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Organto Announces Record Second Quarter 2023 Financial Results

Largest Second Quarter Sales and Gross Profit in Company's History

Toronto, Ont., Canada and Breda, the Netherlands, August 29, 2023 – Organto Foods Inc. (TSX-V: OGO, OTCQB: OGOFF, FSE: OGF) ("Organto" or "the Company"), an integrated provider of branded, private label and bulk distributed organic and non-GMO fruit and vegetable products today announced financial results for the three-and six-month periods ended June 30, 2023. All amounts are expressed in Canadian dollars and in accordance with International Financial Reporting Standards (IFRS), except where specifically noted.

Highlights:

Second Quarter 2023 Operating Highlights

- Sales of $7,581,390 versus sales of $5,109,949 in the prior year, an increase of approximately 48% and approximately 40% on a currency adjusted basis.
    - Sales in the second quarter represent the largest quarterly sales in the history of Organto.
    - Sales in the second quarter represent the sixteenth consecutive quarter of sales growth, currency adjusted, versus the same quarter in the prior year.
- Gross profit of $678,804 or 9.0% of sales versus $208,084 or 4.1% of sales in the prior year. When adjusted for realized gains and losses on derivative assets and liabilities which is derived from currency hedging directly related to product purchases, adjusted gross profit (1) was $581,669 or approximately 7.7% of sales versus 5.5% in the prior year.
    - Gross profit dollars for the quarter represents the largest second quarter gross profit in the history of Organto.
    - Second quarter adjusted gross profit(1) as a percentage of sales increased 220 basis points versus the second quarter of 2022 as actions taken by the Company to address significant macro-economic challenges realized in 2022 began to contribute positively.
- Cash overhead costs for the quarter were 24.3% of sales, 22.2% on an adjusted basis, versus 27.1% in the same quarter in the prior year. Costs include investments in infrastructure and resources employed to support growth initiatives. These costs include expenditures not related to day-to-day operations of $153,493 including retail branded product development and on-line digital transformation activities, acquisition activities and corporate development costs.

Year-to-Date 2023 Operating Highlights

- Sales of $15,084,919 versus sales of $12,109,813 in the prior year, an increase of approximately 25% and approximately 18% on a currency adjusted basis.
- Gross profit of $1,410,048 or 9.3% of sales versus $878,686 or 7.3% of sales in the prior year. When adjusted for realized gains and losses on derivative assets and liabilities which is from currency hedging directly related to product purchases, adjusted gross profit (1) was $1,318,296 or approximately 8.7% of sales versus 7.9% in the prior year.
- Cash overhead costs for the period were 25.7% of sales, 22.8% on an adjusted basis, versus 22.6% in the prior year. Costs include investments in infrastructure and resources employed to support growth initiatives. These costs include expenditures not related to day-to-day operations of $424,718 including retail branded product development and on-line digital transformation activities, acquisition activities and corporate development costs.

"While we are pleased with our growth in both sales and gross profit during the quarter, and expect to realize continued growth, we are also deeply focused on improving the profitability of our business. During the second quarter we added an experienced Chief Operating Officer with deep industry knowledge and proven business transformation expertise to our team, and we restructured our operations to drive efficiencies and operational focus. We believe that demand for healthy, sustainable, and transparent foods continues to grow, and our business is well positioned as we continue to execute on our strategic plans." commented Steve Bromley, Chair and Co-CEO of Organto Foods Inc. and Rients van der Wal, Co-CEO of Organto Foods Inc. and CEO of Organto Europe BV.

Updated Annual Results Outlook

Year to date operating results have been less than initially expected due to a combination of delays or changes in account development plans and a number of supply chain challenges. Initial projections for 2023 were for an increase in sales of approximately 135% versus 2022, to approximately $50 million, and an approximate 200% increase in gross profit in dollar terms. While sales and gross profit have increased, including record quarterly sales and gross profit dollars in both the first and second quarters of 2023, the Company has encountered several challenges with sales growth being approximately 25% to date in 2023 and growth in gross profit dollars being approximately 60% so far in 2023. While growth has been slower than expected, the Company expects upward sales trends to continue and believes that it will exit 2023 at sales run rates in excess of $50 million with gross profit as a percentage of sales showing improvement.

The Company also expected to be EBITDA (earnings before interest, taxes, depreciation and amortization) positive during the second half of 2023. As with the delay in meeting sales targets, achieving positive EBITDA is also now expected to occur later than planned. The Company expects to show continued improvement over the balance of the year and expects to realize positive EBITDA during the first half of 2024, driven by a combination of continued sales and gross profit growth combined with operational efficiencies as the benefits of streamlining and rationalization efforts are realized.

Second Quarter Results Commentary

Sales for the three months ended June 30, 2023 were $7,581,390 as compared to $5,109,949 during the same period in the prior year, an increase of approximately 48%, or 40% when adjusted for changes in currency rates year over year. Second quarter sales are the largest quarterly sales in the Company's history. These results were driven by the acquisition of the New Fruit Group early in the year and offset somewhat by challenges in certain core categories in the quarter due to political unrest and weather-related factors that impacted supply. This quarter represents the Company's sixteenth consecutive quarter of currency adjusted revenue growth versus the same quarter of the prior year.

The Company realized quarterly gross profit of $678,804 or 9.0% of sales in the second quarter of 2023 as compared to a gross profit of $208,084 or 4.1% during the same quarter of the prior year, representing an increase in gross profit dollars of over 200%. The Company hedges currencies for certain product categories where both the supply and sales commitments are fixed in foreign currencies. In the second quarter, the Company realized a loss on derivative liabilities from its hedging program of $97,135, which while related to product purchases, is reported separately in our financial statements. Including this loss, adjusted gross profit(1) was $581,669 or 7.7% of sales versus 5.5% in the second quarter of 2022. The increase in gross profit in the second quarter of 2023 versus 2022 was due to a combination of improved market conditions in certain categories and improved internal processes.

Selling, general and administration expenses were $754,932 or 10.0% of sales in the second quarter as compared to $686,075 or 13.4% of sales in the same quarter of the prior year. Included in second quarter 2023 expenses are costs associated with the Company's acquisition program of $4,239 and $46,442 of costs related to the development of the Company's retail branded and on-line product platforms.

Management fees in the current quarter were $230,460 as compared to $263,127 recorded in the same quarter of the prior year and reflect reduced fees charged by certain officers.

Labour costs and benefits during the second quarter were $911,416, an increase versus the same quarter of the prior year of $847,604. Operating personnel have been added compared to the prior year, not only from the acquisition of New Fruit Group, but also to support increased commercial activities and to develop new products and sales opportunities. Included in the 2023 second quarter labour costs and benefits are costs associated with the Company's acquisition program of $5,667 and $97,145 related to the development of its retail branded and on-line product platforms. Late in the second quarter the Company undertook a re-organization of its operating units in order to reduce labour and other costs and improve efficiencies. Ongoing labour-related costs are expected to decrease as a result of this re-organization. A provision of $176,507 for expected severance costs has been recorded in other loss in the second quarter.

As detailed above, during the second quarter of 2023 the Company incurred costs of $330,000 of which $143,586 were related to the development of the Company's retail branded product offering and on-line go-to-market capabilities, a provision of $176,507 for expected severance costs and $9,907 of costs associated with its acquisition program. While the benefits of these activities have yet to translate into significant bottom-line contributions, it is believed these are prudent investments for the future of the Company.

Stock-based compensation in the second quarter of 2023 consists of $60,746 for restricted share units and $125,180 for stock options. Stock-based compensation for the second quarter of 2022 totaled $240,974 and consisted of $56,661 for restricted share units and $184,312 for stock options. in 2019 through 2023.

Net interest and accretion expense for the second quarter of 2023 was $453,552 as compared to $559,744 for the second quarter of 2022. Interest consists of interest on convertible debentures and accounts receivable factoring costs. Accretion in 2023 consists of accretion on the convertible debentures and the New Fruit Group earn-out liability while 2022 also included accretion on the earn-out payments accrued in relation to the Fresh Organic Choice and Beeorganic acquisitions. Interest expense in the second quarter of 2023 was offset by $4,824 of interest income.

At the end of each quarter, the Company revalues its investment securities. At June 30, 2023 the Company revalued the shares of Xebra Brands that it owns and recorded an unrealized loss of $81,019 for the second quarter of 2023. The valuation acknowledges that a portion of the Xebra shares we own are subject to trading restrictions which expire in September 2023. The carrying value of the Xebra shares of $38,985 at June 30, 2023 represents a discount to their market value of $39,375 to reflect these trading restrictions. In the second quarter of 2022 the Company recognized an unrealized valuation loss of $370,972.

To hedge exposure to fluctuations in the US dollar vs Euro exchange rate, The Company has a hedging facility with a European financial services company for forward currency exchange contracts. The difference between the cost to acquire US dollars through the forward currency exchange contracts and the spot market at the time of purchase has been recorded as a realized loss on derivative assets and liabilities in the second quarter of 2023 of $97,135 (2022 – gain of $70,467). These forward currency exchange contracts were used exclusively for product purchases and any gains or losses realized, while reported separately as realized gains or losses on derivative assets or liabilities, are designed to offset reported cost of sales.

The carrying value of the derivative assets and liabilities represents the difference between the cost to acquire US dollars on the spot market and through the forward currency exchange contracts. At June 30, 2023 these contracts require the Company to purchase US dollars for more than by acquiring them on the spot market, resulting in the recognition of a derivative liability and an unrealized loss of $73,493 for the current quarter. At the end of the second quarter in 2022, those contracts enabled the Company to purchase US dollars for less than by acquiring them on the spot market and an unrealized gain of $38,809 was recorded for the second quarter of 2022.

Other loss of $189,773 in the second quarter of 2023 consists primarily of a provision of $176,507 for expected severance costs resulting from the Company's re-organization that was commenced during the second quarter. No such provision was recorded in 2022.

Foreign exchange gains and losses may arise from transactions incurred in currencies other than the functional currency of the Company and its subsidiaries. The Company reported a foreign exchange gain of $30,627 this quarter as compared to a loss of $27,489 during the same quarter last year.

The Company reported a net loss of $2,251,113 during the second quarter of 2023, compared to a net loss of $2,678,625 during the same quarter in the prior year. Sales increased approximately 48%, or approximately 40% when measured in Euros, versus the second quarter of the prior year. Gross profit increased to 9.0% of sales versus 4.1% in the same quarter in the prior year, before the impact of currency hedging programs. Selling, general and admin and labour costs increased as the Company invested in its business to support future growth and onboarded the January 2023 acquisition of the New Fruit Group. In addition to $73,493 and $81,109 in unrealized losses on the revaluation of derivative liabilities and investment securities and realized losses on derivative liabilities of $97,135, second quarter 2023 results include $330,000 of costs not related to day-to-day operations including a provision for severance costs of $176,507 expected to be paid as part of an internal reorganization that commenced in the second quarter, as well as on-line platform and retail branded product development costs and costs incurred as we evaluated acquisition opportunities.

Year-to-Date Results Commentary

Sales for the six months ended June 30, 2023 were $15,084,919 as compared to $12,109,813 during the same period in the prior year, an increase of approximately 25%, or approximately 18% when adjusted for changes in currency rates year over year. These results were driven by the acquisition of the New Fruit Group early in the year and offset somewhat by challenges in certain core categories due to political unrest and weather-related factors which impacted supply.

The Company realized gross profit of $1,410,048 or 9.3% of sales in the six months ended June 30, 2023 as compared to a gross profit of $878,687 or 7.3% during the same period in 2022. The Company hedges currencies for certain product categories where both the supply and sales commitments are fixed in foreign currencies. In the six months ended June 30, 2023, the Company realized a loss on its hedging program of $91,752, which while related to product purchases, is reported separately in its financial statements. Including this loss, adjusted gross profit(1) was $1,318,296 or 8.7% of sales versus 7.9% in the same period of 2022. The improvement in gross profit is the result of actions taken to address challenges experienced in 2022 including supply chain challenges, inflation, currency fluctuations and the Russia/Ukraine war. Some of these challenges continue to affect the Company's operations in 2023.

Selling, general and administration expenses were $1,568,881 or 10.4% of sales in 2023 as compared to $1,407,969 or 11.6% of sales in the six months ended June 30, 2022. Included in 2023 expenses are costs associated with the Company's acquisition program of $46,427 and $109,229 related to the development of its retail branded and on-line product platforms. Costs increased on an absolute dollar basis due to the addition of New Fruit Group's operations in 2023 but decreased on a percentage of sales basis.

Management fees were $480,530 in 2023 compared to $533,773 recorded in the six months ended June 30, 2022 and reflect reduced fees charged by certain officers.

Labour costs and benefits in 2023 were $1,943,709, an increase versus the $1,656,829 recorded in the six months ended June 30, 2022. Operating personnel have been added, not only from the acquisition of New Fruit Group, but also to support increased commercial activities and to develop new products and sales opportunities. Included in 2023 labour costs and benefits are costs associated with the Company's acquisition program of $22,688 and $246,375 related to the development of its retail branded and on-line product platforms. The Company has undertaken a re-organization of its operating units to reduce labour and other costs and improve efficiencies. Labour costs are expected to decrease beginning in the third quarter as a result of this re-organization. A provision of $176,507 for expected severance costs has been recorded in other loss in 2023.

As detailed above, during the six months ended June 30, 2023 the Company incurred costs of $601,225 of which $355,603 were related to the development of its retail branded product offering and on-line go-to-market capabilities, a provision of $176,507 for expected severance costs and $69,115 of costs associated with its acquisition program. While the benefits of these activities have yet to translate into significant bottom-line contribution, it is believed that these are prudent investments for the future.

Stock-based compensation of $371,378 which consists of $123,038 for restricted share units and $248,340 for stock options. Stock-based compensation for the six months ended June 30, 2022 totaled $456,312 and consisted of $69,969 for restricted share units and $386,343 for stock options.

Net interest and accretion expense for 2023 was $800,753 as compared to $1,148,992 for the six months ended June 30, 2022. Interest consists of interest on convertible debentures and accounts receivable factoring costs. Accretion in 2023 consists of accretion on the convertible debentures and the New Fruit Group earn-out liability while 2022 also included accretion on the earn-out payments accrued in relation to the Fresh Organic Choice and Beeorganic acquisitions. Interest expense in 2023 was offset by $16,834 of interest income.

At June 30, 2023 the Company revalued the shares of Xebra Brands that it owns and recorded an unrealized loss of $53,556 for 2023. The valuation acknowledges that a portion of the Xebra Brands shares owned are subject to trading restrictions which expire in September 2023. The carrying value of the Xebra Brands shares of $38,985 at June 30, 2023 represents a discount to their market value of $39,375 to reflect these trading restrictions. In the six months ended June 30, 2022 the Company recognized an unrealized valuation loss of $790,569.

To hedge its exposure to fluctuations in the US dollar vs Euro exchange rate, the Company has a hedging facility with a European financial services company for forward currency exchange contracts. The difference between the cost to acquire US dollars through the forward currency exchange contracts and the spot market at the time of purchase has been recorded as a realized loss on derivative assets and liabilities in 2023 of $91,752 (2022 – gain of $82,039). These forward currency exchange contracts were used exclusively for product purchases and any gains or losses realized, while reported separately as realized gains or losses on derivative assets or liabilities, are designed to offset reported cost of sales.

The carrying value of the derivative assets and liabilities represents the difference between the cost to acquire US dollars on the spot market and through the forward currency exchange contracts. At June 30, 2023 these contracts required the Company to purchase US dollars for more than by acquiring them on the spot market, resulting in the recognition of a derivative liability and an unrealized loss of $220,107 for 2023. At June 30, 2022, those contracts enabled the Company to purchase US dollars for less than by acquiring them on the spot market and the Company recorded an unrealized gain of $49,719 for the six months ended June 30, 2022.

Other loss of $189,773 in 2023 consists primarily of a provision of $176,507 for expected severance costs resulting from a re-organization that was commenced late in the second quarter. No such provision was recorded in 2022.

Foreign exchange gains and losses may arise from transactions incurred in currencies other than the functional currency of the Company and its subsidiaries. The Company reported a foreign exchange loss of $82 in 2023 as compared to a loss of $23,412 during the six months ended June 30, 2022.

The Company reported a net loss of $4,298,889 for the six months ended June 30, 2023, compared to a net loss of $5,007,412 during the same period in the prior year. Sales increased approximately 25%, or approximately 18% when measured in Euros, versus the prior year. Gross profit increased to 9.3% of sales versus 7.3% in 2022, before the impact of currency hedging programs. Selling, general and administration expenses and labour costs increased as we invested in our business, expanded our workforce and built out our internal infrastructure to accommodate expected growth in our business in 2023 and beyond. In addition to $220,107 and $53,556 in unrealized losses on the revaluation of our derivative liabilities and investment securities and $97,135 in realized losses on derivative liabilities, year-to-date results include $601,225 of costs not related to day-to-day operations including a provision for severance costs expected to be paid as part of our internal reorganization that was commenced during the second quarter as well as on-line platform and retail branded product development costs and costs incurred as we evaluated acquisition opportunities.

Interested parties may access the Company's filings at www.SEDAR.com or at the Company's website at www.organto.com under the Investors tab.

ON BEHALF OF THE BOARD,

Steve Bromley
Chair and Co-Chief Executive Officer

Neither the TSX Venture Exchange nor its Regulation Services Provider (as that term is defined in the policies of the TSX Venture Exchange) accepts responsibility for the adequacy or accuracy of this news release.

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(1) The information presented herein refers to the non-IFRS financial measure of adjusted gross profit. Adjusted gross profit represents the sum of regular gross profit plus/minus any realized hedging gains/losses. This measure is not a recognized measure under IFRS and does not have a standardized meaning prescribed by IFRS. Non-IFRS financial measures should not be considered in isolation nor as a substitute for analysis of the Company's financial information reported under IFRS and are unlikely to be comparable to similar measures presented by other issuers. Rather, these measures are provided as additional information to complement those IFRS measures by providing further understanding of the Company's results of operations from management's perspective and thus highlight trends in its business that may not otherwise be apparent when relying solely on IFRS measures. The Company believes that securities analysts, investors and other interested parties frequently use non-IFRS financial measures in the evaluation of the Company. The Company's management also uses non-IFRS financial measures to facilitate operating performance comparisons from period to period and to prepare annual operating budgets and forecasts.

ABOUT ORGANTO

Organto is an integrated provider of branded, private label, and distributed organic and non-GMO fruit and vegetable products using a strategic asset-light business model to serve a growing socially responsible and health-conscious consumer around the globe. Organto's business model is rooted in its commitment to sustainable business practices focused on environmental responsibility and a commitment to the communities where it operates, its people, and its shareholders.

FORWARD LOOKING STATEMENTS

This news release may include certain forward-looking information and statements, as defined by law including without limitation Canadian securities laws and the "safe harbor" provisions of the US Private Securities Litigation Reform Act of 1995 ("forward-looking statements"). In particular, and without limitation, this news release contains forward-looking statements respecting Organto's business model and markets; Organto's belief that demand for healthy food including fresh organic fruits and vegetable products produced in a sustainable and transparent manner continues to grow; Organto's belief that second quarter 2023 sales represent the largest quarterly sales in the history of Organto and the sixteenth consecutive quarter of revenue growth, currency adjusted, versus the same quarter in the prior year; Organto's belief that gross profit for the quarter represents the largest second quarter gross profit in the history of the Company; Organto's belief that it will experience continued growth as it executes its strategic plans; Organto's belief that that its efforts to improve the profitability of its business will be successful; management's beliefs, assumptions and expectations; and general business and economic conditions. Forward-looking statements are based on a number of assumptions that may prove to be incorrect, including without limitation assumptions about the following: the ability and time frame within which Organto's business model will be implemented and product supply will be increased; cost increases; dependence on suppliers, partners, and contractual counter-parties; changes in the business or prospects of Organto; unforeseen circumstances; risks associated with the organic produce business generally, including inclement weather, unfavorable growing conditions, low crop yields, variations in crop quality, spoilage, import and export laws, and similar risks; transportation costs and risks; general business and economic conditions; and ongoing relations with distributors, customers, employees, suppliers, consultants, contractors, and partners. The foregoing list is not exhaustive and Organto undertakes no obligation to update any of the foregoing except as required by law.