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OrganiGram Holdings, Inc. (OGI.CA)

Q3 2024 Earnings Call

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MANAGEMENT DISCUSSION SECTION

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

Max Schwartz, you may begin your conference.

Max Schwartz

Director-Investor Relations, OrganiGram Holdings, Inc.

Thank you very much and good morning, everyone, and thank you for joining us today. As a reminder, this conference call is being recorded and a recording will be available on Organigram's website 24 hours after today's call. Listeners should be aware that today's call will include estimates and other forward-looking information from which the company's actual results could differ. Please review the cautionary language in our press release dated August 13, 2024 on various factors, assumptions and risks that could cause our actual results to differ.

Further reference will be made to certain non-IFRS measures during this call, including adjusted EBITDA, adjusted gross margin and adjusted gross margin percentage. These measures do not have any standardized meaning under IFRS and are intended to provide additional information and, as such, should not be considered in isolation or as a substitute for measures of performance prepared in accordance with IFRS.

Our approach to calculating these measures may differ from other issuers so these measures may not be directly comparable. Please see today's earnings report for more information about these measures. In this call, references to fiscal 2023 are to the 13-month period from September 1, 2022 through September 30, 2023, References to Q3 fiscal 2024 are to the 3-month period ended June 30, 2024, and references to Q3 fiscal 2023 are to the 3-month period ended May 31, 2023.

Listeners should also be aware that the company relies on reputable third-party providers when making certain statements relating to market share data. Unless otherwise indicated, all references to market data are sourced from Hifyre in combination with data from Weedcrawler, provincial boards, retailers, and our internal sales figures.

Today, we'll be hearing from key members of our senior leadership team, beginning with Beena Goldenberg, Chief Executive Officer, who will provide opening remarks and commentary, followed by Greg Guyatt, Chief Financial Officer, who will review our quarterly results for Q3 fiscal 2024.

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

Beena G. Goldenberg

Chief Executive Officer & Director, OrganiGram Holdings, Inc.

Thank you, Max, and good morning, everyone. We appreciate you all joining our call today and for your continued support of Organigram, one of Canada's leading and most innovative cannabis companies.

Q3 fiscal 2024 saw Organigram achieve significant milestones in targeted growth areas that we highlighted in our earnings calls the start of our fiscal year. Those areas include continuing to grow our domestic business by focusing on innovation and quality, expanding our global footprint and diversifying our international revenue, achieving cost savings associated with our previously completed CapEx programs and strategic investments, and maintaining a strong balance sheet that allows us to be opportunistic in an evolving market landscape that is rationalizing.

First, I want to highlight our domestic performance this quarter. Our Canadian recreational business in Q3 grew 25% year-over-year, driving our overall net revenue for the same comparison period. We have also grown our net revenue sequentially every quarter in fiscal 2024 thus far, achieving over 9% growth versus Q2, and we expect continued revenue growth in Q4.

There's no question that Canada is a tough market owing to high competition and onerous regulations. As of the end of Q3, there were 25 LPs with 1% or more market share, up from 20 last year, and there are now 153 LPs with at least CAD 1 million in sales, contributing to average market share erosion for the top 10 LPs of 0.4 points year-over-year.

In contrast, Organigram has outperformed these statistics, gaining 0.6 points year-over-year in Q3, and has maintained a market share of over 7% for eight consecutive months as of the end of July. It's tough to hold on to market share in this landscape, let alone grow it. Organigram has further narrowed the gap between itself and the number one LP in the market to only 2.4 percentage points as of June. Q4 should be the largest quarter in Canadian cannabis history, on track to hit CAD 1.5 billion in aggregate retail sales for the industry. Organigram maintains a highly competitive position and should benefit disproportionately from this growth over time.

This quarter marked the third consecutive quarter that Organigram was a top 5 LP in every jurisdiction in Canada. Our market share performance was punctuated by gains in Canada's second most populous province, Quebec. Our Quebec market share grew to 9.3% in the quarter compared to 8.2% in the prior-year comparative period. We also hit our highest market share in the province in June, finishing the month with 9.5% share.

We are proud to have achieved our highest market share ever of 25.8% in our home province of New Brunswick compared to 20% in the prior year's comparative period. Our dominance in Atlantic Canada continues to be unmatched with 16.8% combined market share. From a product standpoint, we continue to show our strength in several categories, holding the number one position in milled flower, hash, and pure CBD gummies. We hold the number three positions in dried flower, edibles and overall pre-rolls. As of the end of Q3, Organigram held the overall number three market position in Canada.

We have said for some time our success is driven by our commitment to innovation. We shared some exciting news last week regarding the first new technology to be commercialized by Organigram, leveraging the output of the product development collaboration with BAT, our new FAST nanoemulsion technology. FAST, which stands for Fast Acting Soluble Technology, has shown promising preliminary results from what we believe was the largest PK study ever undertaken to understand the effects of recreational cannabis products.

The results of the study have given early indications of technological advances including, but not limited to, faster onset compared to traditional ingestible products from the control group; depending on ingestible format, up to approximately 50% faster onset of the effects of cannabis was observed; improved bioavailability of cannabinoid, up to double the cannabinoid delivery at peak compared to the control group; and early indicators of a more predictable duration of the effects of cannabis, showing promising signals for the development of future offset claims subject to additional supporting studies.

Manufacturing scale-up for gummies utilizing this technology is underway in our Winnipeg facility and we are currently on track to launch them in the fall. We feel confident that our investment in this technology will contribute to our continued success in edibles domestically where we hold 16.7% market share and help us penetrate ingestible markets abroad in the future.

Now, I'd like to discuss our international business. In Q3, we announced the most significant development relating to our international expansion to date, an approximately $21 million investment into German cannabis leader, Sanity Group, deployed from our Jupiter investment pool which is focused on emerging opportunities in international markets. The investment is exciting for several reasons.

One, it allows us to establish our first foothold in Europe through Germany, which as of April 1 paved the way to becoming the world's largest federally legal adult-use cannabis jurisdiction. Two, Sanity is already a leading cannabis company in Germany with the number two flower brand in that market, and is also operating two dispensaries in Switzerland through their pilot project. We believe they are well positioned for growth in Germany and the wider EU market, where there is currently less saturation than in the US or Canada so first mover advantage will likely matter more.

Three, the investment enhances the previous supply agreement that was already in place between Organigram and Sanity Group, with Sanity having now increased its purchase commitments. Upon Organigram receiving EU-GMP certification at its Moncton facility which is expected in the near term, Sanity will switch to purchasing a percentage of its total flower assortment for Organigram. And four, Germany is viewed as the most important new legal cannabis market in the world due to its large cannabis-friendly population, its political influence, and geographic adjacencies to markets contemplating adult-use or medical cannabis.

Now, in addition to the anticipated increase in cannabis volumes bound for Germany resulting from our investment in Sanity, Organigram continued to diversify its list of international customers in Q3 signing two new supply agreements with customers in Australia and the UK. Organigram now have seven supply agreements across Germany, Israel, Australia and the UK, and is currently evaluating additional global partnership opportunities and strategic investments.

Moving on, I'd like to focus for a moment on our savings initiatives and efficiencies achievement in this quarter resulting from investments in automation, adjustments in our manufacturing methods, and advantages garnered from our strategic investments. In Q3, Organigram harvested 21,420 kilograms of dried flower, representing an increase of 15% compared to the same prior-year period. 42% of our harvests in Q3 exceeded 26% THC compared to 25% of our harvest last quarter, an increase of 17 percentage points.

Our average yield this quarter broke an Organigram record at 185 grams per plant. While yields have historically fluctuated and may continue to do so from time to time due to changes in our cultivar mix, we are encouraged by this achievement. The yield increase of 28% versus the same prior-year period and almost 13% sequentially is supported by changes we have made to our cultivation processes and by realization of benefits from our strategic investment in Phylos.

At our Moncton facility, consolidation of plant care and harvesting rules reduced waste and contributed to enhanced quality during the harvesting process. It seems to get a better product when the person who cares for the plant is also the person who harvests it, and we know our customers will notice the difference this additional care makes to our already great product. We saw further efficiencies in post processing through streamlining testing, increased throughputs sand waste reduction. At our edibles facility in Winnipeg, we completed trials for reducing cannabinoid waste that is expected to deliver meaningful savings in fiscal 2025 by changing to in-line active dosing tanks for our continuous edibles line.

And in Lac-Supérieur, our expanded cultivation is providing cannabis for our revitalized Trailblazer and Wola brands, which are meeting the needs of our Quebec customers with Quebec-grown premium cannabis. Also in Q3, we completed harvests of three seed-based production rooms. Our seed-based capability stem from our strategic investment in Phylos Bioscience, which is exceeding our expectations to date. This led to our decision to fast-track the partial funding of a final investment tranche in Phylos, which we announced in July.

The early funding resulted in an expanded final milestone which requires Phylos to deliver 21 unique auto-flower seed varietals for testing and phenotyping by the end of September this year, followed by a second cohort of 21 more by January 2025. Further, Organigram received an expanded gene – license from Phylos that in addition to the whole flower THCV for which we have exclusive rights in Canada include access to high-potency CBG, CBC, and CBDV seed-based cultivars.

Our first three seed-based harvests yielded an impressive 200 grams per plant and an average THC potency of 25.5%. Four additional rooms were harvested in July and by the end of the calendar year, Organigram expects to achieve its goal of approximately 30% of production coming from seeds. We further anticipate averaging between 20% to 30% seed-based production throughout fiscal 2025 as we optimize production schedules and business requirements. Other benefits from seed-based production include faster cycle time, which we expect will allow Organigram to increase its production output without additional CapEx, and improved plant consistency, quality and resilience.

We continue to measure against our guidance of CAD 10 million of savings this year that we outlined at the end of fiscal 2023 resulting from investments in automation, in-house lab testing and remediation, freight optimization, and changes in production processes. In Q3, we realized approximately CAD 2.7 million of these savings. Fiscal year-to-date, we have delivered approximately CAD 7.9 million and we are on track to meet this CAD 10 million target. Finally, Organigram continues to maintain one of the healthiest balance sheets in the industry with CAD 173 million in pro forma cash as of the closing of the final BAT funding tranche.

As a reminder, we expect to close the second CAD 41.5 million tranche later this month, and the final tranche of BAT's CAD 124.6 million follow-on investment at CAD 3.22 per share is expected to close in February 2025. In addition to our ample cash position, we maintain effectively zero debt, which makes us a rare find in the cannabis industry and allows us significant financial flexibility.

This concludes my comments and I will now turn the call over to Greg to discuss our financial results for the quarter.

Greg Guyatt

Chief Financial Officer, OrganiGram Holdings, Inc.

Thank you, Beena. We are pleased with the progress Organigram has made from a financial perspective with the return to generating adjusted EBITDA in the quarter. As Beena mentioned in her comments, our net revenue grew by 25% versus Q3 last year and over 9% sequentially. At the same time, our gross margins have seen a significant improvement, owing to higher yields and increased operating efficiencies in the business. While yields and THC content will fluctuate over time, the trend we have seen over the last two years has been higher yields and higher potency.

In our Q2 earnings call, we highlighted that we would begin to see lower-cost flower harvested in Q2 flow through in Q3. That is indeed what we have seen and the record yield of 185 grams per plant that Beena mentioned contributed to the improved adjusted gross margins in the quarter. Our adjusted gross margin rate in Q3 showed a meaningful increase to 36% from 19% in Q3 last year, an improvement of 17 percentage points. Sequentially, we saw 5% – or a 5 percentage point increase.

The combination of higher sales and higher adjusted gross margin rate resulted in 139% increase in gross margin dollars year-over-year to CAD 14.6 million. The year-over-year increase was attributable to several factors, including lower cultivation and post-harvest costs, reduced inventory provisions, and lower depreciation resulting from impairment charges recorded last year.

In addition to our gross margin improvements, we also reduced our operating expenses in Q3. Adjusting for impairments realized in the prior-year period, total operating expenses in Q3 decreased by 20%. Driving the lion's share of that change was a 22% decrease in SG&A to CAD 14.8 million in Q3 from CAD 19 million in the prior-year period resulting from lower costs associated with the implementation of the first phase of our new ERP system, lower professional fees, and cost savings on our insurance programs.

As a result of our increased sales, improved margins and lower SG&A costs, we are pleased to report adjusted EBITDA of CAD 3.5 million compared to negative CAD 2.9 million in the same prior-year period. As we mentioned last quarter, fiscal 2024 adjusted EBITDA is expected to outperform fiscal 2023. Net income this quarter came in at CAD 2.8 million compared to a net loss of CAD 213.5 million in the same prior-year period. The increase in net income versus the comparative period is primarily due to higher revenues from recreational cannabis in Q3, net fair value gains on our investments in financial assets. Last year include an impairment charge of CAD 191 million.

From a cash flow perspective, net cash used in operating activities before working capital charges or changes was CAD 0.2 million in Q3 fiscal 2024 compared to a use of CAD 14.8 million in the prior-year period. The improvement was primarily due to higher recreational cannabis revenue and the reduced costs realized during the quarter. Cash used in investing activities in Q3 was CAD 14.9 million, which was driven primarily by the investment in Sanity Group and partially offset by a net change in restricted funds and proceeds from investment income. This compares to cash used in investing activities in Q3 fiscal 2023 of CAD 3.4 million, which was comprised of our investments in Greentank and Phylos partially offset by proceeds from the net redemption of short-term investments, proceeds from investment income, and a net change in restricted funds.

On the topic of cash, we are pleased to reiterate that we have one of the healthiest balance sheets in the industry. As of June 30, 2024, we had a total cash position of CAD 89.5 million including both restricted and unrestricted cash, we had negligible debt, and as Beena mentioned, our pro forma cash position after the closure of the second and third BAT tranches is approximately CAD 173 million.

At the end of last quarter, we mentioned on our Q2 earnings call that we felt the back half of this fiscal year would demonstrate our ability to generate sustainable, positive financial results. Given the results we have reported today supported by increased operational efficiency and OpEx savings, a five-quarter trend of incrementally higher sales, higher margins and a growing international footprint, we feel confident that we have demonstrated that trajectory.

Q4 is already shaping up to be exciting as we ramp up production for the launch of our nanoemulsion gummies, continue to lean in on seed-based production, realize more of the cost savings we have already outlined, and drive international growth.

This concludes my comments. I will now turn this call back over to Beena.

Beena G. Goldenberg

Chief Executive Officer & Director, OrganiGram Holdings, Inc.

Thank you, Greg. We are pleased with our solid financial results. Revenue is up, margins are up, and costs are being [ph] managed (00:20:37). We have built a strong foundation on which to execute our growth plans and are well-positioned to capitalize on the opportunities ahead of us at home and abroad. Once again, I'd like to thank everyone on the call for their support and interest in Organigram.

I will now open the call up for questions.

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] Please limit yourself to one question and one follow-up question. Our first question comes from the line of Aaron Grey with AGP. Your line is open.

Aaron Grey
Analyst, A.G.P. / Alliance Global Partners

Q

Hi, good morning and thank you for the questions. Congratulations on a nice quarter there.

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

A

Thank you.

Aaron Grey
Analyst, A.G.P. / Alliance Global Partners

Q

So, first question for me, just on the EU-GMP, Beena, I believe you said that that's expected in the near term. Could you just provide any additional color on when you're expecting that, and are there any additional things you would need in terms of export licenses or otherwise that would hold you up to be able to utilize that EU-GMP to export? And then secondly on that, just with [ph] standard grouping (00:21:41) of purchaser and how you just look to allocate capacity, domestic versus international, once you receive the EU-GMP approval? Thank you.

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

A

Sure, so thank you for the question. So we have been EU-GMP ready since much earlier this year and are just awaiting the German regulator to come out to do the audit of the facility. We would have liked them to come out already. This is just a scheduling issue, so we expect it'll happen in the fall. And once you have the audit, we expect it'll take a couple of months for the paperwork to get the certification. So we feel comfortable that early in calendar year 2025, we should have our certification and be ready to start capitalizing on using that certification.

Until such time, we continue to supply our GACP flower internationally but, obviously, it has to go through additional steps, so we look forward to leveraging that certification in the future. In terms of your question with regard to how you're going to allocate our volume, we would obviously prioritize international sales simply because without the excise, it's higher margin business, and then protect our branded business domestic recreational sales.

This past quarter, we've had some opportunistic sales to B2B customers in the domestic market. That is the area that we would reduce as we continue to expand our international business. Obviously, both from a margin and competitive standpoint, that makes sense.

Aaron Grey
Analyst, A.G.P. / Alliance Global Partners

Q

Okay, great. Thanks for that. [ph] That's really (00:23:34) helpful color. Second question from me, a real nice uptick in the gross margin came ahead of our estimate so just want to get some color in terms of how much more room there is for gross margin expansion there. You talked about some of the seed-based initiatives you have and some more benefits to come there. You're also going to have additional margin capture once you get the EU-

GMP flowing through in 2025, it now sounds like, so just some expectations in terms of where you believe gross margins can get to for you guys. Thank you.

Greg Guyatt
Chief Financial Officer, OrganiGram Holdings, Inc.

A

Yeah, thanks for the question. Look, we're really happy with where we are at 30% adjusted gross margin, and we're going to do everything we can to try to work on that trajectory. I think in the short term, maintaining margins around this sort of range of 36% is probably reasonable. As the international business scales up further next year, I think that's where we'll be looking to get some benefit from that.

But at this point, we're really happy with where we are and the cost savings initiative that we put in place, the increased yield per plant and our lower cost per gram are really the contributors there. But at this point, I think in the range that we're at is where we think we'll be for the next quarter or two at least.

Operator: And your next question comes from the line of Pablo Zuanic with Zuanic & Associates. Your line is open.

Pablo Zuanic
Analyst, Zuanic & Associates LLC

Q

Thank you. Good morning, everyone. Beena, can you comment any color or feedback that Sanity may have given you in terms of what happened in Germany in the second quarter? I mean, some companies have talked about significant growth from April to July. Any color you can give in that sense would be helpful. And I ask this question in the context of the reported data coming out of Germany says that imports were up about 50% between 1Q and 2Q, but when we look at the large LPs numbers that have been reported, we didn't see much growth there, so I wonder where that's coming from. So it's a two-part question. Thank you.

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

A

Sure, Pablo. So thanks for the question. Absolutely, we have heard the same from Sanity in terms of business doubling since April 1. The challenge that most German companies are running into right now is securing the incremental revenue – sorry, incremental volume to deliver even more upside to their revenue. So, here's the challenge with a product that takes five months from the time you plant it till you harvest it and you get it out to the market. When business grows exponentially, it's hard for the volume to catch up to be able to supply the market, and that's why you're not seeing as much product shipping from the LPs in Canada.

That will go up. Germany wants the product, Sanity Group has asked for more. They certainly feel that they are being – they restricting their upside opportunity because they don't have the volume, and we're doing everything we can to get the product ready to ship over there. And it's just a time challenge on the ramp-up really that you're facing right now. But it's an exciting opportunity. Sanity has told us about the growth. We're seeing it from other German customers, and Sanity has more initiatives they want to do so we're excited to get that product ready to be able to ship it over to them.

Pablo Zuanic
Analyst, Zuanic & Associates LLC

Q

Thank you. If I can, just a follow-up here. In terms of Jupiter's investments in the US, in the case of OBX, right, on hemp extracts, any concerns about the bans we're seeing at the state level or they haven't really materialized, bans on hemp derivatives? What are the people from OBX telling you? And then second part, would you be looking at making investments through Jupiter in US MSOs, right? We've seen other companies do that with guardrails? Is that something that you would also consider? Thank you.

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

A

So, let's answer the question about OBX. We are tracking with them what's happening on the front of hemp-derived derivatives in – we are following what's happening with the Miller Amendment to check what's going on state by state. We have confidence that there are some states who have already put in regulations that will maintain the availability of hemp-derived cannabis offerings. So we feel good that there will be a market there, but we're watching the regulations closely with OBX to understand how this will roll out, and it will influence our next steps in the Delta 9 space in the US. So that's a bit of a regulation watch and then make decisions coming out of there.

In terms of your second part of your question about US opportunities, look, there were a lot of inbounds – as soon as we announced the Jupiter investment pool, there are a lot of companies that are strapped for capital that would like an investment. But we're at this point where we have to make sure what we do in the US obviously is compliant with our listings. We have watched what some of our peer groups have done. We have historically said that our priority is to make sure that our investments are not passive investments. You could always invest in a real estate arm of one of the MSO and meet the guardrails, but that's not something that we would typically want to do.

We're looking for more strategic investments that have long-term opportunities for us. We're looking at how to leverage some of our IP in the US market. And those are things that we'll continue to look at. US is a priority market for us. It's taking us a little bit more time just because it's a little bit more challenging, but it's a focus and hopefully we'll have something to report soon on that front.

Operator: And your next question comes from the line of Frederico Gomes with ATB Capital Markets. Your line is open.

Frederico Gomes
Analyst, ATB Capital Markets, Inc.

Q

Hi, morning. Congrats on the quarter, thanks for taking my questions. Beena, you mentioned the improvement that you saw I guess in the yield per plant, a record for OGI. Does that have any relation to your seed-based production or is it related to other factors? And then just in terms of the seed-based production, can you remind us about what's the impact in terms of margins that could have to you? Thanks.

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

A

Okay, certainly. So, first of all, as I mentioned in my remarks, the three rooms we harvested in Q3 from seed-based production generated an average 200 grams per plant. So certainly that helps the overall number, but 3 rooms out of somewhere between 55 and 60 rooms aren't going to drive the numbers. So, our overall yield is coming up on our regular clone-based production as well [indiscernible] (00:31:08). We will continue to add some more seed-based production and that will help us, obviously, we will optimize our production as we continue to go, but what seed-based does for us is a couple of things.

Number one, the cycle time is shorter so you don't go through the whole pre-veg stage, so you have perhaps cycle time of around 70 days versus 100 days in a normal clone-based production. So that gives us more turns in our facility which will give us more volume that, obviously, that we could sell, so that increases capacity. But secondly, it also, with – as we move from elite seeds – so we're now currently using elite seeds, but as I mentioned, that one of the reasons we fast-tracked the Phylos – sort of a partial payment of their final tranche was to get some auto-flower seeds.

And the difference with auto-flower seeds, not only do you get the benefit of the cycle time, so extra capacity, but there's less plant care required for those seeds so there's a significant labor savings. So as we convert over between elite seeds to auto-flower seeds, there's further margin improvement to be had. Exactly the quantity, well, we have to still run our trials to provide that number, but the plant science work that we've done already suggests that there is significant labor savings that will help on our overall cost per gram.

Frederico Gomes
Analyst, ATB Capital Markets, Inc.

Q

Thanks for that. Then in terms of the pricing, I guess, environment in Canada, I believe your average selling price for flower was sort of flat quarter-over-quarter, so could you just comment on that in terms of how do you see that market evolving? Do you think we are finally going to be stable here and maybe increasing prices? So, just any comment there because I know that the market remains very challenging but we're seeing some stabilization here.

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

A

Yes, absolutely, Fred. So, we are seeing that pricing on flower has stabilized. As a matter of fact, it's [ph] ticked (00:33:35) up a bit. We certainly saw it on our B2B sales that we were able to sell for a higher price per gram than a year ago, so there is benefit there, and we've also taken some pricing on our large format Big Bag O' Buds because there's opportunity. So, we are seeing supply and demand come into play, and that's good on flower. Our business has remained flat in terms of average price, and that one is purely a mix issue. So, if you sell less on international sales and you sell more big format versus small format, you'll get that mix impact, but like to like on a 28-gram format, we've actually seen a pickup from pricing.

So, I think that the low is behind us at this point in the supply and demand picture in Canada. That being said, we do see price compression in other segments. So, for example, on the edibles side, we are feeling some price compression there on edibles, which has historically been more focused on flower pricing. Now with a little bit of excess capacity or maybe some competitors that are just on the verge of being around, sort of needing to generate revenue to just handle some of their cash requirements, they're taking pricing down, which is not really the greatest thing for the overall industry and for the edibles segment.

But over time, we hope that sort of irrational behavior will go away and that we have great quality products, we're really excited about our nanoemulsion gummies that are coming out, and we hope to see pricing come back into that segment as more differentiated products get out there.

Operator: [Operator Instructions] Your next question comes from the line of Yewon Kang with Canaccord Genuity. Your line is open.

Yewon Kang
Analyst, Canaccord Genuity Corp.

Q

Hi, good morning. Thank you for the question. Obviously, congratulations on a fantastic quarter. Nice to see sequential increases across virtually all metrics. Just my first question here is regarding Germany. Now that we're a few months past the April 1 CanG enactment, can you comment on any of the trends that you've been seeing with respect to the increased consumer demand for medical cannabis there along with increased supply becoming available in the market, particularly by Canadian LP exports, and its impact on the pricing dynamics in the initial days there? Thank you.

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

A

Sure. So, again, like I said, we certainly have seen an increase in – through – we've heard from Sanity there is an increase in demand for medical cannabis. Definitely the sense that people who are buying from the illicit market are moving over pharm – and picking up their cannabis at pharmacies. I think, again, this is something that is – it was a pent-up demand, but we do expect it to continue to increase as supply becomes more readily available.

So, early days, the pharmacies were even having trouble getting product out to the people who are coming in to purchase cannabis, and there's still this delay between supply getting out from all international markets into Germany. So, as we work through those challenges, I think we're going to see even greater volume going through that market, and we're very excited about it, I mean, it's a good indication. And Sanity Group is just ready to open up their telemedicine platform, and again, that one, they're just waiting on getting the right amount of supply to make sure they kick it off and could supply their customers.

So all signals out of Germany are – there is upside happening and there are a lot of LPs ready to supply that market. We're excited because, obviously, our investment in Sanity guarantees us a certain amount of flower being shipped in, but there's other customers in Germany that are looking for volume as well. So, it's an exciting market, like Germany is going to be the next big phase, wave of growth and it's a very good opportunity for us.

Yewon Kang
Analyst, Canaccord Genuity Corp.

Q

Thanks for that. And if I could just ask my second question as a follow-up, regarding the yields and potency KPIs that you guys maintain in terms of operational improvement, I think it was mentioned as part of the prepared remarks that these operational KPIs will fluctuate from time to time and that it'll have an impact on margin performance over time. I was just wondering, what kind of activities would make it more stable throughout and your expectation on the margin performance going forward should the yields and potency results become more stable throughout?

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

A

So just to be clear, the yield and potency is very predictable for a specific cultivar. But again, demand on the different cultivars changes and that will be why you have fluctuations. So, if more people want a cultivar that perhaps has a slightly lower yield when you grow it versus another cultivar that has higher yields, right, there's a mix between not all plants grow exactly the same. Obviously, we continue to improve the yield on all plants as we work on them, but just physiologically, some plants will grow bigger, higher yields. And so the fluctuations are going to be there as long as there's a cultivar mix fluctuation.

Over time, yeah, it would be simple if everybody bought just one cultivar and you just grew your whole facility of one cultivar. But that's not reality. I know our operations people would have loved that, but because there's mix and consumer demand for different types of terpene profiles, aromas, different – there will be that mix impact and that's what's causing the fluctuation. I think over time, we will continue to drive higher numbers, but we will still see ups and downs depending on the rooms that are harvested in that quarter and what we've grown in those rooms.

Operator: And at this time, I would like to thank everyone so much for joining us today. This does conclude today's conference call and you may now disconnect.