

Goodfood Q1 Earnings – FY 2018

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GOODFOOD CONFERENCE CALL SCRIPT

Q1 FY-2018: JANUARY 11, 2018

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

INTRODUCTORY SLIDE – OPERATOR

Thank you for standing by.

Welcome to the **Goodfood Q1 2018 Financial Results Conference Call**. At this time, all participants on the call are on mute and in listen-only mode.

Following the presentation, we will conduct a Q&A session that is 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 January 11th, 2018 at 8:00am 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, please go ahead.

INTRODUCTORY SLIDE – JONATHAN

Bonjour à vous tous et bienvenue à l'appel conférence de Marché Goodfood pour présenter les résultats financiers du premier trimestre de 2018.

Good morning to all and welcome to this conference call where Goodfood Market Corp. will present its financial results for the first quarter of fiscal 2018 that ended on November 30th, 2017.

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

I am pleased to be joined on the call today by my colleagues Neil Cuggy, Chief Operating Officer and Chief Financial Officer, and Matthew Côté, Director of Accounting.

Prior to moving on, 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 1 of the presentation before we begin.

SLIDE 2 – JONATHAN

As you can see on slide 2, the 2018 fiscal year is off to a very strong start.

We experienced robust year-over-year growth in the number of active subscribers and revenue. Sales were strong, as evidenced by our annualized gross merchandise sales run-rate, which stood at \$62.8 million at the end of Q1 2018. These results were driven, in part, by the seamless and successful move to a new Montreal production facility, which allowed us to more than quintuple our operating capacity. The move to this new facility also allowed us to generate economies of scale, achieve gains in labour productivity and significantly increase the number of meal kits delivered weekly to our customers.

We continue to make good progress in preparing for the launch of our national platform and the opening of a new facility in Western Canada during the first half of the current calendar year. This move will expand our addressable market by 45% or 11 million potential consumers.

SLIDE 3 – JONATHAN

Slide 3 offers a snapshot of Goodfood's strong and consistent growth in the last quarter.

Active subscribers reached 45,000 as at the end of Q1 2018. This represents a close to five-fold increase from the 8,000 active subscribers that Goodfood registered at the end of Q1 2017.

During the first quarter of Fiscal 2018, Goodfood added 14,000 new subscribers to its ranks, which represents an increase of 45% from August 31, 2017.

Revenue grew sharply as well, increasing by more than five-fold when comparing the figures from Q1 2018 with Q1 2017. Our quarterly revenue increased strongly to \$11.2 million in the first quarter, which was up 50% from the \$7.5 million recorded in the fourth quarter of the last financial year.

SLIDE 4 – JONATHAN

Our new production facility in Montreal is the focus of slide 4.

After operating at or above full capacity in our previous facility from March to August 2017, we seamlessly transitioned to our new home in mid-September 2017, increasing our production and distribution capacity to 83,000 square feet from 16,000 square feet.

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What's more, our new facility allows us to expand to up to 155,000 square feet in the future, which would enable us to operate at 10 times our initial capacity. This is critical to maintaining Goodfood's leading market position, and will enable us to support our continued growth with the capacity to serve more than an estimated 200,000 subscribers from our Montreal facility and to generate \$200 million in revenue.

Following the move to our new home, Goodfood significantly increased the number of boxes delivered to customers on a weekly basis by 70%, while achieving important gains in labour productivity and increasing the number of full-time equivalent production employees by only 35%. In Q2 2018, Goodfood will focus on further automating our Montreal site.

SLIDE 5 – JONATHAN

The next slide summarizes a key element of Goodfood's future growth strategy and an exciting development for our company. We have been working hard in Q1 2018 to ready our launch strategy for our new national platform, which will be operational in the first half of calendar 2018. This includes construction work on our new facility in Western Canada, which has already started, as well as the key hires that we have already made in the region.

Our new national platform will expand our addressable market by 45%, or 11 million potential new customers. Our expansion into Western Canada dovetails with our continued focus on increasing market penetration in Eastern Canada. Taken together, it is easy to see why 2018 should be another strong fiscal year. With that, I will turn the call over to my colleague Neil to run us through the financial highlights of our company for the last quarter.

SLIDE 6 – NEIL

Thanks Jonathan. Good morning everyone.

We present here our key financial highlights for Q1 2018. As you can see in the two figures, year-over-year, at the end of November 2017, we respectively increased our active subscribers by 462%, and increased our revenues by 412%.

Growth has been robust, and continues the strong trends witnessed over the last many quarters in the business.

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SLIDE 7 – NEIL

The figures on slide 7 demonstrate how Goodfood has remained focused on generating profitable growth.

Our gross profit was up in the first quarter of 2018 to \$2.1 million, which represents a 527% increase from the \$0.3 million registered in the first quarter of 2017.

Our gross margin increased to 18.3% for Q1 2018, as compared to 15.0% for the corresponding quarter of 2017.

These 2018 figures reflect positive trends in gross margin and steady growth as compared with last year.

SLIDE 8 – NEIL

On slide 8 you will see that our gross merchandise sales for Q1 2018, which reflects the total retail value of merchandise sold by Goodfood before taking into account all incentives and credits, totaled \$13.3 million compared to \$2.6 million for the corresponding period of 2017. This represents an increase of 419% from Q1 2017.

Adjusted gross margin for the first quarter was 30.9%, up from 27.1% for the corresponding period of 2017. The increase in gross margin is primarily attributable to lower unit costs for packaging.

SLIDE 9 – NEIL

The next slide wraps up our financial highlights year over year.

Our net loss is down to \$2.5 million in the first quarter of 2018, from \$3.1 million in Q1 2017. Adjusted net loss was up to \$2.4 million for the last quarter, from \$0.4 million in Q1 2017.

The increase in adjusted net loss was primarily due to planned investments in administrative expenses to support continued active subscriber growth, as well as an increased marketing budget. Adjusted net loss excludes a loss on the disposal of fixed assets of approximately \$0.1 million in Q1 2018, and a loss on the remeasurement of convertible notes of \$2.7 million recorded in Q1 2017.

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SLIDE 10 – NEIL

That takes us to slide 10 and a shift in focus to our quarter over quarter results.

I am happy to report a 45% increase in our active subscribers in Q1 2018, vis-à-vis the 4th quarter of 2017. That translates into an increase of 14,000 net new active subscribers over a three-month period, our strongest quarter to date in terms of the gain in net new active subscribers.

What's more, our revenue increased by 50% in the first quarter when compared with the last quarter of 2017. These trends continue to point to a strong fiscal year in 2018 given that January and February, for starters, are traditionally strong-demand months for the business, despite a significant seasonal slow down in December.

Slide 11 – NEIL

Slide 11 compares our gross merchandise sales and adjusted gross margin results for Q1 2018 with those of Q4 2017.

Gross merchandise sales were up 52% quarter over quarter in Q1 2018, and our adjusted gross margin improved by 540 basis points over that same period. Our smooth transition to our new expanded production facility in Montreal allowed us to generate economies of scale, and significantly increase the number of boxes delivered per week, while achieving gains in labour productivity.

As mentioned previously by Jonathan, Goodfood is particularly proud that our gross merchandise sale run-rate, which represents the last four weeks of gross merchandise sales in the quarter on an annualized basis, reached \$62.8 million as at November 30, 2017. As Jonathan also touched upon, the launch of our new national platform, and the opening of our new Western Canadian production and distribution facility, will allow Goodfood to leverage its leading market position and bring the unique Goodfood customer experience to even more Canadians.

Slide 12 – NEIL

Moving on to slide 12, gross profit more than doubled to \$2.1 million in the first quarter of fiscal 2018, as compared to \$1.0 million in the last quarter of fiscal 2017.

Q1 2018 was also favorable when looking at gross margin as gross margin increased 490 basis points from the fourth quarter of 2017 to 18.3%.

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Slide 13 – NEIL

Slide 13 shows our adjusted EBITDA margin, which decreased to negative 20.6% in the first quarter of 2018 from negative 29.0% in Q4 2017. This significant improvement of 8.4 percentage points is primarily due to the strong increase in gross margin over the last quarter, our realization of economies of scale, and a reduction of selling, general and administrative expenses as a percentage of revenue in Q1 2018.

As we continue to increase the scale of our operations, we are confident that our growth and our rigorous focus on operational efficiency will translate into increased profitability.

Slide 14 – NEIL

That brings us to a close of our financial highlights for the first quarter of 2018, and concludes our prepared remarks for today.

We thank you all for joining us on the call.