

Goodfood Q4 Earnings – FY 2017

GOODFOOD CONFERENCE CALL SCRIPT

Q4 FY-2017: NOVEMBER 29, 2017

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

INTRODUCTION – OPERATOR

Thank you for standing by.

Welcome to the **Goodfood Q4 2017 and Fiscal Year 2017 Financial Results Conference Call**. At this time, all participants on the call are in listen-only mode.

Following the presentation, we will conduct a Q&A session open to analysts. Instructions will be provided at that time for participants to queue for questions.

If anyone has any difficulties with the line, please press star followed by zero at any time for operator assistance.

I would like to remind everyone that this conference call is being recorded, today November 29th, 2017 at 10:00am Eastern Daylight Time.

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

JONATHAN FERRARI

Bonjour. Bienvenue à l'appel conférence de Marché Goodfood pour présenter les résultats financiers du quatrième trimestre et de l'exercice financier 2017.

Good morning and welcome to this conference call where Goodfood Market Corp. will present its financial results for the fourth quarter and for the Fiscal Year 2017 ending August 31st, 2017.

I am Jonathan Ferrari, the Chief Executive Officer at Goodfood.

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

Before beginning, 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 other future events or developments.

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As such, I would ask participants to take a moment to read the disclaimer on forward-looking statements on page 2 of the presentation before we begin.

2017 was truly an exceptional year for Goodfood. We recorded strong subscriber and revenue growth, gaining momentum month after month.

Clearly, we have consolidated our position as market leader, gaining market share and increasing our penetration rate in Eastern Canada.

As we were managing this growth, we also successfully expanded our production and distribution facility here in Montréal. After operating at or above full capacity for nearly 6 months, we achieved a seamless transition to our new facility in September, increasing our capacity five-fold.

We have also made good progress in our plans to launch Goodfood's national platform by summer 2018. This would expand our addressable market by 45% or 11 million potential consumers. We signed a lease for a facility in Western Canada and started hiring key personnel.

Finally, we became the first and only publicly traded meal kit company in Canada. We raised almost \$20 million in net proceeds from a private placement to execute our business plan.

It has been a very busy year and we are extremely pleased with our results and achievements. Our momentum carried over in our first quarter of 2018 and we look forward to another successful year.

Slide 3 outlines our value proposition to our clientele. Research shows that consumers use meal-kits to save time on meal planning, meal preparation, cooking time and grocery shopping. They are also open to trying new recipes and new culinary experiences.

From the beginning, we have been focused on delivering a superior value proposition, using premium ingredients and easy to follow recipes that enable the preparation of healthy meals in 30 minutes or less.

Our focus on the consumer experience is also the basis of slide 4. Though we invest significant resources in maintaining excellent standards of client service, we can always do more to make incremental – yet important – improvements to the consumer experience at Goodfood.

Last month, we introduced 20-minute recipes as a rapid and stress-free option to prepare a wholesome meal. We believe we are the only meal-kit provider to offer a meal option that can be prepared in this time in Canada. Initial feedback indicates that these 20-minute recipes are well received by our customers.

We have also added more meal options. Our chefs have created new recipes, making sure to cater to a wider range of dietary preferences. This offers our customers choice and a dynamic consumer experience.

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We have also invested in improving service availability and providing more flexibility in our delivery service across the network. Likewise, we have enhanced the ordering process on our website.

We believe that by continuing to improve the consumer experience, Goodfood will increase brand loyalty, and lifetime value and retention amongst our subscribers.

Turning to slide 5, I am pleased to point out that customer satisfaction with our service is high. We were delighted to learn that Toronto Life magazine had selected Goodfood as the top meal-kit service in the GTA. This provides further proof that more and more Canadians are turning to Goodfood for a healthy, hassle-free meal option.

The next slide demonstrates the remarkable growth in active subscribers and revenue that Goodfood has experienced over the last two years.

From the fourth quarter of 2015 until the same quarter this year, we have grown our base of active subscribers from 1,000 to 31,000. This represents average monthly growth of roughly 20%. Revenue has also increased from \$100,000 to \$7.5 million during that time.

It is encouraging to see such strong and consistent growth in active subscribers and revenue over the past fiscal year. Our subscriber base grew by 35% in the fourth quarter, from 23,000 to 31,000. Revenue was up 16.5% in the same period, from \$6.4 million in Q3 to \$7.5 million in Q4 2017.

These quarterly gains are all the more impressive given that the fourth quarter tends to be a quiet one for Goodfood due to the modest demand for meal-kits that is typical of the summer holiday period.

The meal kit industry in Canada is still in an early phase and offers significant growth opportunities. Meal-kits address market trends towards convenience and an increasing focus on healthy food and value for money. Our experience shows that there is strong demand for meal-kits once consumers understand the value proposition on offer.

The meal kit industry has been one of the fastest growing industries in recent years in Europe and the United States. Penetration rates in Canada remain low.

However, we expect that by 2021, the Canadian industry's penetration rate could reach approximately 10% of households, or 1.5 million subscribers and \$3 billion in revenue.

By leveraging our first-mover advantage, as well as our future national platform, we believe that we are well positioned to maintain our leading market share, and capture a large portion of this future growth potential.

Slide 8 includes information on our capacity building efforts over the past few months.

As previously mentioned, Goodfood successfully and seamlessly transitioned to a new production facility in the greater Montreal area in mid-September this year. We moved from our old facility of 16,000 square feet, to our current one of 83,000 square feet. What's more, our new facility allows us to expand to up to 155,000 square feet in the future, which

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would enable us to operate at 10 times our initial capacity. This increased capacity is critical to maintaining Goodfood's leading market position, as well as increasing our market penetration in Eastern Canada.

In addition to this capacity expansion, Goodfood also increased automation. Significant progress has been made on the portioning process and our automation plan will lead to a reduction in labor costs and improve margins over the next quarters.

We are on-track for expanding our services to Western Canada during the first half of calendar 2018 where we have recently signed a lease for a 43,000 square foot production facility in the region. The exact location will be announced before mid-2018. The acquisition of our new Western Canada location was secured on favourable terms, including a tenant allowance that funds a significant portion of the expected capital expenditures needed to setup the facility.

We also secured limited rent increases over the lease term, and rights to expand into adjacent space to support future growth.

Our choice of destination in Western Canada was based on four criteria, namely:

- the cost and quality of delivery services;
- the cost, quality and availability of ingredients;
- the cost and supply of labour; and
- rent considerations.

Slide 9 outlines our corporate growth strategy. This is the last slide that I will present before turning over to my colleague Neil.

Our growth objectives are clear, and we have a plan to achieve them. We are all excited and looking forward to launching our national platform by mid-calendar year 2018 with the opening of a facility in Western Canada. We see the Western Canadian market as less developed than Eastern Canada, and as such the growth opportunities are extremely attractive.

We will also continue to expand our product offering, focusing on the customer experience.

We still operate in a market characterized by early-adopters, and as such need to continue to raise awareness of the benefits of meal-kits amongst consumers. We also want to continue to build our brand, which will translate into subscriber and revenue growth.

Another important component of our business strategy is to target our marketing dollars in select geographic regions to increase density. With more customers using our services in specific regions, we can decrease our shipping rates and increase margins. This will help underpin organic growth in sales in current Eastern Canadian, and future Western Canadian markets.

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Neil, I now turn it over to you.

NEIL CUGGY

Thanks Jonathan. Good morning all.

Goodfood enjoyed strong financial results in Q4 2017 and throughout the last fiscal year. Our robust business plan is delivering results, which bodes well for the future and our planned expansion in Western Canada.

Slide 10 illustrates – at a glance – some of the year-over-year highlights. The number of active subscribers grew by 933% during the year. Revenue followed suit, with a 607% increase from \$2.8 million to \$19.8 million during the same period. This includes a 652% increase in quarterly revenue when comparing Q4 2017 and the same quarter last year.

Goodfood's triple-digit growth in revenue and of almost 1,000 percent in active subscribers was driven by our effective marketing strategy and efficient operations. We were also able to maintain our corporate values and entrepreneurial culture in the face of such rapid growth. Though these gains are impressive, we truly believe that we are just scratching at the surface of a sector that has significant upside potential for growth across the country.

The next two slides demonstrate how Goodfood remains focused on generating profitable growth.

Slide 11 shows that our gross profit increased from \$300,000 in Fiscal Year 2016, to \$3.6 million this year. This represents an increase of more than 10-fold. In the fourth quarter of 2017, gross profit reached \$1.0 million, up from \$100,000 in Q4 2016.

In addition to these strong results, Goodfood nearly doubled its gross margin from 9.5% of revenue in Fiscal Year 2016, to 18.1% of revenue in this fiscal year. This was due in large part to our ability to benefit from economies of scale, resulting in significant savings on the costs of packaging, shipping and food ingredients. Gross margin improved slightly to 13.4% in Q4, compared to 12.9% in 2016.

Moving on to slide 12, gross merchandise sales reached \$23.1 million for Fiscal Year 2017, an improvement of 612% on the 2016 figure of \$3.2 million.

When comparing Q4 2017 to Q4 2016, GMS grew from \$1.1 million in 2016 to \$8.7 million in 2017, which represents a healthy increase of 659%.

Gross merchandise sales are the total retail value of meals sold before taking into account incentives and rebates. Our annual GMS run-rate reached \$36.2 million at the end of Fiscal Year 2017, which we see as a solid indicator of future sales for Goodfood.

I would like to point out that our payback period on incentives and rebates is quite short, and compares very favorably with what we see in the rest of our industry.

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Wrapping up this slide, Goodfood's adjusted gross margin rose to 25.5% for the last quarter, and 29.8% for Fiscal Year 2017, as compared to 24.5% and 21.9% for the corresponding periods of 2016.

The adjusted EBITDA margin improved to negative 29.0% and negative 17.9% of revenue for the quarter and fiscal year respectively. This represents an improvement of 2.5 percentage points and 13.3 percentage points over the corresponding periods of 2016.

This improvement is mainly due to the strong increase in gross profit for both periods, 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 as well as a rigorous operational focus will translate into profitability.

Slide 14 wraps up our year-over-year highlights. Our net loss for Fiscal Year 2017 was \$9.9 million. The increase in net loss is mainly due to two non-recurring items: the loss on remeasurement of convertible notes of \$4.3 million, which is a non-cash item, and reverse transaction expenses of \$1.8 million.

On an adjusted basis, the net loss drops to \$3.8 million.

When looking solely at fourth quarter results, our net loss is \$3.8 million and adjusted net loss, which excludes reverse transaction expenses of \$1.5 million, is \$2.3 million.

The increase in adjusted net loss, which does not include the non-recurring items, is mainly attributable to investments in administrative expenses to support our growth and increased marketing budget.

I now move on to slide 15 that is the first of three showing our quarter-over-quarter financial results.

Goodfood experienced a strong increase of 8,000 new active subscribers between Q3 and Q4 2017 in what is traditionally our slowest quarter of the year. Our revenue also grew by \$1.1 million in that same period. These increases are due in large part to our strategic marketing approach and efficient operations.

Slide 16 shows that our gross merchandise sales are up 16% from the third quarter to \$8.7 million for Q4 2017. Once again, a slight decrease in adjusted gross margin can be attributed to functioning at above full capacity, and our corresponding limited ability to extract operational efficiencies from our processing and packaging operations.

Turning to slide 17 to conclude.

Our gross margin decreased to 13.4% in the fourth quarter of 2017, as compared to 21.2% in Q3 2017. This decrease is explained by the fact that our production facility in Montreal was at or above full capacity, which limited our ability to achieve operational efficiencies in processing and packaging. For example, we had to receive a greater

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number of smaller deliveries from our suppliers and icepacks were received already frozen because of space constraints.

We also continued to build capacity in our operations in anticipation of Q1 2018 that is the beginning of the high season in the meal-kit industry.

We are already seeing improvements in gross margin as a result of moving into our new facility, which has enabled us to further extract operational efficiencies due in large part to increased space and automation.

Gross profit for Q4 2017 was down slightly to \$1.0 million from \$1.4 million in the third quarter this year.

I would be happy to answer questions from analysts on what I've presented today. Before that though, Jonathan would like to close out our presentation.

JONATHAN FERRARI

In summary, 2017 has been an extraordinary year for Goodfood.

Our significant growth in active subscribers, revenue and gross margin, combined with our strong financial position, provides for a solid foundation on which to grow our business and expand our geographic footprint.

The measures our company has put in place to generate both short and long-term profitable growth reflect our commitment to the business, our shareholders, our employees and our customers.

This concludes our prepared remarks.

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