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Organto Announces Third Quarter 2023 Financial Results

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

Toronto, Ont., Canada and Breda, the Netherlands, November 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 nine-month periods ended September 30, 2023, in-line with previously issued estimates for the quarter. All amounts are expressed in Canadian dollars and in accordance with International Financial Reporting Standards (IFRS), except where specifically noted.

Highlights:

Third Quarter 2023 Operating Highlights

- Sales of $6,383,743 versus sales of $4,547,574 in the prior year, an increase of approximately 40% and approximately 28% on a currency adjusted basis.
    - Sales in the third quarter represent the largest third-quarter sales in the history of Organto.
    - Sales in the third quarter represent the seventeenth consecutive quarter of sales growth, currency adjusted, versus the same quarter in the prior year.
- Gross profit of $549,982 or 8.6% of sales versus $166,126 or 3.7% of sales in the prior year, and increase in gross profit dollars of approximately 230%. 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 $465,777 or approximately 7.3% of sales versus 6.0% in the prior year.
    - Gross profit dollars for the quarter represents the largest third quarter gross profit in the history of Organto.
    - Third quarter adjusted gross profit (1) as a percentage of sales increased 130 basis points versus the third quarter of 2022 as actions taken by the Company to increase gross profit contributed positively.
- Cash overhead costs for the quarter were 25.5% of sales, 23.5% on an adjusted basis, versus 35.5% 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 $134,642 including retail branded product development and on-line digital transformation activities and corporate development costs. The Company continues to focus on streamlining costs and realized an approximate 22% decrease in cash overhead costs versus the first quarter of 2023.

Year-to-Date 2023 Operating Highlights

- Sales of $21,468,662 versus sales of $16,657,387 in the prior year, an increase of approximately 29% and approximately 21% on a currency adjusted basis.
- Gross profit of $1,960,030 or 9.1% of sales versus $1,044,812 or 6.3% 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 $1,784,073 or approximately 8.3% of sales versus 7.4% in the prior year.
- Cash overhead costs for the period were 26.2% of sales, 22.8% on an adjusted basis, versus 31.3% 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 $735,867 including retail branded product development and on-line digital transformation activities, acquisition activities and corporate development costs.

"We are pleased with our progress in the third quarter as we have achieved another strong sales quarter, and more importantly, started to realize the benefits of the initiatives that we have implemented to improve our gross profit profile. In hand with our growth in sales and gross profit, we continue to work to streamline our cost base and leverage existing resources as we position to achieve positive EBITDA during fiscal 2024. While we still have much more we can accomplish, we believe we have good momentum in the business as we exit the third quarter and expect record annual sales for fiscal 2023." commented Rients van der Wal, Co-CEO of Organto and CEO of Organto Europe BV. "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."

Third Quarter Results Commentary

Sales for the three months ended September 30, 2023 were $6,383,743 as compared to $4,547,574 during the same period in the prior year, an increase of approximately 40%, or 28% 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 on certain core categories in the quarter due to weather-related factors which impacted banana supply, and changes in import regulations which essentially eliminated imports of organic asparagus into parts of the EU during the quarter and also limited organic ginger imports. This quarter represents the Company's seventeenth consecutive quarter of currency adjusted revenue growth versus the same quarter of the prior year.

The Company realized a quarterly gross profit of $549,982 or 8.6% of sales in the third quarter of 2023 as compared to a gross profit of $166,126 and 3.7% during the same quarter of the prior year, representing an increase in gross profit dollars of over 200%. In order to protect expected gross margins from currency fluctuations, the Company hedges currencies for certain product categories where either the supply or sales commitments are fixed in foreign currencies. In the third quarter, the Company realized a loss on derivative liabilities from its hedging program of $84,205, which while related to product purchases, is reported separately in the financial statements. Including this loss, adjusted gross profit was

$465,777 or 7.3% of sales versus 6.0% in the third quarter of 2022. The increase in gross profit in the third quarter of 2023 versus 2022 was due to a combination of improved market conditions and improved internal processes.

Selling, general and administration expenses were $630,429 or 9.9% of sales this quarter as compared to $542,958 or 11.9% of sales in the same quarter of the prior year. Included in third quarter 2023 expenses are costs associated with the renewal of our shelf prospectus of $53,382 and $48,503 of costs related to the development of our retail branded and on-line product platforms.

Management fees in the current quarter were $207,168 compared to $231,650 recorded in the same quarter of the prior year and reflect waived fees charged by certain officers. In addition to certain officers waiving their fees, other officers have also agreed to delay payment of their fees until operating economics improve.

Labour costs and benefits during the third quarter were $789,693, a decrease versus the same quarter of the prior year of $839,524. While operating personnel have been added due to the acquisition of New Fruit Group, the Company undertook a re-organization of its operating units in order to reduce labour and other costs and improve efficiencies and this re-organization has led to the reduction in labour costs. Included in 2023 third quarter labour costs and benefits are $32,757 related to the development of our retail branded and on-line product platforms.

As detailed above, during the third quarter of 2023 the Company incurred costs of $134,642 of which $81,260 were related to the development of its retail branded product offering and on-line go-to-market capabilities and $53,382 of costs associated with the renewal of its shelf prospectus. 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.

The Company recognized $158,432 in stock-based compensation in the third quarter of 2023 which consists of $57,657 for restricted share units and $100,775 for stock options. Stock-based compensation for the third quarter of 2022 totaled $229,172 and consisted of $64,761 for restricted share units and $164,411 for stock options.

Net interest and accretion expense for the third quarter of 2023 was $496,304 as compared to $557,672 for the third quarter of 2022. Interest expense consists of interest on convertible debentures and accounts receivable factoring costs. Accretion expense 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 third quarter of 2023 was offset by $2,719 of interest income.

At September 30, 2023 the Company revalued the shares of Xebra Brands that it owns and recorded an unrealized loss of $12,735 for the third quarter of 2023. The shares owned are no longer subject to any trading restrictions and their carrying value represents their market value. In the third quarter of 2022 the Company recognized an unrealized valuation loss of $77,822.

In order to hedge its exposure to fluctuations in the US dollar vs Euro exchange rate, the Company maintains 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 third quarter of 2023 of $84,205 (2022 – gain of $107,038). 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 the Company's 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 September 30, 2023 these contracts allowed us to purchase US dollars for less than by acquiring them on the spot market, resulting in the recognition of a derivative asset and an unrealized gain of $232,952 (2022 – $186,686).

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 $60,991 this quarter as compared to a loss of $18,029 during the same quarter last year. A portion of the Company's cash balance is held in Euros and US dollars, and some of its accounts payable are denominated in currencies other than the currency used to pay these accounts and fluctuations in the exchange rates of these currencies will result in gains or losses.

The Company reported a net loss of $1,535,041 during the third quarter of 2023, compared to a net loss of $2,057,945 during the same quarter in the prior year. Sales increased approximately 40%, or approximately 28% when measured in Euros, versus the third quarter of the prior year. Gross profit increased to 8.6% of sales versus 3.7% in the same quarter in the prior year before the impact of our currency hedging programs. Selling, general and admin costs increased as the Company invested in its business to support future growth and onboarded the January 2023 acquisition of the New Fruit Group while labour costs decreased as a result of the re-organization of its operating units undertaken in the second quarter in order to improve efficiencies. In addition to the unrealized loss of $12,735 on the revaluation of its investment securities and realized losses on derivative liabilities of $84,205, third quarter 2023 results include an unrealized gain of $232,952 on the revaluation of its derivative assets and $134,642 of costs not related to day-to-day operations including on-line platform and retail and branded product development costs and costs associated with the renewal of its shelf prospectus.

Year-to-Date Results Commentary

Sales for the nine months ended September 30, 2023 were $21,468,662 as compared to $16,657,387 during the same period in the prior year, an increase of approximately 29%, or approximately 21% 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 experienced on certain core categories due to political unrest, weather-related and regulatory factors which impacted supply.

The Company realized a gross profit of $1,960,030 or 9.1% of sales in the nine months ended September 30, 2023 as compared to a gross profit of $1,044,812 and 6.3% during the same period in 2022. In order to protect expected gross margins from currency fluctuations, the Company hedges currencies for certain product categories where either the supply or sales commitments are fixed in foreign currencies. In the nine months ended September 30, 2023, the Company realized a loss on its hedging program of $175,957, which while related to product purchases, is reported separately in the financial statements. Including this loss, adjusted gross profit was $1,784,073 or 8.3% of sales versus 7.4% 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.

Selling, general and administration expenses were $2,199,310 or 10.2% of sales in 2023 as compared to $1,950,927 or 11.7% of sales in the nine months ended September 30, 2022. Included in 2023 expenses are costs associated with the Company's acquisition program of $46,427, costs associated with the renewal of its shelf prospectus of $53,382 and $157,732 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 $687,698 in 2023 compared to $765,423 recorded in the nine months ended September 30, 2022 and reflect waived fees charged by certain officers. In addition to waiving their fees, other officers have also agreed to delay payment of their fees until operating economics improve.

Labour costs and benefits in 2023 were $2,733,402, an increase versus the $2,496,353 recorded in the nine months ended September 30, 2022. Operating personnel were 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. The Company undertook a re-organization of its operating units in the second quarter of 2023 in order to reduce labour and other costs and improve efficiencies, and as a result labour costs began to decrease in the third quarter. A provision of $176,507 for expected severance costs related to this reorganization was recorded in other loss in the second quarter of 2023. Included in 2023 labour costs and benefits are costs associated with the Company's acquisition program of $22,688 and $279,131 related to the development of its retail branded and on-line product platforms.

As detailed above, during the nine months ended September 30, 2023 the Company incurred costs of $735,867 of which $436,863 was related to the development of its retail branded product offering and on-line go-to-market capabilities, a provision of $176,507 for severance costs, costs associated with the renewal of its shelf prospectus of $53,382 and $69,115 of costs associated with its acquisition program. While the Company has realized increased sales from its acquisition program, the development of its retail branded product offering and on-line go-to-market capabilities have yet to translate into significant bottom-line contribution, it is believed these are prudent investments for the future of the Company.

The Company recognized $529,810 in stock-based compensation in 2023 which consists of $180,695 for restricted share units and $349,115 for stock options. Stock-based compensation for the nine months ended September 30, 2022 totaled $685,484 and consisted of $134,729 for restricted share units and $550,755 for stock options.

Net interest and accretion expense for 2023 was $1,297,057 as compared to $1,706,664 for the nine months ended September 30, 2022. Interest expense consists of interest on convertible debentures and accounts receivable factoring costs. Accretion expense 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 $19,553 of interest income.

At September 30, 2023 the Company revalued the shares of Xebra Brands that it owns and recorded an unrealized loss of $66,291 for 2023. Prior to the third quarter, the valuation acknowledged that a portion of the Xebra Brands shares owned were subject to trading restrictions. These restrictions expired in September 2023 and their carrying value of $26,250 at September 30, 2023 represents their market value. In the nine months ended September 30, 2022 the Company recognized an unrealized valuation loss of $868,391.

In order to hedge its exposure to fluctuations in the US dollar vs Euro exchange rate, the Company maintains 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 $175,957 (2022 – gain of $189,077). 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 represents the difference between the cost to acquire US dollars on the spot market and through the forward currency exchange contracts. At September 30, 2023 these contracts allow the Company to purchase US dollars for less than by acquiring them on the spot market, resulting in the recognition of a derivative asset and an unrealized gain of $12,845 for 2023 (2022 –$236,405).

Other loss of $189,773 in 2023 consists primarily of a provision of $176,507 for expected severance costs resulting from the internal re-organization that was commenced in the second quarter.

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 $60,909 in 2023 as compared to a loss of $41,441 during the nine months ended September 30, 2022. A portion of the Company’s cash balance is held in Euros and US dollars, and some of its accounts payable are denominated in currencies other than the currency used to pay these accounts and fluctuations in the exchange rates of these currencies will result in gains or losses.

The Company reported a net loss of $5,833,930 for the nine months ended September 30, 2023, compared to a net loss of $7,065,357 during the same period in the prior year. Sales increased approximately 29%, or approximately 21% when measured in Euros, versus the prior year. Gross profit increased to 9.1% of sales versus 6.3% in 2022, before the impact of currency hedging programs. Selling, general and administration expenses and labour costs increased year to date as the Company invested in its business, expanded its workforce and built out its internal infrastructure to accommodate expected growth in business in 2023 and beyond. In addition to the unrealized loss of $66,291 on the revaluation of its investment securities and $175,957 in realized losses on derivative liabilities, year-to-date results include an unrealized gain of $12,845 on the revaluation of derivative assets and $735,867 of costs not related to day-to-day operations including a provision for severance costs expected to be paid as part of its internal reorganization that commenced during the second quarter as well as on-line platform and retail and branded product development costs, costs associated with the renewal of its shelf prospectus and costs incurred as it 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. We hedge currencies for certain product categories where either the supply or sales commitments are fixed in foreign currencies. The gains and losses from these hedging activities are combined with gross profit to determine adjusted gross profit. 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 third quarter 2023 sales represent the largest third quarter sales in the history of Organto and the seventeenth consecutive quarter of sales growth, currency adjusted, versus the same quarter in the prior year; Organto's belief that gross profit for the quarter represents the largest third quarter gross profit in the history of the Company; Organto's belief that it has good momentum as it exits the third quarter and 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 and result in positive EBITDA in fiscal 2024; 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.