

The Green Organic Dutchman Holdings Ltd.
Fourth Quarter and Fiscal Year 2021 Conference Call
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CONFERENCE CALL PARTICIPANTS

Tamy Chen

BMO Capital Markets — Analyst

Venkata Velagapudi

Research Capital — Analyst

PRESENTATION

Operator

Good morning, ladies and gentlemen. My name is Anis (phon), and I'll be your conference Operator today. Welcome to The Green Organic Dutchman Fourth Quarter and Fiscal Year 2021 Conference Call.

To ensure an enjoyable experience for all participants, all lines have been placed on mute. Following the presentation, we will open the call for questions. If you would like to ask a question, simply press *, then the number 1. If you'd like to withdraw your question, press *, then the number 2.

This call is being recorded on Wednesday, April 6, 2022.

I would now like to turn the conference over to Shane Dungey, Vice President, Investor Relations. Please go ahead.

Shane Dungey — Vice President, Investor Relations, The Green Organic Dutchman Holdings Ltd.

Thank you, Anis. Good morning, and thank you all for joining us for our fourth quarter and year-end 2021 conference call. Today, we'll provide comments on our performance, as well as an update on our operations and how we're executing our plans.

This call is being recorded, and the audio recording will be available on the Company website at tgod.ca.

Joining me on the call this morning are Sean Bovingdon, Chief Executive Officer, and Nichola Thompson, Chief Financial Officer at The Green Organic Dutchman.

Today's discussion includes forward-looking statements. We caution that such statements are based on management's assumptions and beliefs and are subject to uncertainties and other factors that

could cause actual results to differ materially. I refer to you our news release and MD&A for more information on these assumptions and factors.

With that, I will now turn the call over to Sean.

Sean Bovingdon — Chief Executive Officer, The Green Organic Dutchman Holdings Ltd.

Thanks, Shane, and good morning, everyone. Thank you for joining us today.

Well, we closed out 2021 with strong momentum, as we saw significant growth, quarter over quarter, reflecting continued execution of our strategic plan as we remain focused on quality and consistency. We also began the process of integrating the Galaxie Brands acquisition in the fourth quarter, and we should see the benefits of that transaction throughout 2022.

Most recently, and from that Galaxie acquisition, we added to TGOD's executive bench strength with appointing Nichola Thompson to the Chief Financial Officer position. Nichola is a highly skilled finance executive and brings extensive cannabis experience to the TGOD team, and she will walk you through the financial results later in this call.

We posted significant growth in our Canadian adult recreational revenues this last quarter, despite the highly competitive environment. We have built on our momentum from Q3 and gained significant traction for our sativa and indica flower products, while also adding innovative SKUs to meet the consumer demand.

Nichola will add further colour around our financial results, noting our record 2021 annual revenue, our record Q4 quarterly revenue, and a record December monthly revenue, which have served as a solid base for us to accelerate our growth into 2022.

It's important to note that we have not grown at the expense of price. Our pricing has remained relatively consistent, with consumers gravitating towards the higher quality, high-THC flower with strong terpene profiles, such as is found in our Sugar Bush and Maple Kush strains.

Our continued growth can be attributed to three strategic initiatives: firstly, the continued commitment to the TGOD promise to deliver consistent, high-quality, high-THC products; second, a focus on growing key retail chain penetration; and thirdly, the strategic decision in November to transition to a dedicated sales model.

TGOD products are now in more than 1,500 stores across this country, as we continue to increase distribution, including going from zero locations to over 370 locations in the key retail chains in 2021. Our new, dedicated sales force has been successful in driving sales velocity through in-store visits and continuing budtender education.

Into 2022, we've also expanded our production base to meet increasing consumer demand by adding cultivation at the Valleyfield facility in Quebec. We expect Valleyfield to add approximately 2,100 kilos of flower in the coming year, with an annual capacity of 2,800 for a full year, while it remains our production facility for our sought-after hash products.

We were proud to launch our Highly Dutch 6-month Oak Barrel aged hash to the Quebec market early this year, with expanded availability to the Ontario market coming in May, and it's receiving rave reviews.

On an operational basis, our Chief Operating Officer, Michel Gagné, and his team, are doing an outstanding job delivering consistent results of high-quality product. Our yields have been consistently between 80 grams and 100 grams per plant, and our most recent Maple Kush indica harvest yielded a

remarkable 130 grams per plant. As per our TGOD promise, the THC is consistently over 22 percent, with our latest Maple Kush product in Ontario at 28.7 percent, with terpenes at an impressive 3.9 percent.

We also expanded our international footprint in the year as we completed our first commercial shipments of the Australian and South African medical cannabis markets. We expect to introduce more cannabis products to those markets later in this year.

There continues to be many opportunities to accelerate this growth. Our product portfolio is focused and innovative, our geographic footprint continues to expand, and we've made the required adjustments to our distribution network to continue to grow on our successes.

In conclusion here, we are pleased with our progress, and we remain focused on execution and a financial discipline, while continuing to transfer TGOD towards a profitable, sustainable, and agile cannabis company that is growing faster than the legal market is in Canada.

With that, I'll now like to hand the call over to Nichola to take you through the financial results.

Nichola Thompson — Chief Financial Officer, The Green Organic Dutchman Holdings Ltd.

Thank you, Sean. Today, I will go over our fourth quarter and year-end results and highlight the progress we have made.

Fiscal 2021 gross revenue was \$39.2 million, an increase of 149 percent from fiscal year 2020, with net revenue of \$30.2 million, an increase of 137 percent, which was largely attributed to the launch of the Highly Dutch brand and the growth of the premium flower and hash offerings.

As Sean mentioned, we ended 2021 on a strong note, with a record Q4 and a record month in December. The Company posted a net revenue of \$9.5 million in Q4, an increase of \$2.2 million or 30 percent, quarter over quarter.

Our sales of medical cannabis products also gained momentum, increasing 79 percent during Q4 to \$1 million versus \$0.55 million in Q3.

Gross margin, before changes and fair-value adjustments, improved in Q4 2021 to 32 percent, an improvement of 3 percent, quarter over quarter. This improvement reflects production efficiencies and higher net revenues with lower excise duties than the previous quarter, due to product mix.

We believe gross margin and net revenue in Canada will continue to increase as we sell proportionately more premium flower, which should result in achieving breakeven adjusted EBITDA.

We have also continued to keep a close eye on costs, further driving down general and administrative expenses 28 percent, quarter over quarter, to \$4.6 million, a decrease of \$1.8 million. As we continue to optimize the integrated operations and capitalize on synergies, we expect to realize lower costs in the coming quarters.

Loss from operations improved in Q4 2021 to \$5.7 million, an improvement of \$3.5 million from Q3 2021. Loss from operations was \$28.7 million for the year ended December 31, 2021, compared to \$41 million as of December 31, 2020, primarily due to the improvement in revenues, gross margin, and the reduction of general and administrative expenses.

As of December 31, 2021, the Company had positive working capital of \$25.7 million. The total cash and near-term receivables were \$12.9 million. The cash and the access to cash from the revolver will primarily be used towards covering working capital requirements and operating costs as the Company moves towards achieving positive operating cash flow.

Subsequent to the quarter, we announced an amendment to the credit agreement. Amongst other things, the amendments included an increase in the revolver facility by \$5 million, to \$30 million,

permitting certain eligible inventory to be included in the calculation of the borrowing base, and relax certain covenants set forth in the credit agreement.

We are driving continued financial progress in 2022, and I look forward to reporting on that next month. With that, I will hand the call back to Sean.

Sean Bovingdon

Thanks, Nichola. Subsequent to the year-end, the Company has hit some significant milestones.

According to the sales data from the Ontario Cannabis Store, the OCS, in February, TGOD's Organic Cherry Mints was the third-best-selling 3.5-gram flower in the premium flower category, while Organic Maple Kush was sixth, and Organic Sugar Bush was the eleventh best seller.

Cruzy led the way in the resin and rosin category, coming in second with our Supercharged Duubyz infused pre-rolls. And Highly Dutch Amsterdam Sativa was the sixth-best seller in Ontario in the 28-gram flower format, while it remains one of the leaders in Quebec. They're just some examples of the growth in market share we've been achieving.

With Galaxie as the exclusive producer of Wyld edibles in Canada, we are also seeing expansion for listings of Wyld across the country. It's currently sitting at 25 listings across the country, but Wyld will continue to add additional SKUs and distribution points throughout 2022, with confirmed listings already approved.

With recent product launches in over 20 new SKUs of TGOD and Cruzy products approved for listing, we are poised for substantial growth in 2022. We are rapidly expanding our presence in retail stores across the country and have driven sales velocity through our key retail chain strategy and the dedicated boots on the ground. Since early December, our dedicated sales force has achieved more than 5,800 store visits, and we continue to expand distribution in the key growth markets such as Ontario and now BC.

In closing, we are extremely pleased with the Company's recent progress, and the team is working hard to bring the Company to positive cash flow with many strategic initiatives and a continued focus on discipline. The management team and the board are committed to the long-term success of TGOD. I'd like to thank our employees for their continued hard work, and to all our shareholders for your continued support.

With that, Operator, we are ready to take any questions.

Q&A

Operator

Thank you, sir. Ladies and gentlemen, we will now begin the question-and-answer session. If you have a question, please press *, followed by the 1 on your touch-tone phone. You will hear a three-tone prompt acknowledging your request, and your questions are polled in the order they are received. If you are on speakerphone, please lift the handset before pressing any keys.

One moment, please, for your first question.

Your first question comes from Tamy Chen with BMO Capital Markets. Please go ahead.

Tamy Chen — BMO Capital Markets

Hi. Good morning. Thanks for the questions. First one is, are you able to disclose how much revenue contribution Galaxie had in the fourth quarter?

Sean Bovingdon

Yeah. I believe it was—being November the 17th as the acquisition date, it was a relatively small amount in December. And as I said, in the—earlier, we expect to see more of that growth in 2022 with the listings that came on in January, and further listings coming on in April. The Wyld really launched

January the 1st. They had a couple hundred thousand in December, but it's really this 2022 where we're looking to see the impact of that acquisition.

Tamy Chen

Got it. Okay. And I'm just wondering—I think in the press release you are continuing to target for positive EBITDA by the second quarter of this year. So I'm just wondering, do you see that there's still more room to cut on cost, whether it's in COGS or SG&A? Or is that target for positive EBITDA all about sales growth?

Sean Bovingdon

It's a combination of both, Tamy. And not only are we having the growth of these, as we said, we look to get to the target of net revenue of around \$5 million a month to hit that breakeven EBITDA target. But it's also the mix of the products. We're selling more and more 1.0 flower as a portion of a mix, and that has—as you see in Q4, you saw the increase in gross margin, and that improves the gross margin from that revenue.

In addition, we have made additional synergies on the costs side, on the G&A side, and expect those to be realized more so in Q2 than Q1. Obviously, with the transition and the integration of Galaxie and the bodies there, there's some additional cost savings on the G&A as well. So it's a combination of the discipline and focus across the board, as well as the continued revenue growth.

Tamy Chen

Got it. And so, sorry, just to confirm, you're saying when your mix of sales is more in the flower, that's actually what improved your margin?

Sean Bovingdon

That's a big portion of what's improved our flower because as we're producing flower with the yields we're getting out of Ancaster now, and with Valleyfield coming on in Q2, we still sell—about 70 percent of our revenue is from flower. But an increasing mix of that moving from Highly Dutch towards the premium flower improves the margin. I mean, we saw that 3 percent increase in margin in Q4 and we expect, as we go into Q1 and Q2, for that gross margin to go towards the 35 percent level. So that helps with the contribution towards that positive EBITDA as well.

Tamy Chen

I see. Okay. Understood. And last one for me is do you have any sense—or like a target that you're sort of trying to aim for, to get to positive cash flow?

Sean Bovingdon

In terms of Q2? Or do you mean that EBITDA number?

Tamy Chen

Well, from a cash flow perspective. So I know you're saying Q2 is positive EBITDA, but just when you're factoring a working capital, anything else onto the cash flow side, are you also anticipating Q2 is when that will happen? Or that will happen a bit after that?

Sean Bovingdon

No. On a monthly basis, within Q2, we expect to be positive operating cash flow.

Tamy Chen

Got it. Okay. Thank you.

Operator

Thank you. Your next question comes from Venkata Velagapudi with Research Capital. Please go ahead.

Venkata Velagapudi — Research Capital

Thanks, guys, for taking my question. So I want to understand the impact of your dedicated sales model on your revenue diversification. Do you have any data related to the percentage of revenue from key provinces like Ontario and BC in Q4?

Sean Bovingdon

Yes. Yes, Ven. Thank you for that. So Ontario is now—actually, in Q1 we're getting close to being at 35 percent to 40 percent of overall revenue for Q1 of this year. If we look at Q4, it was around 25 percent, which was up from when we had a—we didn't have a dedicated sales force like Q1 last year. It was only about 8 percent to 10 percent of our total sales. So it's been a dramatic increase in Q4, and into Q1 even further, because of that dedicated sales force being able to really get into the stores in Ontario. That's a big portion of it.

How much of it is their dedication and their store visits as opposed to the introduction of the Cherry Mints and the Amsterdam Sativa Highly Dutch, as well as the new products on the Maple Kush, which has been very popular, the split between how much is new product and how much is just them doing the calls is hard to identify. But I think, on a whole of the—the holistic whole has led to that increase in Ontario, up to now, being about 35 percent to 40 percent of our total sales, while Quebec still remains around 35 percent of our product portfolio.

Venkata Velagapudi

Okay. That helps. Thanks. And do you have any data related to number of SKU submissions to OCS this year?

Sean Bovingdon

I mentioned there's been over 20 of the TGOD and Cruzy products that have already been approved. There's another window here for the OCS. April the 22nd, I think, is the date that it has to be submitted for, for the Q4 of this year. And we'll be submitting another eight SKUs, I think, approximately, for that period as well.

Venkata Velagapudi

Okay. Perfect. Understood—

Sean Bovingdon

And that's just kind of mainly Ontario. And on top of that, there's a couple more for Quebec and at least a half a dozen in Q3 that are coming online in Alberta.

Venkata Velagapudi

Okay. Understood. Thanks. And how should we think about seasonality in Q1 this year?

Sean Bovingdon

Yeah. The market has seen a little quieter time in January and February. We were kind of flat. But then March is really another record month for us, above where we were for December. So that's helped significantly, and that trend continues on.

We didn't see the drop-off in overall revenue that some of our peers have seen. We still have an increase, quarter over quarter, Q1 compared to Q4 of last year.

Venkata Velagapudi

Okay. Great. And last question from me. Can we see any kind of triggers related to European market this year? Like a EU-GMP? Or a sale of HemPoland or anything? Can we expect anything?

Sean Bovingdon

Yeah. That's a great question. The EU-GMP, as we talked about last time, we are waiting for the inspector to be able to come and visit, which he couldn't do from COVID, and he was expected in Q2. I think we're waiting for a final date on that. Whether it's June or July, we're waiting for that final date. But that's the final step for the EU-GMP for Germany. We do already have distribution agreements lined up for Germany to kick off as soon as he signs off on that. So that will be done up in the summer.

With regards to HemPoland, we're actively involved—actually, today, there's a group visiting the facility in HemPoland. So with that in mind, we're actively involved still in that sales process for HemPoland.

Venkata Velagapudi

Okay. That's great to know. Thanks a lot, and all the best for next quarter.

Sean Bovingdon

Thank you, Ven.

Operator

Thank you. There are no further questions at this time. Mr. Bovingdon, you may proceed.

Sean Bovingdon

So yeah. Thank you very much indeed for everybody attending. And we look forward to talking to you again at the end of next month with our Q1 results, which we're looking forward to sharing with you.

Operator

Ladies and gentlemen, this concludes your conference call for today. We thank you for participating and ask that you please disconnect your lines. Have a great day.