtually including virtual tours. And the teams have worked incredibly well. And I think it's been a great process and I think the cultural fit for me and for

us and our board. And again, we've heard those comments from the team at BAT as one of the most critical aspects of this collaboration.

Andrew Partheniou

Analyst, Stifel Nicolaus Canada, Inc.

Q

Thanks for that additional color. And maybe switching gears, talking a little bit about IP and how bringing all of this to market. Could you give a little bit of color on how yourself and BAT, to the extent possible, that you could talk about it obviously are going to – the results of your R&D collaboration agreement? How do you expect that to be launched in tandem with that or independently or any other color that you could provide in terms of the future prospects of the results of this R&D?

Gregory Engel

Chief Executive Officer & Director, OrganiGram Holdings, Inc.

A

Yeah. No, it's a great question, Andrew. I think we're – again, the key here is both companies are contributing background IP into the collaboration. And then from that, we'll be developing foreground IP that both companies will have access to. And I think for each company, I mean I can't speak to kind of their commercialization plans and timing.

But as I said earlier, for us, the nearest-term opportunity to bring products to market is certainly Canada. But part of this strategic investment allows us to build up sufficient capital to look to expand either directly or through partnerships into other markets like the US or international with those new product forms or with the existing IP that we have.

And I think again, that is also under the guise that you have to ensure that you're compliant from a regulatory perspective and the products need the local jurisdiction. But that's our focus and I think this – we've been talking about this concept for many months where our focus has always been and continues to be develop new products, innovator products that are transferable to other jurisdictions. And now, this collaboration with BAT accelerates that, brings it deeper bench strengths in terms of knowledge and IP and will allow us to really bring those innovative new forms to global markets.

Andrew Partheniou

Analyst, Stifel Nicolaus Canada, Inc.

Q

Thanks for the additional color, and congrats again.

Gregory Engel

Chief Executive Officer & Director, OrganiGram Holdings, Inc.

A

Thanks, Andrew.

Operator: Your next question comes from the line of Adam Buckham with Scotiabank.

Adam Buckham

Analyst, Scotia Capital, Inc.

Q

Good morning, and congratulations on the deal.

Gregory Engel

Chief Executive Officer & Director, OrganiGram Holdings, Inc.

A

Thanks, Adam.

Adam Buckham

Analyst, Scotia Capital, Inc.

Q

Now, my first question is a bit of a follow-up to the last one. I think the PR indicates that BAT will own all IP generated from the Center of Excellence and will grant OGI use of the IP. Can you help us understand how the granting process works for IP generated through the partnership?

Gregory Engel

Chief Executive Officer & Director, OrganiGram Holdings, Inc.

A

Yeah. I mean, it's a pretty simple straightforward answer. So for ease of administration, both parties agreed that BAT would own any arising IP and then grant us licenses to utilize it. This was based on the fact that they have in-house expertise and existing infrastructure in place to manage IP rates worldwide and it's really a core competency for their organization.

But when we say grants, as IP is submitted, I mean this agreement is perpetual royalty-free ongoing. So those will be issued at the time the IP is filed, but there's no specific process of kind of that granting. It's defined in the agreement that we will have global rights in conjunction with them, it's just that they're going to manage and register and oversee the IP process. And so both parties will have equal rights from a commercialization perspective.

Adam Buckham

Analyst, Scotia Capital, Inc.

Q

Okay. That's great color. Thanks. And then secondly, I just wanted to focus maybe on the impact of costs will have on OGI from the Center of Excellence because I believe you guys are matching pretty much 50% of the R&D expenses, right? When would you expect these to start impacting? And then any color you can provide from a modeling standpoint will be helpful.

Gregory Engel

Chief Executive Officer & Director, OrganiGram Holdings, Inc.

A

Yeah. So, we have noted in the release that approximately CAD 30 million of the CAD 221 million that's been invested roughly has been allocated to that. So, again, a portion of the proceeds will be allocated to that. So, this will be jointly funded though between the two companies. So, again, that's really that timing.

We expect initial costing to start within 60 days. Again, we've identified internal parties on both sides that we're looking to [ph] stick onto it (22:32). We've already started work on some of the additional equipment and construction changes within our facility to expand some of their R&D activities. And so, I think you'll start to see that happening over the near term.

Adam Buckham

Analyst, Scotia Capital, Inc.

Q

Okay. Great. Thanks, and congrats again.

Gregory Engel

Chief Executive Officer & Director, OrganiGram Holdings, Inc.

A

Thanks.

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

Aaron Grey

Analyst, Alliance Global Partners Corp.

Q

Hi. Good morning and I'd like to echo my congratulations on the partnership. So, first question from me, just like to double back in terms of kind of potential commercialization, the IP, just like looking at [indiscernible] (23:17), obviously, BAT had pretty broad distribution. So, could you help us kind of conceptualize how something might come to term with you guys, come up with some IP from some products for CBD for example which is more broadly distributable today?

And how come that could go to market [indiscernible] (23:34) technically be like independent? Will there be two different brands between like BAT and Organigram and then [ph] you still leverage your own (23:41) distribution and you guys having to find your own through the US? Or could there be further partnership? Just any kind of help in terms of how you're going to conceptualize that would be helpful. Thank you.

Gregory Engel

Chief Executive Officer & Director, OrganiGram Holdings, Inc.

A

Yeah. It's a great question, Aaron. And I think we're – when we look at commercialization activities, I mean none of that's been determined, as you know, as of yet. I mean, it's still – the focus right now is on the R&D process. But when we look at potential ways, I mean, certainly, when we look at a market like the US, we could enter the market directly ourselves. We could find a contract manufacturer for produce for us in the market and still kind of manage ourselves or potentially we could look for a partner.

Both parties are restricted in some ways with – what type of partners and who you could partnership with too in terms of what that could look like. But certainly, there are opportunities for accessing the markets with some restrictions in kind of those three different ways. So I think, again, I can't comment on BAT's plans, but I think certainly that's how we look at the market.

And there may be opportunities where we could jointly decide that only one party commercializes and that could be contemplated as well. But certainly, again, we're not at the stage that we're looking at how to commercialize. We're really focused on how do we develop the products and what products we're focused on today.

Aaron Grey

Analyst, Alliance Global Partners Corp.

Q

Okay. Great. Thanks. That's super helpful. And then one follow-up. You mentioned the initial focus on products being vapor and oral. But you also mentioned kind of the combined expertise in terms of the plant expertise that BAT has. So, are you also looking to potentially kind of leverage any like plant expertise in terms of your own kind of cultivation and growing that they might have to leverage as well? Or you've kind of like how did you plan to use this beyond just the R&D [ph] developed with (25:36) kind of your overall [indiscernible] (25:37) business as you guys continue to work to improve your own yields? Thank you.

Gregory Engel

Chief Executive Officer & Director, OrganiGram Holdings, Inc.

A

Yeah. It's a great question. So certainly, the core focus of the Center of Excellence is going to be on oral and vapor products or other products that we determine jointly to kind of work on. But I think, again, understanding they have the plant genetic expertise and we have had meetings with that group, and I think there's opportunities to provide some assistance to our team and cross-functionally helping their team understand cannabis plants and

kind of how cannabis and hemp grow and produce based on our experience. So I think, again, there's an opportunity to do that, and I think it's certainly one that we'd like to be able to take advantage of, and those teams have had initial discussions.

Aaron Grey

Analyst, Alliance Global Partners Corp.

Q

Okay. Great. Thanks.

Operator: Your next question comes from the line of Vivien Azer with Cowen.

Vivien Azer

Analyst, Cowen and Company

Q

Hi. Thank you. Good morning. So BAT a couple of months ago launched a pilot with a CBD base in the UK. So I'm just curious where that fits into this new agreement. That's my first question. Thanks.

Gregory Engel

Chief Executive Officer & Director, OrganiGram Holdings, Inc.

A

Yeah. Hey, Vivien. So, yeah, they've launched under their Vuse platform CBD product in Manchester in the UK in a limited market. And I think really, for them, what we understand from what we've seen is that it's a test market for them and, really, that's how they're treating it.

I think when we look at the overall product development side, certainly, that will inform the PDC in terms of some of the experiences that they're seeing with that consumer product in a small select area of the UK. But I think that, at this point, is what we're looking to from that at least from a CoE perspective is to garner consumer feedback from that work.

Vivien Azer

Analyst, Cowen and Company

Q

Got it. And a quick follow-up. You mentioned some shared IP and you mentioned vapor specifically. But does [indiscernible] (27:44) fall into that IP sharing agreement as well? Thanks.

Gregory Engel

Chief Executive Officer & Director, OrganiGram Holdings, Inc.

A

We're not disclosing full details in terms of like which specific IP. I mean, as you know, BAT has got a very deep and broad portfolio of IP that they're contributing to it. And I guess all I can say is vapor and oral products are the focus.

Vivien Azer

Analyst, Cowen and Company

Q

Ok. Fair enough. Thank you.

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

Graeme Kreindler

Analyst, Eight Capital

Q

Hi. Good morning. Thank you for taking my questions and congratulations. I wanted to follow up with respect to the Center of Excellence and the CAD 30 million budget allocated to that. How was that going to tie in with Organigram's Phase 5? Just curious in terms of the interplay there given there's been a lot of investment in 2.0 products and the like with respect to Phase 5 and how those two facilities are going to work together. Thanks.

Gregory Engel

Chief Executive Officer & Director, OrganiGram Holdings, Inc.

A

Yeah. Hey, Graeme. So thanks. Yeah. It's a good question. I mean, when we look at it in terms of the overall structure of the – specify that the overall structure is a lot of the activities that with the CoE will be doing will be occurring within that Phase 5. I mean, it's actually being constructed in part as an R&D center, and we've really structured it that way.

So again, we've been building it out. And again, when we talk about CAD 30 million, that's our contribution in terms of what that will look like. So, a very limited amount of work will be needed from a construction perspective. It's really about additional equipment. It's really about additional testing and personnel, and a big part of this will be some of that testing that goes on.

So – and I just want to clarify a question that was asked earlier about commercialization. As I said, it's important to understanding, I mean, the goal as I outlined at this point is that each company will be independently commercializing and under our own brands. And when I said that there's potential where we could determine in one market, that hasn't been disrupted as of yet and really at this point any commercialization activities would be – this company does their own thing under their own brands. Anyway, sort of we're jumping on that. I just want to clarify it, Graeme.

Graeme Kreindler

Analyst, Eight Capital

Q

No problem, Greg. Just as a follow-up then, with respect to your comment there, and that was helpful, each company independently commercializing them. Given the exclusivity agreement, you have that in Canada and then my understanding is it's not exclusive on a global basis. That independent commercialization then, should we be thinking about that more on a global scale, and then activities within Canada that's going to happen exclusively with Organigram?

Gregory Engel

Chief Executive Officer & Director, OrganiGram Holdings, Inc.

A

Yeah. So just want to clarify the point that's in the press release and kind of as we outlined, so we have a sole license in Canada. That means that BAT can commercialize directly themselves but they're not necessarily in a position to sublicense out. So, our focus is on the sole licensing. And again, as we said, globally, we're in a position where we – we're in a position globally where we can choose which markets that we will go into. And again, we could do that directly ourselves. We could contract someone to do manufacturing for us or we could find a partner it is. At this point, our plan is to commercialize independently, including Canada.

Graeme Kreindler

Analyst, Eight Capital

Q

Okay. Understood. And then, my last question here is there's investor rights within the agreement and as well as some drag along rights there. Other strategic investment deals that we've seen in the cannabis industry have often included a pathway for increased ownership percentage over time often via warrants. My understanding of the announcement this morning is that's not a feature of this deal. I'm wondering if that was something that was

contemplated as part of your agreement here and the decision to not have that sort of feature. Thank you very much.

Gregory Engel

Chief Executive Officer & Director, OrganiGram Holdings, Inc.

A

Yeah. Graeme, I can only comment on kind of where we finally – where we did end up, which is again with this 19.9% level investment and with [ph] drag along (32:23) and top-up rates and catch-up rates. And I think it's important for both parties that BAT is in a position to maintain that equity position and, certainly, the board representation is a key part of that. And I think it shows a strong investment in us and a focus to the commitment on the collaboration, and that's really the only [indiscernible] (32:48) I can give.

Graeme Kreindler

Analyst, Eight Capital

Q

Understood. Thank you very much, and congratulations again.

Gregory Engel

Chief Executive Officer & Director, OrganiGram Holdings, Inc.

A

Thanks.

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

Rupesh Parikh

Analyst, Oppenheimer & Co., Inc.

Q

Good morning. Thanks for taking my question, and also congrats on the agreement. So Greg, I just had a – just a clarification, more on the R&D side. So, clearly, you're going to be investing under the PDC on the R&D side. What happens to your R&D efforts outside of this agreement?

Gregory Engel

Chief Executive Officer & Director, OrganiGram Holdings, Inc.

A

Yeah. It's a great question, Rupesh. I mean, we are free to do and we will continue to do our own R&D in areas that are not specifically covered under that Product Development Collaboration Agreement. But there are areas where – again, part of this process has been determined what we roll in and what kind of moves into the Center of Excellence and what we do independently. So we will, in certain product areas, continue to develop those alongside the work that we're doing at the Center of Excellence.

Rupesh Parikh

Analyst, Oppenheimer & Co., Inc.

Q

Okay. Great. And then maybe one follow-up question, so on the CBD side, is there any color in terms of what product categories you'd expect to initially focus on? And then any – and then I guess just any overall comment in terms of how the CBD market is progressing in Canada. [ph] It's growing (34:03) in the US, there's obviously a number of challenges that we see in the US.

Gregory Engel

Chief Executive Officer & Director, OrganiGram Holdings, Inc.

A

Yeah. I think – maybe I'll answer the second part of your question first. I mean, one of the challenges still in Canada on the CBD market is that the distribution of CBD products is still restricted to the same channel as [ph]

PET based (34:19) products. And I think we do know that in Canada, the federal government is – they have an expert advisory panel in place. They've indicated that they're doing additional work to look at consumer cannabis products and what that looks like in a more open manner.

And we are optimistic that in the not too distant future, there will be a change in the regulations that allow for broader addition of CBD products into mass merchant into areas with some restrictions certainly. But it is why in part we invested in the chocolate production equipment we have, and I think that will give us a true indication of what that market size is and what it will look like going forward as that expansion into that. And I think certainly even – it's a limited distribution channel today. So to really tap into the full market for CBD, I think it needs a much broader distribution channel.

The second comment I would make back to your first part of your question is we're not in position yet to specify which products are – prioritizes in terms of the near term. But again, other than just saying kind of oral and vapor are two categories where there's a big focus, and both companies bring expertise in that area.

Rupesh Parikh

Analyst, Oppenheimer & Co., Inc.

Q

Great. Thank you. I'll pass it along.

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

Rahul Sarugaser

Analyst, Raymond James Ltd.

Q

Morning, Greg, Paolo, Amy. Thanks so much for taking our questions and congratulations from us as well on this morning's announcement. So, our question is Organigram was an early mover [indiscernible] (36:00) to much success. So given that the one other major cannabis player that has one of these big tobacco partnerships and as well as the big R&D investment in biosynthesis, they're looking at their first licensed synthesized products on the market before the end of the year. So, do you see Organigram potentially – Organigram and/or BAT potentially having these fermentation-derived products in the market around the same time?

And I'll quickly squeeze in my follow-up question, which is you mentioned that you have a focus on minor cannabinoids. However, Hyasynth is one of the most advanced biosynthesis companies developing major cannabinoids. So, could Organigram be one of the first to have a fermentation-derived major cannabinoid product on the market?

Gregory Engel

Chief Executive Officer & Director, OrganiGram Holdings, Inc.

A

Yeah. It's – again, and your comment on Hyasynth is accurate in terms of Hyasynth to date had two paths. One has been focused on major cannabinoids. And again, with their experience last year being the first company to actually sell CBDa in the United States through a contract manufacturing site, being – having that first commercial sale is a big milestone.

I think in addition to that path, they're focused on minor. And I just – the reason I always bring up minor, as you know, is I think minor is where the future value unlock is in terms of really creating innovative new products. And because these minor cannabinoids are at such low levels in the plant, you can't produce them from large-scale agricultural production. And so, I guess that was my reference.

So, I can't speak to the timing around kind of commercialization. I think you certainly have to speak to Kevin and team at Hyasynth for an update on their progress. But I think we do see at some point in the future where production of biosynthetically-produced major and minor cannabinoids is a source for products for us and for others in the market. So...

Rahul Sarugaser

Analyst, Raymond James Ltd.

Q

Terrific. That was both my questions and congratulations again.

Gregory Engel

Chief Executive Officer & Director, Organigram Holdings, Inc.

A

Sure.

Operator: The next question comes from the line of John Zamparo, CIBC.

John Zamparo

Analyst, CIBC World Markets, Inc.

Q

Thanks. Good morning and congrats on the deal. Greg, I was wondering how this – or if this changes your outlook with respect to US THC? It seems like a pretty small proportion of these proceeds are earmarked for the Center of Excellence and for the PDC Agreement and it's a fairly material leftover for general corporate purposes. So, do you view the primary plan for those additional funds as just providing optionality for the US or international or does this change your thinking on the US in any way?

Gregory Engel

Chief Executive Officer & Director, Organigram Holdings, Inc.

A

Yeah. I think we are focused today. I mean, certainly, we will be using a small portion of those funds to continue our own R&D efforts independent of the Center of Excellence. But I think when we look at – as to your point, we're in a position where it provides us optionality in terms of the overall market. And we will continue look, as we have been, both international and the US at different ways to enter those markets.

I think one of the challenges continues to be the regulatory framework. And again, we're only going to enter a market or move into a market where there is a legal regulatory framework in order to do that. But I think they're – we're continuing to see that evolve on the CBD side globally, we continue to see that evolve on the THC side, and I think there's certainly lots of optimism on THC.

In the US right now, with the current administration, that could and should and will move forward at some point, but it's difficult to assess the timing. So – but as you say, it does give us additional capital to allow us to make a move into other markets and all be evaluating. Those approaches have always been – be strategic in terms of how you enter those markets and making ensure that it aligns with your own objectives and vision.

John Zamparo

Analyst, CIBC World Markets, Inc.

Q

Great. That's helpful. Thanks. And my follow-up is I think you'd probably characterized Organigram as one of the leaders on product development and R&D before this deal, as it relates to nano-emulsification or other form factors. So, why is that the primary focus of this deal? Because it seems like in the US, particularly on the CBD side, the distribution really can be a difference maker for growing brands, and it seems like this deal is solely

focused on IP and product development and not distribution. So, I guess the question is why not leverage BAT's ability to distribute either the US or globally?

Gregory Engel

Chief Executive Officer & Director, OrganiGram Holdings, Inc.

A

Yeah. Again, the reason we are very focused on the product development, and again, we believe that's going to be the differentiator, we have seen and certainly you've seen [ph] in terms of the (40:58) reports out of US, reports out of Europe, other markets where there's an inconsistency of products. People have concerns about product quality. People have concerns about what's actually in the products, especially in the CBD space, and a lot of products don't deliver on the expectations.

So I think that's the first hurdle, is making sure that the products that we are developing jointly in collaboration with BAT are done in a matter that meets the highest standards, but would expect all the global consumer packaged goods company and that before taking those products to market, you're in a position to know that you've done all the rigorous testing on those products, and we believe, ultimately that's going to win out, and we're starting to see that in some of the markets globally and in the US right now.

John Zamparo

Analyst, CIBC World Markets, Inc.

Q

Okay. That's great. Thank you very much and congrats to you on the deal.

Gregory Engel

Chief Executive Officer & Director, OrganiGram Holdings, Inc.

A

Thanks.

Operator: We have time for only one more question. That comes from the line of Pablo Zuanic with Cantor.

Pablo Zuanic

Analyst, Cantor Fitzgerald Securities

Q

Thank you. Look, I know you've answered this question already but I want to just make sure I have it clear. Is there anything in the agreement that prevents BAT from taking stakes in other cannabis companies or in other CBD companies? Thanks.

Gregory Engel

Chief Executive Officer & Director, OrganiGram Holdings, Inc.

A

Yeah. Pablo, so there are certain restrictions. There is a restricted list in terms of – for both companies in terms of who we can work with. We're not disclosing the full details on some of these restrictions. But certainly, it's not a complete list. So, I think – I guess that's all I can say, is that both parties have some level of restrictions. I'm not going to comment specifically on BAT, but both companies have some restrictions.

Pablo Zuanic

Analyst, Cantor Fitzgerald Securities

Q

Right. And the second question and last, we've seen already three tobacco companies get involved in the space, right, Imperial Brands and Altria, in different ways, all of them. When I think – I understand the synergies on the product development side, but when I think of wellness, the way the European markets are developing, whether novel foods and CBD or whether more pharmaceutical type of cannabis products on the medical side.

I'm just surprised that companies from other industries like pharma haven't been more active. I mean, do you have any thoughts on that? I know it's a very general question, but I know that tobacco companies are desperate. But I would question the value-add on the expertise side. I know on your shop, you make pre-rolls and things like that, but – and on the oral and vape side. But I just wonder for the market to grow, especially in the wellness medical side, I find that expertise from other industries would help more. Do you have any thoughts on that just quickly?

Gregory Engel

Chief Executive Officer & Director, OrganiGram Holdings, Inc.

A

Yeah. Again, certainly, look, we're excited to have this Collaboration Agreement in place with BAT. We think that they do bring a lot of expertise. They have a focus, to be honest, in terms of beyond nicotine and kind of that whole focus on product development. And they are a company that is focused on consumer safety, and they've been identified as a leading company from that perspective.

And I think where we look at other market segments, I cannot comment as to why other companies have not entered this space. I think there are potential collaboration opportunities in the future, and I would point to, again, our investment in Hyasynth as one of those opportunities where Hyasynth is well-positioned in biosynthesis as a source for potentially novel minor cannabinoids that could merit further clinical development by a pharma company. But again, I can – I'll highlight that from the perspective of that was our investment thesis, and certainly, you'd have to speak to Kevin and the group at Hyasynth to tell what their plans are. But I think that may be where we'll see more pharma-like development. It could be with [ph] us and these (45:13) companies.

Pablo Zuanic

Analyst, Cantor Fitzgerald Securities

Q

Got it. Thank you.

Operator: And thank you, ladies and gentlemen. That does conclude today's conference call. We thank you for your participation and ask that you please disconnect.

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