Indiva Reports Second Quarter 2023 Results

29.08.2023 | Business Wire

Indiva Completes Supply Agreement and Loan Amendment with SNDL Extending Maturity by Two Years

INDIVA Ltd. (the "Company" or "Indiva") (TSXV:NDVA), the leading Canadian producer of cannabis edibles and other cannabis products, is pleased to announce its financial and operating results for the second fiscal quarter ended June 30, 2023. All figures are reported in Canadian dollars ($), unless otherwise indicated. Indiva's financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS"). For a more comprehensive overview of the corporate and financial highlights presented in this news release, please refer to Indiva's Management's Discussion and Analysis of Financial Condition and Results of Operations for the Three and Six Months Ended June 30, 2023, and the Company's Condensed Consolidated Interim Financial Statements for the Three and Six Months Ended June 30, 2023 and 2022, which are filed on SEDAR+ and available on the Company's website, www.indiva.com.

"This was a transitional and busy quarter for Indiva, with several cross currents impacting our results, including the negative impact from the loss of revenue from our Indiva Life Lozenges, and partial revenue loss in the quarter from the transition to contract manufacturing of Wana gummies, offset by continued growth and excellent market share gains from Pearls by Grön gummies," said Niel Marotta, President and Chief Executive Officer of Indiva. "While we maintain that the Lozenge products were compliant with the Cannabis Act and had the positive effect of migrating dollars from the illicit market to the legal market, we complied with regulatory orders and discontinued production and packaging of these products in March 2023, and completed all sales of finished goods to provincial wholesalers in May 2023. Since that time, we have innovated and launched a new brand called No Future, including gummies and 1.2g vape products, which have since shipped to several provinces. This brand is designed to reset the price floor on edibles and 1.2g vapes, and pick up where our Lozenges left off, by providing value for of-age consumers with higher tolerances requiring larger doses. Our aim is to recapture the significant incremental market share that our Lozenges left behind, drive our path to profitability, and in doing so help our regulator achieve its goal of improving public safety while eliminating the illicit market for cannabis edibles. While this effort will not replace the necessary regulatory change that the industry desperately needs, and for which we will continue to advocate, it is a step in the right direction and leverages Indiva's wide distribution network and position as the largest, low-cost producer of edibles in Canada."

HIGHLIGHTS

Quarterly Performance

- Gross revenue in Q2 2023 was $8.1 million, representing a 21.6% sequential decrease from Q1 2023, and an 8.5% decrease year-over-year from Q2 2022. Year-to-date, gross revenue decreased 0.5% year-over-year to $18.5 million.
- Net revenue in Q2 2023 was $7.5 million, representing a 20.3% sequential decrease from Q1 2023, and a 7.6% decrease year-over-year from Q2 2022, driven primarily by the loss of revenue from Indiva Life Lozenges, declines in sales of Wana gummies, offset by higher sales of Pearls by Grön gummies. Year-to-date, net revenue decreased 0.5% year over year to $16.9 million.
- Net revenue in Q2 from edible products declined to $6.9 million, down 6.2% from $7.3 million in Q1 2023 and down 5.5% from $7.3 million in the prior year period. Edible product sales represent 91.3% of net revenue in Q2 2023. Year-to-date net revenue from edible products decreased 10.1% year-over-year to $14.2 million or 83.7% of net revenue.
- Gross profit before fair value adjustments, impairments and one-time items declined year-over-year by 18.2% and sequentially by 30.3%, to $2.2 million, or 29.3% of net revenue, versus 33.1% in Q2 2022 and 33.6% in Q1 2023. The decline in gross margin percentage was due primarily to the loss of high margin lozenges partially offset by lower unit costs driven by the implementation of automated equipment in edibles processing and packaging. Year-to-date, gross profit before fair value adjustments, impairments and one-time items increased to a record $5.4 million, or 31.7% of net revenue, versus $5.3 million or 31.3% of net revenue in the corresponding period last year.

- In Q2 2023, Indiva sold products containing 82.2 million milligrams of cannabinoids, the active ingredient in edible products, which represents a 26.5% decrease when compared to the 111.9 million milligrams in product sold in Q1 2023, and an 86.0% increase compared to 44.2 million milligrams sold in Q2 2022. The decrease was a function of lower sales and a mix shift towards products with lower average cannabinoid content due primarily to the loss of lozenge revenue.
- Inventory impairment charges in the quarter totaled $0.7 million and $1.5 million cumulatively year-to-date related to bulk lozenges and packaging which cannot be sold due to Health Canada's recent order to halt production and sale of these products, the write off of aged and out of spec bulk and finished goods, as well as certain marketing, packaging and raw materials. The Company will continue to work to monetize any impaired inventory which remains saleable.
- Operating expenses in the quarter increased 0.2% sequentially, and decreased 7.2% year-over-year, representing 43.1% of net revenue, versus 34.3% in Q1 2023 and 42.9% in Q2 2022. Operating expenses increased sequentially primarily due to higher marketing and sales costs offset by lower general and administrative costs. Year-to-date, operating expenses decreased by 7.4% to $6.5 million primarily due to lower marketing costs, partially offset by increased research and development costs related to new product development.
- EBITDA was a positive $0.6 million in the quarter due to a one-time gain on the sale of Wana license rights to Canopy. Adjusted EBITDA declined sequentially in Q2 2023 to a loss of $0.6 million, versus a profit of $0.4 million in Q1 2023, and a loss of $0.1 million in Q2 2022 due to lower sales and lower gross margins. Year-to-date, adjusted EBITDA was a loss of $0.2 million versus a loss of $0.5 million in the corresponding period last year. See "Non-IFRS Measures", below.
- Comprehensive net loss of $1.0 million included a one-time gain of $2.1 million on the sale of license rights offset by non-cash charges for impairment of inventory and assets held for sale totaling $0.8 million. Excluding these amounts, comprehensive loss increased to $2.3 million versus an adjusted loss of $1.3 million in Q1 2023 and $2.0 million in Q2 2022.

Operational Highlights for the Second Quarter 2023

- Initial deliveries of Pearls by Grön gummies were made to the province of Alberta. Four flavours were delivered including Blackberry Lemonade 1:1:1 CBN:CBD:THC, Blue Razzleberry 3:1 CBG:THC, Pomegranate 4:1 CBD:THC and Sour Apple THC. The Company expects meaningful revenue contribution from Pearls gummies in this important market.
- Indiva introduced three new Wana gummie SKUs including Citrus Burst Sativa 5:1 CBD/THC, Wild Raspberry Indica 5:1 CBD/THC and Pineapple Passionfruit 1:1:1 CBD/THC/CBG.
- Indiva introduced three new chocolates into the Alberta market under the Indiva 1432 brand, namely 1:1 CBN/THC Dark Chocolate, 1:1 THC/CBD Cookies and Cream and 1:1 THC/CBD Caramel Dark Chocolate.
- Pearls by Grön gummies continued to gain market share in Ontario and British Columbia, quickly becoming one of the top edibles in the country. Pearls Blue Razzleberry became the top selling edible product at the OCS in Q2.
- On May 30, 2023 Indiva and Canopy Growth ("Canopy") entered into a contract manufacturing agreement, under which Canopy received control of all distribution, marketing, and sales of Wana branded products in Canada, and Indiva received the exclusive right to manufacture and supply Wana™ branded products in Canada to Canopy for a period of five years, with the ability to renew for an additional five-year term upon mutual agreement of the parties. As consideration, Indiva completed a non-brokered private placement offering of common shares of Indiva whereby Canopy subscribed for an aggregate purchase price of $2,155,617. The balance of the consideration will be paid by Canopy to Indiva as follows: (i) additional consideration representing a value of $844,383; (ii) a cash payment of $1,250,000 on May 30, 2024.

Loan Amendment and Supply Agreement with SNDL

Indiva is pleased to announce that it has amended the terms of its existing non-revolving term loan facility (the "Amended Term Loan") with SNDL Inc. ("SNDL"), and has also entered into a supply agreement with SNDL (the "Supply Agreement") whereby SNDL will supply the Company with certain distillate products on an exclusive basis. The Supply Agreement provides for minimum monthly purchase commitments by the Company (the "Minimum Purchase Commitment"). The prices of all products supplied under the Supply Agreement are subject to periodic adjustments depending on prevailing market pricing. The Supply Agreement has an initial term of thirty (30) months, which automatically renews for successive twelve (12) month periods, unless earlier terminated. Provided that the aggregate minimum purchase commitment under the Supply Agreement has been met, the Supply Agreement will automatically terminate upon the re-payment of the Amended Term Loan, unless the Company elects otherwise. The Amended Term Loan extends the maturity date to February 24, 2026 and extends the existing security interest in favour of SNDL under the Amended Term Loan to the Minimum Purchase Commitment. The interest rate and other terms of the Amended Term Loan remain the same except for the addition of an event of default, whereby a default under the Supply Agreement (which is not cured by the applicable time period set out in the Supply Agreement) would constitute an event of default under the Amended Term Loan.

Events Subsequent to Quarter End

- Indiva launched a new value-focused brand called No Future, including four gummy SKUs and three 1.2g vape SKUs. The Company has already begun shipping product to British Columbia and Alberta and is expected to ship to Ontario in September. Initial orders have been robust, and encouragingly, replenishment orders have already been received for both gummies and vapes.
- Indiva rebranded the Indiva Life Sandwich Cookies as "Doppio: same delicious cookie, with a new look and a new name".
- The Company received acceptance of 13 new SKUs for listing, the majority of which were derived from in-house innovation, including four No Future Gummies in Ontario, Alberta and British Columbia and three No Future 1.2g vape products in Ontario and Alberta along with one No Future vape in British Columbia. Six additional SKUs received acceptance across multiple brands including Bhang, Doppio, 1432 and a 25-pack CBD gummy SKU under the Pearls by Grön brand.

Market Share

- Data from Hifyre Inc. for the second quarter of 2023 shows strong sell-through of Indiva's edible products. Please note that Indiva's sales and market share have been adjusted to remove Wana sales reflecting the transaction which closed May 30, 2023. With 21.8% share of sales across British Columbia, Alberta, Saskatchewan, Manitoba, and Ontario, Indiva continues to lead in the #1 market share position in the edibles category on an aggregate basis:
  - Ontario: #1 with 25.7% market share.
  - Alberta: #4 with 15.7% market share.
  - British Columbia: #1 with 15.9% market share.
  - Saskatchewan: #6 with 7.1% market share.
  - Manitoba: #4 with 8.6% market share.
  - Gummies: Indiva's Pearls by Grön gummies ranked as #5 in the edibles category with 7.8% share based on sales and 11.6% sub-category share, ranked as #3 in the edibles category based on units sold with 12.5% share despite not yet being available in Alberta until May.
  - Chocolate: Indiva held 39.5% total sub-category share, as Bhang® continued to lead the chocolate category with 35.2% sub-category share.
  - Baked Goods: Indiva led the baked goods category with 67.0% sub-category share, driven by the success of Doppio, formerly Indiva Life Double-Stuffed Sandwich Cookies.
  - Product ranking in Q2 2023 showed two of the Top 10 edible SKUs are from Indiva's Pearls by Grön gummies.
  - Based on data from British Columbia, Alberta, Ontario, Manitoba and Saskatchewan, the edibles category increased by 1.0% in Q2 2023 to $67.6 million in retail sales from $66.9 million in Q1 2023 and increased by 16.2% versus $58.2 million in Q2 2022.

Outlook

- The Company expects Q3 2023 net revenue to improve sequentially and year-over-year compared to the same period last year driven by new product introduction. Gross margins are expected to continue to trend higher in the second half of the year as the Company continues to achieve further efficiencies of scale from the implementation of automation in production and packaging activities and from the introduction of margin accretive products.

OPERATING AND FINANCIAL RESULTS FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2023 AND 2022

	Three months ended		Six months ended	
	June 30		June 30	
(in thousands of $, except gross margin % and per share figures)	2023	2022	2023	2022
Gross revenue				

8,133.1

8,891.3

18,502.4

18,590.1

Net revenue	7,506.1	8,126.5	16,918.2	17,005.1
Gross margin before fair value adjustments and impairments	2,201.9	2,690.8	5,363.3	5,319.2
Gross margin before fair value adjustments and impairments (%)	29.3%	33.1%	31.7%	31.3%
Loss and comprehensive loss	994.8	2,501.8	3,247.3	5,575.9
Adjusted EBITDA[1]	(610.3)	(149.7)	(195.5)	(528.1)
Net and comprehensive earnings per share - basic and diluted	(0.01)	(0.02)	(0.02)	(0.04)

[1] See "Non-IFRS Measures", below.

Operating Expenses

	Three months ended		Six months ended	
	June 30		June 30	
(in thousands of $)	2023	2022	2023	2022
General and administrative	1,475.3	1,359.7	3,060.0	2,807.8
Marketing and sales	1,405.3	1,625.4	2,617.4	3,356.1
Research and development	225.2	225.1	491.9	335.8
Share-based compensation	34.1	176.7	100.2	288.0
Expected credit loss (recovery)	(1.2)	(2.3)	(0.7)	(0.5)
Depreciation of property, plant, and equipment	47.3	51.8	97.5	98.9
Amortization of intangible assets	51.9	51.9	103.7	103.7
Total operating expenses	3,237.9	3,488.2	6,469.9	6,989.9

CONFERENCE CALL - Tuesday, August 29, 2023 at 10:30 a.m. (EST):

The Company will host a conference call to discuss its results on Tuesday, August 29, 2023 at 10:30 a.m. (EST). Interested participants can join by dialing 416-764-8658 or 1-888-886-7786. The conference ID is 16708083.

A recording of the conference call will be available for replay following the call. To access the recording please dial 416-764-8691 or 1-877-674-6060. The replay ID is 708083#. The recording will remain available until Thursday, September 28, 2023.

ABOUT INDIVA

Indiva is proud to be Canada's #1 producer of cannabis edibles. We set the gold standard for quality and innovation with our award-winning products, across a wide range of brands including Pearls by Grön, Bhang Chocolate, Indiva Doppio Sandwich Cookies, Indiva 1432 Chocolate, and No Future Gummies and Vapes, as well as other Indiva branded extracts. Indiva manufactures its top-quality products in its state-of-the-art facility in London, Ontario, and has a corporate workforce remotely distributed across Southern Ontario. Click here to connect with Indiva on LinkedIn, Instagram, and here to find more information on the Company and its products.

DISCLAIMER AND READER ADVISORY

General

Neither the TSX Venture Exchange nor its Regulation Services Provider (as that term is defined in the policies of the TSX Venture Exchange) has in any way passed upon the merits of the contents of this news release and neither of the foregoing entities accepts responsibility for the adequacy or accuracy of this news release or has in any way approved or disapproved of the contents of this news release.

Certain statements contained in this news release constitute forward-looking information. These statements relate to future events or future performance. The use of any of the words "could", "intend", "expect", "believe", "will", "projected", "estimated" and similar expressions and statements relating to matters that are not historical facts are intended to identify forward-looking information and are based on the parties' current belief or assumptions as to the outcome and timing of such future events. Actual future results may differ materially. In particular, this news release contains forward-looking information relating to, among other things, (i) the Company's outlook for and expected operating margins and future financial results, including the Company's ability to achieve a year-over-year and sequential growth of net revenue in Q3 2023 and to achieve higher gross margins in the second half of the fiscal year due to efficiencies of scale and the introduction of margin accretive products, (ii) the projected growth of its business and operations (including existing and new segments thereof), and the future business activities of, and developments related to, the Company within such segments after the date of this news release, including the anticipated introduction of new product offerings (iii) the Company's ability to capture and/or maintain its market share in any jurisdiction, (iv) the Company's ability to deliver on its commitments for existing or new listings of products, including scaling of existing products on a national basis, (v) the Company's ability to shift its revenue mix away from licensed products and towards products developed by the Company, (vi) the Company's ability to monetize any impaired saleable inventory, and (vii) the proposed telephone conference call expected to be held by the Company on August 29, 2023. Various assumptions or factors are typically applied in drawing conclusions or making the forecasts or projections set out in forward-looking information. Those assumptions and factors are based on information currently available to the Company, and include, without limitation, assumptions about the Company's future business objectives, goals, and capabilities, the cannabis market, the regulatory framework applicable to the Company and its operations, and the Company's financial resources. Although the Company believes that the assumptions underlying, and the expectations reflected in, forward-looking statements in this news release are reasonable, it can give no assurance that such expectations will prove to have been correct. A number of factors could cause actual events, performance or results to differ materially from what is projected in the forward-looking statements. Specifically, readers are cautioned that forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company, as applicable, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements, including, but not limited to, risks and uncertainties related to: (i) the available funds of the Company and the anticipated use of such funds, (ii) the availability of financing opportunities, (iii) legal and regulatory risks inherent in the cannabis industry, (iv) risks associated with economic conditions, (v) dependence on management, (vi) public opinion and perception of the cannabis industry, (vii) risks related to contracts with third-party service providers, (vii) risks related to the enforceability of contracts, (viii) reliance on the expertise and judgment of senior management of the Company, and ability to retain such senior management, (ix) risks related to proprietary intellectual property and potential infringement by third-parties, (x) risks relating to the management of growth and/or increasing competition in the industry, (xi) risks associated to cannabis products manufactured for human consumption, including potential product recalls, (xii) risks related to the economy generally, and (xiii) risk of litigation.

The forward-looking information contained in this news release is made as of the date hereof and the Company is not obligated to, and does not undertake to, update or revise any forward-looking information, whether as a result of new information, future events or otherwise, except as required by applicable securities laws. Because of the risks, uncertainties and assumptions inherent in forward-looking information, investors should not place undue reliance on forward looking information. The foregoing statements expressly qualify any forward-looking information contained herein.

This news release contains future-oriented financial information and financial outlook information (collectively, "FOFI") about the Company's prospective results of operations, which are subject to the same assumptions, risk factors, limitations, and qualifications as set out in the above paragraph. FOFI contained in this news release was approved by management as of the date of this news release and was provided for the purpose of providing further information about the Company's future business operations. The Company disclaims any intention or obligation to update or revise any FOFI contained in this news release, whether as a result of new information, future events or otherwise, unless required pursuant to applicable law. Readers are cautioned that the FOFI contained in this document should not be used for purposes other than for which it is disclosed herein.

Non-IFRS Measures

This news release makes reference to certain non-IFRS measures. These measures are not recognized measures under IFRS, do not have a standardized meaning prescribed by IFRS, and are therefore unlikely to be comparable to similar measures presented by other companies. Rather, these measures are provided as additional information to complement those IFRS measures by providing further understanding of our results of operations from management's perspective. Accordingly, these measures should not be considered in isolation nor as a substitute for analysis of our financial information reported under IFRS.

The non-IFRS measure used in this news release includes "Adjusted EBITDA". The Company calculates Adjusted EBITDA as a sum of net revenue, other income, cost of inventory sold, production salaries and wages, production supplies and expense, general and administrative expense, and sales and marketing expense, as determined by management. Adjusted license fee eliminates 50% of the fee which is equivalent to the Company's share of the joint venture company to which the license fee is paid. Adjusted EBITDA is provided to assist readers in determining the ability of the Company to generate cash from operations and to cover financial charges. Management believes that Adjusted EBITDA provides useful information to investors as it is an important indicator of an issuer's ability to generate liquidity through cash flow from operating activities and equity accounted investees. Adjusted EBITDA is also used by investors and analysts for assessing financial performance and for the purpose of valuing an issuer, including calculating financial and leverage ratios. The most directly comparable financial measure that is disclosed in the financial statements of the Company to which the non-IFRS measure relates is income (loss) from operations.

View source version on businesswire.com: https://www.businesswire.com/news/home/20230829619536/en/

Contact

INVESTORS
Anthony Simone
Phone: 416-881-5154
Email: ir@indiva.com