

Goodfood Q3 Earnings – FY 2017

GOODFOOD CONFERENCE CALL SCRIPT

Q3 FY-2017: JULY 13, 2017

Speakers: Jonathan Ferrari, CEO, and Neil Cuggy, CFO and COO

INTRODUCTION – OPERATOR

Thank you for standing by. Welcome to the **Goodfood Q3, 2017 Financial Results Conference Call**. At this time, all participants are in listen only mode. Following the presentation, we will conduct a question and answer session. As a courtesy to others, we ask that each participant limit themselves to one question, and if necessary, one follow up question. Instructions will be provided at that time for you to queue up for questions.

Please note that questions will be taken from Financial Analysts only.

If anyone has any difficulties hearing the conference please press star followed by zero for operator assistance at any time.

I would like to remind everyone that this conference call is being recorded, today July 13th, 2017 @ 10:00 am Eastern Daylight Time.

I would now like to turn the meeting over to your host for today's call, Jonathan Ferrari, Goodfood Chief Executive Officer. Mr. Ferrari, you may proceed.

JONATHAN FERRARI

Bonjour. Good morning. Bienvenue à l'appel conférence de Marché Goodfood pour présenter les résultats financiers du troisième trimestre et des neuf premiers mois de l'exercice 2017.

Welcome to the Goodfood Market Corp. conference call to discuss our financial results for the third quarter and year-to-date for fiscal 2017.

My name is Jonathan Ferrari, and I am Chief Executive Officer of Goodfood.

On the call with me today are Neil Cuggy, Chief Operating Officer and Chief Financial Officer of Goodfood and Matthew Côté, Director of Accounting.

Before we begin, I would like to remind you that today's presentation may contain forward-looking statements about Goodfood's current and future plans, expectations and intentions, results, levels of activity, performance, goals or achievements, or any other future events or developments.

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I would therefore ask you to take a moment to read the forward-looking statements disclaimer on page 2 of the presentation.

Thank you for joining us this morning for our very first earnings call. As you know by now, we have recently completed a private placement with net proceeds of almost \$20 million and concurrently, we completed a going-public transaction. Our shares began trading on the TSX on June 7, 2017. Today, Goodfood has a very healthy balance sheet, a single class share structure and little debt.

Turning to our investment highlights on slide 3:

Since we are a relatively new publicly listed company, I would like to take a moment to give you some background information about Goodfood and our industry.

Goodfood is a fast-growing meal subscription service company with a leading market share in Canada. We have experienced an average monthly active subscriber growth of 20% since August 2015, or the end of fiscal 2015.

We target young professionals, families as well as retirees who have limited spare time but enjoy home cooked meals and we make it easy for them to prepare meals at home.

Our company headquarters are in Montreal, Canada and the company was founded in 2014. Since then, we have established a broad geographic reach that covers eastern Canada, with a core focus on Quebec and Ontario.

We recently raised almost \$20 million in net proceeds from a private placement to execute our business plan, which we will tell you about later in the call.

The meal kit industry gained popularity in Europe before picking up in the U.S. For investors who wish to invest in this industry, we are the first and only publicly traded meal kit company in Canada.

The Goodfood management and board of directors has decades of cumulative experience in technology, manufacturing, public markets and finance. It also includes one of Canada's better-known high-tech entrepreneurs, Hamnett Hill. Our shareholders, customers, and employees stand to benefit from Goodfood's know-how, experience and innovative approach to business.

By 4pm today, 80% of Canadians will still not know what they are cooking for dinner tonight. Goodfood offers a convenient, affordable and stress-free meal solution that reduces grocery waste and is environmentally conscious.

Our product is adaptable to consumer preferences and refreshed weekly to offer our customers diversified options. Since the meals and their ingredients are pre-portioned and delivered directly to customers, our meal kits save customers time and take the hassle out of cooking. We also invest significant resources in maintaining customer service excellence.

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Meal-kit subscription services have become one of the fastest growing industries in the world and remains relatively new in Canada. As a result, Goodfood believes there are significant opportunities to rapidly grow its active subscriber base by continuing to invest in highly targeted marketing efforts, capacity expansion, and by establishing a national platform.

Diving a little deeper, this is a very attractive business model in terms of marketing ROI, working capital and operational leverage.

Goodfood's business model generates higher returns on marketing investments than many other industries. By investing in highly targeted marketing campaigns, we are able to generate profitable growth.

In terms of working capital, customers order and pay for their meals approximately one week prior to delivery. Once all the orders are in, we are able to order the precise quantity of food and ingredients that we need from our suppliers to prepare the meals, which virtually eliminates losses. We buy the ingredients from local sources and meals are processed and packaged in our facilities and sent to customers. The entire process, from ordering to delivery, occurs within a week.

The more we work with our food and delivery suppliers, the more we can generate economies of scale, reducing our costs and increasing gross margins. Furthermore, we have 10 to 45 days to pay our suppliers.

With a just-in time inventory and an asset-light business model that limits food waste and losses, Goodfood's adjusted gross margins are already twice the size of traditional supermarkets.

As we continue to grow our active subscriber base, we are confident that we can achieve further economies of scale that lead to continued gross margins improvements.

Turning to slide 6, you can see the strong and consistent growth that we have experienced since the end of fiscal 2015, both in terms of active subscribers and revenues.

More specifically, we grew our subscriber base from 500 to 23,000 and revenues increased from \$100 thousand to \$6.4 million in less than two years. You will also notice that our momentum has accelerated in 2017 both in terms of subscribers and revenues. These results demonstrate that our disciplined approach to executing on our business plan is bearing fruit.

Our strategy over the next twelve months is to continue to invest in marketing efforts to grow our active subscriber base in our current geographies, particularly in the greater Toronto area, expand our production capacity and establish a national platform.

As we mentioned in this morning's press release, we are increasing our production capacity in the greater Montreal area from 16,000 to 83,000 square feet. The new facility will allow us to grow up to 155,000 square feet, which gives us the ability to function at 10

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times our current capacity. The facility will be operational by mid-September of this year. This increased capacity will be critical as we look forward to maintaining our market leading position and increasing our market penetration in Eastern Canada.

We also plan to establish a national platform with a strong presence in Western Canada. We are currently looking at a number of options for a production facility of similar size to our new Montreal facility and which we expect will be operational mid 2018.

While the U.S. and European meal kit industries have demonstrated a growing and sustained popularity in the last few years, Canada is still in an early phase. However, in 5 years, we expect that the Canadian industry's penetration rate will be approximately 10% of households, or 1.5 million subscribers and \$3 billion in revenues. If we maintain a leading market share, we would be looking at substantial revenue growth within that period.

In addition, we see a number of opportunities to expand our product offering in the future. We can think of gluten free meals, options that account for common food allergies, a variety of daytime meal options such as breakfast or lunch, etc.

I will now let Neil walk you through our financial highlights.

NEIL CUGGY

As you just heard, the third quarter delivered healthy performance, capping off an excellent quarter for Goodfood. With a short, but strong track record for delivering growth and results, Goodfood is in a very good position in its first quarter as a public company.

Turning to our financial highlights year-over-year on slide 9.

Revenues increased more than five-fold to \$6.4 million for the quarter and \$12.3 million year-to-date. Subscribers increased from 23 hundred to 23 thousand.

Our triple digit growth rate was driven by highly successful marketing activities, which led to substantial growth in active subscribers and revenues.

Turning to slide 10, gross profit for Q3 rose to \$1.4 million, or 21.2% of revenue, compared to \$0.1 million, or 12.8% of revenues, for the same period last fiscal year.

For the year-to-date period, gross profit increased to \$2.6 million, or 21% of revenue, compared to \$0.1 million, or 7.7% of revenues, for the same period last fiscal year.

The adjusted EBITDA margin improved to negative 12.6% and negative 11.2% of revenues for the quarter and nine-month period respectively, an improvement of 7.8 percentage points and 19.8 percentage points over the corresponding periods of 2016. The improvement is mainly related to the strong increase in gross profit for both periods,

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partially offset by an increase in selling, general and administrative expenses required to support growth.

As we continue to increase our scale, we are confident that this growth will translate into increased profitability.

Gross merchandise sales reached \$7.5 million for Q3 2017 and \$14.4 million year-to-date.

Gross merchandise sales is the total retail value of meals sold before taking into account incentives and rebates. We consider this a good indicator of future sales. Our current annualized GMS run-rate is just over \$36 million and represents gross merchandise sales for the last four-weeks of the fiscal quarter multiplied by thirteen.

I would also like to mention that our payback period on incentives and rebates is very short and compares very favorably with what we see in the industry.

Adjusted gross margin rose to 32.8% for the quarter and 32.4% year-to date compared to 23.7% and 20.5% for the same periods of fiscal 2016.

On slide 12, the increase in net loss is mainly related to two non-recurring items: the harmonized loss on remeasurement of convertible notes of \$4.3 million, which is a non-cash item and transaction and reorganization expenses of \$0.3 million.

The increase in adjusted net loss, which does not include the non-recurring items, is mainly attributable to higher selling, general and administrative expenses required to support our growth.

We expect net loss to be larger in Q4 as a result of the slow summer months and continued ramping up of our operations in anticipation of Q1 2018 which is the beginning of the high season.

Now onto quarter-over-quarter results on slide 13. We delivered impressive growth with a net increase of 10,000, or 77%, in new subscribers from Q2 of this year, bringing us to approximately 23,000 active subscribers. This increase is primarily due to effective marketing strategies combined with very good execution from our operations teams.

If we look to Q4, it is important to keep in mind that the meal-kit industry is seasonal. Business is generally slower in the summer months as people are on vacation and eating out more often. That translates to a decrease in activity among existing subscribers.

For the same reasons, we can also expect continued growth in active subscribers, but at a significantly slower pace than in Q3. As a result, revenue growth will also be slower in Q4. Business usually picks up quite briskly in early September. If you go back to page 6 of the presentation or page 14 of the MD&A which present historical data, you will notice that revenues were more or less flat from Q3 to Q4 of 2016. We expect similar results for this year.

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Gross profit for Q3 was up 52% from Q2 of this year. With a sharp increase in active subscribers, Goodfood benefited from economies of scale. This had a positive impact on the quarter's gross margin, which rose to 21.2% when compared to Q3 of 2016, but declined slightly on a sequential basis.

The decline from Q2 can be explained by the fact that our production facility in Montreal was nearly at full capacity, which limited our ability to achieve operational efficiencies in processing and packaging. Our new Montreal facility is expected to be operational by Mid-September, which will help ensure that we are able to capture all potential efficiencies. We will also be investing in automation to improve gross margins in the new facility.

When we look to Q4, the slower growth in revenues resulting from seasonality will impact our gross profit and gross margin and our capital expenditures will be substantially higher as a result of our capacity expansion.

Turning to slide 15 to conclude.

Just as our gross merchandise sales are indicative of actual meal kits sold, they are also telling of growing out of our original facility. Again, a slight decrease in gross margin can be attributed to our functioning at close to full capacity and our limited ability to access operational efficiencies.

Jonathan, over to you.

JONATHAN FERRARI

In closing, 2017 is shaping up to be a very solid year for Goodfood – the value of our brand is gaining increasing recognition and we have strong momentum.

The measures we are putting in place to generate both short and long-term growth reflect our commitment to our business, shareholders, employees and customers. As we make progress towards the next stage of our business, we hope that you will continue to follow us in our quest to own the Canadian dinner plate.

This concludes our prepared remarks.

Thank you for joining us. Merci à vous et bonne journée.